



LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Financial Statements with Required Supplementary Information

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Lexington County Health Services District, Inc.:

We have audited the accompanying financial statements of Lexington County Health Services District, Inc. (LCHSD), which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Lexington County Health Services District, Inc. as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 3-7 and the Schedules of Proportionate Share of the Net Pension Liability and Related Ratios and Contributions, and notes thereto, on pages 48-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise LCHSD's basic financial statements. The supplementary information included on pages 44 to 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Atlanta, Georgia
February 7, 2017

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Management's Discussion and Analysis (unaudited)

September 30, 2016 and 2015

Annual Financial Report

The annual financial report of Lexington County Health Services District, Inc. (LCHSD) provides an overview of LCHSD's financial activities for the fiscal years ended September 30, 2016, 2015 and 2014. The financial statements include the balance sheets; statements of revenues, expenses, and changes in net position; statements of cash flows; and the accompanying explanatory notes. Management's discussion and analysis should be read in conjunction with the financial statements and notes.

Management's Discussion and Analysis

Financial Highlights

- LCHSD reported unrestricted cash and investments of \$614.7 million in 2016 and \$582.0 million in 2015, a 5.6% increase in 2016 and a 17.8% increase in 2015.
- LCHSD's net position increased in each of the past two years with a \$21.4 million, or 7.7%, increase in 2016 and an \$86.7 million, or 45.6%, increase in 2015.
- LCHSD reported increases in operating revenues of \$46 million, or 5.1%, in 2016 and \$68.5 million, or 8.3%, in 2015.
- LCHSD reported operating margin of 2.8% in 2016 and 10.2% in 2015.
- LCHSD reported cash flows from operating activities of \$106.4 million in 2016 and \$151.6 million in 2015. Cash and investments on hand decreased to 260 days in 2016 from 282 days in 2015.

Required Financial Statements

The required financial statements are presented on an "enterprise" basis, which is similar to accounting for nongovernmental private enterprises. Entities accounted for on an enterprise basis are primarily financed by charges for services to their users rather than by tax receipts.

The balance sheet is a statement of the investments in resources (assets including deferred outflows) and obligations to creditors (liabilities including deferred inflows) on the last day of the fiscal year. The net position balance is the residual of LCHSD's assets and deferred outflows less its liabilities and deferred inflows. The balance sheet classifies assets and liabilities as current or noncurrent and can be used to evaluate LCHSD's liquidity and ability to meet its future financial obligations.

The statement of revenues, expenses, and changes in net position reports the revenue LCHSD generated from providing services to patients and the expenses required to provide services to patients. Enterprise basis financial statements are prepared on an "accrual" basis, whereby revenue and expense is recorded for charges not yet received in cash and for obligations to creditors not yet paid in cash, respectively. 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 nonoperating activities and from other transactions.

The statement of cash flows reports cash inflows and outflows from operations, financing activities, and investing activities, and their effect on the change in cash during the fiscal year.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Management's Discussion and Analysis (unaudited)

September 30, 2016 and 2015

Analysis of Overall Financial Position, Results of Operations, and Cash Flows

A summary of LCHSD's assets and deferred outflows, liabilities and deferred inflows, and net position at September 30 is presented below (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 377,762	323,152	250,388
Capital assets, net	451,590	409,374	406,668
Other noncurrent assets	566,700	390,352	360,586
Deferred outflows	<u>113,356</u>	<u>40,749</u>	<u>40,499</u>
Total assets and deferred outflows	\$ <u>1,509,408</u>	<u>1,163,627</u>	<u>1,058,141</u>
Current liabilities	\$ 110,140	91,240	88,427
Long-term obligations, noncurrent	422,583	225,482	233,854
Net pension liability	<u>677,690</u>	<u>568,985</u>	<u>503,158</u>
Total liabilities	1,210,413	885,707	825,439
Deferred inflows – pension	<u>733</u>	<u>1,014</u>	<u>42,477</u>
Total liabilities and deferred inflows	<u>1,211,146</u>	<u>886,721</u>	<u>867,916</u>
Net position:			
Invested in capital assets, net of related debt	229,576	179,049	168,582
Restricted for specific operating purposes	2,509	2,280	2,203
Unrestricted	<u>66,177</u>	<u>95,577</u>	<u>19,440</u>
Total net position	<u>298,262</u>	<u>276,906</u>	<u>190,225</u>
Total liabilities, deferred inflows and net position	\$ <u>1,509,408</u>	<u>1,163,627</u>	<u>1,058,141</u>

Total unrestricted cash and investments in 2016, 2015, and 2014 were \$614.7 million, \$582.0 million, and \$494.1 million, respectively. LCHSD's total unrestricted cash and investments increased approximately \$32.7 million, or 5.6% during 2016 and increased approximately \$87.9 million, or 17.8% during 2015. These amounts include noncurrent long-term investments of approximately \$382.4 million, \$384.5 million, and \$364.4 million in 2016, 2015, and 2014, respectively.

Net capital assets increased 10.3% in 2016, 0.7% in 2015, and 0.4% in 2014. Average age of plant increased to 10.1 years as of September 30, 2016 from 9.6 years as of September 30, 2015. The increase is a result of the start of a campus expansion project that will include a new 10 story patient tower capable of housing 255 inpatient beds, a parking deck, and a central energy plant. The total cost of the project will be approximately \$400 million and is expected to be completed in 2018.

Total net position increased 7.7% in 2016 and 45.6% in 2015, while unrestricted net position available to finance the daily LCHSD operations decreased 30.8% during 2016 and increased 391.7% during 2015.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Management's Discussion and Analysis (unaudited)

September 30, 2016 and 2015

A summary of LCHSD's revenues, expenses, and changes in net position for the years ended September 30 is presented below (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 940,917	894,896	826,369
Operating expenses	<u>914,351</u>	<u>803,941</u>	<u>731,886</u>
Operating income	26,566	90,955	94,483
Nonoperating expenses, net	<u>5,265</u>	<u>4,454</u>	<u>5,626</u>
Excess of revenues over expenses before capital contributions	21,301	86,501	88,857
Capital contributions	<u>55</u>	<u>180</u>	<u>96</u>
Increase in net position	21,356	86,681	88,953
Net position, beginning of year	<u>276,906</u>	<u>190,225</u>	<u>101,272</u>
Net position, end of year	<u>\$ 298,262</u>	<u>276,906</u>	<u>190,225</u>

Operating revenues increased 5.1% in 2016 due primarily to increases in patient service volume and the addition of several physician practices. In 2016, inpatient days increased 4.7%, surgeries increased 2.2%, and adjusted admissions increased 0.2%. Increases in revenue from volumes were offset by \$17 million due to the settlement of a False Claims Act suit.

Operating revenues increased 8.3% in 2015 due primarily to increases in patient service volume and the addition of several physician practices. In 2015, inpatient days increased 2.5%, surgeries increased 0.8%, and adjusted admissions increased 2.6%.

Total operating expenses in 2016 increased 13.7% from 2015. Salaries and wages increased 10.9% in 2016 primarily as a result of a 5.4% increase in full-time equivalent employees commensurate with increases in patient service volume and increases in nursing and other professional salaries to remain competitive in the market. Other nonsalary expense increases are attributable primarily to drugs and supplies expense associated with increases in patient service volumes.

Total operating expenses in 2015 increased 9.8% from 2014. Salaries and wages increased 8.4% in 2015 primarily as a result of a 5.1% increase in full-time equivalent employees commensurate with increases in patient service volume and increases in nursing and other professional salaries to remain competitive in the market. Employee benefits expense increased 14.2% in 2015 primarily to the implementation of GASB 68 and the related requirement to record LCHSD's net pension liability related to its defined benefit plan participation. See note 12 to the accompanying financial statements. Other nonsalary expense increases are attributable primarily to drugs and supplies expense associated with increases in patient service volumes.

LCHSD's operating margin in 2016 was 2.8%. Net nonoperating expenses increased in 2016 due primarily to costs incurred related to a bond issuance. Investment income increased 18% in 2016 due to fluctuations in investment balances and bond market volatility.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Management's Discussion and Analysis (unaudited)

September 30, 2016 and 2015

LCHSD's operating margin in 2015 was 10.2%. Net nonoperating expenses decreased in 2015 due primarily to an increase in investment income. Investment income increased 12.7% in 2015 due to fluctuations in investment balances and bond market volatility.

A summary of LCHSD's cash flows for the years ended September 30 is presented below (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash flows from operating activities	\$ 106,395	151,615	158,878
Cash flows from noncapital financing activities	56	(297)	(1,162)
Cash flows from capital and related financing activities	93,805	(72,198)	(66,511)
Cash flows from investing activities	<u>(5,234)</u>	<u>(50,349)</u>	<u>(82,753)</u>
Net increase in cash	195,022	28,771	8,452
Cash and cash equivalents, beginning of year	<u>142,330</u>	<u>113,559</u>	<u>105,107</u>
Cash and cash equivalents, end of year	<u>\$ 337,352</u>	<u>142,330</u>	<u>113,559</u>

Cash flows from operating activities decreased 29.8% in 2016 as a result of increased operating expense. Days cash and investments on hand is 260 days in 2016, compared to 282 days in 2015. Days in net patient accounts receivable were 46 days in 2016, compared to 41 days in 2015. Cash outflows for capital and related financing activities were associated with routine purchases of property and equipment and regular principal and interest payments made on capital related long-term debt.

Cash flows from operating activities decreased 4.6% in 2015 as a result of increased operating expense. Days cash and investments on hand is 282 days in 2015, compared to 264 days in 2014. Days in net patient accounts receivable were 41 days in 2015, compared to 43 days in 2014. Cash outflows for capital and related financing activities were associated with routine purchases of property and equipment and regular principal and interest payments made on capital related long-term debt.

Capital Assets and Debt Administration

Net capital assets increased 10.3% in 2016 to \$451.6 million. The percentage of net capital assets to total assets was 32.3% in 2016 and 36.5% in 2015. Total capital cash outlay was approximately \$91.4 million in 2016 as compared to approximately \$52.6 million in 2015. Total long-term debt increased approximately 84.7% in 2016 as a result of a \$176 million bond issuance to partially fund the campus expansion. LCHSD anticipates spending approximately \$25 million in 2017 for routine capital equipment, an additional \$34 million for a new medical office building in 2017, \$28 million on a new billing system for the physician practices in 2017, and \$358 million for campus expansion over the next two years.

Net capital assets increased 0.7% in 2015 to \$409.4 million. The percentage of net capital assets to total assets was 36.5% in 2015 and 39.6% in 2014. Total capital cash outlay was approximately \$52.6 million in 2015 as compared to approximately \$47.2 million in 2014. Total long-term debt decreased approximately 3.1% in 2015.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Management's Discussion and Analysis (unaudited)

September 30, 2016 and 2015

Contacting LCHSD's Financial Management

If you have questions about this report or need additional financial information, contact LCHSD's Chief Financial Officer, at Lexington County Health Services District, Inc., 2720 Sunset Boulevard, West Columbia, South Carolina 29169.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Balance Sheets

September 30, 2016 and 2015

Assets and Deferred Outflows	2016	2015
Current assets:		
Cash and cash equivalents	\$ 160,073,237	142,118,950
Short-term investments	72,291,176	55,411,118
Accounts receivable:		
Patient, less allowance for uncollectible accounts of \$94,602,493 in 2016 and \$92,791,349 in 2015	115,372,537	98,517,851
Other current receivables	5,852,805	5,360,653
Inventories	15,672,747	15,024,966
Prepaid expenses	8,499,598	6,718,748
Total current assets	<u>377,762,100</u>	<u>323,152,286</u>
Cash held by trustee	177,278,716	210,669
Investments held by trustee	1,992,009	1,681,257
Long-term investments	382,382,968	384,497,407
Capital assets, net of accumulated depreciation	451,590,437	409,374,132
Other assets	5,046,483	3,962,647
Total assets	<u>1,396,052,713</u>	<u>1,122,878,398</u>
Deferred outflows related to deferred losses on debt refunding	8,350,840	9,115,795
Deferred outflows related to pensions (note 12)	105,004,752	31,632,995
Total deferred outflows	<u>113,355,592</u>	<u>40,748,790</u>
Total assets and deferred outflows	<u>\$ 1,509,408,305</u>	<u>1,163,627,188</u>
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable	\$ 43,682,359	22,911,837
Accrued expenses and other current liabilities	57,972,293	60,228,326
Current maturities of long-term debt	7,985,000	7,600,000
Due to others	500,000	500,000
Total current liabilities	<u>110,139,652</u>	<u>91,240,163</u>
Long-term debt, net of current maturities	422,583,372	225,481,754
Net pension liability (note 12)	677,689,586	568,985,144
Total liabilities	<u>1,210,412,610</u>	<u>885,707,061</u>
Deferred inflows related to pensions (note 12)	733,199	1,013,621
Total liabilities and deferred inflows	<u>1,211,145,809</u>	<u>886,720,682</u>
Net position:		
Invested in capital assets, net of related debt	229,575,890	179,049,132
Restricted for specific operating purposes	2,509,244	2,280,478
Unrestricted	66,177,362	95,576,896
Total net position	<u>298,262,496</u>	<u>276,906,506</u>
Total liabilities and net position	<u>\$ 1,509,408,305</u>	<u>1,163,627,188</u>

See accompanying notes to financial statements.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Net patient service revenue, net of contractual adjustments	\$ 1,099,693,172	1,048,703,013
Provision for uncollectible accounts	(174,905,149)	(170,621,434)
Net patient service revenue	924,788,023	878,081,579
Other operating revenue	16,128,588	16,814,820
Total operating revenues	<u>940,916,611</u>	<u>894,896,399</u>
Operating expenses:		
Salaries and wages	419,332,686	378,015,118
Employee benefits	159,995,818	121,804,943
Supplies and drugs	183,259,949	162,772,283
Professional fees	1,695,785	1,815,942
Other expenses	99,363,974	90,271,078
Depreciation and amortization	50,702,386	49,261,940
Total operating expenses	<u>914,350,598</u>	<u>803,941,304</u>
Operating income	26,566,013	90,955,095
Loss on disposal of property and equipment	(1,491,020)	(277,700)
Investment income	10,316,136	8,744,784
Interest expense	(14,089,699)	(12,921,371)
Excess of revenues over expenses before capital contributions	21,301,430	86,500,808
Capital contributions	54,560	180,000
Increase in net position	21,355,990	86,680,808
Net position, beginning of year	<u>276,906,506</u>	<u>190,225,698</u>
Net position, end of year	<u>\$ 298,262,496</u>	<u>276,906,506</u>

See accompanying notes to financial statements.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Statements of Cash Flows

Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from and payments on behalf of patients	\$ 907,933,337	875,594,513
Receipts from other operations	15,721,006	15,263,465
Payments to employees for wages and benefits	(547,384,992)	(482,316,407)
Payments to suppliers and other	<u>(269,874,538)</u>	<u>(256,926,289)</u>
Net cash provided by operating activities	<u>106,394,813</u>	<u>151,615,282</u>
Cash flows from noncapital financing activities:		
Payments to other governments	—	(500,000)
Other	<u>56,503</u>	<u>202,279</u>
Net cash provided by (used in) noncapital financing activities	<u>56,503</u>	<u>(297,721)</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(91,364,055)	(52,598,975)
Proceeds from disposal of property and equipment	134,919	47,205
Capital contributions	54,559	180,000
Interest paid on long-term debt	(12,893,779)	(12,566,497)
Principal paid on long-term debt	(7,600,000)	(7,260,000)
Proceeds from issuance of long-term debt	<u>205,473,028</u>	<u>—</u>
Net cash provided by (used in) capital and related financing activities	<u>93,804,672</u>	<u>(72,198,267)</u>
Cash flows from investing activities:		
Purchases of investments	(275,211,112)	(181,945,339)
Proceeds from sales of investments	259,198,644	122,855,885
Interest received on investments	<u>10,778,814</u>	<u>8,740,599</u>
Net cash used in investing activities	<u>(5,233,654)</u>	<u>(50,348,855)</u>
Net increase in cash and cash equivalents	195,022,334	28,770,439
Cash and cash equivalents, beginning of year	<u>142,329,619</u>	<u>113,559,180</u>
Cash and cash equivalents, end of year	\$ <u><u>337,351,953</u></u>	\$ <u><u>142,329,619</u></u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 160,073,237	142,118,950
Cash and cash equivalents held by trustee	<u>177,278,716</u>	<u>210,669</u>
Total cash and cash equivalents	\$ <u><u>337,351,953</u></u>	\$ <u><u>142,329,619</u></u>

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Statements of Cash Flows

Years ended September 30, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 26,566,013	90,955,095
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	50,702,386	49,261,940
Provision for uncollectible accounts	174,905,149	170,621,434
Changes in:		
Patients accounts receivable	(191,759,835)	(173,108,500)
Other receivables	(407,581)	(1,551,356)
Inventories	(647,781)	(1,038,858)
Prepaid expenses	(1,780,851)	766,859
Deferred outflows	(73,371,757)	(10,895,276)
Accounts payable	18,153,169	(515,835)
Accrued expenses and other current liabilities	(3,108,751)	4,035,398
Other assets	(1,279,368)	(1,279,152)
Net pension liability	108,704,442	65,827,543
Deferred inflows	(280,422)	(41,464,010)
Net cash provided by operating activities	\$ 106,394,813	151,615,282
Reconciliation of noncash investing and capital related financing activities:		
Capital asset additions and retainage included in accounts payable	\$ 5,692,300	3,074,947

See accompanying notes to financial statements.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The financial statements of Lexington County Health Services District, Inc. (LCHSD) include the accounts of Lexington Medical Center (the Hospital), LexMed, Inc. (LexMed), Palmetto Health Systems, Inc. (PHS), and the Lexington Medical Center Foundation (the Foundation). LexMed, PHS, and the Foundation are blended component units of the Hospital. All significant intercompany accounts have been eliminated.

LCHSD was established in 1988 under the laws of the State of South Carolina and operates the Hospital and other health-related facilities. LCHSD's network includes an acute care inpatient hospital, community medical centers, physician practices, and long-term care facilities. The governing body of LCHSD is a 21-member board of trustees, 20 of whom are appointed by the Lexington County Council. Lexington County has no control or involvement in LCHSD's fiscal management. LCHSD is not included in the financial statements of Lexington County, South Carolina.

LexMed, a component unit of LCHSD, is a not-for-profit, nonstock corporation, which was incorporated on May 19, 1988 to support the development of congregate living, congregate care, nursing, and other healthcare related facilities for the aged. LexMed is a component unit of the Hospital due to the Hospital's ability to appoint a voting majority of LexMed's governing body.

PHS, a component unit of LCHSD, is a for-profit corporation, which was incorporated on July 13, 1984. There has historically been limited activity in this component unit. LCHSD owns 100% of the stock of PHS. PHS is a component unit of the Hospital due to the Hospital's ability to appoint a voting majority of PHS's governing body.

The Foundation, a component unit of LCHSD, is a not-for-profit, nonstock, tax-exempt corporation, which was incorporated on January 30, 1990 to benefit, assist, advance, develop, promote, and strengthen LCHSD. The Foundation is a component unit of the Hospital due to the Hospital's ability to appoint a voting majority of the Foundation's governing body.

(b) Basis of Accounting

The financial statements of LCHSD are prepared in accordance with the enterprise method of accounting. Revenues and expenses are recognized on the accrual basis using the economic resource measurement focus. The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. generally accepted accounting principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). The accounting and reporting framework and the more significant accounting policies and practices employed by LCHSD are discussed in subsequent sections of these Notes. The remaining Notes are organized to provide additional explanations and information about LCHSD's financial activities, including required disclosures related to those activities.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(c) Cash and Cash Equivalents

LCHSD considers all demand deposits, short-term certificates of deposit purchased with a maturity of three months or less, money markets, and short-term governmental mutual funds to be cash equivalents. In connection with its bank accounts, the Hospital maintains a compensating balance sufficient to fund the cost of its banking operations. The balance is not legally restricted as to withdrawal and serves as part of the Hospital's normal operating cash.

(d) Investments and Investment Income

Investments are reported at fair value based on quoted market prices. Premiums and discounts are amortized and accreted, respectively, to interest income using the interest method over the period to maturity. Investment income from investments, including realized and unrealized gains and losses, is reported as nonoperating activity in the statements of revenues, expenses, and changes in net position. Investments restricted for debt service are required under a bond indenture agreement.

(e) Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market.

(f) Capital Assets

Capital assets are recorded at cost or, in the case of donated property, at estimated fair market value at the time of donation. Additions with a cost of less than \$3,000 are expensed as incurred. Assets are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years for land improvements, 5 to 40 years for buildings, and 3 to 25 years for equipment. Additions and improvements are capitalized and depreciated over the estimated remaining lives of the related assets. Repairs and maintenance are expensed as incurred. LCHSD evaluates prominent events and changes in circumstances affecting a capital asset's use to determine whether an impairment has occurred.

Interest cost incurred on borrowed funds during the period of construction of qualifying capital assets is capitalized as a component of the cost of acquiring those assets.

(g) Goodwill and Other Intangible Assets

The cost of investments in purchased medical practices in excess of the underlying fair value of tangible and intangible net assets at the date of acquisition is recorded as goodwill, which includes assembled work force and covenants not to compete. LCHSD assesses goodwill annually for impairment. If considered impaired, goodwill will be written down to fair value and a corresponding impairment loss recognized. Goodwill and other intangible assets are included as a component of other assets in the accompanying balance sheets.

(h) Deferred Gains and Losses on Debt Refunding

Gains and losses on early extinguishment of debt are deferred and amortized as a component of interest expense over the remaining life of the extinguished debt or the life of any replacement debt, whichever is shorter.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(i) *Compensated Absences*

LCHSD's employees earn annual leave days at varying rates depending on work status and/or worked hours per pay period. Annual leave time can accumulate. Annual leave is used for all holiday, vacation, and sick time. Employees may transfer a maximum of 40 hours in their active account (hours due) to their reserve account per year. Any hours over 40 in the active account are forfeited. A maximum of 360 hours may be accrued in the reserve account. Upon completion of termination processes, an employee will be paid their accumulated annual leave.

(j) *Net Position*

Net position is classified into three components as follows:

- *Net position invested in capital assets, net of related debt* – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets.
- *Restricted for specific operating purposes* – consists of amounts that are legally restricted by external parties.
- *Unrestricted* – consists of net position not meeting either of the above definitions.

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

(k) *Classification of Revenues and Expenses*

The statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Hospital operating revenues result from exchange transactions associated with providing healthcare services – LCHSD's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. Nonoperating expenses include financing costs and losses on disposals of capital assets.

(l) *Net Patient Service Revenue*

Net patient service revenue is recorded at estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and adjusted for the provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(m) Grants and Contributions

From time to time, LCHSD receives grants and contributions from individuals and 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 presented following nonoperating revenues and expenses in the statement of revenues, expenses, and changes in net position.

(n) 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 revenue. The estimated cost for services and supplies furnished under the Hospital's charity care policy was approximately \$21,416,000 and \$18,889,000 in 2016 and 2015, respectively.

(o) Income Taxes

LCHSD, the Hospital, and LexMed qualify as governmental entities not subject to federal income tax, by reason of being integral parts of a state or political subdivision. The Foundation has been recognized as exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3), and therefore, related income is generally not subject to federal or state income taxes. PHS, a taxable corporation, has net operating loss carryforwards at September 30, 2016 of approximately \$166,000 expiring at various dates through 2036. PHS has recorded a full valuation allowance against the estimated deferred tax assets as it is more likely than not that PHS will not realize the benefits of the carryforwards.

(p) Use of Estimates

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

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for self-insured employee healthcare claims, and estimated third-party payer settlements. In particular, 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.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(q) Fair Value Measurements

The fair value of a financial instrument is the amount 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. GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices in active markets of identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). See note 6.

(2) Accounts Receivable and Payable

LCHSD provides services primarily to the residents of Lexington County, S.C. and surrounding areas without collateral. An allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of the receivables. The allowance is based on historical collection experience and a review of the current status of the existing receivables. The mix of receivables from patients and third-party payers at September 30 is as follows:

	2016	2015
Receivable from patients	\$ 42,695,528	46,984,452
Receivable from Medicare	51,250,956	39,493,374
Receivable from Medicaid	12,940,499	12,448,211
Receivable from other third-party payers	103,088,047	92,383,163
Total patient accounts receivable	209,975,030	191,309,200
Less allowance for uncollectible accounts	94,602,493	92,791,349
Patient accounts receivable, net	\$ 115,372,537	98,517,851

Accounts payable and accrued expenses and other current liabilities reported by LCHSD consist of the following amounts at September 30:

	2016	2015
Accounts payable to (receivable from) third-party payers	\$ 228,389	199,156
Accounts payable to vendors	43,453,970	22,712,681
Accounts payable	\$ 43,682,359	22,911,837
Payable to employees (including payroll taxes)	\$ 45,163,516	48,411,387
Estimated group health medical claims	6,823,402	6,176,721
Accrued interest payable	5,587,584	4,770,211
Other payables	397,791	870,007
Accrued expenses and other current liabilities	\$ 57,972,293	60,228,326

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue includes a provision for contractual adjustments to reflect the differences between patient charges and amounts expected to be received under the various reimbursement programs. A summary of the reimbursement arrangements with major third-party payers is as follows:

Medicare and Medicaid – Inpatient acute-care services are paid at prospectively determined rates per discharge, and outpatient services are paid at prospectively determined rates per visit. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to review. The Hospital's Medicare cost reports have been audited and the Centers for Medicare and Medicaid Services (CMS) have issued final Notices of Program Reimbursements through September 30, 2012. The Hospital's Medicaid cost reports have been audited and the Centers for Medicare and Medicaid Services (CMS) have issued final Notices of Program Reimbursements through September 30, 2011. Effective November 1, 2012, Medicaid changed from a cost based payment methodology to a prospective payment methodology. This affected all inpatient hospital services provided by general acute care hospitals. South Carolina Department of Health and Human Services will not settle cost reports after 2012. Net amounts estimated to be payable to third-party payers related to open cost reports included in the accompanying balance sheets are approximately \$1,800,000 at September 30, 2016 and 2015, respectively.

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

With respect to reserves for third-party payer cost report audits and anticipated settlements, the Hospital routinely provides such reserves through initial audit and final settlement of the cost reports in recognition of the complexity of relevant reimbursement regulations and the volatility of related settlement processes. In any event, the Hospital's estimates in this area will differ from actual experience, and those differences may be material. During 2016 and 2015, net patient service revenue decreased approximately \$376,000 and \$255,000, respectively, due to changes in estimates related to prior cost reporting periods and removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Under legislation pursuant to federal Medicaid law, the Hospital recognized net Medicaid payments of \$1,138,443 in 2016 and \$7,621,526 in 2015 from the South Carolina State Health and Human Services Finance Commission for services provided to a disproportionately high number of low-income patients. These disproportionate share payments are in addition to regular Medicaid reimbursement amounts and are paid in block sums per quarter.

There can be no assurance that the Hospital will continue to qualify for future participation in the program described above or that the program will not ultimately be discontinued or materially modified. Any material reduction in the funds provided by the program would have a correspondingly material effect on the Hospital's results from operations.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

Revenue from the Medicare and Medicaid programs accounted for approximately 28% and 5%, respectively, of the Hospital's net patient revenue for the year ended September 30, 2016 and 2015.

During 2016 and 2015, CMS and South Carolina Department of Health and Human Services approved Essential Public Safety Net Nursing Facility payments to LexMed for nursing services provided to a disproportionately high number of low-income patients in a skilled nursing facility. LexMed recognized net payments from South Carolina Health and Human Services of \$3,245,890 and \$3,014,294 in 2016 and 2015, respectively. These disproportionate share payments are in addition to regular Medicaid reimbursement amounts.

Components of net patient service revenue for the years ended September 30 are as follows:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue:		
Medicare	\$ 1,512,984,178	1,357,099,276
Medicaid	344,892,690	341,509,060
Patients	164,096,200	151,380,725
Other third-party payers	<u>1,262,649,981</u>	<u>1,180,285,316</u>
Total gross patient service revenue, excluding charity	3,284,623,049	3,030,274,377
Contractual adjustments	<u>(2,184,929,877)</u>	<u>(1,981,571,364)</u>
Net patient service revenue, net of contractual adjustments	1,099,693,172	1,048,703,013
Provision for uncollectible accounts	<u>(174,905,149)</u>	<u>(170,621,434)</u>
Net patient service revenue	<u>\$ 924,788,023</u>	<u>878,081,579</u>

During 2016 and 2015, gross patient revenue provided to patients as charity care totaled \$82,224,575 and \$74,453,081, respectively. These amounts are not included in gross patient service revenue.

In the spring of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law. The impact of the Health Care Acts is complicated and difficult to predict; however, the Hospital anticipates its reimbursement in the future will continue to be affected by major elements of the Health Care Acts designed to (1) increase insurance coverage, (2) change provider and payer behavior, and (3) encourage alternative healthcare delivery models. Many healthcare reform variables remain unknown and are dependent on, among other things, implementation by federal and state governments and reactions by providers, payers, employers, and individuals. The Hospital continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, LCHSD must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and “meaningful use” of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties intended to encourage the adoption of EHR technology. LCHSD anticipates that its current efforts to implement an enterprise-wide EHR will enable its compliance with the meaningful use objectives mandated in the HITECH legislation.

(4) Inventories

The components of inventories at September 30 are as follows:

	2016	2015
Supplies	\$ 10,828,679	10,760,388
Pharmacy	4,779,799	4,183,373
Dietary	64,269	81,205
	\$ 15,672,747	15,024,966

(5) Cash and Cash Equivalents and Investments

At September 30, 2016 and 2015, the carrying amount of LCHSD’s cash and cash equivalents and investments, including those held by trustee, was \$794,018,106 and \$583,919,401, respectively.

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

	2016	2015
Cash and cash equivalents	\$ 160,073,237	142,118,950
Short-term investments	72,291,176	55,411,118
Long-term investments	382,382,968	384,497,407
	\$ 614,747,381	582,027,475

The carrying values of the restricted cash and cash equivalents and investments, which are held by a trustee, are included in the accompanying balance sheets as follows:

	2016	2015
Cash and cash equivalents	\$ 177,278,716	210,669
Long-term investments	1,992,009	1,681,257
	\$ 179,270,725	1,891,926

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

Investments (restricted and unrestricted) at September 30 consist of the following:

	<u>2016</u>	<u>2015</u>
U.S. government obligations	\$ 216,789,109	211,292,652
Corporate stocks, bonds, and other	<u>239,877,044</u>	<u>230,297,130</u>
	456,666,153	441,589,782
Less current portion	<u>72,291,176</u>	<u>55,411,118</u>
	<u>\$ 384,374,977</u>	<u>386,178,664</u>

The current portion of investments represents the amount of securities maturing within one year, with the exception of the bond proceeds held by a trustee, which are classified as long-term assets. The remaining balances have maturity dates not exceeding 10 years.

As required by state statutes, the cash and investment balances held by LCHSD, excluding the Foundation, were covered by federal depository insurance, invested in U.S. government obligations, or collateralized by U.S. government obligations held in LCHSD's name by a custodial bank or trustee, or invested in investment grade corporate bonds.

Interest and Credit Risk

State statutes limit the purchase of investments in corporate bonds to those with maturities of less than twelve years and having one of the three highest general rating categories issued by at least two nationally recognized rating agencies. Investments in corporate obligations may not exceed 40% of total cash and investments. Investments in corporate bonds were 30% and 39% of total cash and investments at September 30, 2016 and 2015, respectively. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements. While LCHSD does not have a policy, it is the practice of LCHSD to hold U.S. government obligations to maturity, thereby eliminating interest rate risk.

LCHSD's investments as of September 30, 2016 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

<u>Investment type</u>	<u>Investment maturity</u>				
	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>More than 10 years</u>
Debt securities:					
U.S. government obligations	\$ 216,789,109	45,266,954	166,082,030	5,391,515	48,610
Corporate bonds	<u>235,586,206</u>	<u>27,481,197</u>	<u>173,585,880</u>	<u>34,519,129</u>	<u>—</u>
	452,375,315	<u>72,748,151</u>	<u>339,667,910</u>	<u>39,910,644</u>	<u>48,610</u>
Equity securities	3,864,116				
Other investments	<u>426,722</u>				
Total investments	<u>\$ 456,666,153</u>				

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

LCHSD's investments as of September 30, 2015 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

Investment type	Investment maturity				
	Fair value	Less than 1 year	1-5 years	6-10 years	More than 10 years
Debt securities:					
U.S. government obligations	\$ 211,292,652	30,152,510	180,805,956	334,186	—
Corporate bonds	225,888,093	25,449,993	159,706,617	40,731,483	—
	437,180,745	55,602,503	340,512,573	41,065,669	—
Equity securities	4,007,206				
Other investments	401,831				
Total investments	\$ 441,589,782				

LCHSD's debt securities and related credit quality ratings as of September 30, 2016 are presented below:

	Rated debt securities		
	Total fair value	U.S. agencies	Corporate debt
Quality ratings:			
Standard and Poor's:			
AA+	\$ 6,258,168	2,044,803	4,213,365
AA	13,319,026	—	13,319,026
AA-	24,780,745	—	24,780,745
A+	20,089,027	—	20,089,027
A	55,172,608	—	55,172,608
A-	29,669,046	—	29,669,046
BBB+	1,876,620	—	1,876,620
BBB-	7,996	—	7,996
Moody's:			
Aaa	227,436,624	214,744,306	12,692,318
Aa1	3,004,475	—	3,004,475
Aa2	6,124,789	—	6,124,789
Aa3	6,414,218	—	6,414,218
A1	23,233,392	—	23,233,392
A2	18,962,360	—	18,962,360
A3	13,766,331	—	13,766,331
Ba2	2,259,890	—	2,259,890
	\$ 452,375,315	216,789,109	235,586,206

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

LCHSD's debt securities and related credit quality ratings as of September 30, 2015 are presented below:

	Rated debt securities		
	Total fair value	U.S. agencies	Corporate debt
Quality ratings:			
Standard and Poor's:			
AA+	\$ 21,505,667	5,986,957	15,518,710
AA	10,424,748	—	10,424,748
AA-	13,986,717	—	13,986,717
A+	25,275,612	—	25,275,612
A	49,384,052	—	49,384,052
A-	35,400,477	—	35,400,477
BBB+	2,380,526	—	2,380,526
Moody's:			
Aaa	208,544,341	205,305,695	3,238,646
Aa1	2,613,720	—	2,613,720
Aa2	4,542,305	—	4,542,305
Aa3	2,499,445	—	2,499,445
A1	24,277,750	—	24,277,750
A2	27,637,714	—	27,637,714
A3	8,707,671	—	8,707,671
	<u>\$ 437,180,745</u>	<u>211,292,652</u>	<u>225,888,093</u>

At September 30, LCHSD had bank balances, including overnight investments, as follows:

	2016	2015
Depository account:		
Insured	\$ 1,149,695	935,112
Collateralized	158,577,657	140,754,850
Uninsured and uncollateralized	345,885	428,988
Total deposits	<u>\$ 160,073,237</u>	<u>142,118,950</u>

Investment income is comprised of the following for the years ended September 30, 2016 and 2015:

	2016	2015
Dividend and interest income	\$ 7,442,594	6,268,332
Realized gains	911,287	876,627
Net increase in the fair value of investments	1,962,255	1,599,825
	<u>\$ 10,316,136</u>	<u>8,744,784</u>

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(6) Fair Value Hierarchy

Fair value measurements reflected in the financial statements provide a framework for measuring fair value. GASB 72 defines fair value as 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. GAAP provides a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the market place.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1 – Inputs are quoted prices for identical assets or liabilities in active markets that LCHSD can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Inputs are unobservable for an asset or liability.

All investments held by LCHSD at September 30, 2016 and 2015 were determined to be Level 1.

(7) Other Assets

Other assets consist of the following as of September 30:

	<u>2016</u>	<u>2015</u>
Long-term deposits	\$ 194,500	194,500
Goodwill	672,335	988,914
Investment in Premier	<u>4,179,648</u>	<u>2,779,233</u>
	<u>\$ 5,046,483</u>	<u>3,962,647</u>

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(8) Capital Assets

Capital asset additions, retirements, and balances for the years ended September 30, 2016 and 2015 are as follows:

	September 30, 2015	Transfers/ additions	Transfers/ retirements	September 30, 2016
Nondepreciable capital assets:				
Land	\$ 42,826,719	(2,328,957)	(950)	40,496,812
Construction in progress	15,187,271	72,642,237	(16,992,497)	70,837,011
Total nondepreciable capital assets	58,013,990	70,313,280	(16,993,447)	111,333,823
Depreciable capital assets:				
Land improvements	15,512,065	128,745	(43,312)	15,597,498
Buildings	463,388,643	17,165,948	(2,708,808)	477,845,783
Equipment	344,846,310	23,422,167	(9,766,875)	358,501,602
Total depreciable capital assets at historical cost	823,747,018	40,716,860	(12,518,995)	851,944,883
Less accumulated depreciation:				
Land improvements	10,709,735	417,157	(40,423)	11,086,469
Buildings	208,569,850	19,991,405	(919,240)	227,642,015
Equipment	253,107,291	30,117,869	(10,265,375)	272,959,785
Total accumulated depreciation	472,386,876	50,526,431	(11,225,038)	511,688,269
Total depreciable capital assets, net	351,360,142	(9,809,571)	(1,293,957)	340,256,614
Capital assets, net	\$ 409,374,132	60,503,709	(18,287,404)	451,590,437

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

	<u>September 30,</u> <u>2014</u>	<u>Transfers/ additions</u>	<u>Transfers/ retirements</u>	<u>September 30,</u> <u>2015</u>
Nondepreciable capital assets:				
Land	\$ 38,437,188	4,389,531	—	42,826,719
Construction in progress	<u>27,191,329</u>	<u>29,169,813</u>	<u>(41,173,871)</u>	<u>15,187,271</u>
Total nondepreciable capital assets	<u>65,628,517</u>	<u>33,559,344</u>	<u>(41,173,871)</u>	<u>58,013,990</u>
Depreciable capital assets:				
Land improvements	15,206,046	306,019	—	15,512,065
Buildings	433,090,837	30,436,545	(138,739)	463,388,643
Equipment	<u>322,627,995</u>	<u>28,562,944</u>	<u>(6,344,629)</u>	<u>344,846,310</u>
Total depreciable capital assets at historical cost	<u>770,924,878</u>	<u>59,305,508</u>	<u>(6,483,368)</u>	<u>823,747,018</u>
Less accumulated depreciation:				
Land improvements	10,243,008	466,727	—	10,709,735
Buildings	189,970,133	18,737,291	(137,574)	208,569,850
Equipment	<u>229,672,794</u>	<u>29,455,386</u>	<u>(6,020,889)</u>	<u>253,107,291</u>
Total accumulated depreciation	<u>429,885,935</u>	<u>48,659,404</u>	<u>(6,158,463)</u>	<u>472,386,876</u>
Total depreciable capital assets, net	<u>341,038,943</u>	<u>10,646,104</u>	<u>(324,905)</u>	<u>351,360,142</u>
Capital assets, net	<u>\$ 406,667,460</u>	<u>44,205,448</u>	<u>(41,498,776)</u>	<u>409,374,132</u>

Construction in progress at September 30, 2016 is principally comprised of costs related to various expansion and renovation projects at the Hospital and other LCHSD facilities. The costs currently estimated to be incurred related to these projects at September 30, 2016 total approximately \$421,900,000. These projects are scheduled for completion through fiscal year 2018. Interest totaling \$1,178,022 and \$390,327 was capitalized during 2016 and 2015, respectively.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(9) Long-term Debt and Obligations

A summary of long-term obligations at September 30 follows:

	<u>September 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2016</u>	<u>Current portion</u>
Long-term debt:					
Revenue bonds	\$ 229,825,000	176,580,000	(7,600,000)	398,805,000	7,985,000
Less unamortized premium	(3,256,754)	(28,893,028)	386,410	(31,763,372)	—
Total long-term debt	233,081,754	205,473,028	(7,986,410)	430,568,372	7,985,000
Due to others	500,000	—	—	500,000	500,000
Total	<u>\$ 233,581,754</u>	<u>205,473,028</u>	<u>(7,986,410)</u>	<u>431,068,372</u>	<u>8,485,000</u>
	<u>September 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2015</u>	<u>Current portion</u>
Long-term debt:					
Revenue bonds	\$ 237,085,000	—	(7,260,000)	229,825,000	7,600,000
Less unamortized premium	(3,528,856)	—	272,102	(3,256,754)	—
Total long-term debt	240,613,856	—	(7,532,102)	233,081,754	7,600,000
Due to others	1,000,000	—	(500,000)	500,000	500,000
Total	<u>\$ 241,613,856</u>	<u>—</u>	<u>(8,032,102)</u>	<u>233,581,754</u>	<u>8,100,000</u>

On August 5, 2010, LCHSD agreed to partner with Lexington County (the County) on the construction of a communications center. LCHSD agreed to transfer \$2,500,000 to the County. The first installment of \$500,000 was transferred to the County in September 2012 upon the County obtaining a contract for the construction of the communications center. The remaining amounts will be paid to the County annually over the subsequent four years. The amount outstanding at both September 30, 2016 and 2015 was \$500,000.

On August 18, 2016, LCHSD issued \$176,580,000 of Healthcare System Revenue Bonds, Series 2016 (the Series 2016 Bonds), having stated interest rates ranging from 3% to 5%. Net proceeds were received (i) to finance certain additions, expansions and enlargements to LCHSD's health care facilities, (ii) to pay a portion of the interest accruing on the Series 2016 Bonds during the construction of the Project and (iii) to pay certain fees and expenses incurred in connection with the issuance of the Series 2016 Bonds. The Project consists of various capital acquisitions and improvements for LCHSD, including the construction of a parking garage, the construction of a hospital tower and renovations, additions, expansions and enlargements to the hospital facilities located on the LMC campus, and the construction of a central energy plant. Issuance costs were \$1,391,462. The amount of Series 2016 Bonds outstanding totaled \$176,580,000 as of September 30, 2016.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

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On July 28, 2011, LCHSD issued \$62,705,000 of Healthcare System Revenue Refunding Bonds, Series 2011 (the Series 2011 Bonds) having stated interest rates ranging from 2.0% to 5.0%. Net proceeds were received (i) to provide funds to refund \$64,840,000 of the \$94,030,000 of the LCHSD Hospital Revenue Bonds, Series 1997, with stated interest rates ranging from 4.25% to 5.5% and (ii) to pay certain fees and expenses incurred in connection with the issuance of the Series 2011 Bonds. Issuance costs were \$635,128. Amounts outstanding totaled \$49,380,000 and \$52,705,000 as of September 30, 2016 and 2015, respectively. As a result, the refunded portion of the Series 1997 Hospital revenue Bonds is considered to be defeased, and the liability is removed from LCHSD's financial statements. The refunding of the Series 1997 Hospital Revenue Bonds resulted in a loss of approximately \$2,300,000, which has been deferred and included in deferred outflows, net of amortization, as of September 30, 2016 and 2015.

As a result of the refunding of the Series 1997 Hospital Revenue Bonds, the difference between the future cash flows of the refunded debt of approximately \$96,300,000 and the future cash flows of the replacement debt of approximately \$90,100,000 totals future cash savings of approximately \$6,200,000. The economic gain on the refunding, which represents the difference between the present values of the refunded debt service requirements and the replacement debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid, total approximately \$4,600,000.

On July 26, 2007, LCHSD issued \$181,575,000 of Healthcare System Revenue Bonds, Series 2007 (the Series 2007 Bonds), having stated interest rates ranging from 4.0% to 5.0%. Net proceeds were received (i) to provide funds to advance refund \$52,735,000 of the LCHSD Hospital Revenue Bonds, Series 2004, with stated interest rates ranging from 5.5% to 6.0%, (ii) to advance refund \$136,550,000 of the LCHSD Hospital Revenue Bonds, Series 2002 with stated interest rates ranging from 2.0% to 5.5%, and (iii) to pay certain fees and expenses incurred in connection with the issuance of the Series 2007 Bonds. Issuance costs were \$1,285,763. Amounts outstanding totaled \$172,845,000 and \$177,120,000 as of September 30, 2016 and 2015, respectively. As a result, the refunded portion of the Series 2002 and Series 2004 Hospital revenue Bonds is considered to be defeased, and the liability is removed from LCHSD's financial statements. The refunding of the Series 2002 and Series 2004 Hospital Revenue Bonds resulted in a loss of approximately \$8,200,000, which has been deferred and included in deferred outflows, net of amortization, as of September 30, 2016 and 2015.

The financing agreements contain several covenants, the most restrictive of which require LCHSD to set rates to maintain certain debt service coverage ratios and limit LCHSD's ability to incur additional indebtedness.

All Revenue Bonds are payable solely from the pledged revenues of LCHSD and funds held by the bond trustees under the bond indentures.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

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Scheduled principal and interest repayments are as follows:

	Principal	Interest
Fiscal year ending September 30:		
2017	\$ 7,985,000	16,746,352
2018	8,390,000	18,822,706
2019	8,805,000	18,392,831
2020	9,250,000	17,941,456
2021	9,705,000	17,467,581
2022–2026	56,240,000	79,468,391
2027–2031	73,270,000	63,516,500
2032–2036	65,430,000	45,092,000
2037–2041	62,210,000	30,793,000
2042–2046	79,340,000	13,667,400
2047	18,180,000	418,300
	\$ 398,805,000	322,326,517

Interest expense on long-term debt was \$15,267,721 and \$13,311,698 for the years ended September 30, 2016 and 2015, respectively. Capitalized interest costs of \$1,178,022 and \$390,327 during 2016 and 2015, respectively, are associated with a variety of projects.

(10) Commitments under Noncancelable Operating Leases

LCHSD is committed under various noncancelable operating leases expiring in various years through 2026. Future minimum noncancelable operating lease payments are as follows:

Fiscal year ending September 30:

2017	\$ 4,873,110
2018	2,246,580
2019	1,709,266
2020	744,992
2021	402,490
Thereafter	522,134
	\$ 10,498,572

Rental expense for the years ended September 30, 2016 and 2015 was \$5,225,720 and \$5,428,323, respectively.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

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(11) Risk Management

Insurance coverage is provided for claims on a purchased or self-funded basis depending on the specific risks and related coverage. LCHSD has customary deductibles related to insurance coverages. Settled claims have not exceeded this coverage during the years ended September 30, 2016 and 2015.

(a) Professional Liability Insurance

The laws of South Carolina limit the amount that can be recovered from certain governmental medical facilities, including LCHSD, for damages for medical services rendered by the facility or the facility's employees to \$300,000 per person and \$600,000 total per occurrence and \$1,200,000 per occurrence for physicians employed by the facility. LCHSD purchases professional medical liability insurance to insure itself against losses up to the limits provided by law. 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, 2016. The insurance policy is an occurrence-based policy. Insurance expense for professional medical liability coverage totaled \$4,632,611 and \$4,454,099 in 2016 and 2015, respectively.

(b) Group Health Medical Claims

LCHSD is self-insured for employee medical and dental coverage with an excess coverage (stop loss) policy that covers annual medical costs in excess of \$400,000 on a claims-made basis. LCHSD reserves for estimated losses on group health medical claims to the extent they fall within the self-insurance limits. The reserve is calculated by management utilizing LCHSD's historical group health loss experience.

Changes in the estimated losses on group health medical claims for the years ended September 30, 2016 and 2015 were as follows:

	2016	2015
Estimated group health medical claims at beginning of year	\$ 6,176,721	5,134,237
Group health expense	72,121,416	61,592,876
Group health claims	(71,474,735)	(60,550,392)
Estimated group health medical claims at end of year	\$ 6,823,402	6,176,721

Estimated group health medical claims are included in accrued expenses and other current liabilities in the accompanying balance sheets.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

(12) Benefit Plans

Pension Plans

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the retirement systems and serves as a co-trustee of the retirement systems in conducting that review.

(a) *Plan Descriptions*

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Both SCRS and PORS have fiscal years ending June 30.

(b) *Membership*

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each retirement system is presented below.

- SCRS – Generally, all employees of covered employers are required to participate in and contribute to the retirement system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the retirement system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the retirement system with an effective date of membership on or after July 1, 2012, is a Class Three member.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

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- **PORS** – To be eligible for PORS membership, an employee must be required by the terms of his or her employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the retirement system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the retirement system with an effective date of membership on or after July 1, 2012, is a Class Three member.

(c) **Benefits**

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each retirement system is presented below.

- **SCRS** – A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the earlier of the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

- **PORS** – A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

(d) Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations. However, any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9% of earnable compensation for SCRS and 5% for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period. Such an increase is not limited to one-half of one percent per year.

Required employee contribution rates for the retirement systems for the year ended June 30, 2015 and 2016 are as follows:

SCRS

Between July 1, 2014-June 30, 2015, employee Class Two and Three – 8.00% of earnable compensation. Between July 1, 2015-June 30, 2016, employee Class Two and Three – 8.16% of earnable compensation. After July 1, 2016, employee Class Two and Three – 8.66% of earnable compensation.

PORS

Between July 1, 2014-June 30, 2015, employee Class Two and Three – 8.41% of earnable compensation. Between July 1, 2015-June 30, 2016, employee Class Two and Three – 8.74% of earnable compensation. After July 1, 2016, employee Class Two and Three – 9.24% of earnable compensation.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

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Required employer contributions rates for the year ended June 30, 2015 and 2016 are as follows:

SCRS

Between July 1, 2014-June 30, 2015, employer Class Two and Three – 10.75% of earnable compensation. Between July 1, 2015-June 30, 2016, employer Class Two and Three – 10.91% of earnable compensation. After July 1, 2016, employer Class Two and Three – 11.41% of earnable compensation. Employer Incidental Death Benefit – 0.15% of earnable compensation.

PORS

Between July 1, 2014-June 30, 2015, employee Class Two and Three – 13.01% of earnable compensation. Between July 1, 2015-June 30, 2016, employee Class Two and Three – 13.34% of earnable compensation. After July 1, 2016, employee Class Two and Three – 13.84% of earnable compensation. Employer Incidental Death Benefit – 0.20% of earnable compensation.

Employer Contributions

The Hospital’s proportionate share of employer contributions was calculated on the basis of historical contributions. Although GASB No. 68 encourages the use of the employer’s projected long-term contribution effort to the retirement plan, allocation on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the retirement systems that are not representative of future contribution effort are excluded in the determination of employers’ proportionate shares. Examples of employer contributions not representative of future contribution efforts are contributions towards the purchase of employee service and employer contributions paid by employees in connection with early retirement.

The following table provides the employer contributions used in the determination of employers’ proportionate shares of collective pension amounts reported.

	Fiscal year ended June 30	
	2016	2015
The Hospital’s Proportionate Share of Contributions for SCRS	\$ 33,852,246	30,543,612
The Hospital’s Proportionate Share of Contributions for PORS	176,410	166,486
Allocation Percentage of Proportionate Share of Collective Pension Amounts for SCRS	3.160767%	2.988593%
Allocation Percentage of Proportionate Share of Collective Pension Amounts for PORS	0.100710%	0.100210%

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements
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Net Pension Liability

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2015. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. At July 1, 2015, there were 486,467 total plan members for SCRS and 57,433 total plan members for PORS. There were no assumption changes that required an adjustment to the roll forward liabilities. There was no legislation enacted during the 2016 legislative session that had a material change in benefit provisions for either of the retirement systems. Information included in the following schedules is based on the certification provided by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company (GRS).

The net pension liability (NPL) is calculated separately for each retirement system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that retirement system's fiduciary net position. The components of the net pension liability of the participating employers of SCRS and PORS at June 30, 2016 and 2015 are as follows:

	2016	
	<u>SCRS</u>	<u>PORS</u>
Total pension liability	\$ 45,356,214,752	6,412,510,458
Plan fiduciary net position	<u>23,996,362,354</u>	<u>3,876,035,732</u>
Employers' net pension liability	<u>\$ 21,359,852,398</u>	<u>2,536,474,726</u>

The Hospital's respective portions of the net pension liability of the pension plans as of June 30, 2016 are as follows:

	<u>SCRS</u>	<u>PORS</u>
Portion of collective net pension liability	3.160767%	0.10071%
Proportionate share of net pension liability	\$ 675,135,102	2,554,484

	2015	
	<u>SCRS</u>	<u>PORS</u>
Total pension liability	\$ 44,097,310,230	6,151,321,222
Plan fiduciary net position	<u>25,131,828,101</u>	<u>3,971,824,838</u>
Employers' net pension liability	<u>\$ 18,965,482,129</u>	<u>2,179,496,384</u>

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

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The Hospital's respective portions of the net pension liability of the plans as of June 30, 2015 are as follows:

	<u>SCRS</u>	<u>PORS</u>
Portion of collective net pension liability	2.988593%	0.10021%
Proportionate share of net pension liability	\$ 566,801,071	2,184,073

For the year ended September 30, 2016, the Hospital recognized pension expense of \$70,411,910 and \$281,403 related to the SCRS and PORS pension plans, respectively. This includes \$34,947,626 and \$104,699 of pension expense for SCRS and PORS, respectively, in excess of employer contributions and recognized as a result of GASB No. 68. For the year ended September 30, 2015, the Hospital recognized pension expense of \$44,624,180 and \$211,203 related to the SCRS and PORS pension plans, respectively. This includes \$13,421,657 and \$46,600 of pension expense for SCRS and PORS, respectively, in excess of employer contributions and recognized as a result of the GASB No. 68 implementation.

The Hospital recognized contributions subsequent to the June 30, 2016 measurement date of \$9,404,079 and \$48,645 related to the SCRS and PORS pension plans, respectively. The Hospital recognized contributions subsequent to the June 30, 2015 measurement date of \$7,004,737 and \$33,736 related to the SCRS and PORS pension plans, respectively.

Deferred Outflows and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, the Hospital had the following balances of deferred outflows and inflows of resources related to pensions:

	<u>2016</u>		<u>2015</u>	
	<u>SCRS</u>	<u>PORS</u>	<u>SCRS</u>	<u>PORS</u>
Contributions subsequent to measurement date	\$ 9,404,079	48,645	7,004,737	33,736
Net difference between projected and actual earnings on pension plan investments	56,800,560	289,652	3,793,882	23,898
Net difference between projected and actual liability experience	6,998,569	37,904	10,070,121	43,290
Change in proportion and differences between employer contributions and proportionate share of plan contributions	<u>31,367,442</u>	<u>57,899</u>	<u>10,595,862</u>	<u>67,469</u>
Deferred outflows of resources	\$ <u><u>104,570,650</u></u>	<u><u>434,100</u></u>	<u><u>31,464,602</u></u>	<u><u>168,393</u></u>

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

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	<u>SCRS</u>	<u>PORS</u>	<u>SCRS</u>	<u>PORS</u>
Net difference between expected and actual earnings on pension plan investments	\$ —	—	—	—
Net difference between expected and actual liability experience	<u>733,199</u>	<u>—</u>	<u>1,013,621</u>	<u>—</u>
Deferred inflows of resources	<u>\$ 733,199</u>	<u>—</u>	<u>1,013,621</u>	<u>—</u>

System contributions subsequent to the measurement date of \$7,404,079 for SCRS and \$48,645 for PORS are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>SCRS</u>	<u>PORS</u>
Year ending September 30:		
2017	\$ 26,745,797	93,764
2018	23,087,601	91,842
2019	30,929,466	132,276
2020	13,670,508	67,573

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2016 annual valuation is complete.

The most recent annual actuarial valuations reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2015. The net pension liability of each defined benefit pension plan was therefore determined by GRS, based on the July 1, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

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The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2015 and 2014, valuations for SCRS and PORS.

	<u>SCRS</u>	<u>PORS</u>
Actuarial cost method	Entry age	Entry age
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	3.5% plus step-rate increases for members with less than 25 years of service	4.0% plus step-rate increases for members with less than 12 years of service
Includes inflation at	2.75%	2.75%

The post-retiree 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 2000.

<u>Former job class</u>	<u>Males</u>	<u>Females</u>
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments at June 30, 2016 is based upon the 30 year capital market outlook at the end of the fourth quarter 2015. The long-term expected rate of return on pension plan investments at June 30, 2015 is based upon the 30 year capital market outlook at the end of the third quarter 2014. The long-term expected rate of return represents assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted for fiscal year 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50% assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75% real rate of return and a 2.75% inflation component.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

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At June 30, 2016:

Allocation/exposure	Target asset allocation	Expected arithmetic real rate of return	Long term expected portfolio real rate of return
Global equity	43.0%		
Global public equity	34.0	6.52%	2.22%
Private equity	9.0	9.30	0.84
Real assets	8.0	—	
Real estate	5.0	4.32	0.22
Commodities	3.0	4.53	0.13
Opportunistic	20.0	—	
GTAA/Risk Parity	10.0	3.90	0.39
HF (Low Beta)	10.0	3.87	0.39
Diversified credit	17.0	—	
Mixed credit	5.0	3.52	0.17
Emerging market debt	5.0	4.91	0.25
Private debt	7.0	4.47	0.31
Conservative fixed income	12.0	—	
Core fixed income	10.0	1.72	0.17
Cash and short duration (net)	2.0	0.71	0.01
	<hr/>		
Total expected real return	<u>100.0%</u>		5.10
Inflation for actuarial purposes			<hr/> 2.75 <hr/>
Total expected nominal return			<u>7.85%</u>

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

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At June 30, 2015:

Asset class	Target asset allocation	Expected arithmetic real rate of return	Long term expected portfolio real rate of return
Short term:	5.0%		
Cash	2.0	1.90%	0.04%
Short duration	3.0	2.00	0.06
Domestic fixed income:	13.0	—	
Core fixed income	7.0	2.70	0.19
Mixed credit	6.0	3.80	0.23
Global fixed income:	9.0	—	
Global fixed income	3.0	2.80	0.08
Emerging markets debt	6.0	5.10	0.31
Global public equity	31.0	7.10	2.20
Global tactical asset allocation	10.0	4.90	0.49
Alternatives:	32.0	—	
Hedge funds (Low beta)	8.0	4.30	0.34
Private debt	7.0	9.90	0.69
Private equity	9.0	9.90	0.89
Real estate (Broad market)	5.0	6.00	0.30
Commodities	3.0	5.90	0.18
	<hr/>		
Total expected real return	<u>100.0%</u>		<u>6.00</u>
Inflation for actuarial purposes			<u>2.75</u>
Total expected nominal return			<u><u>8.75%</u></u>

Discount Rate

The discount rate used to measure the total pension liability was 7.50% at both June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the retirement systems' fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements
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Sensitivity Analysis

The following table presents the retirement systems' net pension liability of the participating employers calculated using the discount rate of 7.50%, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate at June 30, 2016:

<u>Retirement systems</u>	<u>1.00% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1.00% Increase (8.50%)</u>
SCRS	\$ 26,645,830,988	21,359,852,398	16,959,474,388
PORS	3,324,267,374	2,536,474,726	1,828,495,252

The following table presents the Hospital's net pension liability at June 30, 2016 calculated using the discount rate of 7.50%, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate.

<u>The Hospital</u>	<u>1.00% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1.00% Increase (8.50%)</u>
SCRS	\$ 842,212,633	675,135,102	536,049,470
PORS	3,347,870	2,554,484	1,841,478

Sensitivity of the Net Pension Liability to Changes in the Discount Rate at June 30, 2015:

<u>Retirement systems</u>	<u>1.00% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1.00% Increase (8.50%)</u>
SCRS	\$ 23,910,053,704	18,965,482,129	14,821,302,520
PORS	2,968,982,818	2,179,496,384	1,473,738,169

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements
September 30, 2016 and 2015

The following table presents sensitivity of the Hospital’s net pension liability at June 30, 2015 calculated using the discount rate of 7.50%, as well as what the employers’ net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate.

The Hospital	1.00% Decrease (6.50%)	Current discount rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$ 714,574,191	566,801,071	442,948,410
PORS	2,975,307	2,184,073	1,476,877

(e) Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the pension plans administered by PEBA is available in the separately issued Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems’ Pension Trust Funds (SCRS and PORS). The CAFR of the Pension Trust Funds is publicly available on PEBA’s Retirement Benefits’ website at www.peba.sc.gov, or a copy may be obtained by submitting a request to SC Public Employee Benefit Authority, 202 Arbor Lake Drive, Columbia, SC 29223.

PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the CAFR of the state.

Defined Contribution Plan

LexMed has a defined contribution plan as an option for employees since they do not participate in the South Carolina Retirement System plan. The 401(k) plan is matched by LexMed at the end of 3 years of employment but is retroactive to the beginning of the 2nd year of employment. Employees are fully vested after completing three years of employment. Contributions are matched 140% on the dollar up to 6.5% of earnings excluding overtime wages. LexMed recognized employer contributions of approximately \$505,000 in 2016 and \$481,000 in 2015.

(13) Business and Credit Concentrations

LCHSD grants credit to patients, substantially all of whom reside in its service areas. LCHSD generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients’ benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, and other preferred provider arrangements and commercial insurance policies).

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

The mix of gross receivables from patients and third-party payers as of September 30, 2016 and 2015 is as follows:

	2016	2015
Medicare	25%	21%
Medicaid	6	6
Patients	20	25
Other third-party payors	49	48
	100%	100%

(14) Litigation

There is no litigation pending, or to the knowledge of management of LCHSD threatened, which if decided adversely to LCHSD or any of its subsidiaries would have a material adverse effect on the business operations, financial position, or properties of LCHSD or its subsidiaries. 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.

(15) Settlement Agreement

Effective July 20, 2016, LCHSD entered into a settlement agreement that provides for the dismissal of a civil action filed against LCHSD by the U.S. government and a former employee-physician claimant alleging LCHSD violated the Physician Referral Law and the False Claims Act by improperly compensating certain of its employed physicians for referrals to LCHSD’s ancillary services and by submitting claims for reimbursement for those services to government payors. LCHSD denied any wrongdoing in its response to the action, vigorously defended against the allegations of the complaint and did not admit any liability in the settlement agreement. The settlement agreement required LCHSD to pay \$17 million to the federal government and to enter into a five-year Corporate Integrity Agreement (CIA). The CIA is focused on arrangements between (1) LCHSD and any actual source of health care business or referrals to LCHSD and (2) LCHSD and any physician who makes a referral to LCHSD for designated health services. Pursuant to the CIA, LCHSD is subject to monitoring, reporting requirements, and penalties for noncompliance. LCHSD also entered into a separate agreement with the former employee-physician claimant to the civil action which provides for the payment of attorneys’ fees and other costs totaling approximately \$2.5 million. LCHSD has recorded the \$17 million related to the settlement agreement and the \$2.5 million related to the claimant’s attorney’s fees and other costs in other expenses during 2016.

(16) Related-Party Transactions

During 2016 and 2015, LCHSD engaged in business with a firm to provide professional services. One of its owners is a member of one of LCHSD entities’ boards. The owner is not, however, a board member of the LCHSD entity that engaged the services of this related firm. Total fees paid to this firm during 2016 and 2015 amounted to approximately \$84,000 and \$4,000, respectively. There were no amounts due to this firm at September 30, 2016.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Financial Statements

September 30, 2016 and 2015

Additionally, during 2016 and 2015, LCHSD engaged in business with a firm to provide pathology services. One of LCHSD's board members is affiliated with this group. Total fees paid to this firm during 2016 and 2015 amounted to approximately \$957,000 and \$964,000. There were no amounts due to this firm at September 30, 2016.

Additionally, during 2016 and 2015, LCHSD engaged in business with a telephone company, cable company, and banks to provide services. LCHSD has board members that are affiliated with each of these groups. Total amounts paid to these businesses during 2016 and 2015 amounted to approximately \$2,061,000 and \$932,000, respectively. There were no amounts due to these businesses at September 30, 2016 for services provided.

Additionally, during 2016 and 2015, LCHSD leased office space from an employed physician who is also a board member. Total payments to this physician board member were approximately \$24,000 for both 2016 and 2015.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Combining Balance Sheet Information

September 30, 2016

Assets and Deferred Outflows	Lexington Medical Center	LexMed, Inc.	Lexington Medical Center Foundation	Palmetto Health Systems, Inc.	Eliminations	Combined
Current assets:						
Cash and cash equivalents	\$ 158,726,135	1,421	1,105,936	239,745	—	160,073,237
Short-term investments	72,291,176	—	—	—	—	72,291,176
Accounts receivable:						
Patient, net	112,478,451	2,894,086	—	—	—	115,372,537
Other current receivables	4,964,690	736,470	151,645	—	—	5,852,805
Inventories	15,549,148	123,599	—	—	—	15,672,747
Prepaid expenses	8,427,624	61,241	10,733	—	—	8,499,598
Total current assets	<u>372,437,224</u>	<u>3,816,817</u>	<u>1,268,314</u>	<u>239,745</u>	<u>—</u>	<u>377,762,100</u>
Cash held by trustee	177,148,489	130,227	—	—	—	177,278,716
Investments held by trustee	1,992,009	—	—	—	—	1,992,009
Long-term investments	377,291,642	—	4,806,134	285,192	—	382,382,968
Capital assets net of accumulated depreciation	434,688,329	16,902,108	—	—	—	451,590,437
Other assets	4,695,085	351,398	—	—	—	5,046,483
Investment in affiliates	15,729,913	—	—	—	(15,729,913)	—
Total assets	<u>1,383,982,691</u>	<u>21,200,550</u>	<u>6,074,448</u>	<u>524,937</u>	<u>(15,729,913)</u>	<u>1,396,052,713</u>
Deferred outflows related to deferred losses on debt refunding	8,350,840	—	—	—	—	8,350,840
Deferred outflows related to pension	105,004,752	—	—	—	—	105,004,752
Total deferred outflows	<u>113,355,592</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>113,355,592</u>
Total assets and deferred outflows	<u>\$ 1,497,338,283</u>	<u>21,200,550</u>	<u>6,074,448</u>	<u>524,937</u>	<u>(15,729,913)</u>	<u>1,509,408,305</u>
Liabilities, Deferred Inflows and Net Position						
Current liabilities:						
Accounts payable	\$ 43,081,843	552,752	47,764	—	—	43,682,359
Accrued expenses and other current liabilities	56,300,318	1,671,975	—	—	—	57,972,293
Current maturities of long-term debt	7,469,175	515,825	—	—	—	7,985,000
Due to others, current	500,000	—	—	—	—	500,000
Due to (from) affiliates	(2,115,242)	2,069,512	45,730	—	—	—
Total current liabilities	<u>105,236,094</u>	<u>4,810,064</u>	<u>93,494</u>	<u>—</u>	<u>—</u>	<u>110,139,652</u>
Long-term debt, net of current maturities	415,416,908	7,166,464	—	—	—	422,583,372
Net pension liability	677,689,586	—	—	—	—	677,689,586
Total liabilities	<u>1,198,342,588</u>	<u>11,976,528</u>	<u>93,494</u>	<u>—</u>	<u>—</u>	<u>1,210,412,610</u>
Deferred inflows	733,199	—	—	—	—	733,199
Total liabilities and deferred inflows	<u>1,199,075,787</u>	<u>11,976,528</u>	<u>93,494</u>	<u>—</u>	<u>—</u>	<u>1,211,145,809</u>
Net position:						
Invested in capital assets, net of related debt	229,575,890	9,219,819	—	—	(9,219,819)	229,575,890
Restricted for specific operating purposes	2,509,244	—	2,556,120	—	(2,556,120)	2,509,244
Unrestricted	66,177,362	4,203	3,424,834	524,937	(3,953,974)	66,177,362
Total net position	<u>298,262,496</u>	<u>9,224,022</u>	<u>5,980,954</u>	<u>524,937</u>	<u>(15,729,913)</u>	<u>298,262,496</u>
Total liabilities and net position	<u>\$ 1,497,338,283</u>	<u>21,200,550</u>	<u>6,074,448</u>	<u>524,937</u>	<u>(15,729,913)</u>	<u>1,509,408,305</u>

See accompanying independent auditors' report.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Combining Balance Sheet Information

September 30, 2015

Assets and Deferred Outflows	Lexington Medical Center	LexMed, Inc.	Lexington Medical Center Foundation	Palmetto Health Systems, Inc.	Eliminations	Combined
Current assets:						
Cash and cash equivalents	\$ 140,890,117	1,385	986,774	240,674	—	142,118,950
Short-term investments	55,411,118	—	—	—	—	55,411,118
Accounts receivable:						
Patient, net	95,592,191	2,925,660	—	—	—	98,517,851
Other current receivables	4,420,563	788,445	151,645	—	—	5,360,653
Inventories	14,906,169	118,797	—	—	—	15,024,966
Prepaid expenses	6,653,913	62,715	2,120	—	—	6,718,748
Total current assets	<u>317,874,071</u>	<u>3,897,002</u>	<u>1,140,539</u>	<u>240,674</u>	<u>—</u>	<u>323,152,286</u>
Cash held by trustee	115,221	95,448	—	—	—	210,669
Investments held by trustee	1,681,257	—	—	—	—	1,681,257
Long-term investments	380,088,370	—	4,123,846	285,191	—	384,497,407
Capital assets net of accumulated depreciation	392,641,740	16,732,392	—	—	—	409,374,132
Other assets	3,562,983	399,664	—	—	—	3,962,647
Investment in affiliates	12,540,982	—	—	—	(12,540,982)	—
Total assets	<u>1,108,504,624</u>	<u>21,124,506</u>	<u>5,264,385</u>	<u>525,865</u>	<u>(12,540,982)</u>	<u>1,122,878,398</u>
Deferred outflows related to deferred losses on debt refunding	9,115,795	—	—	—	—	9,115,795
Deferred outflows related to pensions	31,632,995	—	—	—	—	31,632,995
Total deferred outflows	<u>40,748,790</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>40,748,790</u>
Total assets and deferred outflows	<u>\$ 1,149,253,414</u>	<u>21,124,506</u>	<u>5,264,385</u>	<u>525,865</u>	<u>(12,540,982)</u>	<u>1,163,627,188</u>
Liabilities, Deferred Inflows and Net Position						
Current liabilities:						
Accounts payable	\$ 22,182,421	676,234	53,182	—	—	22,911,837
Accrued expenses and other current liabilities	58,089,599	2,138,727	—	—	—	60,228,326
Current maturities of long-term debt	7,107,857	492,143	—	—	—	7,600,000
Due to others, current	500,000	—	—	—	—	500,000
Due to (from) affiliates	(3,294,166)	3,250,753	43,413	—	—	—
Total current liabilities	<u>84,585,711</u>	<u>6,557,857</u>	<u>96,595</u>	<u>—</u>	<u>—</u>	<u>91,240,163</u>
Long-term debt, net of current maturities	217,762,432	7,719,322	—	—	—	225,481,754
Net pension liability	568,985,144	—	—	—	—	568,985,144
Total liabilities	<u>871,333,287</u>	<u>14,277,179</u>	<u>96,595</u>	<u>—</u>	<u>—</u>	<u>885,707,061</u>
Deferred inflows	1,013,621	—	—	—	—	1,013,621
Total liabilities and deferred inflows	<u>872,346,908</u>	<u>14,277,179</u>	<u>96,595</u>	<u>—</u>	<u>—</u>	<u>886,720,682</u>
Net position:						
Invested in capital assets, net of related debt	179,049,132	8,520,927	—	—	(8,520,927)	179,049,132
Restricted for specific operating purposes	2,280,478	—	2,280,477	—	(2,280,477)	2,280,478
Unrestricted	95,576,896	(1,673,600)	2,887,313	525,865	(1,739,578)	95,576,896
Total net position	<u>276,906,506</u>	<u>6,847,327</u>	<u>5,167,790</u>	<u>525,865</u>	<u>(12,540,982)</u>	<u>276,906,506</u>
Total liabilities and net position	<u>\$ 1,149,253,414</u>	<u>21,124,506</u>	<u>5,264,385</u>	<u>525,865</u>	<u>(12,540,982)</u>	<u>1,163,627,188</u>

See accompanying independent auditors' report.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Combining Schedule of Revenues and Expenses

Year ended September 30, 2016

	Lexington Medical Center	LexMed, Inc.	Lexington Medical Center Foundation	Palmetto Health Systems, Inc.	Eliminations	Combined
Operating revenues:						
Net patient service revenue, net of contractual adjustments	\$ 1,065,852,360	33,847,969	—	—	(7,157)	1,099,693,172
Provision for uncollectible accounts	(174,020,868)	(884,281)	—	—	—	(174,905,149)
Net patient service revenue	891,831,492	32,963,688	—	—	(7,157)	924,788,023
Other operating revenue	14,278,915	275,497	2,378,817	—	(804,641)	16,128,588
Total operating revenues	906,110,407	33,239,185	2,378,817	—	(811,798)	940,916,611
Operating expenses:						
Salaries and wages	401,823,594	16,098,650	—	—	1,410,442	419,332,686
Employee benefits	155,179,305	4,816,513	—	—	—	159,995,818
Supplies and drugs	179,341,046	3,918,903	—	—	—	183,259,949
Professional fees	1,667,312	253,473	—	—	(225,000)	1,695,785
Other expenses	95,294,628	4,142,523	1,977,146	1,152	(2,051,475)	99,363,974
Depreciation and amortization	49,393,203	1,309,183	—	—	—	50,702,386
Total operating expenses	882,699,088	30,539,245	1,977,146	1,152	(866,033)	914,350,598
Operating income (loss)	23,411,319	2,699,940	401,671	(1,152)	54,235	26,566,013
Loss on disposal of property and equipment	(1,487,140)	(3,880)	—	—	—	(1,491,020)
Investment income	9,904,343	76	411,493	224	—	10,316,136
Interest expense	(13,716,022)	(373,677)	—	—	—	(14,089,699)
Equity in earnings of subsidiaries, net	3,134,694	—	—	—	(3,134,694)	—
Excess (deficiency) of revenues over expenses before capital contributions	\$ 21,247,194	2,322,459	813,164	(928)	(3,080,459)	21,301,430

See accompanying independent auditors' report.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Combining Schedule of Revenues and Expenses

Year ended September 30, 2015

	Lexington Medical Center	LexMed, Inc.	Lexington Medical Center Foundation	Palmetto Health Systems, Inc.	Eliminations	Combined
Operating revenues:						
Net patient service revenue, net of contractual adjustments	\$ 1,017,668,918	31,043,721	—	—	(9,626)	1,048,703,013
Provision for uncollectible accounts	(169,362,882)	(1,258,552)	—	—	—	(170,621,434)
Net patient service revenue	848,306,036	29,785,169	—	—	(9,626)	878,081,579
Other operating revenue	15,600,620	263,071	1,799,854	—	(848,725)	16,814,820
Total operating revenues	863,906,656	30,048,240	1,799,854	—	(858,351)	894,896,399
Operating expenses:						
Salaries and wages	361,080,112	15,515,362	—	—	1,419,644	378,015,118
Employee benefits	117,086,495	4,718,448	—	—	—	121,804,943
Supplies and drugs	158,656,397	4,115,886	—	—	—	162,772,283
Professional fees	1,765,938	275,004	—	—	(225,000)	1,815,942
Other expenses	86,762,639	3,884,874	1,675,420	1,140	(2,052,995)	90,271,078
Depreciation and amortization	48,139,390	1,122,550	—	—	—	49,261,940
Total operating expenses	773,490,971	29,632,124	1,675,420	1,140	(858,351)	803,941,304
Operating income (loss)	90,415,685	416,116	124,434	(1,140)	—	90,955,095
Loss on disposal of property and equipment	(274,348)	(3,352)	—	—	—	(277,700)
Investment income	8,747,745	37	(3,241)	243	—	8,744,784
Interest expense	(12,523,710)	(397,661)	—	—	—	(12,921,371)
Equity in earnings of subsidiaries, net	135,436	—	—	—	(135,436)	—
Excess (deficiency) of revenues over expenses before capital contributions	\$ 86,500,808	15,140	121,193	(897)	(135,436)	86,500,808

See accompanying independent auditors' report.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Required Supplementary Information

September 30, 2016 and 2015

(Unaudited)

Schedules of Proportionate Share of Net Pension Liability and Related Ratios

	<u>2016</u>	<u>2015</u>	<u>2014</u>
SCRS:			
The Hospital's proportion of the net pension liability	3.160767%	2.988593%	2.911813%
The Hospital's proportionate share of the collective net pension liability	\$ 675,135,166	566,801,071	501,317,664
The Hospital's covered-employee payroll	324,014,822	279,530,343	264,393,563
The Hospital's proportionate share of net pension liability as a % of The Hospital's covered employee payroll	208.4%	202.8%	189.6%
Plan fiduciary net position as a percentage of the total pension liability	52.9	57.0	59.9
	<u>2016</u>	<u>2015</u>	<u>2014</u>
PORS:			
The Hospital's proportion of the net pension liability	0.10071%	0.10021%	0.09611%
The Hospital's proportionate share of the collective net pension liability	\$ 2,554,484	2,184,073	1,839,937
The Hospital's covered-employee payroll	1,293,870	1,254,558	1,167,856
The Hospital's proportionate share of net pension liability as a % of The Hospital's covered employee payroll	197.4%	174.1%	157.5%
Plan fiduciary net position as a percentage of the total pension liability	60.4	64.6	67.5

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

See accompanying independent auditors' report.

See notes to required supplementary information.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Required Supplementary Information

September 30, 2016 and 2015

(Unaudited)

Schedules of Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
SCRS:			
Statorily or contractually required contribution	\$ 33,852,246	30,543,612	28,034,882
Contributions recognized by the pension plan in relation to the Statorily or contractually required employer contribution	33,852,246	30,543,612	28,034,882
Contributions deficiency (excess)	—	—	—
The Hospital's covered-employee payroll	324,014,822	279,530,343	264,393,563
Contributions as a percentage of covered-employee payroll	10.45%	10.93%	10.60%
	<u>2016</u>	<u>2015</u>	<u>2014</u>
PORS:			
Statorily or contractually required contribution	\$ 176,410	166,486	149,555
Contributions recognized by the pension plan in relation to the Statorily or contractually required employer contribution	176,410	166,486	1,495,555
Contributions deficiency (excess)	—	—	—
The Hospital's covered-employee payroll	1,293,870	1,254,558	1,167,856
Contributions as a percentage of covered-employee payroll	13.63%	13.27%	12.81%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

See accompanying independent auditors' report.

See notes to required supplementary information.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Required Supplementary Information

September 30, 2016 and 2015

(Unaudited)

(1) Schedules of Proportionate Share of Net Pension Liability

The accompanying schedules of proportionate share of net pension liability and related ratios represent historical trend information about the Hospital's proportionate share of the net pension liability for its employees who participate in the SCRS and PORS plans. The net pension liability is measured as a total pension liability less the amount of the fiduciary net position of the respective plans. Information related to all previous years required is not available; therefore, trend information will be accumulated going forward to display a ten-year presentation.

(2) Actuarial Assumptions

SCRS:

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2015.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level% of Pay
Amortization period	25 years, open
Asset valuation method	The fair value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected returns on a fair value basis and is recognized over a five-year period.
Inflation	2.75%
Investment rate of return	7.50%
Salary increases	3.50% plus step-rate increases for members with less than 25 years of service.
Mortality	RP-2000 Mortality Table (White Collar Adjustment for Educators), projected at Scale AA from Year 2000. Male rates multiplied by 100% for noneducators and 110% for educators. Female rates multiplied by 90% for noneducators and 95% for educators.
Other comments	As a result of enactment of Act 278, the member and employer contribution rates for SCRS are determined in accordance with Sections 9-1-1085 of the South Carolina Code. Contribution rates determined by an actuarial valuation are effective for the fiscal year beginning 24 months after the valuation date.

See accompanying independent auditors' report.

LEXINGTON COUNTY HEALTH SERVICES DISTRICT, INC.

Notes to Required Supplementary Information

September 30, 2016 and 2015

(Unaudited)

PORS:

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2015.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level% of Pay
Amortization period	30 years, open
Asset valuation method	The fair value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected returns on a fair value basis and is recognized over a five-year period.
Inflation	2.75%
Investment rate of return	7.50%
Salary increases	4.00% plus step-rate increases for members with less than 12 years of service.
Other Comments	As a result of enactment of Act 278, the member and employer contribution rates for SCRS are determined in accordance with Sections 9-11-225 of the South Carolina Code. Contribution rates determined by an actuarial valuation are effective for the fiscal year beginning 24 months after the valuation date.

See accompanying independent auditors' report.