Strategic Coordinating Organization and Subsidiaries

Consolidated Financial Statements
as of and for the Year Ended
September 30, 2017, and
Independent Auditors' Report

DIXON HUGHES GOODMAN LLP

STRATEGIC COORDINATING ORGANIZATION AND SUBSIDIARIES

TABLE OF CONTENTS

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Strategic Coordinating Organization and Subsidiaries
Greenville, South Carolina

We have audited the accompanying consolidated financial statements of the Strategic Coordinating Organization and Subsidiaries ("SCO and Subsidiaries"), which comprise the consolidated balance sheet as of September 30, 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 auditors' 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 SCO and Subsidiaries' 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 SCO and Subsidiaries' 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 financial position of SCO and Subsidiaries as of September 30, 2017, and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, effective October 1, 2016, the Greenville Health System undertook a corporate restructuring and executed a lease and transfer agreement with Upstate Affiliate Organization d/b/a Greenville Health System ("GHS"), a related party and subsidiary of SCO, whereby GHS agreed to lease substantially all of the assets, liabilities, and operations of the Greenville Health System for an initial period of forty years. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the consolidated financial statements, subsequent to September 30, 2017, SCO and Palmetto Health and Subsidiaries partnered to create a new health company. Our opinion is not modified with respect to this matter.

Supplementary Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information on pages 32 through 33 is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and results of operations of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Greenville, South Carolina
December 18, 2017

STRATEGIC COORDINATING ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2017
(In thousands)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 103,039
Net patient accounts receivable (less allowance for uncollectible accounts of $102,400)	278,485
Inventories of drugs and supplies	34,980
Other current assets	71,188
Estimated third-party payor settlements	23,127
Current portion of assets with limited use	2,902
Total current assets	513,721
ASSETS WITH LIMITED USE:	
Internally designated	257,508
Held by trustee for debt service	236
Donor restricted	17,864
Less current portion of assets with limited use	(2,902)
Assets with limited use — less current portion	272,706
PROPERTY, PLANT AND EQUIPMENT — Net	866,815
INVESTMENTS IN JOINT VENTURES	58,303
INVESTMENTS	589,504
OTHER ASSETS	22,265
TOTAL ASSETS	$ 2,323,314

(continued)

STRATEGIC COORDINATING ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2017
(In thousands)

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 43,450
Accrued liabilities	253,660
Current portion of obligations under capital leases	497
Current portion of long-term debt	18,159
Total current liabilities	315,766
LONG-TERM DEBT — Less current portion	594,558
OBLIGATIONS UNDER CAPITAL LEASES — Less current portion	2,512
OTHER LONG-TERM LIABILITIES	406,588
Total liabilities	1,319,424
NET ASSETS:	
Unrestricted	967,188
Temporarily restricted	36,702
Total net assets	1,003,890
TOTAL LIABILITIES AND NET ASSETS	$ 2,323,314

See notes to consolidated financial statements.

STRATEGIC COORDINATING ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

OPERATING REVENUES:	
Net patient service revenues	$ 2,404,720
Provision for uncollectible accounts, net of recoveries	(291,719)
Net patient service revenues less provision for uncollectible accounts	2,113,001
Other operating revenue	187,024
Net assets released from restrictions used for operations	4,838
Total operating revenues	2,304,863
OPERATING EXPENSES:	
Salaries, wages, benefits, and contracted labor	1,377,303
Supplies and other costs	771,727
Depreciation	110,462
Interest	16,113
Total operating expenses	2,275,605
INCOME FROM OPERATIONS	29,258
NONOPERATING ACTIVITIES:	
Investment income — net	62,708
Change in fair value of interest rate swap instruments	5,614
Loss on Care Coordination Institute joint venture	(1,710)
Contributions awarded and received, net	(5,879)
Contribution to GHA, Healthy Greenville 2036	(54,758)
Other expense	(5,716)
Total nonoperating activities	259
EXCESS OF REVENUES OVER EXPENSES	$ 29,517

See notes to consolidated financial statements.

STRATEGIC COORDINATING ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

UNRESTRICTED NET ASSETS:	
Excess of revenues over expenses	$ 29,517
Net assets transferred from GHA	332,511
Conversion from GASB to FASB	(174,372)
Net adjustment for defined benefit plan	(951)
Net assets released from restrictions used for purchase of property, plant and equipment	2,663
Other	(1,803)
Increase in unrestricted net assets	187,565
TEMPORARILY RESTRICTED NET ASSETS:	
Net assets transferred from GHA	38,619
Investment income — net	806
Contributions — net	3,098
Capital contributions	2,663
Transfers to related organizations	(2,682)
Other	(867)
Net assets released from restrictions used for purchase of property, plant and equipment	(2,663)
Net assets released from restrictions used for operations	(4,838)
Increase in temporarily restricted net assets	34,136
INCREASE IN NET ASSETS	221,701
NET ASSETS — Beginning of year	782,189
NET ASSETS — End of year	$ 1,003,890

See notes to consolidated financial statements.

STRATEGIC COORDINATING ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	$ 221,701
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Provision for uncollectible accounts	291,719
Contribution payable to GHA	54,758
Transfer from GHA under lease agreement	(359,231)
Conversion from GASB to FASB	174,372
Depreciation	110,462
Amortization (accretion), net	(478)
Net adjustment for defined benefit plan	951
Change in fair value of interest rate swap agreements	(5,614)
Unrealized gain on investments	(57,722)
Unrealized loss on joint ventures	2,459
Loss on disposal of property and equipment	771
Monetization gain	(4,772)
Restricted contributions	2,673
Changes in operating assets and liabilities:	
Patient accounts receivable, net	(293,294)
Other assets	(37,638)
Accounts payable	13,456
Estimated third-party payor settlements	(2,274)
Other liabilities	12,895
Net cash provided by operating activities	125,194
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of property, plant, and equipment	7,366
Payments for property, plant and equipment, net of disposals	(112,895)
Purchases of investments	(2,027,713)
Sales of investments	1,961,172
Proceeds from sale of CCI	5,459
Investment in CCI	(3,000)
Net cash used in investing activities	(169,611)

(continued)

STRATEGIC COORDINATING ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Transfer from GHA, MyHealth First Network, and Auxiliary	$ 131,973
Contribution to GHA for community fund	(4,000)
Principal payments and refundings on long-term debt	(17,804)
Proceeds from long-term debt, net of premium	1,008
Payments on obligations under capital leases	(1,224)
Net cash provided by financing activities	109,953
NET INCREASE IN CASH AND CASH EQUIVALENTS	65,536
CASH AND CASH EQUIVALENTS:	
Beginning of year	37,739
End of year	$ 103,275
RECONCILIATION OF CASH AND CASH EQUIVALENTS:	
Cash and cash equivalents in current assets	$ 103,039
Cash and cash equivalents in assets with limited use	236
	$ 103,275
SUPPLEMENTAL CASH FLOW INFORMATION:	
Noncash investing activities — capital asset purchase accruals	$ 1,141

See notes to consolidated financial statements.

1. REPORTING ENTITY

The consolidated financial statements include the accounts and transactions of the Strategic Coordinating Organization ("SCO"), Upstate Affiliate Organization d/b/a Greenville Health System ("GHS"), GHS Partners in Health, Inc. ("Partners"), Greenville Health Corporation ("GHC") and Affiliates (collectively, the "Corporation"), MyHealth First Network ("MyHFN"), and Auxiliary to Greenville Hospital System ("Auxiliary") (collectively, "SCO and Subsidiaries").

SCO was established in 2016 to serve as the parent organization of a new not-for-profit health system which includes the subsidiaries listed above. SCO provides strategic direction and financial oversight of the system as a whole and certain corporate support services. GHS provides hospital and healthcare services in the GHS service area, and Partners operates physician practices.

The Corporation operates pharmacy services and a durable medical equipment, orthotics, and prosthetics business. The Corporation also includes interests in joint ventures that were formed to provide physical therapy, group purchasing, and health care including ambulatory surgery services. The Corporation owns GHC Health Resources, Inc. ("Health Resources"), a for-profit entity formed for the purpose of developing health care delivery systems, which integrate and align the interests of patients, hospitals, physicians, and payors. Prior to September 2017, the Corporation also owned GHC Research Development Corporation ("RDC"). RDC was organized to support GHS and the Corporation in expanding the scope of medical research and development. RDC owned 100% of the preferred stock and 61% of the common stock in Greenville Oncology Therapeutics ("GOT"). GOT was organized to operate as an independent, for-profit business corporation to engage in the commercial development of intellectual property developed by GHS and Corporation. In September 2017, RDC and GOT were dissolved. Until August 3, 2017, RDC owned 51% of the common stock in Oncolix, Inc. ("ONC"). See Note 13 for more information. ONC operates as an independent, autonomous, for-profit business corporation to engage in the commercial development of certain intellectual property. ONC operates on a calendar year end.

MyHFN is a clinically-integrated network of physicians and healthcare providers who share a common goal of improving health outcomes, reducing healthcare costs, and enhancing the patient experience. MyHFN operates on a calendar year end and is governed by its own Board of Managers.

The Auxiliary provides direct supplemental patient services and indirect services to the patients, employees, and visitors of GHS.

Greenville Health System hereinafter referred to as the Greenville Health Authority ("GHA") was established by The General Assembly of South Carolina in 1947 to meet the medical and health care needs of the citizens of Greenville County and other communities that it serves.

In 2016, GHA determined that it could more effectively provide for the needs of the community and fulfill its statutory obligations by contracting with a newly formed, not-for-profit entity, GHS. GHS leased the assets of GHA, assumed substantially all of its operations, and agreed to operate the facilities as a community healthcare provider as described in the covenants and agreements contained therein the lease and contribution agreement. The lease is for an initial period of forty years with GHS having three, twenty-year renewal options. Simultaneous with the creation of GHS, the SCO was created. The SCO is the member of GHS. In connection with the change in organizational structure, Partners, the Corporation, MyHFN, Auxiliary, and the Care Coordination Institute ("CCI") which provides population health management services also became part of system controlled by the SCO. As a result, SCO and Subsidiaries are excluded from GHA's reporting entity subsequent to October 1, 2016.

The lease and contribution agreement was accounted for as a transaction between entities under common control, whereby GHA transferred its net assets at their carrying values as of the beginning of the year.

In October 2016, SCO sold a 50% ownership interest in CCI to Palmetto Health and Subsidiaries for approximately $5.5 million. SCO's remaining 50% ownership interest is included as an investment in joint venture on the consolidated balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation — The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of SCO and its controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

In 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU removes certain disclosures and the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value ("NAV") per share practical expedient provided by ASC 820, *Fair Value Measurement*. The ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The ASU should be applied retrospectively to all periods presented. SCO and Subsidiaries elected to early adopt the provisions of ASU 2015-07 effective October 1, 2016.

Use of Estimates — The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

Net Assets — SCO and Subsidiaries classifies its net assets for accounting and reporting purposes as unrestricted or temporarily restricted as follows:

Unrestricted — Resources of SCO and Subsidiaries that bear no external restrictions as to use or purpose. These resources include amounts generated from operations and undesignated gifts.

Temporarily restricted— Resources that are limited by donors to a specific time period or purpose.

Net Patient Service Revenues — Activities associated with the provision of health care services constitute the ongoing, major, and central operations of SCO and Subsidiaries. Revenues related to these activities are reported as operating. Net patient service revenues are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations, as well as an estimate of uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Excess of Revenues over Expenses — SCO and Subsidiaries' consolidated statement of operations distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses include transactions deemed by management to be ongoing, major, or central to the provision of healthcare services, including income (loss) on joint ventures for those related to SCO and Subsidiaries' primary business purpose. Investment income and losses and certain peripheral or incidental transactions are reported as nonoperating activities including the loss on the CCI joint venture as such operations are not part of SCO and Subsidiaries' primary business purpose.

Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with relevant accounting literature and industry practice, include contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets), effects of changes in accounting policies, net assets transferred from GHA due to the lease and contribution agreement, and certain pension accounting items.

Functional Expense Classification — Substantially all expenses on the accompanying consolidated statement of operations were incurred for or related to the provision of health care services by SCO and Subsidiaries.

Charity Care Services — SCO and Subsidiaries accepts patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of SCO and Subsidiaries. Because SCO and Subsidiaries does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The cost of charity care under these policies for the year ended September 30, 2017 was approximately $99,363,000 as determined using the cost-to-charge ratio method prescribed by Catholic Health Association and other relevant industry guidelines. In assessing a patient's inability to pay, SCO and Subsidiaries utilizes a sliding scale with regard to generally recognized poverty income levels, but also includes cases where incurred charges are significant when compared to income.

Cash and Cash Equivalents — Cash and cash equivalents include investments in highly liquid instruments with a maturity of three months or less.

Bank deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") under applicable limits.

Patient Accounts Receivable — Patient accounts receivable is carried at the original charge less any payments made on the accounts as well as any contractual adjustments and an estimate made for doubtful or uncollectible accounts.

In evaluating the collectability of patient accounts receivable, SCO and Subsidiaries analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowances and provisions for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, SCO and Subsidiaries analyzes contractually due amounts and provides both an allowance and a provision for uncollectible accounts, if necessary.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for a portion of the services provided), SCO and Subsidiaries records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients do not pay the portion of their bills for which they are financially responsible. The difference between the rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for uncollectible accounts.

Investments, Assets with Limited Use, and Investment Income — Investments in marketable debt and equity securities and assets with limited use are measured at fair value. Alternative investments are reported using NAV as a practical expedient for fair value. All investments in debt and equity securities are classified as trading. Interest, dividends, and gains and losses, both realized and unrealized, on such investments are reported as nonoperating revenues (expenses) when earned. Investment income and realized gains or losses on investments of donor-restricted funds is recorded directly to temporarily restricted net assets in accordance with donor wishes.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, there is at least a reasonable possibility that changes in the values of investment securities will occur in the near term and that these changes could materially affect the amounts reported in the consolidated balance sheet.

Assets with limited use include assets held by trustees under debt indenture agreements, assets restricted by donors, and assets set aside by the Board of Directors, primarily for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current obligations have been classified as current assets.

Inventories of Drugs and Supplies — Inventories of drugs and supplies for GHS and Partners are stated at the lower of cost, which is determined by the last-in, first-out method, or market. The Corporation's inventories of drugs and supplies consist of pharmacy supplies and drugs and are stated at the lower of cost (first-in, first-out method) or market.

Pledges Receivable and Contributions — Unconditional donor promises to give cash, marketable securities, and other assets are reported at fair value and discounted to present value at the date the promise is received to the extent estimated to be collectible. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restrictions that limit the use of the donated assets are reported as temporarily restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restriction. Pledges receivable are reported in other assets in the consolidated balance sheet.

Property, Plant and Equipment — Property, plant and equipment are stated at cost or, if contributed, at fair value at date of contribution. It is SCO and Subsidiaries' policy not to capitalize any property and equipment that costs less than $5,000. Depreciation is provided over the estimated useful life of each class of depreciable asset (ranging from 3 to 80 years) and is computed using the straight-line method. Routine maintenance, repairs, and replacements are charged to expenses. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized.

When properties are retired or otherwise disposed of, the cost of the assets and related allowances for depreciation are removed from the accounts, and any resulting gain or loss is recognized in the consolidated statement of operations as a component of operating activities.

Real property leased under capital leases is amortized over the terms of the respective leases or their economic useful lives, whichever is shorter.

SCO and Subsidiaries evaluates property and equipment for impairment when events or changes in circumstances denote the presence of impairment indicators. SCO and Subsidiaries determined that there was no impairment of property and equipment as of or during the year ended September 30, 2017.

Asset Retirement Obligations — The fair value of a liability for legal obligations associated with asset retirements is recorded in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of operations. Such liabilities are not significant to the consolidated financial statements at September 30, 2017.

Goodwill — Goodwill represents the excess of the purchase price over the estimated fair value of the net assets of acquired entities. In 2012, the net assets of the Cancer Center of the Carolinas (now known as The Cancer Institute ("Cancer Institute")) were acquired, resulting in goodwill of $8,752,000. In April 2016, the net assets of an ophthalmology practice and optical shop were acquired, resulting in goodwill of approximately $1,162,000. Goodwill is reported in other assets in the consolidated balance sheet.

SCO and Subsidiaries evaluates goodwill for impairment annually and as events or changes in circumstances indicate that the value of the asset may be impaired. If the carrying amount of the goodwill exceeds the estimated fair value, an impairment charge to current operations is recorded to reduce the carrying amount to estimated fair value.

SCO and Subsidiaries determined that there was no indication of impairment of goodwill for the year ended September 30, 2017.

Leases — SCO and Subsidiaries leases equipment and buildings under various operating and capital leases. Leases are classified as capital leases or operating leases based upon the criteria established by GAAP. For leases determined to be capital leases, an asset and liability are recognized at the lower of the fair value of the leased asset or the present value of the minimum lease payments during the lease term. Such assets are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the assets taking into account the residual value, with amortization included in depreciation and amortization expense. Leases that do not qualify as capital leases are classified as operating leases, and the related rental payments are expensed on a straight-line basis (taking into account rent escalation clauses) over the lease term. For purposes of expensing rental payments, the lease term commences when SCO and Subsidiaries becomes obligated under the terms of the lease agreement, and includes option renewal periods where failure to exercise such options would result in an economic penalty such that renewal appears, at the inception of the lease, to be reasonably assured.

Income Taxes — SCO, GHS, GHC, Partners, RDC and the Auxiliary are exempt from federal income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Health Resources, GOT, and ONC are not exempt from federal income taxes. MyHFN is classified as a partnership for tax purposes.

SCO and Subsidiaries recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. SCO and Subsidiaries has determined that it does not have any material unrecognized tax benefits or obligations.

Subsequent Events — SCO and Subsidiaries evaluated subsequent events through December 18, 2017, the date at which the consolidated financial statements were issued. No subsequent events requiring recognition in or disclosure to the consolidated financial statements as of September 30, 2017 were identified by management with the exception of the following:

On November 21, 2017, the SCO and Palmetto Health and Subsidiaries finalized their agreement to create a new, not-for-profit, locally governed health company, which became the parent organization of GHS and of Palmetto Health and Subsidiaries. The new health company now provides the strategic direction, financial oversight and corporate support services for GHS and other subsidiaries that were previously provided to them by SCO. As part of this transaction, SCO was merged into GHS with GHS being the surviving entity.

The new health company brings together the strengths of both systems to improve the patient experience, advance clinical quality and increase access to care, while addressing rising healthcare costs.

A governing board of directors for the new company has been seated and is working closely with management to operationalize the new health company.

The determination of the financial impact of this transaction is currently ongoing and therefore such matters are not finally determined as of the date of issuance of this report.

New Accounting Pronouncements —

FASB issued ASU 2016-04 to improve the presentation of financial statements of not-for-profit entities. The standard addresses key qualitative and quantitative matters including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. SCO and Subsidiaries is evaluating any impacts on the consolidated financial statements that might result from application of this new standard.

ASU 2016-02 will require the inclusion of lease obligations, both financing and operating, on the balance sheets of organizations subject to the standard. For private conduit municipal debt issuers (including SCO and Subsidiaries), this standard will be effective for annual periods beginning after December 15, 2018. SCO and Subsidiaries is evaluating any impacts on the consolidated financial statements that might result from application of this new standard.

ASU 2015-14 defers the effective date of ASU 2014-09 for all entities by one year. ASU 2014-09 provides a five-step analysis of transactions to determine when and how revenue is recognized that consists of: i) identify the contract with the customer, ii) identify the performance obligations in the contract, iii) determine the transaction price, iv) allocate the transaction price to the performance obligations, and v) recognize revenue when or as each performance obligation is satisfied. The changes are intended to increase comparability, as well as simplify preparation of financial statements and provide more useful information to users through improved disclosures. The standard is effective for annual reporting periods beginning after December 15, 2017. SCO and Subsidiaries is evaluating any impacts on the consolidated financial statements that might result from application of this new standard.

3. ASSETS WITH LIMITED USE AND INVESTMENTS

Assets with limited use and investments as of September 30, 2017 are composed of the following (in thousands):

Investment Type:	
Cash and cash equivalents, net of pending trades	$ (99)
U.S. Treasury and government agencies	112,164
Corporate and municipal obligations	108,442
Common stocks	106,015
Mutual funds	18,273
Equity comingled funds	290,028
Alternative investments	229,879
Other	1,041
Total carrying values	$ 865,743

Assets with limited use and investments are included on the consolidated balance sheet as follows (in thousands):

Cash and cash equivalents	$ 631
Assets with limited use	275,608
Investments	589,504
	$ 865,743

Investment income of SCO and Subsidiaries, including income from funds held by external trustee, for the year ended September 30, 2017, consisted of the following (in thousands):

Interest and dividends — net of fees	$ 8,521
Net realized losses	(3,535)
Change in net unrealized gains (losses)	57,722
Total investment income	$ 62,708

4. PLEDGES RECEIVABLE

Pledges receivable are summarized as follows at September 30, 2017 (in thousands):

Less than one year	$ 555
One to five years	3,398
More than five years	1,491
	5,444
Less fair value adjustments:	
Discount of 5% to present value	(704)
Allowance for doubtful accounts	(474)
Pledges receivable, net	$ 4,266

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment is summarized as follows at September 30, 2017 (in thousands):

Land and land improvements	$ 91,568
Buildings and building improvements	780,690
Equipment and furniture	1,222,414
Projects in progress	16,855
	2,111,527
Accumulated depreciation	(1,244,712)
Property, plant, and equipment, net	$ 866,815

Projects in progress include the expansion of hospital facilities and other capital projects that were under construction, development, or in the planning stages at September 30, 2017. Current outstanding commitments related to these projects were approximately $46,691,000 at September 30, 2017.

Capital assets under capital leases, net of accumulated amortization, were approximately $4,646,000 at September 30, 2017.

6. INVESTMENTS IN JOINT VENTURES

Carrying values of and ownership percentages of investments in joint ventures as of September 30, 2017, are as follows (in thousands):

Greenville Proaxis Therapy, LLC	20.00%	$ 8,856
Baptist Easley Hospital	50.00%	39,412
Blue Ridge Ambulatory Surgery Center	36.94%	476
Vizient	0.22%	3,134
CCI	50.00%	6,917
Initiant	20.00%	(492)
		$ 58,303

All investments in joint ventures are reported using the equity method of accounting except for Vizient which is recorded using the cost method of accounting.

The carrying value of the investment in Greenville Proaxis Therapy, LLC ("GPT") includes approximately $5,600,000 of goodwill, which is not being amortized.

The carrying value of the investment in Baptist Easley Hospital at September 30, 2017 includes approximately $4,969,000 of equity method goodwill, which is not being amortized, and the remaining unamortized balance of the step-up basis of Baptist Easley Hospital's assets of approximately $11,298,000. Additionally, the investment in Baptist Easley Hospital at September 30, 2017 includes the Corporation's equity in approximately $737,000 of restricted net assets whose use by Baptist Easley Hospital has been limited by donors to a specific time period or purpose. Such amounts have been included as a component of unrestricted net assets on SCO and Subsidiaries' consolidated balance sheet.

The Corporation also made charitable contributions of approximately $525,000 to Baptist Easley Hospital during the year ended September 30, 2017. In the Joint Venture Agreement, the Corporation agreed to match payments made by the Baptist Easley Foundation, up to $4,800,000, over a 10 year period ending 2019. The Corporation has matched approximately $3,329,000 as of September 30, 2017.

The Corporation received distributions of approximately $47,000 from Blue Ridge Ambulatory Surgery Center during the year ended September 30, 2017.

CCI is an organization that provides services and solutions to accelerate healthcare transformation by developing, implementing and evaluating care delivery models, tools and support services. CCI sells services to third parties, including MyHFN and the Palmetto Health Quality Collaborative ("PHQC"), the clinically integrated network created by providers in partnership with Palmetto Health and Subsidiaries in Columbia, South Carolina.

During the year ended September 30, 2017, SCO and Subsidiaries provided approximately $10,126,000 to CCI for services. SCO also paid CCI approximately $3,000,000 for cash calls. During the year ended September 30, 2017, CCI provided approximately $2,873,000 to SCO and Subsidiaries for services. At September 30, 2017, SCO and Subsidiaries had a net payable to CCI for approximately $802,000 for services.

SCO and Subsidiaries is a member of Initiant, LLC ("Initiant") along with four other healthcare entities. Initiant was formed to help member hospitals achieve savings, to explore deployment of clinical programs and services that will improve access to and the quality of care to its members' patients, and to add value to its members, patients, and the communities its members serve. As of September 30, 2017, SCO and Subsidiaries has paid approximately $693,000 to Initiant as a capital contribution and recorded a loss on investment of approximately $1,185,000.

Summarized financial information for the joint ventures except Vizient, which is held at cost, as of and for the year ended September 30, 2017, is as follows (in thousands):

Total assets	$ 125,485
Total liabilities	31,052
Total net assets/equity	94,433
Revenues	153,100
Net income	535

7. RETIREMENT PLANS

Pension

SCO and Subsidiaries has a noncontributory pension plan (the "Plan") for employees meeting certain eligibility requirements. SCO and Subsidiaries reserves the right to amend the Plan at any time. The Plan is a single-employer defined-benefit pension plan administered by SCO and Subsidiaries. Benefits in the defined benefit pension plan were frozen in 2010, and participants will retain any benefits earned through this time.

Under the lease and contribution agreement, SCO and Subsidiaries has assumed the plan obligation and has agreed to fund the future benefits of the remaining participants in the frozen pension plan. If the Plan is terminated, the Plan assets will be distributed among the Plan participants based upon a priority allocation procedure. SCO and Subsidiaries shall be liable for any unfunded vested benefits to the extent required by law.

The following table presents a reconciliation of the beginning and ending balances of the Plan's projected benefit obligation, the fair value of the plan assets, the funded status of the Plan, amounts recognized in unrestricted net assets, and the components of net periodic benefit cost for the year ended September 30, 2017 (in thousands):

Change in benefit obligation		
Projected benefit obligation at beginning of year	$	624,830
Interest cost		19,859
Actuarial gain		(1,431)
Benefits paid		(22,061)
Projected benefit obligation at end of year	$	621,197
Change in plan assets		
Fair value of plan assets at beginning of year	$	343,785
Actual return on plan assets		19,410
Employer contributions		-
Actual expenses paid		(5,178)
Benefits paid		(22,061)
Fair value of plan assets at end of year	$	335,956
Net amount recognized as noncurrent liabilities		
Funded status of the plan	$	(285,241)
Amounts recognized in unrestricted net assets		
Net actuarial gain	$	951
Components of net periodic benefit cost		
Service cost	$	5,165
Interest cost		19,859
Expected return on assets		(21,779)
Net periodic benefit cost	$	3,245

The expected employer contribution for the year ending September 30, 2018 is approximately $38,176,000.

The actuarial assumptions used to determine benefit obligations for the Plan for the year ended September 30, 2017 were as follows:

Discount rate	3.97%
Expected long-term rate of return on plan assets	6.50%

Expected future benefit payments are as follows for the years ending September 30 (in thousands):

Year ended September 30:		
2018	$	23,099
2019		24,965
2020		26,789
2021		28,664
2022		30,476
2023 - 2027		170,536
	$	304,529

Plan assets are invested and managed in accordance with SCO and Subsidiaries' investment policy, which provides for a prudent investor approach to investment and asset management decisions. Plan assets are invested in cash, fixed-income securities, equities, and venture capital funds. The Plan's asset allocation policy as of September 30, 2017 was as follows:

Asset Class	Target Allocation
Equity Securities	44%
Fixed Income Securities	30%
Alternative Investments	26%
	100%

Other Retirement Plans

SCO and Subsidiaries offers a 403(b) and 401(a) retirement savings plan that covers substantially all of its employees. Participants are fully vested in all funds within the 403(b) plan.

SCO and Subsidiaries makes an annual contribution to the 401(a) accounts on behalf of each employee equal to 3% to 5% (depending upon age and years of service) of eligible earnings during the previous fiscal year. Participants will be vested in the employer contribution after three consecutive years of employment. For the year ended September 30, 2017, SCO and Subsidiaries had approximately $27,815,000 accrued for this contribution.

Additional contributions of up to 3% of salary in the form of a match of participants' contributions to their 403(b) accounts may be made at the discretion of SCO and Subsidiaries. During the year ended September 30, 2017, SCO and Subsidiaries elected not to make an additional match.

The contributions for the year ended September 30, 2017 will be paid to employees' 401(a) and 403(b) retirement savings plan accounts in December 2017.

SCO and Subsidiaries offers a 457(b) deferred compensation plan that covers all of its employees. SCO and Subsidiaries does not make any matching contributions to this plan.

8. LONG-TERM DEBT

Long-term debt as of September 30, 2017 consists of the following (in thousands):

Hospital Refunding Revenue Bonds — Series 2015 — with monthly interest at 70% of LIBOR plus an applicable spread ranging from 55 to 100 basis points (1.42% at September 30, 2017), maturing in 2044, subject to mandatory tender by the bank May 1, 2022	$ 68,360
Hospital Refunding Revenue Bonds — Series 2014A — 2.27% fixed rate interest, maturing 2025	35,060
Hospital Revenue Bonds — Series 2014B:	
Serial bonds, 3.625% to 5.00% fixed rate interest, maturing 2024 to 2034	41,450
Term bonds, 4.00% fixed rate interest, maturing 2039	5,710
Term bonds, 5.00% fixed rate interest, maturing 2039	10,615
Term bonds, 4.00% fixed rate interest, maturing 2044	27,405
Series 2013A Promissory Note, with monthly interest at the one-month LIBOR plus an applicable spread ranging from .95% to 1.35% (2.18% at September 30, 2017), maturing 2023	8,637
Series 2013B Promissory Note, with monthly interest at the one-month LIBOR plus an applicable spread ranging from 1.00% to 1.40% (2.23% at September 30, 2017), maturing 2023	3,354
Hospital Facilities Revenue Bonds — Series 2012 — Serial bonds, 3.00% to 5.00% fixed rate interest, maturing 2021 to 2031	92,900
General Obligation Refunding Bonds — Series 2012 — 2.00% to 4.00% fixed rate interest, maturing 2013 to 2022	3,235
Hospital Revenue Bonds — Series 2008A — Serial Bonds, 3.00% to 5.25% fixed rate interest, maturing 2011 to 2023	33,960
Hospital Revenue Bonds — Series 2008B — Variable Rate Demand Bonds, variable rate interest, maturing 2021 to 2033	60,595
Hospital Revenue Bonds — Series 2008C — Direct Bank Loan, 2.3086% fixed rate interest until initial bank put date of October 1, 2022, maturing 2021 to 2033	60,645
Hospital Revenue Bonds — Series 2008D — Direct Bank Loan, variable interest based on 70% of LIBOR plus an applicable spread ranging from 45 to 90 basis points (1.32% at September 30, 2017), maturing 2011 to 2044, subject to mandatory tender on October 1, 2021	52,840
Hospital Revenue Bonds — Series 2008E — Direct Bank Loan, variable interest based on 70% of LIBOR plus an applicable spread ranging from 45 to 90 basis points (1.32% at September 30, 2017), maturing 2011 to 2035, subject to mandatory tender on October 1, 2021	78,865
Hospital Facilities Revenue Bonds — Series 1990 — Term bonds, 6.00% fixed rate interest, maturing 2020	15,675
	599,306
Plus unamortized debt premium and discount	13,411
	612,717
Less current portion	18,159
	$ 594,558

Members of the Obligated Group for long-term debt include SCO, GHS, GHA and Partners.

Series 2008

The Hospital Revenue Bonds, Series 2008B, are variable rate demand bonds and bear interest at variable rates set through a weekly remarketing process. Interest on the bonds is payable monthly in arrears, at rates ranging from 0.55% to 0.90% (plus letter of credit fees and remarketing costs) during the year ended September 30, 2017 (.83% at September 30, 2017). In accordance with each Bond Indenture, the Obligated Group may convert the interest rate on any series to a daily interest rate, long-term interest rate, or bond interest term rate.

In April 2011, the Obligated Group entered into an irrevocable, direct pay letter of credit and reimbursement agreement (the "Series 2008B Credit Facility") with U.S. Bank National Association ("U.S. Bank") for a term of five years to provide credit and liquidity support for the Series 2008B bonds. The Series 2008B Credit Facility was amended, and the term was extended until April 2020. The bonds are payable from the Series 2008B Credit Facility issued by U.S. Bank. During the term of the Series 2008B Credit Facility, the Bond Trustee will draw money under the Series 2008B Credit Facility to pay, when due, all principal and interest due on the bonds. The Obligated Group reimburses U.S. Bank for these payments monthly in arrears on the first business day of each month. In the event that any bonds are tendered for purchase and cannot be remarketed, the Series 2008B Credit Facility provides that U.S. Bank will provide liquidity advances equal to the outstanding principal and interest payable on the respective series of bonds.

Under the Series 2008B Credit Facility, any liquidity advance not repaid on the date U.S. Bank pays such liquidity drawing shall be converted to a three-year term loan payable in twelve equal quarterly installments commencing on the first quarterly payment date following the 367th day following the liquidity drawing. The Series 2008B Credit Facility requires payment of higher interest rates on liquidity advances and term loans; however, the Obligated Group may prepay liquidity advances and term loans at any time without penalty. The term loan interest rate is Prime Rate based, but will not exceed the Prime Rate plus 2% (or, in the event of default, Prime Rate plus 3%) or the maximum rate permitted by law nor will it be less than the interest accruing on any Series 2008B bond. Letter of credit fees range from 45 to 100 basis points based on the Obligated Group's credit ratings.

In the event the Series 2008B Credit Facility is not extended or replaced prior to expiration, the respective Bond Indenture requires mandatory tender of the bonds on the fifth business day preceding such expiration.

Other

All of the outstanding bonds and promissory notes are secured by the Obligated Group's pledge of gross revenues. A Trust Agreement names a bank as Trustee to receive, transfer, and disburse all monies related to the bonds and promissory notes except for Series 2013A and Series 2013B which are payable directly to the lenders.

Under the terms of the Master Trust Indenture dated March 1, 1996, as amended and supplemented by various supplemental indentures governing outstanding bonds and the Credit Facilities, the Obligated Group is required to maintain certain financial ratios, maintain minimum credit ratings, and limit future borrowings. In addition, the covenants impose limitations on the selling, leasing, or conveying substantial properties, security interest, pledge, or lien against any assets without the permission of the lenders.

The Obligated Group must establish various funds with the trustee as defined by the Trust Agreement. Funds held by the trustee as of September 30, 2017 are as follows (in thousands):

Series 1990 — Bond interest fund	$ 236

A summary of interest paid and interest expense, net of amounts capitalized, for the year ended September 30, 2017 is as follows (in thousands):

Interest paid	$ 19,875
Total interest incurred	$ 19,753
Amortization	(820)
Less amounts capitalized	(2,820)
Interest expense	$ 16,113

Interest paid and incurred above includes approximately $271,000 for the year ended September 30, 2017 for interest on capital leases.

Future principal maturities of long-term debt are as follows (in thousands):

2018	$ 18,159
2019	19,119
2020	19,824
2021	20,109
2022	20,979
Thereafter	501,116
	$ 599,306

9. INTEREST RATE SWAPS

The Obligated Group had previously entered into interest rate swap agreements for its Series 2006A bonds, Series 2006B bonds, and 2010 bonds. These bonds were refunded into a new Series 2015 bond issue in May 2015. The Obligated Group elected to maintain the interest rate swap agreements as a partial hedge for its overall variable rate debt. Information about the interest rate swap agreements is as follows (in thousands):

	Maturity Date	Rate Paid	Rate Received	Increase in Interest Expense	Swap Fair Value Liability
Series 2006A	October 2036	3.471%	67% of 1-month LIBOR	$ 747	$ 4,932
Series 2006B	October 2036	3.466%	67% of 1-month LIBOR	451	2,996
Series 2010	October 2035	3.270%	67% of 1-month LIBOR	627	3,788
				$ 1,825	$ 11,716

The Obligated Group recognizes interest expense based upon the fixed rates paid under the swaps, while the change in fair value of the swaps is recorded as part of nonoperating activities on the accompanying consolidated statement of operations and changes in net assets and as an adjustment to the derivative liability in other long-term liabilities on the consolidated balance sheet.

10. NET PATIENT SERVICE REVENUES

Under the Medicare and Medicaid programs, SCO and Subsidiaries' payments are based on either predetermined rates or the cost of services, which are generally less than SCO and Subsidiaries' customary charges. Medicare and Medicaid net patient revenues were approximately 50% of total net patient service revenues for the year ended September 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are 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. SCO and Subsidiaries believes that it is in compliance with all applicable laws and regulations and it has recorded adequate provisions for any inquiries and reviews. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. A provision (contractual adjustment) is deducted each year from the gross patient service charges to reflect the net patient service revenues earned under the Medicare and Medicaid programs. Final determination of amounts earned is computed using annual reports submitted by SCO and Subsidiaries and is subject to review and adjustment by the program intermediary. Changes from final determination are reflected as changes in estimates, generally in the year of determination. At September 30, 2017, Medicare cost reports from 2012 and subsequent have not been audited for certain facilities. No Medicaid cost reports subsequent to 2011 have been audited at September 30, 2017. In the opinion of management, adequate provisions have been made for adjustments, if any, that may result from such reviews.

Net patient service revenue increased approximately $34,168,000 for the year ended September 30, 2017 due to prior-year retroactive adjustments in excess of amounts previously estimated.

In the State of South Carolina (the "State"), providers are assessed a quarterly tax and receive periodic Medicaid disproportionate share funds from the State. The tax assessment was approximately $34,414,000 for the year ended September 30, 2017 and is recorded as an operating expense on the accompanying consolidated statement of operations. SCO and Subsidiaries received approximately $77,641,000 of Medicaid disproportionate share funds from the State for the year ended September 30, 2017 and recorded the funds as net patient service revenue on the accompanying consolidated statement of operations.

South Carolina Medicaid interim Disproportionate Share ("DSH") payments are subject to audit and a final settlement process. The South Carolina Department of Health and Human Services ("SCDHHS") has selected the option to redistribute all Medicaid DSH funds for fiscal year 2012 and forward to/from all hospitals in the state based on final audit findings. Audit results and redistribution by facility were communicated by SCDHHS to each facility for fiscal year 2013 during 2017. During fiscal year 2017, SCO and Subsidiaries received net payments of approximately $14,555,000 based on the results of an audit of the fiscal year 2013 Medicaid disproportionate share funds. Without audit results of all hospitals in the state for each particular year and the related redistribution by facility, SCO and Subsidiaries is unable to predict settlements at this time for fiscal year 2014 or subsequent years. SCO and Subsidiaries anticipates recognition of any Medicaid DSH audit results in the period of notification of such findings and anticipated settlements from SCDHHS, which may result in impacts to net patient service revenue in the year of recognition.

SCO and Subsidiaries also received Medicare disproportionate share funds of approximately $18,269,000 for the year ended September 30, 2017 and recorded the funds as net patient service revenue on the accompanying consolidated statement of operations. Future receipts of the Medicare and Medicaid disproportionate share are not guaranteed.

Net patient service revenues for the year ended September 30, 2017 consisted of the following (in thousands):

Gross patient charges at established rates	$ 6,062,973
Charity care	(296,503)
Contractual adjustments	(3,361,750)
Net patient service revenues	$ 2,404,720

11. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject SCO and Subsidiaries to a concentration of credit risk consist principally of cash, investments, and accounts receivable from patients and third-party payors. SCO and Subsidiaries places its cash and investments with high credit quality financial institutions. Concentration of credit risk with respect to patient accounts receivable is managed in-house. SCO and Subsidiaries generally does not require collateral. Third-party payors are primarily Medicare and Medicaid, which provide reimbursement on patient accounts on a regular basis. Managed care receivables are distributed among various primary payors. The creditworthiness of all managed care payors is considered by SCO and Subsidiaries prior to entering into an agreement with the payor.

The mix of receivables from patients and third-party payors as of September 30, 2017, was as follows:

Medicare	34 %
Medicaid	14
Managed care payors	28
Other	24
Total	100 %

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined 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.

SCO and Subsidiaries has categorized its financial instruments into a three-level fair value hierarchy based on the priority of inputs used in related valuation techniques. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within multiple levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Level 1 values are based on unadjusted quoted prices for identical assets or liabilities in active markets that SCO and Subsidiaries has the ability to access. Level 2 values are based on pricing inputs which are either directly observable or that can be derived or supported from observable data. These inputs may include quoted prices for similar assets or liabilities in nonactive markets or pricing models whose inputs are observable for substantially the full term of the asset or liability. Level 3 values are those whose inputs to the valuation methodology are unobservable and significant to the fair value measurement.

SCO and Subsidiaries invests in certain investments for which quoted prices are not available in active markets for identical instruments. SCO and Subsidiaries utilizes NAV provided by the administrator of the fund as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported NAV. These instruments are not required to be classified within a level on the fair value hierarchy.

For assets and liabilities carried at fair value, the following table provides fair value information as of September 30, 2017 (in thousands):

Investment Type	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ (99)	$ 236	$ (335)	$ -
U.S. Treasury and government agencies	112,164	52,431	59,733	-
Corporate and municipal obligations	108,442	-	108,442	-
Common stocks	106,015	106,015	-	-
Mutual funds	18,273	18,273	-	-
Equity commingled funds	207,612	-	207,612	-
Alternative investments	195,118	-	195,118	-
Total assets in the fair value hierarchy	747,525	$ 176,955	$ 570,570	$ -
Investments at NAV (a)	117,177			
Total assets with limited use and investments at fair value	$ 864,702			
Donated real estate included in other assets	$ 1,000	$ -	$ 1,000	$ -
Liabilities measured at fair value:				
Interest rate swap instruments	$ 11,716	$ -	$ 11,716	$ -

SCO and Subsidiaries has approximately $1,041,000 of accrued income included in cash and cash equivalents on the consolidated balance sheet at September 30, 2017 which was not classified as a level in the fair value hierarchy.

For pension plan assets carried at fair value, the following table provides fair value information as of September 30, 2017 (in thousands):

Investment Type	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 5,759	$ 5,759	$ -	$ -
U.S. Treasury and government obligations	28,543	28,543	-	-
Corporate and municipal obligations	71,974	-	71,974	-
Equity commingled funds	91,423	-	91,423	-
Alternative investments	30,470	-	30,470	-
Total pension assets in the fair value hierarchy	228,169	$ 34,302	$ 193,867	$ -
Investments at NAV (a)	107,787			
Total pension investments at fair value	$ 335,956			

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of September 30, 2017 (in thousands):

Description for Footnote Disclosure	Fair Value at 9/30/2017	Unfunded Commitments	Other Redemption Restrictions	Redemption Notice Period
International Growth Equity Fund	$ 82,416	None	Monthly (end-of-month)	Three business days
Real Estate Fund	34,761	None	Quarterly	Thirty days
Hedge Fund of Funds	45,345	None	Semi-annually	Ninety-five days
US Low Volatility Large Cap Fund	30,797	None	Monthly	Ten days
International Growth Equity Fund	31,645	None	Daily	Three business days

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although SCO and Subsidiaries believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the line items in the consolidated balance sheet and the fair value of pension plan assets in Note 7.

The estimated fair value of SCO and Subsidiaries' long-term debt as of September 30, 2017 was approximately $618,540,000. Fair values are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

13. ONCOLIX, INC.

On August 3, 2017, ONC merged into a wholly owned subsidiary of Advanced Environmental Petroleum Producers, Inc. As a result of this merger, RDC's ownership in ONC decreased from 51% to 41%, and ONC is no longer a consolidated entity of SCO and Subsidiaries. Therefore, ONC was deconsolidated, resulting in a gain of approximately $2,911,000 included in nonoperating activities on the consolidated statement of operations. SCO and Subsidiaries' remaining 41% ownership in ONC is not reflected in the consolidated financial statements because ONC currently has negative equity which does not require recognition under the equity method of accounting.

14. COMMITMENTS AND CONTINGENCIES

Leases — SCO and Subsidiaries has commitments for periodic payments under cancelable and noncancelable operating leases for buildings, data processing and other equipment, equipment maintenance agreements, and other service contracts. Total rental expense charged to operations for the year ended September 30, 2017 was approximately $45,730,000.

Future minimum payments under noncancelable operating leases with initial or remaining terms of one year or more and capital leases as of September 30, 2017 consisted of the following (in thousands):

Years Ending September 30	Operating Leases	Capital Leases	Total Leases
2018	$ 37,399	$ 717	$ 38,116
2019	32,913	565	33,478
2020	29,741	514	30,255
2021	25,363	517	25,880
2022	23,367	517	23,884
Thereafter	78,906	1,078	79,984
Total	$ 227,689	3,908	$ 231,597
Less amount representing interest		(899)	
Present value of future minimum rentals		3,009	
Less current portion of obligations under capital leases		(497)	
Obligations under capital leases — long-term portion		$ 2,512	

Litigation — In the ordinary course of its business, SCO and Subsidiaries is the defendant in certain litigation. Management believes that the sovereign immunity limits applicable to SCO and Subsidiaries and its employed physicians and professional and general liability insurance coverage provide adequate protection for this litigation.

Members of SCO and Subsidiaries, including GHS and the SCO, are parties to an action pending in State court in Greenville, South Carolina, alleging that the GHA Board of Trustees breached their fiduciary duties and acted improperly under state law by voting for and implementing the transaction which was effective October 1, 2016 in which the assets were leased, and operations transferred by GHA, to GHS, and strategic direction for GHS being provided under the direction of the SCO. On two previous occasions the State Supreme Court refused to take original jurisdiction of legal actions involving similar issues, and also refused to enjoin GHA from proceeding. Management believes that the actions taken by GHA and its governing body were consistent with its authority under its enabling legislation and state law. The litigation is in an early stage, and discovery is underway.

GHS is also party to litigation with the Sales and Use Division of the South Carolina Department of Revenue ("Department") in which the Department alleges that GHS did not qualify as a tax exempt entity for purposes of determining whether sales and use taxes payable with respect to certain of its purchases and sales, and those by Partners. This litigation is pending before the Administrative Law Court. Management continues to believe that the position of the Department is without merit and in any event will not be applicable to GHS going forward.

Professional and General Liability Insurance — SCO and Subsidiaries maintains professional and general liability insurance coverage through excess and umbrella liability policies on a claims-made basis, subject to a per-occurrence, self-insured retention. SCO and Subsidiaries has recorded an accrual for known claims within applicable self-insurance retention levels and for claims incurred but not reported as of September 30, 2017. SCO and Subsidiaries uses a 4% average annual discount rate in its analysis to determine this liability.

Workers' Compensation Insurance — SCO and Subsidiaries is a member of a South Carolina health care group self-insurance pool for workers' compensation insurance. Coverage is maintained in a variable-cost, high-deductible program with coverage per occurrence. The self-insurance pool is responsible for funding all losses within and above the deductible with SCO and Subsidiaries reimbursing the pool for losses within the deductible. The policy is retrospectively rated, whereby the initial "deposit premium" is adjusted based upon actual losses. The ultimate premium is based upon a fixed and variable cost formula. SCO and Subsidiaries is also eligible for refunds based upon the financial performance of the self-insurance pool. SCO and Subsidiaries has recorded an accrual for known claims within the deductible and expected future premium adjustments as of September 30, 2017.

Health Insurance Plan — SCO and Subsidiaries' health insurance plan is a self-insured medical plan (the "Medical Plan") that provides certain benefits for covered employees. The employees pay a monthly premium and the Medical Plan will pay for certain medical expenses, as defined in the Medical Plan document. SCO and Subsidiaries maintains individual stop-loss insurance coverage for a covered participant's annual claims.

Healthy Greenville 2036 — As part of the lease and contribution agreement, GHS agreed to pay GHA $4,000,000 each year through March 1, 2036 to establish a community fund. The monies will be used by GHA to support health-related care, research and education grants with the goal of making Greenville County the healthiest county in America by 2036. In October 2016, GHS recognized contribution expense of $80,000,000 net of a $25,242,000 present value discount. The discount rate used is 5%. As of September 30, 2017, $4,000,000 has been paid, and a liability of approximately $50,758,000 has been recorded on the consolidated balance sheet in accrued liabilities ($4,000,000) and in other long-term liabilities ($46,758,000).

Real Estate Monetization — In 2009, 16 medical and administrative office buildings were sold for $162,820,000 to a single third party and contemporaneously leased back certain space in those buildings for various lease terms of 15 years or less. This transaction resulted in a net gain of approximately $72,355,000, of which $2,858,000 was recognized as nonoperating income during the year ended September 30, 2009. The remaining $69,497,000 was recorded as a deferred gain and will be amortized as a component of rent expense in proportion to the lease payments over the terms of the leases. Based upon applicable accounting guidance, the transaction qualified for treatment as a sale and the building leases meet the definition of an operating lease. As such, SCO and Subsidiaries is accounting for these leases as noncancelable operating leases, which are included in the table in Note 14. During the year ended September 30, 2017, SCO and Subsidiaries amortized $4,772,000 of the deferred gain from monetization as a component of rent expense. The unamortized deferred gain was approximately $31,317,000 as of September 30, 2017.

University of South Carolina School of Medicine — SCO and Subsidiaries has agreed to fund annual budgeted losses and cash flow needs of the USC School of Medicine — Greenville, anticipated to be material over the next four years. At that time, it is anticipated that tuition will cover the costs. During the year ended September 30, 2017, SCO and Subsidiaries recognized expenses of approximately $7,273,000 included in nonoperating activities on the consolidated statement of operations.

During 2012, SCO and Subsidiaries and USC entered into a memorandum of understanding for the cooperation of services exchange (“MOU”) to coordinate certain operating activities between the two organizations. As a result of this MOU, SCO and Subsidiaries incurred approximately $12,480,000 of reimbursable expenses on behalf of the USC School of Medicine – Greenville for items including administrative expenses and compensation of SCO and Subsidiaries’ teaching staff that provided training services to the USC School of Medicine – Greenville during the year ended September 30, 2017. SCO and Subsidiaries has received all but approximately $3,454,000, which has been recorded as a receivable from USC and reflected on the consolidated balance sheet in other current assets as of September 30, 2017.

Clemson School of Nursing — In fiscal year 2017, GHS entered into a thirty year operating agreement with Clemson University to expand the Clemson University School of Nursing. Clemson University will serve as the primary nursing education collaborator to GHS, and nursing education programs will be offered at GHS hospital campuses. Clemson University will pay an annual sum to GHS for access to the clinical learning environment. GHS will provide financial support for certain salary and fringe benefits and will make an annual contribution to Clemson University as follows: $300,000 due January 1, 2017; $300,000 due January 1, 2018; and $750,000 per year for fiscal years 2019 through 2026. As of September 30, 2017, $300,000 has been paid toward the annual contribution, and approximately $163,000 has been paid for salary and fringe benefits. GHS also entered into a ground lease at fair market rental expiring May 31, 2048 and a thirty year space lease with the building developer beginning June 1, 2018 to build a building which is intended to be used for Clemson School of Nursing and other inter-professional opportunities with an annual rent not to exceed $3.9 million per year. These agreements provide various purchase options starting in 2028.

Guarantee — The SCO, GHS, and GHA entered into a credit support agreement to guarantee the 5-year, $16 million of South Carolina Jobs-Economic Development Revenue Bonds issued on behalf of New Horizon Family Health Services ("New Horizon"), a separate legal entity located within Greenville County. The bond proceeds were loaned to New Horizon for the purpose of constructing a new facility. The terms of the agreement were amended in November 2017 and principal payments are due in four installments per year with the final balance due in November 2022. In the event of a payment default by New Horizon, the SCO, GHS, and GHA will be required to make that payment. In the event there is a major default by New Horizon, the SCO, GHS, and GHA will be required to purchase the outstanding balance of the bonds, which was $14,183,000 at September 30, 2017. As part of the amendment in November 2017, in the event of payment default by New Horizon, the SCO, GHS, and GHA have a mortgage lien on the property of New Horizon.

15. RELATED-PARTY TRANSACTIONS

Greenville Health Authority — During the year ended September 30, 2017, SCO and Subsidiaries paid $4,000,000 to GHA to establish a community fund for Healthy Greenville 2036 and approximately $594,000 to reimburse GHA for retirement plan payments that GHA made on behalf of SCO and Subsidiaries.

At September 30, 2017, SCO and Subsidiaries had a receivable from GHA of approximately $25,850,000 primarily related to monies received by GHA for patient charges incurred prior to October 1, 2016.

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STRATEGIC COORDINATING ORGANIZATION AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET INFORMATION

FOR THE YEAR TO DATE ENDED SEPTEMBER 30, 2017

(In Thousands)

	SCO	GHS OBLIGATED ENTITIES	GHA	ELIMINATIONS	OBLIGATED GROUP	ELIMINATE GHA	GHS NON-OBLIGATED ENTITIES	ELIMINATIONS	CONSOLIDATED 9/30/2017
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	$ 94,587	$ (7,677)	$ 40,224	$ -	$ 127,134	$ (40,224)	$ 16,129	$ -	$ 103,039
Net patient accounts receivable	-	274,666	-	-	274,666	-	3,819	-	278,485
Inventories of drugs and supplies	-	29,465	-	-	29,465	-	5,515	-	34,980
Other current assets	(83,389)	156,134	4,001	(29,837)	46,909	25,836	(1,557)	-	71,188
Due from GHS, current portion	-	-	23,515	(23,515)	-	-	-	-	-
Estimated third-party payor settlements	-	23,127	-	-	23,127	-	-	-	23,127
Current portion of assets with limited use	-	2,902	-	-	2,902	-	-	-	2,902
Total current assets	11,198	478,617	67,740	(53,352)	504,203	(14,388)	23,906	-	513,721
ASSETS WITH LIMITED USE:									
Internally designated	257,433	75	1,016	-	258,524	(1,016)	-	-	257,508
Held by trustee for debt service	-	236	-	-	236	-	-	-	236
Donor restricted	-	-	-	-	-	-	17,864	-	17,864
Less current portion of assets with limited use	-	(2,902)	-	-	(2,902)	-	-	-	(2,902)
Assets with limited use -- less current portion	257,433	(2,591)	1,016	-	255,858	(1,016)	17,864	-	272,706
Property, plant and equipment, net	27	865,446	-	-	865,473	-	1,342	-	866,815
Investments in joint ventures	6,425	-	-	-	6,425	-	51,878	-	58,303
Investments	589,504	-	-	-	589,504	-	-	-	589,504
Other assets	(1)	20,322	46,758	(46,758)	20,321	-	1,944	-	22,265
Due from GHS, net of current portion	-	-	594,558	(594,558)	-	-	-	-	-
Deferred outflow - loss on refunding of debt, net	-	-	4,144	-	4,144	(4,144)	-	-	-
TOTAL ASSETS	$ 864,586	$ 1,361,794	$ 714,216	$ (694,668)	$ 2,245,928	$ (19,548)	$ 96,934	$ -	$ 2,323,314
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable	$ -	$ 43,430	$ -	$ -	$ 43,430	$ -	$ 20	$ -	$ 43,450
Accrued liabilities	201	247,386	31,593	(35,193)	243,987	3,600	6,073	-	253,660
Estimated third-party payor settlements	-	-	15,806	-	15,806	(15,806)	-	-	-
Current portion of obligations under capital leases	-	497	-	-	497	-	-	-	497
Current portion of long-term debt	-	18,159	18,159	(18,159)	18,159	-	-	-	18,159
Total current liabilities	201	309,472	65,558	(53,352)	321,879	(12,206)	6,093	-	315,766
Long-term debt - less current portion	-	594,558	594,558	(594,558)	594,558	-	-	-	594,558
Obligations under capital leases - less current portion	-	2,512	-	-	2,512	-	-	-	2,512
Other long-term liabilities	-	406,589	10	(46,758)	359,841	46,748	(1)	-	406,588
Total liabilities	201	1,313,131	660,126	(694,668)	1,278,790	34,542	6,092	-	1,319,424
NET ASSETS:									
Unrestricted	861,494	29,788	53,074	-	944,356	(53,074)	75,906	-	967,188
Temporarily restricted	2,891	18,875	1,016	-	22,782	(1,016)	14,936	-	36,702
Total net assets	864,385	48,663	54,090	-	967,138	(54,090)	90,842	-	1,003,890
Total LIABILITIES AND NET ASSETS	$ 864,586	$ 1,361,794	$ 714,216	$ (694,668)	$ 2,245,928	$ (19,548)	$ 96,934	$ -	$ 2,323,314

See Independent Auditors' Report on Supplementary Consolidating Information.

STRATEGIC COORDINATING ORGANIZATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In Thousands)

	SCO	GHS OBLIGATED ENTITIES	GHA	ELIMINATIONS	OBLIGATED GROUP	ELIMINATE GHA	GHS NON-OBLIGATED ENTITIES	ELIMINATIONS	CONSOLIDATED 9/30/2017
OPERATING REVENUES:									
Net patient service revenues	$ -	$ 2,404,720	$ -	$ -	$ 2,404,720	$ -	$ -	$ -	$ 2,404,720
Provision for uncollectible accounts, net of recoveries	-	(291,724)	30,212	-	(261,512)	(30,212)	5	-	(291,719)
Net patient service revenues less provision for uncollectible accounts	-	2,112,996	30,212	-	2,143,208	(30,212)	5	-	2,113,001
Other operating revenue	1,226	114,672	-	(31,063)	84,835	31,063	89,559	(18,433)	187,024
Net assets released from restrictions used for operations	-	4,837	-	-	4,837	-	1	-	4,838
Total operating revenues	1,226	2,232,505	30,212	(31,063)	2,232,880	851	89,565	(18,433)	2,304,863
OPERATING EXPENSES:									
Salaries, wages, benefits, and contracted labor	15,803	1,354,509	1,176	2,718	1,374,206	(3,894)	10,800	(3,809)	1,377,303
Supplies and other costs	8,995	700,596	453	(3,822)	706,222	3,369	76,760	(14,624)	771,727
Depreciation	6	110,155	229	-	110,390	(229)	301	-	110,462
Interest	-	15,499	630	-	16,129	(630)	614	-	16,113
Total operating expenses	24,804	2,180,759	2,488	(1,104)	2,206,947	(1,384)	88,475	(18,433)	2,275,605
Gain (loss) from operations before SCO allocation	(23,578)	51,746	27,724	(29,959)	25,933	2,235	1,090	-	29,258
SCO allocation	(23,097)	23,097	-	-	-	-	-	-	-
Income from operations	(481)	28,649	27,724	(29,959)	25,933	2,235	1,090	-	29,258
NONOPERATING ACTIVITIES:									
Investment income (loss), net	60,615	62	236	-	60,913	(236)	2,031	-	62,708
Change in fair value of interest rate swap instruments	-	5,614	-	-	5,614	-	-	-	5,614
Loss on Care Coordination Institute joint venture	(1,710)	-	-	-	(1,710)	-	-	-	(1,710)
Contributions awarded and received, net	-	(5,339)	(32,819)	33,959	(4,199)	(1,140)	(540)	-	(5,879)
Contributions to GHA, Healthy Greenville 2036	-	(54,758)	54,758	-	-	(54,758)	-	-	(54,758)
Other expense	(1,150)	(7,477)	-	-	(8,627)	-	2,911	-	(5,716)
Total nonoperating activities	57,755	(61,898)	22,175	33,959	51,991	(56,134)	4,402	-	259
Excess (deficit) of revenues over expenses	57,274	(33,249)	49,899	4,000	77,924	(53,899)	5,492	-	29,517
Interfund equity transfers	85,989	(85,989)	-	-	-	-	-	-	-
Net assets transferred from GHA	-	262,128	(1,106,226)	1,105,410	261,312	816	70,383	-	332,511
Conversion from GASB to FASB	-	(174,372)	-	-	(174,372)	-	-	-	(174,372)
Net adjustment for defined benefit plan	-	(951)	-	-	(951)	-	-	-	(951)
Net assets released from restrictions used for purchase of property, plant, and equipment	-	2,663	-	-	2,663	-	-	-	2,663
Other	(61,392)	59,558	2	-	(1,832)	(2)	31	-	(1,803)
Increase (decrease) in unrestricted net assets	81,871	29,788	(1,056,325)	1,109,410	164,744	(53,085)	75,906	-	187,565
TEMPORARILY RESTRICTED NET ASSETS:									
Net assets transferred from GHA	-	23,843	(41,185)	41,185	23,843	-	14,776	-	38,619
Investment income, net	325	86	8	-	419	(8)	395	-	806
Contributions, net	-	2,763	4,000	(4,000)	2,763	-	335	-	3,098
Capital contributions	-	2,663	-	-	2,663	-	-	-	2,663
Transfers to related organizations	-	(2,113)	-	-	(2,113)	-	(569)	-	(2,682)
Other	-	(867)	(86)	-	(953)	86	-	-	(867)
Payments for Healthy Greenville 2036	-	-	(2,906)	-	(2,906)	2,906	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	-	(2,663)	-	-	(2,663)	-	-	-	(2,663)
Net assets released from restrictions used for operations	-	(4,837)	-	-	(4,837)	-	(1)	-	(4,838)
Increase (decrease) in temporarily restricted net assets	325	18,875	(40,169)	37,185	16,216	2,984	14,936	-	34,136
Increase (decrease) in net assets	82,196	48,663	(1,096,494)	1,146,595	180,960	(50,101)	90,842	-	221,701
Net assets at beginning of year	782,189	-	1,150,584	(1,146,595)	786,178	(3,989)	-	-	782,189
Net assets at end of year	$ 864,385	$ 48,663	$ 54,090	$ -	$ 967,138	$ (54,090)	$ 90,842	$ -	$ 1,003,890

See Independent Auditors' Report on Supplementary Consolidating Information.