CareAlliance Health Services

(d/b/a Roper St. Francis Healthcare)

Consolidated Financial Statements as of and for the Years Ended December 31, 2016 and 2015, and Independent Auditors' Report

CAREALLIANCE HEALTH SERVICES
(d/b/a Roper St. Francis Healthcare)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
CareAlliance Health Services
(d/b/a Roper St. Francis Healthcare):

We have audited the accompanying consolidated financial statements of CareAlliance Health Services (d/b/a Roper St. Francis Healthcare) ("CareAlliance"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CareAlliance's preparation and fair presentation of the consolidated 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 CareAlliance'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CareAlliance as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

May 24, 2017

CAREALLIANCE HEALTH SERVICES

(d/b/a Roper St. Francis Healthcare)

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 47,442,000	$ 31,609,000
Patient accounts receivable—less allowances of $65,936,000 and $67,712,000 for uncollectible accounts in 2016 and 2015, respectively	129,782,000	110,387,000
Other receivables	8,355,000	8,888,000
Short-term investments	9,725,000	9,593,000
Inventories	13,510,000	12,180,000
Prepaid expenses and other current assets	13,630,000	11,270,000
Total current assets	222,444,000	183,927,000
LONG-TERM INVESTMENTS	143,808,000	153,476,000
ASSETS LIMITED AS TO USE	108,900,000	1,501,000
PROPERTY AND EQUIPMENT—Net	600,372,000	554,022,000
OTHER ASSETS	49,001,000	43,311,000
TOTAL	$ 1,124,525,000	$ 936,237,000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 22,163,000	$ 21,011,000
Accounts payable	73,370,000	58,051,000
Accrued expenses	69,335,000	59,752,000
Accrued contribution payable to members	9,528,000	14,800,000
Total current liabilities	174,396,000	153,614,000
LONG-TERM DEBT—Net of current portion	483,312,000	315,730,000
OTHER LIABILITIES	94,612,000	91,730,000
Total liabilities	752,320,000	561,074,000
COMMITMENTS AND CONTINGENCIES (Notes 6, 9, 10, and 16)		
NET ASSETS:		
Unrestricted:		
CareAlliance Health Services	345,876,000	352,526,000
Noncontrolling interests in Lowcountry Surgery Center, LLC	160,000	188,000
Noncontrolling interests in RSFH-ATI Physical Therapy, LLC	3,386,000	1,422,000
Total unrestricted net assets	349,422,000	354,136,000
Temporarily restricted	14,158,000	12,854,000
Permanently restricted	8,625,000	8,173,000
Total net assets	372,205,000	375,163,000
TOTAL	$ 1,124,525,000	$ 936,237,000

See notes to consolidated financial statements.

CAREALLIANCE HEALTH SERVICES

(d/b/a Roper St. Francis Healthcare)

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
UNRESTRICTED REVENUES:		
Patient service revenue (net of contractual allowances and discounts)	$863,052,000	$838,228,000
Provision for bad debts	(32,225,000)	(34,417,000)
Net patient service revenue	830,827,000	803,811,000
Other revenue	23,689,000	23,417,000
Total unrestricted revenues	854,516,000	827,228,000
EXPENSES:		
Salaries and employee benefits	461,384,000	424,885,000
Supplies	162,746,000	153,263,000
Purchased services	92,729,000	85,687,000
Other expenses	75,621,000	81,376,000
Depreciation and amortization	60,639,000	53,964,000
Interest	11,037,000	8,704,000
Total expenses	864,156,000	807,879,000
OPERATING (LOSS) INCOME	(9,640,000)	19,349,000
NONOPERATING GAINS (LOSSES):		
Investment gains—net	10,760,000	711,000
Change in fair value of interest rate swaps	1,339,000	79,000
Loss on extinguishment of debt		(76,000)
Other—net	(5,206,000)	(4,002,000)
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES	(2,747,000)	16,061,000
(INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(30,000)	36,000
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO CAREALLIANCE HEALTH SERVICES	$ (2,777,000)	$ 16,097,000

See notes to consolidated financial statements.

CAREALLIANCE HEALTH SERVICES

(d/b/a Roper St. Francis Healthcare)

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Unrestricted CareAlliance Health Services	Noncontrolling Interest	Total	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS—December 31, 2014	$349,564,000	$ 210,000	$349,774,000	$12,641,000	$7,975,000	$370,390,000
Excess of revenues over expenses	16,097,000	(36,000)	16,061,000			16,061,000
Contributions accrued to members	(14,800,000)		(14,800,000)			(14,800,000)
Contribution from member for acquisitions of property and equipment	1,400,000		1,400,000			1,400,000
Contributions			-	6,444,000	225,000	6,669,000
Purchase of noncontrolling interest	23,000	(23,000)	-			
Noncontrolling interest in RSFH-ATI Physical Therapy, LLC (Note 1)		1,508,000	1,508,000			1,508,000
Investment gains (losses)—net			-	42,000	(28,000)	14,000
Net assets released from restrictions for operations			-	(6,030,000)		(6,030,000)
Release of restricted funds for capital expenditures	257,000		257,000	(257,000)		-
Roper St. Francis Foundation transfers	(15,000)		(15,000)	14,000	1,000	-
Distributions to Lowcountry Surgery Center, LLC members		(49,000)	(49,000)			(49,000)
Increase in net assets	2,962,000	1,400,000	4,362,000	213,000	198,000	4,773,000
NET ASSETS—December 31, 2015	352,526,000	1,610,000	354,136,000	12,854,000	8,173,000	375,163,000
(Deficit) excess of revenues over expenses	(2,777,000)	30,000	(2,747,000)			(2,747,000)
Contributions accrued to members	(9,528,000)		(9,528,000)			(9,528,000)
Contribution from member for acquisitions of property and equipment	5,539,000		5,539,000			5,539,000
Contributions and other	(24,000)		(24,000)	7,902,000	458,000	8,336,000
Noncontrolling interest in RSFH-ATI Physical Therapy, LLC (Note 1)		1,957,000	1,957,000			1,957,000
Investment gains (losses)—net			-	674,000	(6,000)	668,000
Net assets released from restrictions for operations			-	(7,132,000)		(7,132,000)
Release of restricted funds for capital expenditures	126,000		126,000	(126,000)		-
Roper St. Francis Foundation transfers	14,000		14,000	(14,000)		-
Distributions to Lowcountry Surgery Center, LLC members		(51,000)	(51,000)			(51,000)
(Decrease) increase in net assets	(6,650,000)	1,936,000	(4,714,000)	1,304,000	452,000	(2,958,000)
NET ASSETS—December 31, 2016	$345,876,000	$3,546,000	$349,422,000	$14,158,000	$8,625,000	$372,205,000

See notes to consolidated financial statements.

CAREALLIANCE HEALTH SERVICES

(d/b/a Roper St. Francis Healthcare)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (2,958,000)	$ 4,773,000
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	60,639,000	53,539,000
Amortization of debt issuance costs and bond discount—net	392,000	425,000
Contribution accrued to members	9,528,000	14,800,000
Contributions from member and Foundation for acquisitions of property and equipment	(5,623,000)	(1,400,000)
Provision for uncollectible accounts	32,225,000	34,417,000
Realized and unrealized (gains) losses on investments and interest rate swap—net	(10,676,000)	711,000
Loss on property and equipment disposals	122,000	1,575,000
Loss on extinguishment of debt		76,000
Noncontrolling interest in RSFH-ATI Physical Therapy, LLC	(1,957,000)	(1,508,000)
Changes in operating assets and liabilities:		
Accounts receivable	(50,327,000)	(28,659,000)
Inventories	(1,330,000)	(397,000)
Prepaid expenses and other current assets	(2,360,000)	1,758,000
Accounts payable, accrued expenses, and other liabilities	15,123,000	(21,484,000)
Net cash provided by operating activities	42,798,000	58,626,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments and assets limited as to use	(149,743,000)	(64,375,000)
Sales of investments and assets limited as to use	60,520,000	85,080,000
Acquisitions (Note 2)	(4,825,000)	(1,701,000)
Purchases of property and equipment	(68,960,000)	(84,398,000)
Cash proceeds from sales of property and equipment	646,000	85,000
Net cash used in investing activities	(162,362,000)	(65,309,000)

(Continued)

CAREALLIANCE HEALTH SERVICES

(d/b/a Roper St. Francis Healthcare)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	$ 169,767,000	$ 27,500,000
Principal payments on long-term debt and capital lease obligations	(23,859,000)	(30,047,000)
Debt issuance costs	(546,000)	(246,000)
Contributions paid to members	(14,800,000)	(14,800,000)
Contributions from member and others for acquisitions of property and equipment	5,623,000	1,400,000
Other	(788,000)	(260,000)
Net cash provided by (used in) financing activities	135,397,000	(16,453,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	15,833,000	(23,136,000)
CASH AND CASH EQUIVALENTS—Beginning of year	31,609,000	54,745,000
CASH AND CASH EQUIVALENTS—End of year	$ 47,442,000	$ 31,609,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest, net of amounts capitalized	$ 10,723,000	$ 8,975,000
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Capital additions financed through accounts payable	$ 14,250,000	$ 6,045,000
Capital lease obligations incurred	$ 22,980,000	$ 8,015,000
Deemed ownership obligations incurred (Note 6)	$ 7,611,000	$ 21,889,000

See notes to consolidated financial statements. (Concluded)

1. ORGANIZATION

CareAlliance Health Services (d/b/a Roper St. Francis Healthcare (RSFH)) ("CareAlliance") is a charitable healthcare delivery system based in Charleston, South Carolina. CareAlliance provides services at more than 110 sites in seven counties. These facilities include three acute care hospitals with 657 licensed beds; one specialty hospital; a home health agency; 35 centers for outpatient services, including surgery, diagnostics, and rehabilitation (physical, occupational, and speech therapies); five emergency rooms; and five express care locations. CareAlliance employs approximately 250 physicians, with a large primary care base and a variety of specialties.

CareAlliance was formed effective August 1, 1998, through the execution of an affiliation agreement between the following founding members (the "Founding Members"), with each member's respective initial membership percentage:

The Medical Society of South Carolina (MSSC)	63 %
Bon Secours Health System, Inc. (BSHSI)	27
Carolinas HealthCare System (CHS)	10

RSFH is governed by a 13-member board of directors (the "Board of Directors") appointed by the Founding Members. Subject to certain Nominating Committee approvals, six directors are appointed by each of MSSC and BSHSI and one director is appointed by CHS. It is the Founding Members' intent that the members of RSFH's Board of Directors are appointed to such positions because they have a willingness to serve the needs of the system as a whole and not the needs of any individual Founding Member.

The bylaws of RSFH specify certain qualifications of the 13-member Board of Directors. At least nine directors must have their primary residence in a community served by the system. Five directors must be physicians actively engaged in the full-time practice of medicine. Five of the directors are appointed to the Board of Directors by virtue of positions held within BSHSI, MSSC, and CHS ("Ex-officio Directors"). Each of the five Ex-officio Directors serves as a director of the corporation for so long as such person holds his or her respective elected or appointed office in their respective Founding Member organization. Directors serve 3-year terms and are limited to three consecutive terms. After an absence of at least one year, Ex-officio Directors are again eligible for appointment to the Board of Directors for two consecutive complete terms.

CareAlliance is the sole corporate member and, through its bylaws, has the power to control the financial and business affairs of the following organizations:

- Roper Hospital, Inc. ("Roper Hospital")
- Bon Secours—St. Francis Xavier Hospital, Inc. ("St. Francis Hospital")
- Roper St. Francis Mount Pleasant Hospital, Inc. ("Mount Pleasant Hospital")
- Roper St. Francis Foundation ("Foundation")
- Roper St. Francis Physicians Network ("Physician Partners")

- Roper St. Francis Hospital-Berkeley, Inc. (“Berkeley Hospital”)
- Roper St. Francis Health Alliance (“Health Alliance”)
- RSFH-ATI Physical Therapy, LLC (“RSFH-ATI”)
- Clinical Biotechnology Research Institute at RSFH (“CBRI”)

CareAlliance, Roper Hospital, St. Francis, Mount Pleasant, Foundation, and Physician Partners are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes.

CareAlliance owns a 57.6% controlling interest in the Lowcountry Surgery Center, LLC (d/b/a Roper St. Francis Eye Surgery Center) (LSC). The remaining 42.4% noncontrolling interests are held by participating physicians.

During 2015, CareAlliance formed RSFH-ATI. CareAlliance owns a 65% controlling interest in RSFH-ATI. The remaining 35% noncontrolling interest is owned by ATI Holdings, Inc. (ATI). CareAlliance and ATI made capital contributions to RSFH-ATI of $3,565,000 and $1,919,000, respectively, in 2016 and $2,800,000 and $1,508,000, respectively, in 2015. Operations at RSFH-ATI began in 2015.

Berkeley Hospital had not commenced operations as of December 31, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements have been prepared under the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) as set forth in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Principles of Consolidation—The consolidated financial statements of CareAlliance include all subsidiaries for which CareAlliance has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to, recognition of net patient service revenue; valuation of accounts receivable, including contractual allowances and provisions for doubtful accounts; liabilities for losses and expenses related to employee healthcare, workers’ compensation, and professional and general liability risks; valuation of investments and derivative instruments; depreciation of property and equipment; and estimated third-party settlements. Future events and their effects cannot be predicted with certainty; accordingly, management’s accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the accompanying consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Management regularly evaluates the accounting policies and estimates used. In general, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances, and may employ outside experts to assist in the evaluation, as considered necessary. Although management believes all adjustments considered necessary for fair presentation have been included, actual results may vary from those estimates.

Cash and Cash Equivalents—CareAlliance considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents, excluding amounts included in investments and assets limited as to use. CareAlliance's deposits exceeded federally insured limits at December 31, 2016 and 2015.

Receivables—Receivables are reported at the net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. 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.

Substantially, all CareAlliance's accounts receivable are related to providing healthcare services to patients. Collection of these accounts receivable is CareAlliance's primary source of cash and is critical to operating performance. CareAlliance's primary collection risks relate to uninsured patients and outstanding patient balances for which the primary or secondary insurance has paid some but not all of the outstanding balance, with the remaining outstanding balance (generally deductibles and co-payments) owed by the patient.

The process of estimating the allowance for doubtful accounts requires CareAlliance to estimate the collectibility of patient accounts receivable, which is primarily based on collection history, adjusted for expected recoveries. CareAlliance collects substantially all of its third-party insured receivables, which include receivables from governmental agencies. Collections are impacted by the economic ability of patients to pay and the effectiveness of collection efforts. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect the collection of accounts receivable. CareAlliance also continually reviews overall reserve adequacy by monitoring historical cash collections as a percentage of trailing net revenue, as well as by analyzing current-period gross revenue and admissions by payor classification, aged accounts receivable by payor, and days revenue outstanding.

The provision for bad debts was $32,225,000 and $34,417,000 for the years ended December 31, 2016 and 2015. The decrease in the provision for bad debts is primarily a result of improvements in the qualification of Medicaid patients, process improvements for long term payment plans, and the addition of insurance exchanges which have led to a decline in self-pay patients.

Inventories—Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment—Property and equipment is stated at cost or, in the case of donated property, at fair value at the time of donation. Property and equipment held for sale is stated at the lower of cost or fair value. Assets are depreciated using the straight-line method over their estimated useful lives. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and replacements are charged to expense when incurred.

CareAlliance capitalizes purchased software that is ready for service and software development costs incurred on significant projects starting from the time that the preliminary project stage is completed and management commits to funding a project until the project is substantially complete and the software is ready for its intended use. Capitalized costs include direct material and service costs and payroll and payroll-related costs. Training and maintenance costs related to software development are expensed as incurred. Capitalized software costs are amortized using the straight-line method over the estimated useful life of the underlying system.

The following is a summary of the estimated useful lives used in computing depreciation:

Buildings	40 years
Building improvements	5–25 years
Equipment and software	3–20 years

Long-Term Investments and Assets Limited as to Use—Long-term investments, including investments classified as assets limited as to use, consist of money market funds, debt and equity securities, mutual funds, common collective trust funds, and investments in limited partnerships. Investments in money market funds, debt securities, equity securities, mutual funds, and common collective trust funds are classified as trading securities and measured at fair value at the consolidated balance sheet date. Management determined that the trading security category is appropriate based on CareAlliance's investment strategy and policies. Investment managers may execute individual purchases and sales of investments without prior approval from CareAlliance as long as they comply with CareAlliance's investment strategy and policies. Investment gains or losses on trading securities are included in the (deficit) excess of revenues over expenses, unless the income or loss is restricted by donor or laws.

CareAlliance has elected the fair value option to account for its investments in limited partnerships, which are not readily marketable and are less liquid than CareAlliance's other investments. Management determined the fair value option is appropriate based on CareAlliance's investment strategy and policies with respect to investments in limited partnerships. Management estimates the fair value of its investments in limited partnerships based on net asset value information provided by the fund managers. Investment income or loss from investments in limited partnerships is included in the excess of revenues over expenses.

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated net assets set aside by the Board of Directors for future capital improvements, over which the Board of Directors retains control and may at its discretion subsequently use for other purposes.

Short-Term Investments—Short-term investments consist of marketable debt securities, which are intended to be used to meet current liabilities and, therefore, are reported as current assets in the consolidated balance sheets. Gains and losses on short-term investments are included in the (deficit) excess of revenues over expenses.

Other Assets—Other assets consist primarily of temporarily and permanently restricted assets of the Foundation and goodwill. Goodwill represents acquisition costs in excess of the fair value of the net identifiable tangible and intangible assets of businesses purchased. Goodwill was $23,250,000 and $17,877,000 as of December 31, 2016 and 2015, respectively. During 2016, RSFH-ATI acquired several outpatient therapy centers in South Carolina for cash consideration of $4,825,000. The purchase price was allocated to the identifiable net assets acquired, primarily property and equipment, based on their estimated fair value of $244,000. The balance of the purchase price, $4,581,000, was recorded as goodwill. CareAlliance subjects goodwill to an impairment evaluation on an annual basis or, more frequently, if events or circumstances indicate that assets might be impaired. There was no impairment of goodwill as of or during the years ended December 31, 2016 and 2015.

Contribution Accrued to Members—In accordance with its bylaws and the terms of the affiliation agreement between its Founding Members, CareAlliance is required to make annual cash contributions to its members, in accordance with their respective membership interest percentages, equal to 50% of System Free Cash Flow as defined in CareAlliance's bylaws. The determination of System Free Cash Flow and the timing of related cash contributions have been adjusted from time to time by mutual agreement of CareAlliance and its Founding Members. The Founding Members have also agreed to limit CareAlliance's total annual cash contribution to the Founding Members to $14,800,000 beginning with the contribution amount for the year ended December 31, 2014. MSSC has the right to remove the limit on the annual distribution, but must give CareAlliance at least a 3-year notice prior to removing the limit on the annual distribution. As of December 31, 2016 and 2015, CareAlliance recorded liabilities for the System Free Cash Flow contribution payable to members of $9,528,000 and $14,800,000, respectively.

CareAlliance's Founding Members have also entered into a liquidity replenishment agreement, whereby the Founding Members agreed to contribute cash to CareAlliance if days cash on hand (as defined in the agreement) is below 75 days as of any biannual measurement date (measured as of June 30 and December 31) or if below 85 days as of any biannual measurement date and 90 days thereafter. In either event, the Founding Members agree to contribute cash to CareAlliance so that it maintains a minimum of 85 days cash on hand. There have been no payments required under the liquidity replenishment agreement.

Derivative Financial Instruments—CareAlliance uses derivative financial instruments, primarily to manage its exposure to movements in interest rates. Interest rate swaps are contractual agreements between two parties for the exchange of interest payments on a notional principal amount at agreed-upon fixed or floating rates, for defined periods. Interest rate swaps are stated at fair value in the accompanying consolidated balance sheets, with the change in fair value recorded as realized gains (losses) in the accompanying consolidated statements of operations. CareAlliance does not enter into derivative financial instruments for trading purposes.

Donor-Restricted Gifts—Unconditional promises to give cash and other assets to CareAlliance are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as other revenue in the consolidated statements of operations. Donor-restricted contributions whose restrictions are met within the same year are reported as unrestricted support and are included in other revenue in the consolidated statements of operations.

Net Assets—CareAlliance has three net asset groups as follows:

Unrestricted—Unrestricted net assets consist of all resources of CareAlliance that have no donor-imposed restrictions. Certain of these resources have been designated by CareAlliance's Board of Directors to serve certain long-term program objectives of CareAlliance, or have been limited by contractual agreements with outside parties. These assets are included with assets limited as to use.

Temporarily Restricted—Temporarily restricted net assets consist of contributions and related investment income for which CareAlliance's use is limited through externally imposed stipulations as to a specific time or purpose.

Permanently Restricted—Permanently restricted net assets consist of contributions and related investment income restricted by donors to be maintained by CareAlliance in perpetuity. The portion of a donor-restricted endowment fund that is classified as permanently restricted is not reduced by losses on investments in the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires the organization to hold. Investment income from donor-restricted endowment funds that is not permanently restricted is classified as temporarily restricted until appropriated for expenditure by CareAlliance. Losses on the investments of donor-restricted endowment funds are recorded as a reduction of temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets and are excluded from the (deficit) excess of revenues over expenses. Gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets and are excluded from the (deficit) excess of revenues over expenses.

Net Patient Service Revenue—Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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. For uninsured patients that do not qualify for charity care, CareAlliance recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of CareAlliance's uninsured patients will be unable or unwilling to pay for the services provided. Thus, CareAlliance records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Electronic Health Records (EHR) Incentives—The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified EHR technology. The EHR incentive payments to hospitals include a base amount, plus a discharge-related portion, which is calculated by the Centers for Medicare and Medicaid Services (CMS) based on the hospital's most recently filed cost report and are subject to adjustment upon settlement of the cost report for the hospital's fiscal year that begins after the beginning of the payment year. A hospital may receive incentive payments for up to four years, provided that it successfully demonstrates meaningful use for each applicable EHR reporting period. CareAlliance recognizes revenue for EHR incentive payments in the period in which it is reasonably assured that it will comply with the applicable EHR meaningful use requirements. EHR incentive revenues are recognized ratably over the applicable meaningful use reporting period and are included in other revenue in the consolidated statements of operations. CareAlliance recognized EHR incentive revenues of $383,000 and $809,000 for the years ended December 31, 2016 and 2015, respectively. CareAlliance's attestations regarding the meaningful use of EHR technology are subject to audit by the federal government or its designee.

Charity Care—CareAlliance provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than its established rates. Because CareAlliance does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. CareAlliance estimates the direct and indirect costs of providing charity care using a calculated ratio of costs to gross charges for each facility.

(Deficit) Excess of Revenues over Expenses—The consolidated statements of operations include (deficit) excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from (deficit) excess of revenues over expenses, consistent with industry practice, include contributions restricted for purchases of property and equipment and permanent transfers of assets to and from affiliates for other than goods and services.

Income Taxes—CareAlliance, Roper Hospital, St. Francis Hospital, Mount Pleasant Hospital, Berkeley Hospital, Foundation, Physician Partners, Health Alliance, and CBRI are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are generally exempt from federal and state income taxes. LSC and ATI are limited liability companies. Under current laws, income or loss of limited liability companies is included in the income tax returns of the members. Accordingly, no provision for income taxes is made in the consolidated financial statements.

Although CareAlliance is generally exempt from federal and state income taxes, it evaluates whether there are any uncertain tax positions that fail to meet the more-likely-than-not threshold for recognition in the consolidated financial statements. Uncertain tax positions may include the characterization of income, such as a characterization of income as passive, a decision to exclude reporting taxable income in a tax return, or a decision to classify a transaction, entity, or other position in a tax return as tax exempt. The tax benefit from an uncertain tax position is recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. CareAlliance had no unrecognized tax positions as of December 31, 2016 and 2015, and does not expect that unrecognized tax benefits will materially increase within the next 12 months. Tax years from 2013 through 2015 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Interest and penalties related to uncertain tax positions, if any, would be recognized in the consolidated financial statements as income tax expense.

Fair Value of Financial Instruments—See Note 15 for classification of CareAlliance's financial assets and liabilities accounted for at fair value.

Risks and Uncertainties—CareAlliance's investments consist of various combinations of equity securities, fixed-income securities, money market funds, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect CareAlliance's investment balances reported in the consolidated balance sheets.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient care services, and Medicare and Medicaid fraud

and abuse. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management continues to assess the impact these laws and regulations may have on CareAlliance's consolidated financial position, results of operations, or cash flows.

Subsequent Events—CareAlliance has evaluated subsequent events from the end of the most recent fiscal year through May 24, 2017, the date the consolidated financial statements were issued.

Recently Issued Accounting Guidance—In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017. CareAlliance is currently evaluating the impact of ASU No. 2014-09 adoption on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, and should be applied retrospectively. The guidance provided in ASU No. 2015-03 is effective for fiscal years beginning after December 15, 2015. CareAlliance adopted ASU No. 2015-03 as of December 31, 2016. Accordingly, debt issuance costs of $4,855,000 and $4,698,000 have been included in long term debt—net of current portion in the consolidated balance sheets as of December 31, 2016 and 2015, respectively. Debt issuance costs were previously included in other assets in the consolidated balance sheets.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (Issue 14-B)*. ASU No. 2015-07 removes, from the fair value hierarchy, investments for which the practical expedient (as discussed in FASB ASC 820-10-35-59) is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount in the balance sheet. Further, entities must provide the disclosures in FASB ASC 820-10-50-6A only for investments for which they elect to use the NAV practical expedient. ASU No. 2015-07 is effective for fiscal years beginning after December 15, 2015 and should be applied retrospectively. CareAlliance adopted this guidance as of December 31, 2016. Accordingly, the related disclosures as of December 31, 2015 have been updated to conform to the current year presentation (see Note 15).

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Topic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01 revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2018. CareAlliance is currently evaluating the impact of ASU No. 2016-01 adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) Section A—Leases: Amendments to the FASB Accounting Standards Codification*, which supersedes existing guidance on accounting for leases in FASB ASC 840, *Leases*, and generally requires all leases to be recognized in the statement of financial position. The liability will be equal to the present value of lease payments and the asset will be based on the liability, subject to adjustment, such as initial direct costs. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018. The amendments are applied using a modified retrospective approach. CareAlliance is currently evaluating the impact of ASU No. 2016-02 adoption on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-For-Profit Entities-Presentation of Financial Statement of Not-for-Profit Entities (Topic 958)*. ASU No. 2016-14 requires not-for-profit entities to present on the balance sheet amounts for two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) rather than the three classes currently required. Not-for-profit entities are required to enhance disclosures regarding board designations and composition of net assets with donor restrictions. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, and/or interim periods within fiscal years, beginning after December 15, 2018. ASU No. 2016-14 is applied on a retrospective basis in the year in which the guidance is adopted. Early adoption is permitted. CareAlliance is currently evaluating the impact of ASU No. 2016-14 adoption on its consolidated financial statements.

3. CHARITY CARE

In accordance with CareAlliance's mission to improve the health of its communities, CareAlliance's facilities accept patients regardless of their ability to pay. CareAlliance offers financial assistance to patients who meet established financial assistance guidelines. Patients with an annual income of 399% or less of the federal poverty guidelines may be eligible for charity adjustments. CareAlliance offers Medical Indigency Adjustments for patients, whose medical expenses outweigh their ability to pay, constituting a financial hardship. CareAlliance also offers flexible payment plans, charity adjustments to patients who are homeless, and discounts for uninsured patients who do not qualify for its charity care program.

The estimated cost of traditional charity care provided by CareAlliance under its charity care policy was $49,396,000 and $46,479,000 for the years ended December 31, 2016 and 2015, respectively.

In addition to traditional charity care, management estimates the unpaid cost of services provided under the Medicaid program to be $12,483,000 and $4,687,000 for the years ended December 31, 2016 and 2015, respectively. CareAlliance also provides community benefit programs and services for the general community, mainly for indigent patients, but also for people with chronic health risks. Examples of these programs include health

promotion and education, free clinics and screenings, and other community services. Management estimates the unreimbursed costs of community benefit programs and services to be $5,821,000 and $5,661,000 for the years ended December 31, 2016 and 2015, respectively.

4. NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid—Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute care services, certain outpatient services, and defined capital and medical education costs related to beneficiaries are paid based on a cost-reimbursement methodology. Outpatient services are paid at prospectively determined rates. CareAlliance is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by CareAlliance and audits thereof by the fiscal intermediary. CareAlliance's cost reports have been audited by the Medicare intermediary through December 31, 2011 and by the Medicaid intermediary through December 31, 2011.

Other—CareAlliance has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to CareAlliance under these agreements includes prospectively determined rates per day or discharge and discounts from established charges.

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. Final determination of amounts due from Medicare and Medicaid programs is subject to review by these programs. Changes resulting from final determination are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for adjustments, if any, that may result from such reviews. Net patient service revenue decreased by approximately $3,025,000 and increased by approximately $6,099,000 for the years ended December 31, 2016 and 2015, respectively, due to the effect of settlement adjustments. There were no settlements with commercial payors during the years ended December 31, 2016 and 2015. During the years ended December 31, 2016 and 2015, CareAlliance established receivables of $58,000 and liabilities of $1,396,000, respectively, for estimated future settlements related to net patient service revenue recognized during those years. The receivables are included in other receivables and the liabilities are included in accrued expenses in the accompanying consolidated balance sheets.

During 2006, the state of South Carolina (the "State") implemented changes to the method of funding the Medicaid disproportionate share and upper payment limit programs. Under the new plan, providers are assessed a quarterly tax and receive periodic Medicaid disproportionate share and upper payment limit payments from the State. The tax assessment was $14,558,000 and $14,822,000 for the years ended December 31, 2016 and 2015, respectively, and is recorded as an operating expense in the accompanying consolidated statements of operations. CareAlliance received approximately $12,368,000

and $11,568,000 of disproportionate share and upper payment limit payments from the State in 2016 and 2015, respectively, which are recorded in patient service revenue (net of contractual allowances and discounts) within the accompanying consolidated statements of operations. Funds received under the upper payment limit program may be subject to a retroactive settlement process. Management continues to evaluate the settlement process related to the upper payment limit payment program and has recorded adequate liabilities as of December 31, 2016 and 2015, in accrued expenses in the accompanying consolidated balance sheets. Future receipts of the Medicaid disproportionate share and supplemental payment program reimbursement are not guaranteed.

Patient service revenue (net of contractual allowances and discounts) for the years ended December 31, 2016 and 2015, is summarized as follows:

	2016	2015
Third-party payors	$826,412,000	$798,816,000
Self-pay	36,640,000	39,412,000
Total patient service revenue (net of contractual allowances and discounts)	$863,052,000	$838,228,000

5. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments and assets limited as to use as of December 31, 2016 and 2015, are summarized as follows:

	2016	2015
Marketable equity securities	$ 22,174,000	$ 18,482,000
Debt securities—short-term investments	9,725,000	9,593,000
Debt securities—self-insurance trust	1,502,000	1,501,000
Bond trustee held funds—money market funds	107,398,000	
Investments in mutual funds:		
Marketable international equity securities	21,641,000	22,770,000
Marketable debt securities	26,248,000	27,804,000
Investments in common collective trust funds:		
Marketable domestic equity securities	37,478,000	45,352,000
Investments in limited partnerships:		
Private real estate fund	21,336,000	20,247,000
Private hedge funds	36,623,000	39,191,000
Total	$284,125,000	$184,940,000

The investments were included in the captions in the consolidated balance sheets as of December 31, 2016 and 2015, as follows:

	2016	2015
Short-term investments	$ 9,725,000	$ 9,593,000
Long-term investments	143,808,000	153,476,000
Assets limited as to use:		
Board designated—self-insured trust	1,502,000	1,501,000
Bond trustee-held funds—money market funds	107,398,000	
Total assets limited as to use	108,900,000	1,501,000
Other assets	21,692,000	20,370,000
Total	$284,125,000	$184,940,000

Investment gains (losses) from investments and assets limited as to use for the years ended December 31, 2016 and 2015, consist of the following:

	2016	2015
Interest and dividend income—net of investment fees	$ 1,423,000	$ 1,501,000
Net realized gains on sales of investments	7,038,000	396,000
Net change in unrealized gains (losses) on investments	2,299,000	(1,186,000)
Total investment gains—net	$10,760,000	$ 711,000

CareAlliance had no unfunded commitments with respect to its investments and assets limited as to use as of December 31, 2016 and 2015.

6. PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2016 and 2015, is as follows:

	2016	2015
Land	$ 55,802,000	$ 55,285,000
Land improvements	9,356,000	8,966,000
Buildings and improvements	596,189,000	532,342,000
Equipment	379,336,000	312,871,000
Leased equipment under capital lease obligations	43,933,000	36,157,000
	1,084,616,000	945,621,000
Less accumulated depreciation	498,684,000	473,345,000
	585,932,000	472,276,000
Construction in progress	14,440,000	81,746,000
Property and equipment—net	$ 600,372,000	$ 554,022,000

At December 31, 2016, CareAlliance had commitments for information technology investments of approximately $29,897,000 through 2021. At December 31, 2016, contracts of approximately $6,198,000 existed related to the construction of the new 50-bed Berkeley Hospital facility in Goose Creek, South Carolina.

Depreciation expense and capital lease-related amortization expense for the years ended December 31, 2016 and 2015, amounted to $60,639,000 and $53,964,000, respectively. Accumulated amortization for equipment under capital lease obligations as of December 31, 2016 and 2015, was $19,713,000 and $14,103,000, respectively.

CareAlliance is the deemed owner under GAAP of certain properties due to its being both involved in construction and a lessee in the property. Such properties include a medical office building on the campus of St. Francis Hospital, the RSFH Data Center, the RSFH Office Park, and the Berkeley Hospital MOB. The RSFH Data Center houses CareAlliance's data facilities and is on land owned by MSSC in the city of North Charleston, South Carolina. The RSFH Office Park is a 130,000 square foot administrative building adjacent to the RSFH Data Center. The Berkeley Hospital MOB is being constructed on the campus of Berkeley Hospital with an expected completion date in late 2018. The carrying value of these assets (included in property and equipment—net) was $59,724,000 and $53,034,000 as of December 31, 2016 and 2015, respectively. The carrying value of the related liabilities (included in other liabilities) was $60,062,000 and $54,046,000 as of December 31, 2016 and 2015, respectively.

In June 2016, CareAlliance entered into a master lease agreement with SPE Fayssoux Properties, LLC, a special purpose entity created by MSSC, which includes leases for the RSFH Data Center, RSFH Office Park, Berkeley Hospital MOB, and a fourth property, the Mt. Pleasant MOB, which was previously leased from MSSC under an operating lease. The master lease agreement has a term of 99 years and lease payments of approximately $5 million per year. The lease payments are guaranteed by Roper Hospital, St. Francis Hospital, Mt. Pleasant Hospital, Berkeley Hospital, and Physician Partners. The master lease agreement provides CareAlliance the option to purchase the leased properties for a purchase price that is sufficient to pay all of MSSC's associated debt obligations.

Under the master lease agreement, the Mt. Pleasant MOB is accounted for as a capital lease. Accordingly, CareAlliance has recorded an asset (included in property and equipment—net) amounting to $17,217,000 at December 31, 2016, and a corresponding liability (included in debt) amounting to $17,303,000 at December 31, 2016.

7. ACCRUED LIABILITIES

Accrued liabilities as of December 31, 2016 and 2015, consist of the following:

	2016	2015
Accrued compensation	$44,924,000	$40,332,000
Self-insurance liabilities	7,304,000	7,977,000
Interest	867,000	846,000
Estimated third-party settlement liabilities	9,489,000	8,446,000
Other accrued liabilities	6,751,000	2,151,000
Total accrued expenses	$69,335,000	$59,752,000

8. LONG-TERM DEBT

Long-term debt as of December 31, 2016 and 2015, consists of the following:

	2016	2015
Tax-Exempt Variable Rate Direct Purchase Bonds ("Series 2004B-1"), bearing interest at a rate of 1.28%, with a 30-year amortization and a 7-year maturity, maturing in 2021	$ 20,475,000	$ 20,475,000
Tax-Exempt Variable Rate Direct Purchase Bonds ("Series 2004B-2"), bearing interest at a rate of 1.28%, with a 30-year amortization and a 7 year maturity, maturing in 2021	19,000,000	19,000,000
Tax-Exempt Variable Rate Direct Purchase Bonds ("Series 2007B"), bearing interest at a rate of 1.28%, with a 30-year amortization and a 7-year maturity, maturing in 2021	80,000,000	80,000,000
Tax-Exempt Fixed Rate Serial Bonds ("Series 2011"), bearing interest at a rate of 2.74%, with an 8-year amortization, maturing in 2019	22,365,000	22,365,000
Tax-Exempt Fixed Rate Bonds ("Series 2012A"), bearing interest at a rate of 2.26%, with a 15-year amortization and a 10-year maturity, maturing in 2022	31,935,000	31,935,000
Tax-Exempt Variable Rate Bonds ("Series 2012B"), bearing interest at a rate of 1.07%, with a 15-year amortization and a 10-year maturity, maturing in 2022	36,777,000	36,777,000
Taxable Variable Rate Bonds ("Series 2014A"), bearing interest at a rate of 0.64%, with a 2-year amortization and a 2-year maturity, maturing in 2016		7,240,000
Tax-exempt Fixed Rate Bonds ("Series 2014B"), bearing interest at a rate of 2.34%, with a 10-year amortization and a 10-year maturity, maturing in 2024	16,820,000	19,105,000
Tax-exempt Variable Rate Bonds ("Series 2014C"), bearing interest at a rate of 0.80%, with a 7-year amortization and a 7-year maturity, maturing in 2021	24,000,000	27,000,000
Tax-exempt Fixed Rate Bonds ("Series 2014D"), bearing interest at a rate of 2.04%, with a 12-year amortization and a 5-year maturity, maturing in 2019	21,105,000	21,105,000
Tax-exempt Fixed Rate Bonds ("Series 2015"), bearing interest at a rate of 2.84%, with a 30-year amortization and a 14-year maturity, maturing in 2029	26,583,000	27,500,000
Tax-exempt Fixed Rate Bonds ("Series 2016A"), bearing interest at a rate of 2.29%, with a 14-year amortization and a 10-year maturity, maturing in 2026	60,000,000	
Tax-exempt Fixed Rate Bonds ("Series 2016B"), bearing interest at a rate of 2.75%–5.00%, with a 25-year amortization and a 25-year maturity, maturing in 2036, 2041	70,000,000	
	429,060,000	312,502,000
Other debt	82,499,000	28,937,000
Total debt	511,559,000	341,439,000
Unamortized discount	(1,229,000)	
Unamortized debt issuance costs	(4,855,000)	(4,698,000)
Less current maturities	(22,163,000)	(21,011,000)
Long-term debt—net of current portion	$ 483,312,000	$ 315,730,000

Revenue Bonds—All of the bonds outstanding at December 31, 2016 and 2015, are governed by a master trust indenture (the "Master Indenture") and related agreements. CareAlliance, Roper, St. Francis, and Mount Pleasant Hospitals, and the Physician Partners (the "Obligated Group") are jointly and severally liable for obligations issued under the Master Indenture. The bonds are collateralized by a pledge of the Obligated Group's gross revenue and the funds and accounts established under the Master Indenture. Additionally, the periodic payment of interest and principal is unconditionally guaranteed through municipal bond insurance for 2004B-1, 2004B-2, and 2007B bond issuances. The Series 2004B bonds are limited obligations of Charleston County, South Carolina (the "County"), payable by the County solely from the loan repayments to be made by the Obligated Group. The Series 2007B, 2011, 2012, 2014, 2015, and 2016 bonds are limited obligations of the South Carolina Jobs-Economic Development Authority (the "Authority"), payable by the Authority solely from the loan repayments of the Obligated Group. At December 31, 2016 and 2015, all of the bonds outstanding were held by financial institutions under direct purchase or bond purchase and loan agreements.

Among other financial covenants, the Master Indenture requires the Obligated Group to maintain a debt service coverage ratio of not less than 1.1 to 1.0, debt-to-capitalization ratio of no more than 65%, and days cash on hand of not less than 75 days. The supplemental master indentures for the Series 2004 bonds and after require the Obligated Group to maintain a debt service coverage ratio of 1.25 to 1.0. Under the Insurance Agreement, if the debt service coverage ratio fell below 1.75, the Bond Insurer could require CareAlliance to fund a debt service reserve fund. Series 2014 and after requires the Obligated Group maintain days cash on hand not less than 85 days. In addition, the supplemental master indentures for each bond series contain certain provisions that provide for establishment of reserve funds, funded by CareAlliance, and collateralization of the bonds through CareAlliance's property and equipment in the event that certain minimum financial covenants and credit ratings are not maintained. The Obligated Group was in compliance with all such provisions of the Master Indenture and related agreements as of and during the year ended December 31, 2016. The net assets of the Obligated Group are in excess of 90% of the net assets of CareAlliance. All of CareAlliance's debt can be prepaid without penalty with the exception of the Series 2012A bonds, which, if prepaid, are subject to a redemption premium determined based on the difference between the stated interest rate of the bonds and the bond equivalent yield for US Treasury securities with similar maturities.

On November 22, 2016, the Authority issued $60,000,000 Series 2016A tax-exempt revenue bonds pursuant to a bond purchase and loan agreement dated November 1, 2016, among the Authority, TD Bank, N.A. and CareAlliance. The bond proceeds were loaned to the Obligated Group to defray the cost of acquiring, constructing and equipping a 50-bed hospital in Berkeley County, South Carolina and of acquiring, constructing and equipping other capital improvements. The bonds bear interest of 2.29% per annum.

On November 22, 2016, the Authority issued $70,000,000 Series 2016B tax-exempt revenue bonds pursuant to a loan agreement dated November 1, 2016, among the Authority and CareAlliance. The bond proceeds were loaned to the Obligated Group to defray the cost of acquiring, constructing and equipping (1) a 50-bed hospital in Berkeley South Carolina and (2) capital improvements throughout CareAlliance's healthcare system in Berkeley and Charleston Counties, South Carolina. The bonds bear interest of 2.75% until October 1, 2018, and then 5.00% per annum.

On September 1, 2015, the Authority issued $27,500,000 Series 2015 tax-exempt rate revenue bonds pursuant to a bond purchase and loan agreement dated September 1, 2015, among the Authority, Siemens Public, Inc. and CareAlliance. The bond proceeds were loaned to the Obligated Group for the purchase of (i) acquiring certain tracts of land in Berkeley County for the development of a hospital and other healthcare facilities and (ii) other projects that are acceptable to bond counsel, including, without limitation, the acquisition of equipment and land for the development of the borrower's hospitals and healthcare facilities. Bond proceeds were also used to refinance a portion of the Series 2012 direct placement debt.

Other Debt—Other long-term debt consists primarily of obligations under a revolving credit agreement with a financial institution and various capital lease obligations. The revolving credit agreement has a borrowing capacity of $50,000,000 and matures on January 5, 2018. There were borrowings of $39,000,000 against the credit agreement at December 31, 2016. There were no borrowings against the credit agreement at December 31, 2015. The credit agreement bears interest at an annual rate of LIBOR plus 0.95% on outstanding principal borrowings, and a rate of 0.09% on undrawn funds. Under the terms of the credit agreement, CareAlliance is required to maintain a debt service coverage ratio of at least 1.10 to 1.00 as of the last day of each fiscal year.

At December 31, 2016 and 2015, capital lease obligations, which are collateralized by leased equipment, amount to $43,289,000 and $28,653,000, respectively, at interest rates of 3.5% to 6.0%. CareAlliance's capital lease obligations expire in 2017 through 2046.

Scheduled maturities of long-term debt as of December 31, 2016, are as follows:

Years Ending December 31	Long-Term Debt	Capital Lease Obligations
2017	$ 14,388,000	$ 9,070,000
2018	54,766,000	6,726,000
2019	16,151,000	5,049,000
2020	16,522,000	4,169,000
2021	17,377,000	3,827,000
Thereafter	349,066,000	27,802,000
	468,270,000	56,643,000
Less amounts representing interest on capital lease obligations		(13,354,000)
Total	$468,270,000	$ 43,289,000

During 2016, CareAlliance capitalized $1,075,000 in interest costs related to borrowings for capital projects.

9. DERIVATIVE FINANCIAL INSTRUMENTS

During 2004, CareAlliance entered into an interest rate hedge related to $19,000,000 of its variable rate debt. The effect of this hedge is to convert the variable rate of this amount of the debt to a fixed rate of 3.81%. At December 31, 2016 and 2015, the fair value of the hedge was $(5,323,000) and $(5,796,000), respectively, and is recorded in other liabilities in the accompanying consolidated balance sheets.

During 2006, CareAlliance entered into an interest rate hedge related to $80,000,000 of the $130,000,000 debt issued in 2007. The effect of this hedge is to convert the variable rate of this amount of the debt to a fixed rate of 3.56%. At December 31, 2016 and 2015, the fair value of the hedge was $(22,668,000) and $(24,573,000), respectively, and is recorded in other liabilities in the accompanying consolidated balance sheets.

During 2010, CareAlliance entered into an interest rate hedge related to the $30,000,000 of debt issued in 2010. The effect of this hedge is to convert the variable rate of this amount of the debt to a fixed rate of 3.06%. At December 31, 2016 and 2015, the fair value of the hedge was $(470,000) and $(747,000), respectively, and is recorded in other liabilities in the accompanying consolidated balance sheets.

During 2011, CareAlliance entered into interest rate hedges related to the outstanding fixed-rate bonds Series 1999A, 2004 B-1, and 2007A. The effect of these hedges is to retain the basis risk between paying a tax-exempt floating rate (SIFMA) and receiving a taxable rate (LIBOR) through a basis swap. At December 31, 2016 and 2015, the fair value of these hedges was $291,000 and $1,606,000, respectively, and is recorded in other assets in the accompanying consolidated balance sheets.

The change in fair value of interest rate hedges for the years ended December 31, 2016 and 2015, was $1,339,000 and $79,000, and is recorded as a realized gain and included within nonoperating gains (losses) in the accompanying consolidated statements of operations for the years ended December 31, 2016 and 2015, respectively.

Payments of fixed-rate interest to be made by CareAlliance under its interest rate hedges are insured by financial guaranty insurance policies issued by Assured Guaranty Ltd. (AG). CareAlliance's interest rate hedge agreements contain provisions that require CareAlliance's debt to maintain certain credit ratings from Moody's Investors Services, Inc. ("Moody's"). If the credit ratings for CareAlliance's debt were to fall below "Baa3" for Moody's, it would be in violation of these provisions, and the counterparties to the interest rate hedges could demand settlement of the interest rate hedges. In addition, the interest rate hedge agreements contain provisions that require AG to maintain a credit rating of "A3" or higher from Moody's. If AG's credit rating were to fall below these levels, then the counterparties to the interest rate hedges could require CareAlliance to post collateral on interest rate hedges in a net liability position in excess of certain thresholds that are determined based on the credit ratings for CareAlliance's debt. The threshold in effect for CareAlliance's interest rate hedge agreement as of December 31, 2016, ranges from $2,000,000 to $5,000,000 based on CareAlliance's credit rating as of December 31, 2016. CareAlliance was not required to post collateral on any of its interest rate hedge agreements as of December 31, 2016 or 2015, based on AG's credit ratings as of those dates.

10. LEASE OBLIGATIONS

CareAlliance leases various equipment and buildings used in its operations. Future lease payments on operating leases that have initial or remaining noncancelable lease terms in excess of one year and deemed ownership obligations (Note 6) as of December 31, 2016, are as follows:

Years Ending December 31	Operating Leases	Deemed Ownership Obligations (Note 6)	Total
2017	$ 9,532,000	$ 2,490,000	$ 12,022,000
2018	6,965,000	2,572,000	9,537,000
2019	4,478,000	2,586,000	7,064,000
2020	3,194,000	2,503,000	5,697,000
2021	1,692,000	2,587,000	4,279,000
Thereafter	9,834,000	52,824,000	62,658,000
Total minimum future rentals	$35,695,000	$65,562,000	$101,257,000

Rent expense for the years ended December 31, 2016 and 2015, was approximately $19,390,000 and $20,979,000, respectively.

The deemed ownership obligations above include $45,657,000 payable under a master lease agreement with MSSC (see Note 6).

CareAlliance also leases office space to physicians. The rental income from these leases for the years ended December 31, 2016 and 2015, was approximately $1,126,000 and $1,179,000, respectively, and is included in other nonoperating income in the consolidated statements of operations.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2016 and 2015, are available for the following purposes:

	2016	2015
Building and equipment	$ 1,243,000	$ 2,453,000
Indigent care	9,135,000	6,250,000
Hospital service lines	1,371,000	2,069,000
Education	1,582,000	1,322,000
Community health improvement	539,000	468,000
Sponsorships	288,000	292,000
Total temporarily restricted	$14,158,000	$12,854,000

Net assets were released from temporary restrictions by incurring expenses satisfying the restriction purposes as follows:

	2016	2015
Hospital service lines	$2,820,000	$2,405,000
Education	549,000	335,000
Indigent care, community health, and other	2,993,000	2,881,000
Other	770,000	409,000
Total net assets released from restrictions	$7,132,000	$6,030,000

12. PERMANENTLY RESTRICTED NET ASSETS AND BOARD-DESIGNATED FUNDS

CareAlliance's endowment funds consist of approximately 30 donor-restricted individual funds established for a variety of purposes and board-designated funds set aside for capital expenditures and self-insurance.

On an annual basis, CareAlliance requests funds from the Foundation for reimbursement of expenditures incurred specifically related to unrestricted or temporarily restricted purposes. The Foundation has developed an investment policy for all its investable assets whose general purpose is to preserve the capital and purchasing power of the Foundation and to produce sufficient investment earnings for current and future spending needs. The Foundation has adopted a total return strategy whose asset allocation is designed to give balance to the overall structure of the Foundation's investment program over a long-term period.

The endowment net asset composition by fund type as of December 31, 2016, is composed of the following:

	Endowment Net Asset Composition by Fund Type as of December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated—self-insurance trust	$1,502,000	$ -	$ -	$ 1,502,000
Donor-restricted:				
Undesignated			425,000	425,000
Building and equipment		785,000	1,890,000	2,675,000
Indigent care		11,000	230,000	241,000
Hospital service lines		347,000	4,258,000	4,605,000
Education		991,000	1,473,000	2,464,000
Community health improvement		130,000	349,000	479,000
Total funds	$1,502,000	$2,264,000	$8,625,000	$12,391,000

The endowment net asset composition by fund type as of December 31, 2015, is composed of the following:

	Endowment Net Asset Composition by Fund Type as of December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated—self-insurance trust	$1,501,000	$ -	$ -	$ 1,501,000
Donor-restricted:				
Undesignated			429,000	429,000
Building and equipment		863,000	1,890,000	2,753,000
Indigent care			230,000	230,000
Hospital service lines		704,000	3,807,000	4,511,000
Education		955,000	1,471,000	2,426,000
Community health improvement		100,000	346,000	446,000
Total funds	$1,501,000	$2,622,000	$8,173,000	$12,296,000

Changes in endowment assets for the years ended December 31, 2016 and 2015, consisted of the following:

	Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—beginning of year	$1,501,000	$2,622,000	$8,173,000	$12,296,000
Investment income	1,000	674,000	6,000	681,000
Contributions			458,000	458,000
Appropriations of endowment assets for expenditure		(1,014,000)		(1,014,000)
Other changes—change in value of split-interest agreements			(12,000)	(12,000)
Transfers		(18,000)		(18,000)
Endowment net assets—end of year	$1,502,000	$2,264,000	$8,625,000	$12,391,000

	Year Ended December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—beginning of year	$1,502,000	$3,004,000	$7,975,000	$12,481,000
Investment (loss) income	(1,000)	46,000	(11,000)	34,000
Contributions			225,000	225,000
Appropriations of endowment assets for expenditure		(440,000)		(440,000)
Other changes—change in value of split-interest agreements			(17,000)	(17,000)
Transfers		12,000	1,000	13,000
Endowment net assets—end of year	$1,501,000	$2,622,000	$8,173,000	$12,296,000

13. RETIREMENT PLANS

CareAlliance has established the FutureSaver 403(b) Retirement Plan, a matching savings plan for all employees who have attained the age of 20-1/2, are paid for 1,000 hours or more, and are employed on December 31 of that plan year. Employer-matching contributions shall be made at a rate equal to 50% of the elective deferrals of each employee, up to 4% of annual compensation, for a total possible matching contribution of 2% of compensation.

The plan administrator is the Retirement Committee. Employer contributions for the FutureSaver 403(b) Retirement Plan for the years ended December 31, 2016 and 2015, were approximately $13,031,000 and $12,132,000, respectively, and are included in salaries and employee benefits in the accompanying consolidated statements of operations.

14. CONCENTRATION OF CREDIT RISK

Roper Hospital, St. Francis, and Mount Pleasant provide services primarily to the residents of the greater Charleston, South Carolina, area without collateral or other proof of ability to pay, most of whom are insured by third-party payor agreements.

The mix of receivables from patients and third-party payors as of December 31, 2016 and 2015, is as follows:

	2016	2015
Medicare	32 %	32 %
Medicaid	15	17
Commercial and others	37	33
Patients	16	18
Total	100 %	100 %

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with GAAP, certain assets and liabilities are required to be measured at fair value on a recurring basis. For CareAlliance, the assets and liabilities that are adjusted at fair value on a recurring basis are short- and long-term investments, assets whose use is limited, and interest rate swaps.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1—Valuations based on unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date

Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement

The fair value hierarchy of investments and assets limited as to use as of December 31, 2016 and 2015, is as follows:

	Fair Value Measurement at Reporting Date Using			
As of December 31, 2016	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Marketable equity securities	$ 22,174,000	$ 22,174,000	$ -	$ -
Debt securities	11,227,000	1,586,000	9,641,000	
Bond trustee-held funds—money market funds	107,398,000	107,398,000		
Mutual funds:				
Marketable international equity securities	21,641,000	21,641,000		
Marketable debt securities	26,248,000	26,248,000		
Investments measured at NAV:				
Investments in common collective trust funds	37,478,000			
Investments in limited partnerships	57,959,000			
Total	$284,125,000	$179,047,000	$9,641,000	$ -

	Fair Value Measurement at Reporting Date Using			
As of December 31, 2015	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Marketable equity securities	$ 18,482,000	$18,482,000	$ -	$ -
Debt securities	11,094,000	2,547,000	8,547,000	
Mutual funds:				
Marketable international equity securities	22,770,000	22,770,000		
Marketable debt securities	27,804,000	27,804,000		
Investments measured at NAV:				
Investments in common collective trust funds	45,352,000			
Investments in limited partnerships	59,438,000			
Total	$184,940,000	$71,603,000	$8,547,000	$ -

During the year ended December 31, 2016, management identified certain investments that were incorrectly classified in the fair value disclosures as of December 31, 2015. Specifically, management incorrectly included approximately $22,770,000 of mutual fund investments in marketable international equity securities and $27,804,000 of mutual fund investments in marketable debt securities in the investments in common collective trust funds caption and also incorrectly classified such investments as Level 2 within the fair value hierarchy. These misclassifications have been corrected in the revised fair value disclosures as of December 31, 2015.

There were no transfers between levels of the fair value hierarchy for the years ended December 31, 2016 and 2015.

CareAlliance estimates the fair value of investments in common collective trust funds, which do not have readily determinable fair values, using the reported NAV as a practical expedient for fair value. The use of NAV as a practical expedient for fair value is permitted under GAAP for investments in entities that meet the description of an investment company and whose underlying investments are measured at fair value. The common collective trust funds held by CareAlliance invest primarily in marketable domestic equity securities with readily determinable fair values.

CareAlliance estimates the fair value of its investments in limited partnerships based on NAV information provided by the fund managers. Because CareAlliance's investments in limited partnerships are not readily marketable and do not transact frequently, their estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market for such investments existed. Such differences could be material.

Investments for which fair value is measured using the NAV as a practical expedient are excluded from the fair value hierarchy in accordance with ASU No. 2015-07 (see Note 2).

The redemption frequency and redemption notice period for investments in common collective trust funds and limited partnerships as of December 31, 2016 and 2015, are as follows:

	2016	Redemption Frequency	Notice Period
Investments in common collective trust funds:			
Marketable domestic equity securities	$ 37,478,000	Daily	1 day
Private real estate fund	21,336,000	Quarterly	60 days
Private hedge fund	22,151,000	Quarterly	70 days
Private hedge fund	14,472,000	Committed through January 1, 2015 with rolling 2-year commitments thereafter	95 days
	$ 95,437,000		

	2015	Redemption Frequency	Notice Period
Investments in common collective trust funds:			
Marketable domestic equity securities	$ 45,352,000	Daily	1 day
Private real estate fund	20,247,000	Quarterly	60 days
Private hedge fund	24,672,000	Quarterly	70 days
Private hedge fund	14,519,000	Committed through January 1, 2015 with rolling 2-year commitments thereafter	95 days
	$104,790,000		

Management estimates the fair value of interest rate hedges using standard valuation models based primarily on Level 2 inputs, including interest rate indices. Management also considers the creditworthiness of CareAlliance and its counterparties in estimating the fair value of interest rate hedges; however, the effect of credit valuation adjustments was not significant to the fair value measurements as of December 31, 2016 or 2015.

As of December 31, 2016 and 2015, the carrying amounts reported in CareAlliance's consolidated balance sheets for cash equivalents, receivables, accounts payable, and accrued expenses approximate fair value. At December 31, 2016 and 2015, the fair value of CareAlliance's long-term debt was approximately $511,128,000 and $336,761,000, respectively. Management estimates the fair value of long-term debt based primarily on Level 2 inputs, including consideration of discounted cash flow analyses and CareAlliance's current incremental borrowing rates for similar types of borrowing arrangements.

16. COMMITMENTS AND CONTINGENCIES

CareAlliance is self-insured for professional malpractice claims exposures. The laws of the State currently limit the amount that can be received from certain nonprofit medical facilities for damages for medical services rendered by the facility or the facility's employees to $300,000 per claim and an aggregate of $600,000 per occurrence. CareAlliance's provision for estimated medical malpractice claims includes estimates of the ultimate costs for reported claims and claims incurred but not reported. CareAlliance's liability for professional malpractice is based on actuarially projected estimates discounted to present value at a rate of 4% at December 31, 2016 and 2015.

CareAlliance is also self-insured for employee health insurance claims and employee workers' compensation claims. Liabilities for asserted and unasserted claims under each of these self-insurance programs have been recorded and included in accrued expenses in the consolidated balance sheets.

CareAlliance is involved in litigation arising in the ordinary course of business. It is the opinion of management, based on consultation with legal counsel, that these cases will be resolved without material adverse effect on CareAlliance's financial position, results from operations, or cash flows.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that CareAlliance is in compliance with fraud and abuse statutes and regulations, as well as other applicable government laws and regulations.

17. FUNCTIONAL EXPENSES

CareAlliance provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Health care services	$774,523,000	$717,741,000
Supporting services	89,633,000	90,138,000
Total expenses	$864,156,000	$807,879,000

18. RELATED-PARTY TRANSACTIONS

Payments to the Founding Members for management fees and services were approximately $11,000,000 and $12,622,000 for the years ended December 31, 2016 and 2015, respectively.

CareAlliance had entered into an agreement with MSSC, which granted CareAlliance the unilateral option, through October 25, 2017, to purchase approximately 66 acres of land in Berkeley County, South Carolina, at an amount equal to the initial purchase price paid by MSSC of $8,902,700, plus increases of 6% cumulatively on each subsequent anniversary of the purchase date (the “Estimated Projected Value of the Property”). CareAlliance concluded the purchase of this land in September 2015 for $14,062,000.

At December 31, 2016, CareAlliance had other receivables of $486,000 due from MSSC reflecting unpaid member contributions for reimbursement of expenses. In addition, CareAlliance received $5,539,000 from MSSC for acquisition of property and equipment during the year ended December 31, 2016.

At December 31, 2015, CareAlliance had no other receivables due from MSSC reflecting unpaid member contributions for reimbursement of expenses. In addition, CareAlliance received $1,400,000 from MSSC for acquisition of property and equipment during the year ended December 31, 2015.

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