CareAlliance Health Services

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

Consolidated Financial Statements as of and for the Years Ended December 31, 2019 and 2018, Supplemental Consolidating Schedules as of and for the Year Ended December 31, 2019, and Independent Auditors' Report

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

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–2
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6–7
Notes to Consolidated Financial Statements	8–38
SUPPLEMENTAL CONSOLIDATING SCHEDULES:	
Consolidating Balance Sheet	39
Consolidating Statement of Operations	40
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	41-42
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	43-44
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	45-46
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	47
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	48-49

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, 2019 and 2018, 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 and the standards applicable to financial statement audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 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 financial position of CareAlliance as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 2 and 4 to the consolidated financial statements, CareAlliance adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* and ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* in 2019. The primary impact of adopting this ASU is further described in Notes 2 and 4. Our opinion is not modified with respect to these matters.

Supplemental Information

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the consolidating information in the supplemental schedules are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and were derived from, and relate 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 supplemental information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 20, 2020, on our consideration of CareAlliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering CareAlliance's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Greenville, South Carolina
May 20, 2020

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

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2018
(rounded to the nearest thousand)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 62,684,000	$ 50,345,000
Patient accounts receivable, net	135,723,000	139,401,000
Other receivables	11,574,000	7,030,000
Short-term investments	23,655,000	24,054,000
Inventories of drugs and supplies	15,701,000	13,804,000
Prepaid expenses and other current assets	15,432,000	13,406,000
Total current assets	264,769,000	248,040,000
LONG-TERM INVESTMENTS	164,494,000	143,805,000
ASSETS LIMITED AS TO USE	1,564,000	47,705,000
PROPERTY AND EQUIPMENT—Net	672,563,000	644,746,000
OTHER ASSETS	63,373,000	59,765,000
TOTAL ASSETS	$ 1,166,763,000	$ 1,144,061,000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 66,241,000	$ 16,062,000
Accounts payable	61,259,000	68,376,000
Accrued expenses	110,143,000	82,567,000
Total current liabilities	237,643,000	167,005,000
LONG-TERM DEBT—Net of current portion	399,490,000	422,027,000
OTHER LIABILITIES	108,211,000	124,111,000
Total liabilities	745,344,000	713,143,000
NET ASSETS:		
Without donor restrictions:		
CareAlliance Health Services	378,468,000	391,668,000
Noncontrolling interests in Lowcountry Surgery Center, LLC	186,000	255,000
Noncontrolling interests in RSFH-ATI Physical Therapy, LLC	4,586,000	4,521,000
Total net assets without donor restrictions	383,240,000	396,444,000
With donor restrictions	38,179,000	34,474,000
Total net assets	421,419,000	430,918,000
TOTAL LIABILITIES AND NET ASSETS	$ 1,166,763,000	$ 1,144,061,000

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, 2019 AND 2018
(rounded to the nearest thousand)

	2019	As Adjusted 2018
REVENUES:		
Net patient service revenue	$ 941,936,000	$ 895,092,000
Other revenue	16,245,000	26,105,000
Total revenues	958,181,000	921,197,000
EXPENSES:		
Salaries and employee benefits	511,713,000	490,598,000
Supplies	186,163,000	175,888,000
Purchased services	116,379,000	107,967,000
Other expenses	64,199,000	77,948,000
Depreciation and amortization	58,499,000	60,384,000
Interest	18,566,000	16,331,000
Total expenses	955,519,000	929,116,000
OPERATING INCOME (LOSS)	2,662,000	(7,919,000)
NONOPERATING GAINS (LOSSES):		
Investment gains (losses)—net	23,841,000	(5,029,000)
Change in fair value (termination) of interest rate swaps	(7,641,000)	4,557,000
Loss on extinguishment of swaps	(640,000)	-
Other—net	(2,766,000)	(537,000)
Total nonoperating gains (losses)	12,794,000	(1,009,000)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	15,456,000	(8,928,000)
INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	(1,321,000)	(1,304,000)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES ATTRIBUTABLE TO CAREALLIANCE HEALTH SERVICES	$ 14,135,000	$ (10,232,000)

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, 2019 AND 2018
(rounded to the nearest thousand)

	Without Donor Restrictions	Noncontrolling Interest	Total	With Donor Restrictions	Total
NET ASSETS—December 31, 2017	$ 364,541,000	$ 4,479,000	$ 369,020,000	$ 30,635,000	$ 399,655,000
Excess (deficit) of revenues over expenses	(10,232,000)	1,304,000	(8,928,000)	-	(8,928,000)
Contributions	36,625,000	-	36,625,000	12,888,000	49,513,000
Investment losses—net	-	-	-	(376,000)	(376,000)
Net assets released from restrictions for operations	-	-	-	(7,939,000)	(7,939,000)
Release of restricted funds for capital expenditures	737,000	-	737,000	(737,000)	-
Roper St. Francis Foundation transfers	(3,000)	-	(3,000)	3,000	-
Distributions to Lowcountry Surgery Center, ATI, LLC members	-	(1,007,000)	(1,007,000)	-	(1,007,000)
Increase in net assets	27,127,000	297,000	27,424,000	3,839,000	31,263,000
NET ASSETS—December 31, 2018	$ 391,668,000	$ 4,776,000	$ 396,444,000	$ 34,474,000	$ 430,918,000
Excess of revenues over expenses	14,135,000	1,321,000	15,456,000	-	15,456,000
Distributions paid to member	(43,000,000)	-	(43,000,000)	-	(43,000,000)
Capital contributions from members	13,441,000	-	13,441,000	-	13,441,000
Contributions	-	-	-	12,875,000	12,875,000
Investment gains—net	-	-	-	2,852,000	2,852,000
Net assets released from restrictions for operations	-	-	-	(9,798,000)	(9,798,000)
Release of restricted funds for capital expenditures	2,225,000	-	2,225,000	(2,225,000)	-
Roper St. Francis Foundation transfers	(1,000)	-	(1,000)	1,000	-
Distributions to Lowcountry Surgery Center, ATI, LLC members	-	(1,325,000)	(1,325,000)	-	(1,325,000)
Increase (decrease) in net assets	(13,200,000)	(4,000)	(13,204,000)	3,705,000	(9,499,000)
NET ASSETS—December 31, 2019	$ 378,468,000	$ 4,772,000	$ 383,240,000	$ 38,179,000	$ 421,419,000

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, 2019 AND 2018
(rounded to the nearest thousand)

	2019	As Adjusted 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ (9,499,000)	$ 31,263,000
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	58,499,000	60,384,000
Amortization of debt issuance costs and bond discount—net	438,000	418,000
Distribution paid to member	43,000,000	-
Capital contributions from members	(13,441,000)	(36,625,000)
Contributions to Foundation for acquisition of property and equipment, other	(2,242,000)	(731,000)
Realized and unrealized gains (losses) on investments and interest rate swap—net	(22,525,000)	2,220,000
Termination of interest rate swaps	7,641,000	-
Loss on property and equipment disposals	197,000	2,108,000
Loss on extinguishment of swaps	640,000	-
Changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	(824,000)	(2,728,000)
Inventories of drugs and supplies	(1,897,000)	(362,000)
Prepaid expenses and other current assets	(2,026,000)	226,000
Accounts payable, accrued expenses, and other liabilities	(5,372,000)	1,906,000
Net cash provided by operating activities	52,589,000	58,079,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments and assets limited as to use	(10,361,000)	(127,683,000)
Sales of investments and assets limited as to use	9,357,000	121,503,000
Purchases of property and equipment	(81,814,000)	(66,052,000)
Cash proceeds from sales of property and equipment	33,000	131,000
Net cash used in investing activities	(82,785,000)	(72,101,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	43,052,000	-
Principal payments on long-term debt and capital lease obligations	(16,120,000)	(52,507,000)
Debt issuance costs	(24,000)	(20,000)
Distribution paid to members	(43,000,000)	-
Capital contributions from members	13,441,000	36,625,000
Contributions to Foundation for acquisition of property and equipment, other	2,242,000	731,000
Other	(3,197,000)	(3,266,000)
Net cash used in financing activities	$ (3,606,000)	$ (18,437,000)

(Continued)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(rounded to the nearest thousand)

	2019	As Adjusted 2018
NET CHANGE IN CASH AND CASH EQUIVALENTS	$ (33,802,000)	$ (32,459,000)
CASH AND CASH EQUIVALENTS—Beginning of year	98,050,000	130,509,000
CASH AND CASH EQUIVALENTS—End of year	$ 64,248,000	$ 98,050,000
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO CONSOLIDATED BALANCE SHEETS:		
Cash and cash equivalents	$ 62,684,000	$ 50,345,000
Assets limited as to use	1,564,000	47,705,000
Total	$ 64,248,000	$ 98,050,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest, net of amounts capitalized (Note 8)	$ 18,104,000	$ 13,419,000
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Capital additions financed through accounts payable	$ 5,698,000	$ (5,309,000)
Capital lease obligations incurred	$ 296,000	$ 1,035,000
Deemed ownership obligations incurred (Note 6)	$ 9,249,000	$ 21,092,000
Developer provided leasehold improvements	$ 885,000	$ 394,000

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 five counties. These facilities include four acute care hospitals with 668 licensed beds; one specialty hospital; a home health agency; centers for outpatient services, including surgery, diagnostics, and rehabilitation (physical, occupational, and speech therapies); six emergency rooms; and four express care locations. CareAlliance employs approximately 202 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 membership percentage:

The Medical Society of South Carolina (MSSC)	63 %
Bon Secours Mercy Health (BSMH)	27 %
Atrium Health (Atrium)	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 BSMH and one director is appointed by Atrium. 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 CareAlliance 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 CareAlliance. 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 BSMH, MSSC, and Atrium ("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.

During the year ended December 31, 2019, Atrium redeemed its 10% interest in CareAlliance. As part of this redemption, CareAlliance paid $43,000,000 and terminated Atrium's membership percentage. As of December 31, 2019, MSSC's membership percentage was 70% and BSMH's membership percentage was 30%.

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")
- Lowcountry Surgery Center, LLC (d/b/a Roper St. Francis Eye Surgery Center) ("LSC")

CareAlliance owns a 64.6% controlling interest in LSC. The remaining 35.4% 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).

Berkeley Hospital commenced operations as of October 4, 2018.

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"). The information contained in the notes to the consolidated financial statements is rounded to the nearest thousand.

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 patient accounts receivable, including explicit and implicit price concessions; 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; estimated third-party settlements; and allocation of expenses. 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 in each bank are insured by the Federal Deposit Insurance Corporation ("FDIC"). CareAlliance's deposits exceeded federally insured limits at December 31, 2019 and 2018. It is management's opinion that CareAlliance is not exposed to any significant credit risk related to cash.

Patient Accounts Receivable—Patient accounts 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 implicit price concessions 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 patient service revenue, as well as by analyzing current-period gross charges and admissions by payor classification, aged accounts receivable by payor, and days revenue outstanding.

Inventories of Drugs and Supplies—Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value.

Property and Equipment— CareAlliance capitalizes property and equipment with a cost over $5,000 and an estimated economic life exceeding one year. 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 included 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 software.

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

Buildings and improvements	5-60 years
Equipment	2–20 years
Land improvements	5-25 years

Long-Term Investments and Assets Limited as to Use—Long-term investments, including investments classified as assets limited as to use, consists 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, 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 excess (deficit) of revenues over expenses, unless the income or loss is restricted by donor or laws.

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 on the consolidated balance sheets. Gains and losses on short-term investments are included in the excess (deficit) of revenues over expenses.

Other Assets—Other assets consist primarily of assets with donor restrictions 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 $23,065,000 as of December 31, 2019 and 2018. 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, 2019 and 2018.

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. The Founding Members agreed to rescind the funding and payment of the annual distribution from 2016 to 2020. As of

December 31, 2019 and 2018, CareAlliance recorded no liabilities for the System Free Cash Flow contribution payable to members.

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

See subsequent events disclosed for changes to the agreements between CareAlliance and the Founding Members subsequent to year-end.

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. The fair value of the interest rate swaps presented on the consolidated balance sheets as follows:

	December 31, 2019		December 31, 2018	
Derivative not designated as hedging instrument	**Consolidated Balance Sheet Location**	**Fair Value**	**Consolidated Balance Sheet Location**	**Fair Value**
Basis rate swaps	Other assets	$ -	Other assets	$ 707,000
Interest rate swaps	Other liabilities	$ -	Other liabilities	$ (22,128,000)

The unrealized gain (loss) for the year associated with the fair market value of the interest rate swap is included on the consolidated statements of operations are as follows:

		Amount of terminated/unrealized gain (loss) recognized in income on derivative	
Derivative not designated as hedging instrument	**Location of terminated/unrealized gain (loss) recognized in income on the derivative**	**December 31, 2019**	**December 31, 2018**
Basis rate swaps	Change in fair value of interest rate swaps	$ (23,000)	$ 79,000
Interest rate swaps	Change in fair value of interest rate swaps	$ (7,618,000)	$ 4,478,000

CareAlliance is exposed to credit loss in the event of nonperformance by the counterparty in relation to its interest rate swap agreements. Management believes that the counterparty will be able to fully satisfy its obligations under the agreement. Credit exposure exists in relation to all CareAlliance's financial instruments, and is not unique to derivatives.

During the year ended December 31, 2019, CareAlliance terminated the basis rate swaps and interest rate swaps and negotiated terms for the swaps to be final settled subsequent to year-end. Termination of swaps resulted in a loss of $7,641,000 for the year ended December 31, 2019. The agreed-upon payoff amounts for the interest rate swaps were approximately $29,702,000 and the liabilities are included in accrued expenses on the accompanying consolidated balance sheets as of December 31, 2019. These amounts were paid by BSMH to financial institutions subsequent to year-end (See subsequent events).

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 donor 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as other revenue on the consolidated statements of operations. Donor-restricted contributions whose restrictions are met within the same year are reported as without donor restriction support and are included in other revenue on the consolidated statements of operations.

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

Without Donor Restrictions—Net assets without donor restrictions 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 designated assets are included with assets limited as to use.

With Donor Restrictions—Net assets with donor restrictions 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 or restricted by donors to be maintained in perpetuity. The portion of a donor-restricted endowment fund that is held in perpetuity 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 CareAlliance to hold. Investment income from donor-restricted endowment funds that is not held in perpetuity is classified as restricted for specific purpose until appropriated for expenditure by CareAlliance. Losses on the investments of donor-restricted endowment funds are recorded as a reduction of net assets with restriction to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs.

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 implicit price concession related to uninsured patients in the period the services are provided.

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.

Excess (Deficit) of Revenues over Expenses—The consolidated statements of operations include excess (deficit) of revenues over expenses. Changes in net assets without restrictions, which are excluded from excess (deficit) 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 RSFH-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 on 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, 2019 and 2018, and does not expect that unrecognized tax benefits will materially increase within the next 12 months.

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

Risks and Uncertainties—CareAlliance's investments consist of various combinations of equity securities, debt 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 on the consolidated balance sheets.

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 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 the Reform Legislation 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 20, 2020, the date the consolidated financial statements were issued. CareAlliance identified no subsequent events requiring recognition in the consolidated financial statements as of May 20, 2020; however, the items noted below were identified for disclosure.

Subsequent to the consolidated balance sheet date, the outbreak and spread of the COVID-19 virus was classified as a pandemic by the World Health Organization. The spread of the virus has disrupted the operations of CareAlliance and has disrupted CareAlliance's ability to offer services to our patients, resulting in lost revenues. The economic uncertainty caused by the virus has not been fully determined but could have a significant impact on our financial condition, results of operations, and cash flows. The consolidated financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

CareAlliance carries a significant balance of marketable equity securities. As of the date the consolidated financial statements were available to be issued, the economic uncertainty caused by the outbreak has resulted in a severe decline in the value of marketable securities, including many of those held by CareAlliance.

On January 2, 2020, MSSC and BSMH completed agreements to restructure the membership percentages in CareAlliance, recapitalize CareAlliance, terminate existing agreements, amend the bylaws of CareAlliance and restructure the existing debt of CareAlliance.

In the agreements, MSSC and BSMH agreed to terminate agreements entered into by the Founding Members concerning Founding Member contribution calls and liquidity replenishment. Prior to the termination of the contribution calls agreement, CareAlliance paid MSSC $28,000,000 in recognition of disproportionate funding and support provided by MSSC.

As part of the restructuring, BSMH made a capital contribution to CareAlliance of $185,000,000 to recapitalize CareAlliance and to increase the membership percentage in CareAlliance. From the recapitalization, BSMH's membership percentage increased from 30% to 51% and MSSC's membership percentage decreased from 70% to 49%. Following the membership percentage change, BSMH and MSSC agreed to make additional capital contributions to CareAlliance in the amounts of $85,000,000 and $81,700,000, respectively. MSSC's capital contributions of $81,700,000 were reduced by prior year capital credits of $64,200,000 for a net contribution of $17,500,000.

Subsequent to the restructuring of the membership percentages, CareAlliance restructured their long-term debt through a series of transactions with BSMH. BSMH advanced CareAlliance approximately $400,566,000 to pay off existing debt as of January 2, 2020 and to final settle interest rate swaps related to the existing debt with financial institutions.

As part of the advance from BSMH, CareAlliance entered into a promissory note with BSMH on January 2, 2020 in the amount of $400,566,000. The note bears interest at 3.5% with monthly principal and interest payments of $1,801,379 commencing on February 1, 2020. The note with BSMH matures on December 1, 2049.

New Accounting Pronouncement—During 2019, CareAlliance adopted Accounting Standards Update ("ASU") No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts generally described as restricted cash and cash equivalents

be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. This guidance is intended to improve the classification and presentation of changes in restricted cash on the consolidated statements of cash flows and will provide more consistent application of GAAP by reducing diversity in practice. The ASU also requires CareAlliance to disclose information about the nature of restricted cash. The consolidated statement of cash flows for the year ended December 31, 2018 has been adjusted to reflect retrospective application of the new accounting guidance. Previously, CareAlliance reflected changes in certain assets limited as to use in investing activities. CareAlliance has retrospectively removed these items from their respective sections in the consolidated statements of cash flows, resulting in an increase in used by investing activities from $38,925,000 to $72,101,000. In addition, total ending cash presented on the consolidated statement of cash flows as of December 31, 2018 increased from $50,345,000 (exclusive of assets limited as to use) to $98,050,000 (inclusive of assets limited as to use).

Recently Issued Accounting Guidance—In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes existing guidance on accounting for leases in FASB ASC 840, *Leases*, and generally requires all leases to be recognized in the consolidated 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, 2020. 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.

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 400% 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 $40,521,000 and $46,241,000 for the years ended December 31, 2019 and 2018, respectively.

In addition to traditional charity care, management estimates the unpaid cost of services provided under the Medicaid program to be $11,827,000 and $12,342,000 for the years ended December 31, 2019 and 2018, 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 $1,772,000 and $1,573,000 for the years ended December 31, 2019 and 2018, respectively.

4. NET PATIENT SERVICE REVENUE AND PATIENT ACCOUNTS RECEIVABLE

Recently Adopted Accounting Pronouncement—Effective January 1, 2019, CareAlliance adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the full restrospective transition method. Adoption of the standard impacted CareAlliance's reported results as follows for the year ended December 31, 2018:

	As Reported	As Adjusted	Adoption Impact
Consolidated Statement of Operations:			
Net patient service revenue	$ 948,813,000	$ 895,092,000	$ (53,721,000)
Provision for bad debts	$ (53,721,000)	$ -	$ 53,721,000
Consolidated Statement of Cash Flows:			
Provision for bad debts	$ 53,721,000	$ -	$ (53,721,000)
Change in patient accounts receivable	$ (56,449,000)	$ (2,728,000)	$ 53,721,000

Adoption of the standard had no impact on CareAlliance's 2018 opening net assets. In addition, this standard revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The applicable disclosures are included in this note.

CareAlliance will bill patients for all services during their stay. These various services are billed to patients once the treatment has been provided. Management has determined that CareAlliance has an unconditional right to payment only subject to the passage of time for such services. Accordingly, CareAlliance accrues revenues and the related accounts receivable for services performed but not yet billed at the consolidated balance sheet date for in-house patients. Thus, management has determined that CareAlliance does not have any amounts that should be reflected separately as contract assets.

Net patient service revenue is reported at the amount that reflects the consideration to which CareAlliance expects to be entitled in exchange for providing patient care. As noted above, net patient service revenue and accounts receivable are recorded when patient services are performed and are estimated at net realizable amounts due from third-party payors and patients. Generally, CareAlliance bills the patients and third-party payors days after the services are performed and/or the patient is discharged from the facility. For amounts due from third-party payors, net patient service revenue and accounts receivable are recorded based on explicit price concessions or regulated discounted reimbursement rates for services rendered. For amounts due from patients, net patient service revenue and accounts receivable are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by CareAlliance. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. CareAlliance believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. CareAlliance measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and CareAlliance does not believe it is required to provide additional goods or services to the patient.

As part of the adoption of Topic 606, CareAlliance elected certain available practical expedients under the standard. First, CareAlliance elected the practical expedient that allows nonrecognition of the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to CareAlliance's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, CareAlliance does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract. Additionally, CareAlliance has applied the practical expedient whereby all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that CareAlliance otherwise would have recognized is one year or less in duration.

Because all of its performance obligations relate to contracts with a duration of less than one year, CareAlliance has elected to apply the practical expedient provided in FASB Topic 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

CareAlliance determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors (i.e. explicit price concessions), discounts provided to uninsured patients in accordance with CareAlliance's policy (i.e. explicit price concessions), and/or implicit price concessions provided to uninsured patients. CareAlliance determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. CareAlliance determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

The use of estimates in determining net patient service revenue for third-party payors is very common for health systems, since, with increasing frequency, even non-cost-based governmental programs have become subject to retrospective adjustments. Often such adjustments are not known for a considerable period of time after the related services are rendered. The lengthy period of time between rendering services and reaching final settlement, compounded further by the complexities and ambiguities of governmental reimbursement regulations, makes it difficult to estimate the net patient service revenue associated with these programs. This situation has been compounded by the frequency of changes in federal program guidelines.

Net patient service revenue is 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. Third-party contractual adjustments are recorded on an estimated basis in the period the related services are rendered (i.e. explicit price concessions), and such amounts are adjusted in future periods as adjustments become known or as cost report years are no longer subject to such audits, reviews, and investigations.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. CareAlliance also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. CareAlliance estimated the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is

determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient services revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2019 and 2018 was not significant.

A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on a Diagnosis Related Group ("DRG") system. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Approximately 38.0% and 37.3% of CareAlliance's net patient service revenue for the years ended December 31, 2019 and 2018, respectively, was derived from Medicare. CareAlliance is also reimbursed for several cost reimbursable components at a tentative rate with final settlement determined after submission of annual cost reports by CareAlliance and audits thereof by the Medicare fiscal intermediary. The classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization. CareAlliance's cost reports have been audited by the Medicare fiscal intermediary through 2015 for Roper Hospital and Mount Pleasant Hospital and through 2012 for St Francis Hospital. Fiscal years 2008 through 2012 have been reopened for certain issues and are subject to change regarding those issues.

- **Medicaid:** The South Carolina Department of Health and Human Services ("SCDHHS") reimburses inpatient Medicaid services at prospective payment rates per discharge, with case-mix adjustments based on a DRG system. Outpatient Medicaid services are also reimbursed at prospective payment rates. SCDHHS has eliminated retrospective cost report settlements. CareAlliance's cost report data is utilized in determining Medicaid cost of services as well as for developing hospital specific adjustment factors to the prospective payment system. Approximately 5.6% and 5.2% of the Hospital's net patient service revenue for the years ended December 31, 2019 and 2018, respectively, was derived from Medicaid.

- **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 include prospectively determined daily rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. 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. Net patient service revenue increased by approximately $1,900,000 and $4,494,000 for the years ended December 31, 2019 and 2018, respectively, due to changes in the allowances previously estimated that are no longer necessary as a result of final settlements, and years that are no longer subject to audits, reviews, and investigations. During the years ended December 31, 2019 and 2018, CareAlliance established liabilities of $1,717,000 and $1,867,000, respectively, for estimated future settlements related to net patient service revenue recognized during

those years. The liabilities are included in accrued expenses on 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 $13,778,000 and $14,069,000 for the years ended December 31, 2019 and 2018, respectively, and is recorded as an operating expense in the accompanying consolidated statements of operations. CareAlliance received approximately $12,456,000 and $11,737,000 of disproportionate share and upper payment limit payments from the State in 2019 and 2018, 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, 2019 and 2018, in accrued expenses on the accompanying consolidated balance sheets. Future receipts of the Medicaid disproportionate share and supplemental payment program reimbursement are not guaranteed. CareAlliance anticipates that any Medicaid disproportionate share audit results and anticipated settlements may result in significant impacts to net patient service revenue in the year of recognition.

Consistent with CareAlliance's mission, care is provided to patients regardless of their ability to pay. Therefore, CareAlliance has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts CareAlliance expects to collect based on its collection history with those patients. A 35% discount is applied to uninsured patients at CareAlliance. All patients that have no insurance receive this discount. This discount is considered an explicit price concession.

For uninsured and underinsured patients that do not qualify for financial assistance, CareAlliance recognizes revenue on the basis of its standard rates, discounted according to policy, for services rendered (i.e. implicit price concessions). Historical experience has shown a significant proportion of CareAlliance's uninsured patients, in addition to a growing proportion of CareAliance's insured patients, will be unable or unwilling to pay for their responsible amounts for the services provided. In order to estimate the net realizable value of the revenues and accounts receivable associated with third-party payers and uninsured patients, management regularly analyzes collection history based on the portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Based on these historical collection analyses, CareAlliance records a provision for bad debts and an allowance for uncollectible accounts (implicit price concessions) for third-party and uninsured patient accounts receivable balances for which the patient is responsible.

The composition of net patient service revenue by payor and type of service is as follows (in thousands):

For the Year Ended December 31, 2019:	Hospitals	Physician Partners	Other	Total
Medicare	$ 278,231	$ 73,124	$ 6,705	$ 358,060
Medicaid	43,508	8,599	349	52,456
Commercial	393,280	84,899	9,428	487,607
Self pay/Other	29,804	8,236	5,773	43,813
Total	$ 744,823	$ 174,858	$ 22,255	$ 941,936

For the Year Ended December 31, 2018:	Hospitals	Physician Partners	Other	Total
Medicare	$ 261,567	$ 65,814	$ 6,046	$ 333,427
Medicaid	39,605	6,748	206	46,559
Commercial	374,084	87,198	8,499	469,781
Self pay/Other	28,832	9,452	7,041	45,325
Total	$ 704,088	$ 169,212	$ 21,792	$ 895,092

5. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments and assets limited as to use as of December 31, 2019 and 2018, are summarized as follows:

	2019	2018
Marketable equity securities	$ 17,280,000	$ 15,085,000
Debt securities—short-term investments	23,655,000	24,054,000
Debt securities—self-insurance trust	1,564,000	1,533,000
Bond trustee held funds—short-term investments	-	46,172,000
Investments in mutual funds:		
Marketable international equity securities	24,693,000	19,088,000
Marketable debt securities	33,479,000	28,802,000
Investments in common collective trust funds:		
Marketable domestic equity securities	42,249,000	33,677,000
Marketable debt securities	34,741,000	31,908,000
Investments in limited partnerships:		
Private real estate fund	10,740,000	10,981,000
Private hedge funds	37,834,000	34,701,000
Total	$ 226,235,000	$ 246,001,000

The investments were included in the captions on the consolidated balance sheets as of December 31, 2019 and 2018, as follows:

	2019	2018
Short-term investments	$ 23,655,000	$ 24,054,000
Long-term investments	164,494,000	143,805,000
Assets limited as to use:		
Board designated—self-insured trust	1,564,000	1,533,000
Bond trustee—held funds	-	46,172,000
Total assets limited as to use	1,564,000	47,705,000
Other assets	36,522,000	30,437,000
Total	$ 226,235,000	$ 246,001,000

Investment gains (losses), net from long-term investments and assets limited as to use for the years ended December 31, 2019 and 2018, consist of the following:

	2019	2018
Interest and dividend income—net of investment fees	$ 1,316,000	$ 1,748,000
Net realized gains on sales of investments	2,894,000	8,387,000
Net change in unrealized gains (losses) on investments	19,631,000	(15,164,000)
Total investment gains (losses)—net	$ 23,841,000	$ (5,029,000)

CareAlliance had no unfunded commitments with respect to its investments and assets limited as to use as of December 31, 2019 and 2018.

6. PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2019 and 2018, is as follows:

	2019	2018
Land	$ 54,111,000	$ 54,111,000
Land improvements	16,485,000	9,398,000
Buildings and improvements	755,180,000	653,759,000
Equipment	409,208,000	366,977,000
Leased equipment under capital lease obligations	32,014,000	34,881,000
	1,266,998,000	1,119,126,000
Less accumulated depreciation	598,487,000	549,884,000
	668,511,000	569,242,000
Construction in progress	4,052,000	75,504,000
Property and equipment—net	$ 672,563,000	$ 644,746,000

Depreciation expense and capital lease-related amortization expense for the years ended December 31, 2019 and 2018 amounted to $58,499,000 and $60,384,000, respectively. Accumulated amortization for equipment under capital lease obligations as of December 31, 2019 and 2018 was $22,377,000 and $20,910,000, 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 ("MOB") on the campus of St. Francis Hospital, the RSFH Data Center, the RSFH Office Park, the Berkeley Hospital MOB, a MOB and emergency room in the City of North Charleston. 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. Construction of the Berkeley Hospital MOB on the campus of Berkeley Hospital was completed during 2018. The carrying value of these assets (included in property and equipment – net) was $105,678,000 and $99,245,000 as of December 31, 2019 and 2018, respectively. The carrying value of the related liabilities (included in other liabilities) was $104,743,000 and $98,233,000 as of December 31, 2019 and 2018, respectively.

In June 2017, 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, Mount Pleasant Hospital, Berkeley Hospital, and Physician Partners. In the event of a payment default by SPE Fayssoux Properties, LLC, CareAlliance will be liable for the outstanding principal balance of $79,360,000 as of December 31, 2019. 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 $15,922,000 and $16,345,000 as of December 31, 2019 and 2018, respectively, and a corresponding liability (included in debt) amounting to $16,300,000 and $16,647,000 as of December 31, 2019 and 2018, respectively.

7. ACCRUED LIABILITIES

Accrued liabilities as of December 31, 2019 and 2018, consist of the following:

	2019	2018
Accrued compensation	$ 50,884,000	$ 52,349,000
Self-insurance liabilities	8,590,000	7,809,000
Interest	104,000	2,398,000
Estimated third-party settlement liabilities	14,144,000	15,963,000
Swap termination liabilities	29,702,000	-
Other accrued liabilities	6,719,000	4,048,000
Total accrued expenses	$ 110,143,000	$ 82,567,000

8. LONG-TERM DEBT

Long-term debt as of December 31, 2019 and 2018, consists of the following:

	2019	2018
Tax-Exempt Variable Rate Direct Purchase Bonds ("Series 2004B-1"), bearing interest at a rate of 2.296%, 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 2.296%, 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 2.296%, with a 30-year amortization and a 7-year maturity, maturing in 2021	80,000,000	80,000,000
Tax-Exempt Fixed Rate Bonds ("Series 2012A"), bearing interest at a rate of 2.45%, with a 15-year amortization and a 10-year maturity, maturing in 2022	31,935,000	31,935,000
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	9,840,000	12,200,000
Tax-exempt Variable Rate Bonds ("Series 2014C"), bearing interest at a rate of 2.14222%, with a 7-year amortization and a 7-year maturity, maturing in 2021	10,000,000	15,000,000
Tax-exempt Fixed Rate Bonds ("Series 2015"), bearing interest at a rate of 3.5026%, with a 30-year amortization and a 14-year maturity, maturing in 2029	23,833,000	24,750,000
Tax-exempt Fixed Rate Bonds ("Series 2016A"), bearing interest at a rate of 2.67%, with a 14-year amortization and a 10-year maturity, maturing in 2026	60,000,000	60,000,000
Tax-exempt Fixed Rate Bonds ("Series 2016B"), bearing interest at a rate of 5.00%, with a 25-year amortization and a 25-year maturity, maturing in 2036, 2041	70,000,000	70,000,000
Tax-exempt Fixed Rate Bonds ("Series 2017A"), bearing interest at a rate of 2.27262%, with a 10-year amortization and a 10-year maturity, maturing in 2027	36,777,000	36,777,000
Tax-Exempt Fixed Rate Direct Purchase Bonds ("Series 2017B"), bearing interest at a rate of 3.01415%, with a 10-year amortization and a 10 -year maturity, maturing in 2027	17,600,000	19,800,000
Tax-Exempt Fixed Rate Direct Purchase Bonds ("Series 2017C"), bearing interest at a rate of 2.96553%, with a 9-year amortization and a 9-year maturity, maturing in 2026	21,105,000	21,105,000
	400,565,000	411,042,000
Other debt	70,178,000	32,472,000
Total debt	470,743,000	443,514,000
Unamortized discount	(1,080,000)	(1,128,000)
Unamortized debt issuance costs	(3,932,000)	(4,297,000)
Less current maturities	(66,241,000)	(16,062,000)
Long-term debt—net of current portion	$ 399,490,000	$ 422,027,000

Revenue Bonds—All of the bonds outstanding at December 31, 2019 and 2018, are governed by a master trust indenture (the "Master Indenture") and related agreements. CareAlliance, Roper, St. Francis, Mount Pleasant, and Berkeley 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, 2012, 2014, 2015, 2016, and 2017 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, 2019 and 2018, 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, 2019. 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, 2017B, and 2017C 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.

Other Debt—Other long-term debt consists primarily of obligations under a revolving credit agreement with a financial institution and various capital lease obligations. On December 1, 2018, CareAlliance entered into a new revolving credit agreement with a financial institution that has a borrowing capacity of $25,000,000. The revolving credit agreement was amended on December 20, 2019 to increase the borrowing capacity to $43,000,000 and matures on January 2, 2020. There were borrowings of $43,000,000 and $- against this credit agreement as of December 31, 2019 and 2018, respectively. The credit agreement bears interest at an annual rate of LIBOR plus 0.70% 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 1.25 to 1.00 as of the last day of each fiscal year and days cash on hand of 85 days as of the last day of the second fiscal quarter and the last day of the fiscal year.

At December 31, 2019 and 2018, capital lease obligations, which are collateralized by leased equipment, amount to $27,081,000 and $32,358,000, respectively, at interest rates of 1.82% to 4.0%. CareAlliance's capital lease obligations expire in 2019 through 2046.

Scheduled maturities of long-term debt as of December 31, 2019, are as follows:

Years Ending December 31	Long-Term Debt	Capital Lease Obligations
2020	$ 61,747,000	$ 5,376,000
2021	19,603,000	3,922,000
2022	20,130,000	3,622,000
2023	22,492,000	2,179,000
2024	23,308,000	1,082,000
Thereafter	296,382,000	21,102,000
	443,662,000	37,283,000
Less amount representing interest on capital lease obligations	-	(10,202,000)
Total	$ 443,662,000	$ 27,081,000

During 2019 and 2018, CareAlliance capitalized $1,536,000 and $1,897,000 in interest costs related to borrowings for capital projects, respectively.

9. DERIVATIVE FINANCIAL INSTRUMENTS

CareAlliance has entered into interest rate swap agreements, which are not designated as accounting hedges, and have notional amounts tied to bond issuance principal balances.

The following is a summary of the fair value of the interest rate swaps outstanding at December 31, 2019 and 2018:

Type	Notional Amount	Effective Date	Maturity Date	Rate Paid	Rate Received	2019	2018
Basis swap	$ 41,070,000	5/4/2011	8/15/2028	SIFMA	1M LIBOR	$ -	$ 470,000
Basis swap	$ 22,115,000	5/16/2011	8/15/2028	SIFMA	1M LIBOR	-	237,000
Fixed payor	$ 56,000,000	3/15/2008	8/15/2037	68% of 1M LIBOR	3.562%	-	(12,574,000)
Fixed payor	$ 10,000,000	9/15/2010	8/15/2020	68% of 1M LIBOR	3.060%	-	(12,000)
Fixed payor	$ 24,000,000	3/15/2008	8/15/2037	68% of 1M LIBOR	3.562%	-	(5,280,000)
Fixed payor	$ 19,000,000	7/13/2004	8/15/2033	63% of 1M LIBOR	3.810%	-	(4,262,000)
						$ -	$ (21,421,000)

The interest rate swaps above were negotiated with settlement terms prior to December 31, 2019 (see Note 2).

The change in fair value of interest rate swaps for the years ended December 31, 2019 and 2018, was $(7,641,000) and $4,557,000, and is included within nonoperating gains (losses) on the accompanying consolidated statements of operations.

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, 2019, are as follows:

Years Ending December 31	Operating Leases	Deemed Ownership Obligations (Note 6)	Total
2020	$ 10,469,000	$ 2,920,000	$ 13,389,000
2021	9,931,000	3,118,000	13,049,000
2022	6,569,000	3,328,000	9,897,000
2023	4,690,000	3,551,000	8,241,000
2024	3,490,000	3,789,000	7,279,000
Thereafter	5,135,000	88,037,000	93,172,000
Total minimum future rentals	$ 40,284,000	$ 104,743,000	$ 145,027,000

Rent expense for the years ended December 31, 2019 and 2018, was approximately $21,605,000 and $17,529,000, respectively.

The deemed ownership obligations above include $69,218,000 payable to MSSC under leases for the RSFH Data Center, RSFH Office Park and Berkeley Hospital MOB (see Note 6).

CareAlliance also leases office space to physicians. The rental income from these leases for the years ended December 31, 2019 and 2018, was approximately $536,000 and $1,099,000, respectively, and is included in other nonoperating gains on the consolidated statements of operations.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2019 and 2018, are available for the following purposes:

	2019	2018
Building and equipment	$ 1,160,000	$ 1,196,000
Indigent care	14,703,000	14,559,000
Hospital service lines	17,053,000	13,216,000
Education	3,052,000	2,799,000
Community health improvement	1,546,000	1,995,000
Sponsorships	253,000	293,000
Undesignated	412,000	416,000
Total with donor restrictions	$ 38,179,000	$ 34,474,000

Net assets with donor restrictions were released by incurring expenses satisfying the restriction purposes as follows:

	2019	2018
Hospital service lines	$ 907,000	$ 922,000
Education	359,000	409,000
Indigent care, community health, and other	7,872,000	6,314,000
Other	660,000	294,000
Total net assets released from restrictions	$ 9,798,000	$ 7,939,000

Endowment Funds—CareAlliance's endowment funds consist of approximately 36 donor-restricted individual funds established for a variety of purposes and board-designated funds set aside for capital expenditures and self-insurance.

Interpretation of Relevant Law—Management has interpreted South Carolina's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CareAlliance retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction in the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity are subject to appropriations for expenditure by CareAlliance in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, CareAlliance considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund;
2. The purposes of the CareAlliance and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. The investment policies of the CareAlliance.

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires CareAlliance to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in net assets without donor restrictions as of December 31, 2019 and 2018.

Return Objectives and Risk Parameters—CareAlliance has developed an investment policy for all its investable assets whose general purpose is to preserve the capital and purchasing power of CareAlliance and to produce sufficient investment earnings for current and future spending needs.

Strategies Employed for Achieving Objectives—CareAlliance has adopted a total return strategy whose asset allocation is designed to give balance to the overall structure of CareAlliance's investment program over a long-term period.

Spending Policy and How the Investment Objectives Relate to the Spending Policy—Over the long term, CareAlliance expects the current spending policy to allow its endowment to grow at the rate of inflation annually. This is consistent with CareAlliance's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The endowment net asset composition by fund type as of December 31, 2019, is composed of the following:

	Endowment Net Asset Composition by Fund Type as of December 31, 2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board designated—self-insurance trust	$ 1,564,000	$ -	$ 1,564,000
Donor-restricted:			
Undesignated	-	412,000	412,000
Building and equipment	-	812,000	812,000
Indigent care	-	236,000	236,000
Hospital service lines	-	10,334,000	10,334,000
Education	-	2,660,000	2,660,000
Community health improvement	-	810,000	810,000
Total funds	$ 1,564,000	$ 15,264,000	$ 16,828,000

The endowment net asset composition by fund type as of December 31, 2018 is composed of the following:

	Endowment Net Asset Composition by Fund Type as of December 31, 2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board designated—self-insurance trust	$ 1,533,000	$ -	$ 1,533,000
Donor-restricted:			
Undesignated	-	416,000	416,000
Building and equipment	-	723,000	723,000
Indigent care	-	240,000	240,000
Hospital service lines	-	8,819,000	8,819,000
Education	-	2,439,000	2,439,000
Community health improvement	-	702,000	702,000
Total funds	$ 1,533,000	$ 13,339,000	$ 14,872,000

Changes in endowment assets for the years ended December 31, 2019 and 2018, consisted of the following:

	Year Ended December 31, 2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets—beginning of year	$ 1,533,000	$ 13,339,000	$ 14,872,000
Investment income	31,000	1,755,000	1,786,000
Contributions	-	719,000	719,000
Appropriations of endowment assets for expenditure	-	(537,000)	(537,000)
Other changes—change in value of split-interest agreements	-	(12,000)	(12,000)
Endowment net assets—end of year	$ 1,564,000	$ 15,264,000	$ 16,828,000

	Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—beginning of year	$ 1,510,000	$ 12,865,000	$ 14,375,000
Investment income/(loss)	23,000	(344,000)	(321,000)
Contributions	-	963,000	963,000
Appropriations of endowment assets for expenditure	-	(609,000)	(609,000)
Other changes—change in value of split-interest agreements	-	(12,000)	(12,000)
Transfers	-	476,000	476,000
Endowment net assets—end of year	$ 1,533,000	$ 13,339,000	$ 14,872,000

12. 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, 2019 and 2018, were approximately $7,380,000 and $13,801,000, respectively, and are included in salaries and employee benefits on the accompanying consolidated statements of operations.

13. CONCENTRATION OF CREDIT RISK

Roper Hospital, St. Francis Hospital, Mount Pleasant Hospital, and Berkeley Hospital 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, 2019 and 2018, is as follows:

	2019	2018
Medicare	38 %	35 %
Medicaid	7	6
Commercial and others	29	26
Patients	26	33
Total	100 %	100 %

14. 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-term and long-term investments, assets limited as to use, 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, 2019 and 2018, is as follows:

	Fair Value Measurement at Reporting Date Using			
As of December 31, 2019	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Marketable equity securities	$ 17,280,000	$ 17,280,000	$ -	$ -
Debt securities	25,219,000	2,038,000	23,181,000	-
Mutual funds:				
Marketable international equity securities	24,693,000	24,693,000	-	-
Marketable debt securities	33,479,000	33,479,000	-	-
Investments measured at NAV:				
Investments in common collective trust funds	76,990,000	-	-	-
Investments in limited partnerships	48,574,000	-	-	-
Total	$ 226,235,000	$ 77,490,000	$ 23,181,000	$ -

		Fair Value Measurement at Reporting Date Using		
As of December 31, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Marketable equity securities	$ 15,085,000	$ 15,085,000	$ -	$ -
Debt securities	25,587,000	2,162,000	23,425,000	-
Bond trustee-held funds - money market funds	46,172,000	46,172,000	-	-
Mutual funds:				
Marketable international equity securities	19,088,000	19,088,000	-	-
Marketable debt securities	28,802,000	28,802,000	-	-
Basis rate swaps	707,000	-	707,000	-
Investments measured at NAV:				
Investments in common collective trust funds	65,585,000	-	-	-
Investments in limited partnerships	45,682,000	-	-	-
Total	$ 246,708,000	$ 111,309,000	$ 24,132,000	$ -
Liabilities				
Interest rate swaps	$ 22,128,000	$ -	$ 22,128,000	$ -

Marketable equity securities have a market value of approximately $17,280,000 and $15,085,000 with a cost of approximately $12,065,000 and $12,230,000 for the years ended December 31, 2019 and 2018, respectively. Net unrealized gains on marketable equity securities totaled approximately $5,215,000 and $2,855,000 for the years ended December 31, 2019 and 2018, respectively.

There were no transfers between levels of the fair value hierarchy for the years ended December 31, 2019 and 2018.

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 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.

The redemption frequency and redemption notice period for investments in common collective trust funds and limited partnerships as of December 31, 2019 and 2018, are as follows:

	2019	Redemption Frequency	Notice Period
Investments in common collective trust funds:			
Marketable domestic equity securities	$ 42,249,000	Daily	1 day
Marketable debt securities	34,741,000	Daily	1 day
Investments in limited partnerships:			
Private real estate fund	10,740,000	Quarterly	60 days
Private hedge fund	21,258,000	Quarterly	70 days
Private hedge fund	16,576,000	Committed through January 1, 2015 with rolling 2-year commitments thereafter	95 days
	$ 125,564,000		

	2018	Redemption Frequency	Notice Period
Investments in common collective trust funds:			
Marketable domestic equity securities	$ 33,677,000	Daily	1 day
Marketable debt securities	31,908,000	Daily	1 day
Investments in limited partnerships:			
Private real estate fund	10,981,000	Quarterly	60 days
Private hedge fund	20,065,000	Quarterly	70 days
Private hedge fund	14,636,000	Committed through January 1, 2015 with rolling 2-year commitments thereafter	95 days
	$ 111,267,000		

Management estimates the fair value of interest rate swaps 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 swaps; however, the effect of credit valuation adjustments was not significant to the fair value measurements as of December 31, 2019 or 2018.

As of December 31, 2019 and 2018, the carrying amounts reported on CareAlliance's consolidated balance sheets for cash equivalents, receivables, accounts payable, and accrued expenses approximate fair value. At December 31, 2019 and 2018, the fair value of CareAlliance's long-term debt was approximately $470,745,000 and $447,807,000, 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.

15. 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, 2019 and 2018.

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 on 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 consolidated 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.

16. FUNCTIONAL EXPENSES

CareAlliance provides general healthcare services to residents within its geographic location. CareAlliance's functional expenses were as follows for the years ended December 31, 2019 and 2018:

December 31, 2019	Health Care Services	Support Services	Total
Operating expenses:			
Salaries and employee benefits	$ 476,841,000	$ 34,872,000	$ 511,713,000
Supplies	185,123,000	1,040,000	186,163,000
Purchased services	106,805,000	9,574,000	116,379,000
Other expenses	44,910,000	19,289,000	64,199,000
Depreciation and amortization	55,930,000	2,569,000	58,499,000
Interest	17,477,000	1,089,000	18,566,000
Total operating expenses	$ 887,086,000	$ 68,433,000	$ 955,519,000

December 31, 2018	Health Care Services	Support Services	Total
Operating expenses:			
Salaries and employee benefits	$ 457,705,000	$ 32,893,000	$ 490,598,000
Supplies	174,875,000	1,013,000	175,888,000
Purchased services	99,166,000	8,801,000	107,967,000
Other expenses	48,481,000	29,467,000	77,948,000
Depreciation and amortization	57,814,000	2,570,000	60,384,000
Interest	15,682,000	649,000	16,331,000
Total operating expenses	$ 853,723,000	$ 75,393,000	$ 929,116,000

17. LIQUIDITY AND AVAILABILITY

CareAlliance's liquidity management structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated balance sheet date, comprise the following:

Financial assets at December 31:

	2019	2018
Cash and cash equivalents	$ 62,684,000	$ 50,345,000
Patient accounts receivable, net	135,723,000	139,401,000
Other receivables	11,574,000	7,030,000
Short-term investments	23,655,000	24,054,000
Long-term investments	164,494,000	143,805,000
	$ 398,130,000	$ 364,635,000

18. RELATED-PARTY TRANSACTIONS

Payments to the Founding Members for management fees and services were approximately $3,466,000 and $8,165,000 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, approximately $23,000 and $3,312,000, respectively, remain payable to the Founding Members and are included in accounts payable on the consolidated balance sheets.

Payments from the Founding Members for reimbursed expenses and other miscellaneous items were approximately $3,894,000 and $2,360,000 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, approximately $118,000 and $161,000, respectively, are receivable from the Founding Members and are included in other receivables on the consolidated balance sheets.

In May of 2018, the Founding Members agreed to contribute $50,000,000 to CareAlliance to fund certain growth initiatives and to pay off the line of credit balance. CareAlliance received $13,375,000 and $36,625,000 during the years ended December 31, 2019 and 2018, respectively.

* * * * * *

SUPPLEMENTAL CONSOLIDATING SCHEDULES

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

CONSOLIDATING BALANCE SHEET
As of December 31, 2019
(rounded to the nearest thousand)

	CareAlliance Health Services	Roper Hospital, Inc.	Bon Secours St Francis Hospital, Inc.	RSFH Mt Pleasant Hospital	RSFH Berkeley Hospital	RSFH Physician Partners	Eliminations	Obligated Group	RSF Health Alliance	RSH Eye Center, LLC	Clinical Biotech Research Inst	RSFH ATI Physical Therapy, LLC	Roper St. Francis Foundation	Eliminations	Total
ASSETS															
CURRENT ASSETS:															
Cash and cash equivalents	$ 58,915,000	$ 8,000	$ 22,000	$ -	$ -	$ -	$ -	$ 58,945,000	$ -	$ -	$ -	$ 3,739,000	$ -	$ -	$ 62,684,000
Patient accounts receivable—net	-	54,128,000	34,858,000	12,779,000	7,340,000	21,863,000	-	130,968,000	-	317,000	993,000	3,445,000	-	-	135,723,000
Other receivables	2,753,000	4,386,000	2,729,000	325,000	-	1,130,000	-	11,323,000	-	-	-	135,000	116,000	-	11,574,000
Short-term investments	23,655,000	-	-	-	-	-	-	23,655,000	-	-	-	-	-	-	23,655,000
Inventories of drugs and supplies	-	6,786,000	3,933,000	1,470,000	1,154,000	2,358,000	-	15,701,000	-	-	-	-	-	-	15,701,000
Prepaid expenses and other current assets	10,879,000	1,178,000	1,090,000	233,000	413,000	1,357,000	-	15,150,000	-	74,000	-	-	208,000	-	15,432,000
Total current assets	96,202,000	66,486,000	42,632,000	14,807,000	8,907,000	26,708,000	-	255,742,000	-	391,000	993,000	7,319,000	324,000	-	264,769,000
LONG-TERM INVESTMENTS	146,105,000	-	-	-	-	-	-	146,105,000	-	-	-	-	18,389,000	-	164,494,000
ASSETS LIMITED AS TO USE	1,564,000	-	-	-	-	-	-	1,564,000	-	-	-	-	-	-	1,564,000
PROPERTY AND EQUIPMENT—Net	177,207,000	145,255,000	105,723,000	89,883,000	125,334,000	27,369,000	-	670,771,000	77,000	213,000	75,000	1,405,000	22,000	-	672,563,000
OTHER ASSETS	8,517,000	27,620,000	1,288,000	118,000	1,000	5,178,000	-	42,722,000	-	-	-	6,692,000	22,817,000	(8,858,000)	63,373,000
DUE FROM AFFILIATES	46,458,000	135,724,000	134,471,000	31,151,000	24,000	(852,000)	(326,947,000)	20,029,000	7,302,000	8,411,000	(1,000)	-	-	(35,741,000)	-
INVESTMENT IN AFFILIATES	493,915,000	-	-	-	-	-	(460,341,000)	33,574,000	-	-	-	-	-	(33,574,000)	-
TOTAL ASSETS	$ 969,968,000	$ 375,085,000	$ 284,114,000	$ 135,959,000	$ 134,266,000	$ 58,403,000	$ (787,288,000)	$ 1,170,507,000	$ 7,379,000	$ 9,015,000	$ 1,067,000	$ 15,416,000	$ 41,552,000	$ (78,173,000)	$ 1,166,763,000
LIABILITIES AND NET ASSETS (DEFICIT)															
CURRENT LIABILITIES:															
Current portion of long-term debt	$ 57,045,000	$ 6,174,000	$ 1,717,000	$ 261,000	$ 984,000	$ 33,000	$ -	$ 66,214,000	$ -	$ 27,000	$ -	$ -	$ -	$ -	$ 66,241,000
Accounts payable	56,330,000	548,000	515,000	90,000	29,000	3,224,000	-	60,736,000	-	-	-	523,000	-	-	61,259,000
Accrued expenses	81,987,000	4,787,000	4,005,000	1,865,000	23,000	11,195,000	-	103,862,000	4,652,000	-	-	1,492,000	137,000	-	110,143,000
Total current liabilities	195,362,000	11,509,000	6,237,000	2,216,000	1,036,000	14,452,000	-	230,812,000	4,652,000	27,000	-	2,015,000	137,000	-	237,643,000
LONG-TERM DEBT—Net of current portion	49,821,000	101,876,000	30,979,000	106,407,000	110,094,000	243,000	-	399,420,000	-	70,000	-	-	-	-	399,490,000
DUE TO AFFILIATES	237,902,000	65,808,000	1,879,000	793,000	36,277,000	-	(326,947,000)	15,712,000	10,671,000	8,392,000	962,000	4,000	-	(35,741,000)	-
OTHER LIABILITIES	70,237,000	8,556,000	12,269,000	-	-	16,855,000	-	107,917,000	-	-	-	294,000	-	-	108,211,000
Total liabilities	553,322,000	187,749,000	51,364,000	109,416,000	147,407,000	31,550,000	(326,947,000)	753,861,000	15,323,000	8,489,000	962,000	2,313,000	137,000	(35,741,000)	745,344,000
NET ASSETS (DEFICIT):															
Without donor restrictions:															
CareAlliance Health Services	393,815,000	171,988,000	232,750,000	26,543,000	(13,141,000)	26,853,000	(460,341,000)	378,467,000	(7,944,000)	340,000	105,000	8,517,000	18,584,000	(19,601,000)	378,468,000
Noncontrolling interests in Lowcountry Surgery Center, LLC	-	-	-	-	-	-	-	-	-	186,000	-	-	-	-	186,000
Noncontrolling interests in RSFH-ATI Physical Therapy, LLC	-	-	-	-	-	-	-	-	-	-	-	4,586,000	-	-	4,586,000
Total net assets without donor restrictions (deficit)	393,815,000	171,988,000	232,750,000	26,543,000	(13,141,000)	26,853,000	(460,341,000)	378,467,000	(7,944,000)	526,000	105,000	13,103,000	18,584,000	(19,601,000)	383,240,000
With donor restrictions	22,831,000	15,348,000	-	-	-	-	-	38,179,000	-	-	-	-	22,831,000	(22,831,000)	38,179,000
Total net assets (deficit)	416,646,000	187,336,000	232,750,000	26,543,000	(13,141,000)	26,853,000	(460,341,000)	416,646,000	(7,944,000)	526,000	105,000	13,103,000	41,415,000	(42,432,000)	421,419,000
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 969,968,000	$ 375,085,000	$ 284,114,000	$ 135,959,000	$ 134,266,000	$ 58,403,000	$ (787,288,000)	$ 1,170,507,000	$ 7,379,000	$ 9,015,000	$ 1,067,000	$ 15,416,000	$ 41,552,000	$ (78,173,000)	$ 1,166,763,000

See Independent Auditors' Report.

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

CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 2019
(rounded to the nearest thousand)

	CareAlliance Health Services	Roper Hospital, Inc.	Bon Secours St Francis Hospital, Inc.	RSFH Mt Pleasant Hospital	RSF Berkeley Hospital	RSFH Physician Partners	Eliminations	Obligated Group	RSF Health Alliance	RSH Eye Center, LLC	Clinical Biotech Research Inst	RSFH ATI Physical Therapy, LLC	Roper St. Francis Foundation	Eliminations	Total
REVENUES:															
Net patient service revenue	$ -	$387,915,000	$252,365,000	$ 93,806,000	$ 10,820,000	$174,858,000	$ -	$919,764,000	$ -	$ 3,071,000	$ 2,315,000	$ 16,869,000	$ -	$ (83,000)	$ 941,936,000
Other revenue	3,268,000	2,719,000	1,655,000	405,000	181,000	4,877,000	(1,187,000)	11,918,000	-	-	477,000	31,000	3,967,000	(148,000)	16,245,000
Total revenues	3,268,000	390,634,000	254,020,000	94,211,000	11,001,000	179,735,000	(1,187,000)	931,682,000	-	3,071,000	2,792,000	16,900,000	3,967,000	(231,000)	958,181,000
EXPENSES:															
Salaries and employee benefits	69,887,000	145,087,000	75,145,000	27,024,000	5,579,000	174,681,000	-	497,403,000	1,049,000	1,067,000	2,241,000	9,031,000	922,000	-	511,713,000
Supplies	1,880,000	75,860,000	43,306,000	17,842,000	2,264,000	43,571,000	-	184,723,000	6,000	1,141,000	49,000	208,000	36,000	-	186,163,000
Purchased services	36,255,000	43,218,000	30,704,000	10,018,000	2,829,000	(6,611,000)	(1,100,000)	115,313,000	270,000	100,000	254,000	206,000	236,000	-	116,379,000
Other expenses	17,778,000	12,665,000	6,581,000	3,238,000	198,000	16,318,000	(87,000)	56,691,000	44,000	449,000	(58,000)	3,573,000	3,848,000	(348,000)	64,199,000
Depreciation and amortization	16,868,000	18,020,000	10,410,000	7,741,000	1,780,000	3,233,000	-	58,052,000	12,000	56,000	15,000	359,000	5,000	-	58,499,000
Interest	2,098,000	3,615,000	1,385,000	4,339,000	6,016,000	1,111,000	-	18,564,000	-	2,000	-	-	-	-	18,566,000
Corporate administration	(111,692,000)	52,100,000	33,082,000	12,031,000	950,000	12,794,000	-	(735,000)	12,000	-	248,000	-	475,000	-	-
Total operating expenses	33,074,000	350,565,000	200,613,000	82,233,000	19,616,000	245,097,000	(1,187,000)	930,011,000	1,393,000	2,815,000	2,749,000	13,377,000	5,522,000	(348,000)	955,519,000
OPERATING INCOME (LOSS)	(29,806,000)	40,069,000	53,407,000	11,978,000	(8,615,000)	(65,362,000)	-	1,671,000	(1,393,000)	256,000	43,000	3,523,000	(1,555,000)	117,000	2,662,000
NONOPERATING GAINS (LOSSES):															
Investment gains—net	19,519,000	-	-	-	-	-	-	19,519,000	-	-	-	-	4,322,000	-	23,841,000
Change in fair value (termination) of interest rate swaps	(7,641,000)	-	-	-	-	-	-	(7,641,000)	-	-	-	-	-	-	(7,641,000)
Loss on extinguishment of swaps	(640,000)	-	-	-	-	-	-	(640,000)	-	-	-	-	-	-	(640,000)
Other—net	2,230,000	184,000	138,000	-	(2,710,000)	(56,000)	-	(214,000)	-	-	22,000	(8,000)	-	(2,566,000)	(2,766,000)
Total nonoperating gains (losses)	13,468,000	184,000	138,000	-	(2,710,000)	(56,000)	-	11,024,000	-	-	22,000	(8,000)	4,322,000	(2,566,000)	12,794,000
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(16,338,000)	40,253,000	53,545,000	11,978,000	(11,325,000)	(65,418,000)	-	12,695,000	(1,393,000)	256,000	65,000	3,515,000	2,767,000	(2,449,000)	15,456,000
INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-	-	-	-	-	-	-	(91,000)	-	(1,230,000)	-	-	(1,321,000)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES ATTRIBUTABLE TO CAREALLIANCE HEALTH SERVICES	$ (16,338,000)	$ 40,253,000	$ 53,545,000	$ 11,978,000	$ (11,325,000)	$ (65,418,000)	$ -	$ 12,695,000	$ (1,393,000)	$ 165,000	$ 65,000	$ 2,285,000	$ 2,767,000	$ (2,449,000)	$ 14,135,000

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
CareAlliance Health Services
(d/b/a Roper St. Francis Healthcare)
Charleston, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2019 and 2018, 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, and have issued our report thereon dated May 20, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered CareAlliance's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CareAlliance's internal control. Accordingly, we do not express an opinion on the effectiveness of the CareAlliance's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of CareAlliance's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we

would consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CareAlliance's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CareAlliance's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CareAlliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

May 20, 2020
Greenville, South Carolina

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by The Uniform Guidance

CareAlliance Health Services
(d/b/a Roper St. Francis Healthcare)
Charleston, South Carolina

Report on Compliance for Each Major Federal Program

We have audited CareAlliance Health Services (d/b/a Roper St. Francis Healthcare) ("CareAlliance") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on CareAlliance's major federal program for the year ended December 31, 2019. CareAlliance's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for CareAlliance's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CareAlliance's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of CareAlliance's compliance.

Opinion on Each Major Federal Program

In our opinion, CareAlliance complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of CareAlliance is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CareAlliance's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CareAlliance's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

May 20, 2020
Greenville, South Carolina

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity	Pass-Through Entity Identifying Number	2019 Federal Expenditures
Research and Development Cluster				
U.S. Department of Health and Human Services:				
Passed-Through				
Aging Research	93.866	University of Southern California Alzheimer's Therapeutic Research Institute	U19AG010483	$ 1,000
Aging Research	93.866	University of Southern California Alzheimer's Therapeutic Research Institute	R01AG053798	17,572
Aging Research	93.866	University of Southern California Alzheimer's Therapeutic Research Institute	RF1AG041845	492
Aging Research	93.866	University of Southern California Alzheimer's Therapeutic Research Institute	4U19AG010483	18,573
Aging Research	93.866	University of Southern California Alzheimer's Therapeutic Research Institute	5U24AG057437	140,837
Aging Research	93.866	University of Southern California Alzheimer's Therapeutic Research Institute	R01AG053798	55,706
Aging Research	93.866	University of Southern California Alzheimer's Therapeutic Research Institute	2U19AG0240904	171,577
Aging Research	93.866	University of Southern California Alzheimer's Therapeutic Research Institute	R01AG047992	104,979
Aging Research	93.866	Medical University of SC	R01AG046543	106,948
Aging Research	93.866	Medical University of SC	R01AG046543-A3	12,700
Aging Research	93.866	Johns Hopkins University	5R01AG049872	13,779
Aging Research	93.866	Johns Hopkins University	1R01AG052510	76,483
				720,646
U.S. Department of Defense:				
Passed-Through				
Military Medical Research and Development	12.420	The University of Southern California Alzheimer's Therapeutic Research Institute	W81XWH-12-2-0012	13,636
Total Reasearch and Development				734,282
U.S. Department of Health and Human Services:				
Direct programs:				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	H76HA31742	332,410
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	H76HA31742-02-00	384,823
Total Direct Programs				717,233

See notes to Schedule of Expenditures of Federal Awards

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

(CONTINUED)

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity	Pass-Through Entity Identifying Number	2019 Federal Expenditures
Pass-Through Programs:				
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	Eau Claire Cooperative Health Center, Inc.	N/A	60,000
HIV Care Formula Grants	93.917	South Carolina Department of Health & Environmental Control	HV-7-775	213,087
Total U.S. Department of Health and Human Services				990,320
U.S. Department of Homeland Security				
Pass-Through Programs:				
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	South Carolina Emergency Management Division	FEMA-DR-4286-SC	43,110
Hazard Mitigation Grant	97.039	South Carolina Emergency Management Division	FEMA-DR-4241-029	108,210
Hazard Mitigation Grant	97.039	South Carolina Emergency Management Division	FEMA-DR-4166-0014	537,047
Hazard Mitigation Grant	97.039	South Carolina Emergency Management Division	FEMA-DR-4166-0013	977,348
Total U.S. Department of Homeland Security				1,665,715
U.S. Department of Housing and Urban Development:				
Pass-Through Programs:				
Housing Opportunities for Persons with AIDS	14.241	City of Charleston Department of Housing & Community Development	N/A	214,136
Total U.S. Department of Housing and Urban Development				214,136
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 3,604,453

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of CareAlliance Health Services (d/b/a Roper St. Francis Healthcare) ("CareAlliance") under programs of the federal government for the year ended December 31, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Because the Schedule presents only a selected portion of the operations of CareAlliance, it is not intended to and does not present the financial position, changes in net assets or cash flows of CareAlliance.

2. Summary of Significant Accounting Policies

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CareAlliance has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance, with the exception of Grants to Provide Outpatient Early Intervention Services with Respect to HIV Diseases.

No funds on the Schedule have been distributed to subrecipients.

3. Contingencies

CareAlliance's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect its continued participation in specific programs. The amount, if any, of expenditures, which may be disallowed by the grantor agencies, cannot be determined at this time. However, CareAlliance expects such amounts, if any, to be immaterial.

4. Categorization of Expenditures

The categorization of expenditures by program included in the schedule of expenditures of federal awards is based upon the grant documents. Changes in the categorization of expenditures occur based upon revisions to the Catalog of Federal Domestic Assistance (CFDA), which is issued in June and December of each year. The schedule of expenditures of federal awards for the year ended December 31, 2019 reflects CFDA changes issued through August 2019.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019

Part I – Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued on whether the consolidated financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified	____	yes	X	no
Significant deficiency(ies) identified not considered to be material weaknesses	____	yes	X	none reported
Non-compliance material to consolidated financial statements noted	____	yes	X	no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified	____	yes	X	no
Significant deficiency(ies) identified not considered to be material weaknesses	____	yes	X	none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?	____	yes	X	no

Identification of major federal programs:

CFDA#	**Program Name**
97.039	Hazard Mitigation Grant Program

Dollar threshold used to distinguish between Type A and Type B programs $ 750,000

Auditee qualified as low-risk auditee?	X	yes	____	no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019

Part II – Consolidated Financial Statement Findings

There are no matters that are required to be reported for the year ended December 31, 2019.

Part III – Federal Award Findings and Questioned Costs

There are no matters that are required to be reported for the year ended December 31, 2019.