REVISED 12-18-17

Mission Health System, Inc.

Agreed-Upon Procedures

Year Ended September 30, 2016

DIXON HUGHES GOODMAN LLP

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Independent Accountants' Report On Applying Agreed-Upon Procedures

Mission Health System, Inc., North Carolina Department of Justice,
and Department of Health and Human Services

We have performed the procedures enumerated below, which were agreed to by Mission Health System, Inc. ("Mission" or the "Hospital"), the North Carolina Department of Justice, and the Department of Health and Human Services ("DHHS") (collectively, the "Specified Parties"), solely to assist in determining Mission's compliance with the terms outlined in the Certificate of Public Advantage agreement ("COPA Agreement") between Mission and DHHS for the year ended September 30, 2016. Mission's management is responsible for maintaining compliance with the terms of the COPA Agreement as well as the underlying accounting records. The sufficiency of these procedures is solely the responsibility of the Specified Parties. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Sampling is included as part of the procedures outlined below. The selected sample may not be representative of the whole population.

Our procedures and findings are as follows (Numbering below corresponds to Section III of the Third Amended Certificate of Public Advantage):

1. Obtain and read the most recent report from The Joint Commission regarding Mission's participation in the Hospital Accreditation Program.

   We obtained and read the most recent reports from the Joint Commission regarding Mission's participation in the Hospital Accreditation Program. The reports indicated that Mission is fully accredited.

2. Obtain Mission's North Carolina Hospital Community Benefits Report and agree the amounts reported to supporting documentation (e.g., audited financial statements, client supporting schedules, etc.).

   We obtained Mission Hospital's North Carolina Hospital Community Benefits Report and agreed amounts reported to supporting documentation without exception.

   Perform the following procedures for a sample of charity care patient discounts granted during the year that results in a 95% confidence level that Mission followed its Financial Assistance and Charity Care Policy:

a. Obtain documentation supporting the charity discount granted from Mission's patient accounting system including the completed application and other supporting documentation.

We selected a sample of 60 charity care patient discounts granted during the year and obtained documentation supporting the charity care discount granted including the completed application and other supporting documentation.

b. Read the patient's completed Mission Health System Financial Statement. If total amount of charity discount exceeded $750, determine that proof of income and assets was performed and the financial statement was signed by the patient.

We obtained and read the patient's completed Mission Health System Financial Statement for the sample of charity care patient discounts referred to above. We determined that proof of income and assets was performed and that the financial statement was signed by the patient for each of the charity care patient discounts that exceeded $750.

c. Determine that the charity discount was approved in accordance with the approval levels reflected in the Hospital's Financial Assistance and Charity Care Policy.

We determined that the charity discount was approved in accordance with the approval levels reflected in the Hospital's Financial Assistance and Charity Care Policy for the sample of charity care patient discounts referred to above. No exceptions were noted during this procedure.

d. Determine that each patient's account was classified as "charity care" and the account was written off using the designated general ledger code.

We determined that each patient's account was classified as "charity care" and the account was written off using the designated general ledger code for the sample of charity care patient discounts referred to above. No exceptions were noted during this procedure.

e. Determine that the Revenue Cycle management team completed regular audits of compliance with authorized signatory approval levels and documentation requirements for charity discounts granted.

We obtained supporting documentation which indicated that the Revenue Cycle management team completed regular audits of compliance with authorized signatory approval levels and documentation requirements for charity discounts granted in accordance with the Mission Health System Financial Assistance and Charity Care Policy in place during fiscal year 2016.

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f. Determine that the Mission Health System Financial Assistance and Charity Care Policy was reviewed at least annually by the Vice President of Revenue Cycle Management and any revisions, updates, or confirmation of no changes to the policy were approved by the Senior Vice President of Finance and CFO.

   We obtained documentation indicating that the Mission Health System Financial Assistance and Charity Care Policy was reviewed by the Vice President of Revenue Cycle Management and any revisions, updates, or confirmation of no changes to the policy were approved by the Senior Vice President of Finance and CFO during fiscal year 2016.

3. Perform the following procedures for a sample of purchases during the year that results in a 95% confidence level that Mission followed its Materials Management Policy and Procedures Manual:

   a. Determine that the equipment or supply item was purchased under a global purchasing contract.

      We selected a sample of 60 purchases during the year and obtained documentation indicating whether the equipment or supply item was purchased under a global purchasing contract.

   b. If the equipment or supply item was not purchased under a global purchasing contract, obtain documentation of the Hospital obtaining bids as outlined in the matrix on page 2 of the Materials Management Policy and Procedure Manual covering the Solicitation of Bids.

      For the equipment and supply items selected that were not purchased under a global purchasing contract, we obtained documentation of the Hospital obtaining bids as outlined in the matrix on page two of the Materials Management Policy and Procedure Manual covering the Solicitation of Bids. No exceptions were noted during this procedure.

4. Perform the following procedures related to Controls on Costs and Margins:

   a. Obtain the data elements listed in Schedule 2 for the hospitals listed in Schedule 1A.

      We obtained the data elements shown in Attachment 1.

   b. Based on the data elements collected, calculate the ratios in Schedule 3.

      We computed the calculations and reported these amounts in Attachment 2.

      Note:
      Charity care (at cost) and bad debt expense were obtained for information only and were not used to calculate ratios listed.

5. Obtain the Hospital's five largest provider contracts (by revenue) and perform the following:

    a. Read the provider contract and determine whether the agreement contains a provision that prohibits the Hospital from entering into a provider contract for any services it offers with any other health plan.

        We obtained and read the five largest provider contracts (by revenue) and determined that none of the agreements contained a provision that prohibits the Hospital from entering into a provider contract for any services it offers with any other health plan.

    b. Read the provider contract and determine whether the agreement contains a provision that requires the payer to contract with the Hospital's employed physicians as a precondition to contracting with the Hospital or any of its affiliated facilities.

        We obtained and read the five largest provider contracts (by revenue) and determined that none of the agreements contained a provision that requires the payer to contract with the Hospital's employed physicians as a precondition to contracting with the Hospital or any of its affiliated facilities.

6. Obtain a listing of all contracts between the Hospital and individual physicians or groups of physicians. Excluding contracts with anesthesiologists, radiologists, nuclear medicine physicians, pathologists, psychiatrists, emergency-room physicians, infectious disease physicians, neonatologists, nephrologists, pediatric subspecialists (e.g., pediatric cardiologists); perinatologists, pulmonologists, radiation oncologists, trauma surgeons, cardiologists, cardiovascular surgeons, neurologists, and physicians providing services in Mission Health's community-access clinics, select a sample of physician contracts that results in 95% confidence level regarding whether the agreements contain an exclusive provision that requires the physician or group of physicians to render services only at Mission Hospitals, or which requires only one physician or group of physicians to provide particular services at Mission Hospitals.

    We obtained a listing of all contracts between the Hospital and individual physicians or groups of physicians (excluding the aforementioned exempted contracts) and selected all 34 physician contracts new for fiscal year 2016 per the listing to determine whether the physician contracts contained an exclusive provision that requires the physician or group of physicians to render services only at the Hospital, or which requires only one physician or group of physicians to provide particular services at the Hospital. Based on our procedures, we noted no contracts between the Hospital and individual physicians or groups of physicians (excluding the aforementioned exempted contracts) containing exclusive provisions that require the physician or group of physicians to render services only at the Hospital, or which requires only one physician or group of physicians to provide particular services at Mission Hospitals.

7. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.

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8. Obtain the Hospital's calculation of the percentage of physicians in Buncombe and Madison counties under exclusive contracts and perform the following procedures:

    a. Agree the data utilized in the numerator and denominator to supporting documentation.

    We obtained the Hospital's calculation of the percentage of physicians in Buncombe and Madison counties under exclusive contracts and agreed numerator and denominator to supporting documentation without exception.

    b. Re-compute the percentage.

    We recomputed the Hospital's percentage of physicians in Buncombe and Madison counties under exclusive contracts without exception. Per the Third Amended COPA, Mission Health may employ or enter into exclusive contracts with no more than 30% of the physicians in its primary service area of Buncombe and Madison Counties, except those practicing in the following areas: cardiology, genetics, hospitalist, neuro-hospitalist, and neurology. Per the Third Amended COPA, Section 6.1, Mission Health may enter into exclusive contracts with anesthesiologists; radiologists; nuclear medicine physicians; pathologists; psychiatrists; emergency-room physicians; infectious disease physicians; neonatologists; nephrologist; pediatric subspecialists; perinatologists; pulmonologists; radiation oncologists; trauma surgeons; cardiologists; cardiovascular surgeons; neurologists; and physicians providing services in Mission Health's community access clinics. We noted that Mission is under exclusive contract with over 30% of cardiologists, emergency-room physicians, nephrologists, pathologists, and radiation oncologists as allowed in Section 6.1 of the Third Amended COPA.

9. Obtain and read the provider agreements with the five largest payers (by revenue) and determine whether the agreement contains a most-favored-nation provision that guarantees either party that it will receive the benefit of any better price, term, or condition that the other party to the contract allows to a third person for the same service.

    We obtained and read the five largest provider agreements (by revenue) noting that none of the agreements contained a most-favored-nation provision that guarantees either party that it will receive the benefit of any better price, term, or condition that the other party to the contract allows to a third person for the same service.

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10. Perform the following procedures for a sample of referrals for durable-medical equipment, home-health services, and home-infusion services made by the Hospital that results in a 95% confidence level that Mission followed its policy regarding such referrals:

    a. Obtain documentation of Hospital staff informing patient or patient's family of the freedom to choose a particular provider.

       We selected a sample of 60 referrals for durable-medical equipment, home-health services, and home-infusion services made by the Hospital and obtained documentation to determine that Hospital staff informed patient or patient's family of the freedom to choose a particular provider. No exceptions were noted during this procedure.

    b. Determine that the patient's discharge plan identifies disclosable financial interests between the Hospital and particular providers on choice lists provided to the patient.

       We obtained the patient's discharge plan for the sample of referrals for durable-medical equipment, home-health services, and home-infusion services made by the Hospital, as referred to above, to determine that the discharge plan identifies disclosable financial interests between the Hospital and particular providers on choice lists provided to the patient. No exceptions were noted during this procedure.

11. Obtain the Periodic Report and any Interim Report filed for the year and determine that the respective reports were filed in accordance with the terms of the Certificate of Public Advantage.

    We obtained the Interim Report filed for the fiscal year ended September 30, 2016. This Interim Report was filed in accordance with the terms of the Certificate of Public Advantage.

12. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.

13. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.

14. Obtain documentation of the Hospital's status as a non-profit entity.

    We obtained correspondence from the Internal Revenue Service dated July 18, 2011 indicating that the Hospital was granted exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code in March 1982. No further communication has been received.

15. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.

16. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.

17. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.

18. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.

19. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.

20. Perform the following procedures related to the Certificate of Public Advantage Update:

    a. Obtain and read Mission's Certificate of Public Advantage Update for the fiscal year ending September 30, 2016. This report is included as an attachment to the agreed-upon procedures report.

       We obtained and read the aforementioned update and have included it as Attachment 3 to this report.

    b. Obtain and read the reconciliation of operating margins reported on the Mission Health System, Inc. COPA Report and Mission Hospital, Inc. Cost Report. This reconciliation is included as an attachment to the agreed-upon procedures report.

       We obtained and read the aforementioned reconciliation and have included it as Attachment 4 to this report.

    c. Agree amounts reported to supporting documentation (e.g., audited financial statements, client supporting schedules).

       We agreed amounts reported to supporting documentation without exception.

    d. Re-perform mathematical computations presented in the report.

       We re-performed mathematical computations presented in the report without exception.

Procedures outside the scope of Section III of the Third Amended Certificate of Public Advantage were also performed. Those procedures and findings are as follows:

21. Perform the following procedures related to Controls on Costs and Margins.

    a. Obtain the data elements listed in Schedule 2 for the health systems listed in Schedule 1B.

       We obtained the data elements shown in Attachment 5.

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b. Based on the data elements collected, calculate the ratios in Schedule 3.

We computed the calculations and reported these amounts in Attachment 6.

Note:
Charity care (at cost) and bad debt expense were obtained for information only and were not used to calculate ratios listed.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, examination, or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the compliance with the terms of the COPA Agreement as well as the underlying accounting records. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is considered proprietary in nature and is intended solely for the information and use of Mission, the North Carolina Department of Justice, and DHHS and is not intended to be, and should not be, used by anyone other than the Specified Parties.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
November 28, 2017

Schedules and Attachments

Schedule 1A

Organization	Hospital
Novant Health	Forsyth Medical Center
Palmetto Health	Palmetto Richland Hospital
Spartanburg Regional Healthcare System	Spartanburg Regional Medical Center
First Health of the Carolinas	Moore Regional Hospital
Wake Medical	Wake Medical – New Bern Avenue Campus
New Hanover Health Network	New Hanover Regional Medical Center
Cape Fear Valley Health System	Cape Fear Valley Medical Center
Mission Health System, Inc.	Mission Hospital, Inc.

Schedule 1B

Health System	Location
Vidant Health	Greenville, North Carolina
Greenville Health System	Greenville, South Carolina
Cone Health	Greensboro, North Carolina
Carilion Clinic	Roanoke, Virginia
Mission Health System, Inc.	Asheville, North Carolina

All data elements listed below are based on the fiscal year ended 2016.

The information requested below includes hospital activity only and excludes any psych, rehab, newborns, joint ventures, skilled nursing facilities, and investments.

For the hospitals and health systems listed in Schedule 1A and Schedule 1B, we obtained the following data elements:

- Cost report (gross inpatient service revenue, gross outpatient service revenue, net patient service revenue, operating expenses, other revenue)
- Number of inpatient discharges, excluding newborns
- Overall case-mix index ("CMI"), excluding newborns
- Bad debt expense
- Cost of charity care amount (ANDI methodology, if available. If not available, cost of charity care per 2016 cost report used.)
- Provider number

All procedures listed below are based on the fiscal year ended 2016.

Based on the data elements collected in Schedule 2, we calculated the following ratios:

- Discharges adjusted for CMI, excluding newborns
- Inpatient revenue per discharge adjusted for CMI, excluding newborns
- Total adjusted discharges adjusted for CMI
- Total operating expenses per adjusted discharge adjusted for CMI
- Operating margin (deficit) (total net patient service revenue plus other revenue less total operating expenses divided by total net patient service revenue plus other revenue).

Mission Health System, Inc.
Attachment 1 - 2016
Year Ending September 30, 2016

Name of Hospital	Inpatient Discharges, excluding newborns	Overall Case Mix Index, excluding newborns	Gross Inpatient Revenue	Gross Outpatient Revenue	Total Operating Expenses	Total Bad Debt Expense	Net Patient Service Revenue	Charity Care (based on cost)	Other Revenue
Forsyth Medical Center	43,292	1.6500	$ 1,507,834,259	$ 1,553,456,589	$ 1,263,593,347	$ 33,041,394	$ 1,290,568,492	$ 37,666,917	$ 18,318,524
Palmetto Richland Hospital	32,335	1.7327	1,793,527,420	1,048,154,027	782,050,147	47,196,368	738,448,669	45,134,112	79,380,839
Spartanburg Regional Medical Center	26,233	1.6989	1,228,720,669	1,147,960,540	686,281,475	95,895,000	725,368,504	10,676,754	37,284,966
FirstHealth Moore Regional Hospital	22,688	1.6705	868,504,037	850,223,380	544,512,249	37,398,219	557,142,093	10,799,000	54,461,109
Wake Medical - New Bern Ave Campus	32,272	1.7200	1,666,350,889	1,473,207,383	881,698,603	45,936,954	751,439,171	43,942,642	15,018,143
New Hanover Regional Medical Center	38,075	1.7127	1,464,422,945	1,326,934,498	835,521,906	84,191,000	870,044,328	13,614,000	41,188,204
Cape Fear Valley Medical Center	30,792	1.5100	1,375,019,512	1,122,826,474	627,201,948	133,501,710	635,067,801	10,069,000	15,705,843
Mission Hospital	42,336	1.7440	1,648,555,486	1,446,802,643	1,019,878,026	83,476,430	1,118,083,341	22,488,159	57,380,175

Mission Health System, Inc.
Attachment 2 - 2016
Year Ended September 30, 2016

Hospital	Number of inpatient discharges, excluding newborns	Overall Case Mix Index, excluding newborns	Discharges Adjusted for Case Mix Index, excluding newborns	Gross Inpatient Revenue	Inpatient Rev. per Discharge Adjusted for Case Mix Index, excluding newborns	Gross Outpatient Revenue
Forsyth Medical Center	43,292	1.6500	71,432	$ 1,507,834,259	$ 21,109	$ 1,553,456,589
Palmetto Richland Hospital	32,335	1.7327	56,027	1,793,527,420	32,012	1,048,154,027
Spartanburg Regional Medical Center	26,233	1.6989	44,567	1,228,720,669	27,570	1,147,960,540
FirstHealth Moore Regional Hospital	22,688	1.6705	37,900	868,504,037	22,916	850,223,380
Wake Medical - New Bern Avenue Campus	32,272	1.7200	55,508	1,666,350,889	30,020	1,473,207,383
New Hanover Regional Medical Center	38,075	1.7127	65,211	1,464,422,945	22,457	1,326,934,498
Cape Fear Valley Medical Center	30,792	1.5100	46,496	1,375,019,512	29,573	1,122,826,474
Mission Hospital	42,336	1.7440	73,834	1,648,555,486	22,328	1,446,802,643
Total w/o Mission	225,687	11.6948	377,141	9,904,379,731	185,657	8,522,762,891
Avg. w/o Mission	32,241	1.6707	53,877	1,414,911,390	26,522	1,217,537,556
Total all entities	268,023	13.4388	450,975	11,552,935,217	207,985	9,969,565,534
Average of totals	33,503	1.6799	56,372	1,444,116,902	25,998	1,246,195,692
Mission over (under) avg. of entities w/o Mission	10,095	0.0733	19,957	233,644,096	(4,194)	229,265,087
Mission over (under) avg. of all entities	8,833	0.0641	17,462	204,438,584	(3,670)	200,606,951

Hospital	Total Adjusted Discharges, adjusted for CMI	Total Operating Expenses	Total Operating Expenses per Adj. Discharge, adj. for CMI	Net Patient Service Revenue	Other Revenue	Operating Margin (Deficit)
Forsyth Medical Center	145,024	$ 1,263,593,347	$ 8,713	$ 1,290,568,492	$ 18,318,524	3.46%
Palmetto Richland Hospital	88,770	782,050,147	8,810	738,448,669	79,380,839	4.37%
Spartanburg Regional Medical Center	86,205	686,281,475	7,961	725,368,504	37,284,966	10.01%
FirstHealth Moore Regional Hospital	75,002	544,512,249	7,260	557,142,093	54,461,109	10.97%
Wake Medical - New Bern Avenue Campus	104,582	881,698,603	8,431	751,439,171	15,018,143	-15.04%
New Hanover Regional Medical Center	124,299	835,521,906	6,722	870,044,328	41,188,204	8.31%
Cape Fear Valley Medical Center	84,464	627,201,948	7,426	635,067,801	15,705,843	3.62%
Mission Hospital	138,632	1,019,878,026	7,357	1,118,083,341	57,380,175	13.24%
Total w/o Mission	708,346	5,620,859,675	55,323	5,568,079,058	261,357,628	25.70%
Avg. w/o Mission	101,192	802,979,954	7,903	795,439,865	37,336,804	3.67%
Total all entities	846,978	6,640,737,701	62,680	6,686,162,399	318,737,803	38.94%
Average of totals	105,872	830,092,213	7,835	835,770,300	39,842,225	4.87%
Mission over (under) avg. of entities w/o Mission	37,440	216,898,072	(546)	322,643,476	20,043,371	9.57%
Mission over (under) avg. of all entities w/o Mission, excluding Wake Medical	38,005	230,017,847	(458)	315,310,027	16,323,594	6.45%
Mission over (under) avg. of all entities	32,760	189,785,813	(478)	282,313,041	17,537,950	8.37%

MISSION HEALTH

Mission Health System, Inc

COPA Financial Review – FY16 Results

Mission Hospital, Inc.

COPA Peer Hospital Trend (Cost per CMI Adjusted Case)

	COPA Average Benchmark Determination						Mission Hospital		
	PPI %	PPI Adjusted	COPA Peer Median	Truven Median	Peer Blend Average	Peer Blend Yr Chg	Actuals	Yr Chg	Variance
FY07	2.90%	7,437	7,667	7,973	7,692	2.3%	7,338	4.4%	354
FY08	3.20%	7,675	8,022	8,239	7,979	3.7%	7,653	4.3%	326
FY09	3.30%	7,928	9,303	8,042	8,424	5.6%	7,777	1.6%	647
FY10	3.00%	8,166	7,877	8,186	8,076	-4.1%	7,867	1.2%	209
FY11	2.40%	8,362	8,693	8,559	8,538	5.7%	7,961	1.2%	577
FY12	2.50%	8,571	8,766	8,717	8,685	1.7%	7,619	-4.3%	1,066
FY13	1.90%	8,734	8,631	8,513	8,626	-0.7%	7,535	-1.1%	1,091
FY14	1.50%	8,865	8,470	8,466	8,600	-0.3%	7,295	-3.2%	1,305
FY15	0.60%	8,918	7,890	8,329	8,379	-2.6%	7,224	-1.0%	1,155
FY16	1.40%	9,043	7,903	8,389	8,445	0.8%	7,357	1.8%	1,088

Mission Hospital, Inc.

COPA Financial Operating Margin Constraint

FY14 – FY16 Operating Margin – Mission Health System

	Net Revenue	Mission Health Operating Margin	Mission Health Margin %	Blended AA Median Plus 1%	Difference	(Payback)/Surplus
FY14	$ 1,381,887,000	21,500,000	1.56%	6.30%	4.74%	$ 65,501,444
FY15	$ 1,488,233,000	44,753,000	3.01%	5.90%	2.89%	$ 43,009,934
FY16	$ 1,632,882,000	53,751,000	3.29%	5.17%	1.88%	$ 30,698,182
FY14, FY15, FY16 Cumulative Surplus / (Payback)						$ 139,209,559

Mission Hospital, Inc.

COPA Financial Operating Margin Constraint

FY12 - FY16 Operating Margin – Mission Health System

	Net Revenue	Mission Health Operating Margin	Mission Health Margin %	Blended AA Median Plus 1%	Difference	(Payback)/Surplus
FY12	$ 1,054,401,000	55,506,000	5.26%	5.32%	0.06%	$ 632,641
FY13	$ 1,232,756,000	29,803,000	2.42%	5.40%	2.98%	$ 36,736,129
FY14	$ 1,381,887,000	21,500,000	1.56%	6.30%	4.74%	$ 65,501,444
FY15	$ 1,488,233,000	44,753,000	3.01%	5.90%	2.89%	$ 43,009,934
FY16	$ 1,632,882,000	53,751,000	3.29%	5.17%	1.88%	$ 30,698,182
FY12 - FY16 Cumulative Surplus / (Payback)						$ 176,578,329

Mission Health System, Inc.
Attachment 4
Reported Operating Margins
September 30, 2016

Amounts per Attachment "3"		
(COPA – Financial review – FY16):		
Operating income	$	53,751,000
Operating margin		3.29%
Amounts per Attachment "2"		
(taken from Mission Hospital, Inc.'s Cost Report):		
Operating income		155,585,000
Operating margin		13.24%
Difference	$	(101,834,000)
Reconciling items:		
Related organization transactions from Worksheet A-8 of cost report	$	(53,652,000)
Consolidated entities operating margin		(48,182,000)
Total reconciling items	$	(101,834,000)

Mission Health System, Inc.
Attachment 5 - 2016
Year Ended September 30, 2016

Hospital System	Inpatient Discharges, excluding newborns	Overall Case Mix Index, excluding newborns	Gross Inpatient Revenue	Gross Outpatient Revenue	Total Operating Expenses	Total Bad Debt Expense	Net Patient Service Revenue	Charity Care (at cost)	Other Revenue
Vidant Health	59,278	1.6703	$ 2,194,937,582	$ 1,665,721,580	$ 1,569,173,000	$ 96,390,041	$ 1,570,832,000	$ 53,528,158	$ 74,007,000
Greenville Health System	53,442	1.8700	2,278,810,000	3,657,044,000	2,110,848,000	320,599,000	2,060,562,000	69,618,000	73,759,000
Cone Health	60,303	1.7044	1,557,986,304	2,360,802,766	1,645,006,000	135,932,650	1,560,610,000	89,600,000	117,683,000
Carilion Clinic	45,835	1.7032	2,054,467,618	1,569,524,748	1,586,637,000	85,871,324	1,395,344,880	60,096,836	119,596,711
Mission Health System, Inc.	49,641	1.8249	1,889,285,000	2,148,481,000	1,579,131,000	141,609,000	1,540,647,000	29,577,000	92,235,000

Mission Health System, Inc.
Attachment 6 - 2016
Year Ended September 30, 2016

Name of Hospital	Number of inpatient discharges, excluding newborns	Overall Case Mix Index, excluding newborns	Discharges Adjusted for Case Mix Index, excluding newborns	Gross Inpatient Revenue	Inpatient Rev. per Discharge Adjusted for Case Mix Index, excluding newborns	Gross Outpatient Revenue
Vidant Health	59,278	1.6703	99,012	$ 2,194,937,582	$ 22,168	$ 1,665,721,580
Greenville Health System	53,442	1.8700	99,937	2,278,810,000	22,802	3,657,044,000
Cone Health	60,303	1.7044	102,780	1,557,986,304	15,158	2,360,802,766
Carilion Clinic	45,835	1.7032	78,066	2,054,467,618	26,317	1,569,524,748
Mission Health System, Inc.	49,641	1.8249	90,590	1,889,285,000	20,855	2,148,481,000
Total w/o Mission	218,858	6.9479	379,795	$ 8,086,201,504	$ 86,445	$ 9,253,093,094
Avg. w/o Mission	54,715	1.7370	94,949	2,021,550,376	21,611	2,313,273,274
Total all entities	268,499	8.7728	470,385	9,975,486,504	107,300	11,401,574,094
Average of totals	53,700	1.7546	94,077	1,995,097,301	21,460	2,280,314,819
Mission over (under) avg. of entities w/o Mission	(5,074)	0.0879	(4,359)	(132,265,376)	(756)	(164,792,274)
Mission over (under) avg. of all entities	(4,059)	0.0703	(3,487)	(105,812,301)	(605)	(131,833,819)

Mission Health System, Inc.
Attachment 6 - 2016
Year Ended September 30, 2016

Hospital System	Total Adjusted Discharges, adjusted for CMI	Total Operating Expenses	Total Operating Expense per Adj. Discharge, adj. for CMI	Net Patient Service Revenue	Other Revenue	Operating Margin (Deficit)
Vidant Health	174,153	$ 1,569,173,000	$ 9,010	$ 1,570,832,000	$ 74,007,000	4.60%
Greenville Health System	260,320	2,110,848,000	8,109	2,060,562,000	73,759,000	1.10%
Cone Health	258,526	1,645,006,000	6,363	1,560,610,000	117,683,000	1.98%
Carilion Clinic	137,705	1,586,637,000	11,522	1,395,344,880	119,596,711	-4.73%
Mission Health System, Inc.	193,610	1,579,131,000	8,156	1,540,647,000	92,235,000	3.29%
Total w/o Mission	830,704	$ 6,911,664,000	$ 35,004	$ 6,587,348,880	$ 385,045,711	2.95%
Avg. w/o Mission	207,676	1,727,916,000	8,751	1,646,837,220	96,261,428	0.74%
Total all entities	1,024,314	8,490,795,000	43,160	8,127,995,880	477,280,711	6.24%
Average of totals	204,863	1,698,159,000	8,632	1,625,599,176	95,456,142	1.25%
Mission over (under) avg. of entities w/o Mission	(14,066)	(148,785,000)	(595)	(106,190,220)	(4,026,428)	2.55%
Mission over (under) avg. of all entities	(11,253)	(119,028,000)	(476)	(84,952,176)	(3,221,142)	2.04%

MISSION
HEALTH

Mission Health, Inc.
Mission Hospital, Inc.
Third Amended
Certificate of Public Advantage
Interim Report

September 30, 2016

Submitted to:

Mark Payne
Secretary for Audit and Health Service Regulation
Division of Health Service Regulation
North Carolina Department of Health and Human Services

Kip D. Sturgis, Esq.
Special Deputy Attorney General
North Carolina Department of Justice

MISSION HEALTH, INC.
MISSION HOSPITAL, INC.
Third Amended
Certificate of Public Advantage
Periodic Report
September 30, 2016

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MISSION HEALTH, INC.
MISSION HOSPITAL, INC.
THIRD AMENDED
CERTIFICATE OF PUBLIC ADVANTAGE
INTERIM REPORT

September 30, 2016

The following report reflects the status of our compliance with **Section III. Terms and Conditions of the Third Amended Certificate of Public Advantage (COPA)** as of September 30, 2016.

(1) Accreditation of Mission Hospital, Inc. (formerly Memorial Mission Hospital, Inc.)

(1.1) Remain accredited by The Joint Commission (TJC).
The Triennial Full unannounced resurvey was conducted June 15-19th, 2015 for the purposes of assessing compliance with the Medicare Conditions of Participation for hospitals through The Joint Commission's survey process. Mission Hospital, Inc. completed its internal review by method of mock survey of The Joint Commission standards on June 2016 as part of the inter-cycle review process. Mission Hospital, Inc. remains fully accredited.

(1.2) Not become conditionally accredited by The Joint Commission.
Mission Hospital, Inc. remains in a constant state of survey readiness and is not conditionally accredited.

(1.3) Correct any requirements for improvement and/or supplemental findings from TJC surveys within the timeframe set by the TJC.
All action plans were developed, implemented and submitted prior to deadline and approved by The Joint Commission.

(1.4) Promptly provide to the State Agencies an explanation of requirements for improvement received in surveys, submit action plans to improve such deficiencies as part of the Periodic Report to the State Agencies, and attach copies of any focused survey results received from TJC.

Results and follow-up from The Joint Commission will be promptly provided to the

State Agencies as requested. Improvements identified from State Agencies during surveys are typically corrected immediately when surveyors are still onsite or corrected shortly thereafter. Action plans for substantiated complaints are submitted prior to due date with applicable measures developed and monitored.

(1.5) Maintain a three-year TJC survey schedule for TJC surveys.
The CMS approval letter for the Triennial Full unannounced resurvey conducted June 15-19th, 2015 was received on October 19, 2015. The accreditation expiration date is June 20, 2018.

(2). Charity and Indigent Care (Service to the Community)

(2.1) The cost of charity and other uncompensated care is estimated at $183,426,000 for fiscal year 2016 per the most recently audited financial statements. This represents an increase of $34,545,000 or 23%. For a breakdown of our Service to the Community, please refer to page 30 of the audited financial statements as provided in ***Attachment A.*** Community Benefit costs other than Medicare, Medicaid, and Champus increased by $8,805,000 most of which related to other direct community benefit costs.

(2.2) Medicare and Medicaid patients continue to enjoy access to all needed services. Payments received or to be received under these and other payment arrangements with third-party payers were less than amounts due at established rates by $2,355,510,000 for fiscal year 2016. This represents an increase of $284,807,000 or 14% over the previous year.

(2.3) Mission Hospital, Inc. made no changes to the charity care/financial assistance policy during fiscal year 2016.

3). Purchase of Equipment and Supplies by Competitive Bidding

The purchase of both supplies and equipment are made on a competitive basis where appropriate. This is done to effectuate the lowest price while not compromising quality, compatibility or efficiency. Sole source vendors are used when necessary. Facilities Planning and Facilities Services are responsible for bidding and procuring supplies independent of Materials Management due to the nature of their business. Periodic reviews were conducted by Materials Management for compliance with policy.[1]

[1] Dixon Hughes Goodman (DHG) will be retained by the NC Department of Health and Human Services (DHHS) to

(4). Controls on Costs and Margins

(4.1) Audited financial statements for fiscal year-end September 30, 2016 are provided as ***Attachment A***. The following accounting and statistical information is provided as requested and included in ***Attachment B***:

Net inpatient revenue	$ 595,479,000
Net outpatient revenue	$ 522,604,000
Total net revenue	$1,118,083,000
Inpatient discharges	41,164
Case mix index	1.8249
Case mix weighted adjusted discharges	141,051
Operating expenses	$1,073,529,000
Cost per case mix adjusted discharge	$7,611

(4.2) The operating margin for Mission Health, Inc. was derived as follows:

Net Operating Revenue	$1,632,882,000
Operating Expenses	$1,579,131,000
Operating Margin	$ 53,751,000
Operating Margin as a percent	3.29%

Please see ***Attachment B*** for the worksheet showing the above calculation compared to the 2015 operating margin.

(4.3) So noted.

(4.4) So noted.

(5) Non-exclusivity

(5.1-5.4) Mission has entered into no relationships that would contradict requirements as noted in these sections.

(6) Nondiscrimination

(6.1) Except as provided within the COPA or as approved by the State, Mission

conduct an agreed upon procedures review in determining Mission's compliance with the terms and conditions of the COPA. Reviewing our compliance with the solicitation of bids policy is one of those procedures.

has not entered into any exclusive contracts with physicians or physician group practices.

(6.2) An open staff will continue to be provided at Mission.

(6.3) Mission is negotiating in good faith with all health plans within the service area.

(6.4) Mission has not entered into a provider contract in violation of this section.

(6.5) Mission has no exclusive contracts with managed care plans at present.

(7) <u>Health Plans</u>

(7.1) Mission has not unreasonably terminated any provider contract to which it or one of its member hospitals is a party.

(7.2) Mission has contracted with health plans operating in its service area offering commercially reasonable terms that require Mission to assume risk.

(8) <u>Employment of/or Contracting with Physicians</u>

(8.1) Except as provided by the COPA, Mission is currently within the 30% limit.

(8.2) So noted.

(8.3) So noted.

(8.4) ***Attachment C*** is the schedule which sets forth the percentages of physicians that are either employed or under exclusive contract in the primary and secondary markets.

(9) <u>*"Most Favored-Nation"* Provisions in Contracts with Health Plans</u>

Mission has not entered into any provider contract with any health plan on terms that include a "most favored nation" clause to the benefit of Mission or any health care plan.

(10) <u>Ancillary Services</u>

(10.1) So noted.

(10.2) Documentation exists in the patient chart to support this process. We routinely review our policies and practices to ensure that we are compliant.[2]

(10.3) So noted.

(11) <u>Reports</u>

(11.1.1-11.1.3) So noted.

(11.2) Mission has not deleted any health services this fiscal year. Capital projects are underway on the Mission Hospital for Advanced Medicine, as well as a new hospital facility for The McDowell Hospital and new Emergency Departments for Transylvania Regional Hospital and Highlands-Cashiers Hospital. Professional Service Agreements were completed with two physician groups, Asheville Pulmonary Associates and Mountain Radiology Oncology.

Behavioral health clinicians were embedded into 4 primary care offices across the region as part of a pilot program to integrate behavioral health services with primary care. Psychiatric support for primary care is provided at these practices through both scheduled hours of psychiatrist time and telehealth consults. Mission collaborated with multiple community partners including the Buncombe County Sheriff Department, City of Asheville Police Department, Helpmate, Our VOICE, Pisgah Legal Services, and the Office of the District Attorney to create a Family Justice Center in Asheville to create a seamless hub for services provided to children and families experiencing abuse and neglect. Mission joined with Smoky Mountain LME/MCO (now named Vaya Health) and Buncombe County Health and Human Services to apply for a grant through the North Carolina Crisis Solutions Initiative to help create C3@356, a comprehensive mental health facility in Asheville. Multiple community partners collaborate to provide wrap around services to support patients and their families at this facility.

US News & World Report named Mission Hospital one of only 63 Top Performing U.S. hospitals. Angel Medical Center was designated as Acute Stroke Ready and

2 DHG will be retained by DHHS to conduct an agreed upon procedures review in determining Mission's compliance with the terms and conditions of the COPA. Reviewing our compliance with our policies related to offering patient choice for DME, home health and home infusion services is one of the procedures.

named a Top 100 Critical Access Hospital. Transylvania Regional Hospital was named a Top 20 Critical Access Hospital for the third consecutive year.

Mission Heart's Left Ventricular Assist Device (LVAD) program, which allows patients who cannot receive a heart transplant to extend their quality and length of life, received accreditation during FY16. Mission Heart received the Gold award for Heart Failure "Get with the Guidelines" 2016 and received the following Healthgrades Specialty Excellence awards: America's 100 Best Hospitals for Cardiac Care Award (2016, 2015, 2014); America's 100 Best Hospitals for Coronary Intervention Award (2016, 2015); Cardiac Surgery Excellence Award (2016, 2015, 2014). For the second year in a row, the Mission Cardiothoracic Surgery program received the highest "3 Star" rating in all programs, matched by only 11 of 1,000 programs nationwide; Mission Heart was named one of the nation's Top 50 Cardiovascular Hospitals for the 10th time.

(11.2) This document represents an interim report. ***Attachment D*** is the Officer's Compliance Certificate.

(11.3.1) The methods used for competitive pricing for purchases of supplies and equipment have not changed. Competitive pricing for both supplies and equipment is conducted to effectuate the best price while not compromising quality, compatibility or efficiency.

(11.3.2) The "Mission Hospital Market Share Trends," ***Attachment E***, was prepared internally by our strategic planning staff. The source of this data is Truven Health Analytics, a data vendor contracted by the North Carolina Hospital Association. The chart shows market share data for six months of fiscal year 2016 compared with data from full fiscal years 2010 through 2016. The market share shift by county and service is also described.

The overall market share percentage change increased by 4.8% from 2010 to 2016. The most significant percentage change increase occurred in the tertiary service area with a 21% increase. There was a decrease in the primary service area of 5% while the percentage change increase in the secondary service area was 10%.

(11.3.3) No changes to Mission's ownership or principal management in any managed care organization have been made.

(11.3) So noted.

(11.4) So noted.

(12) <u>Compliance</u>

(12.1-12.4) So noted and will comply. Management has met periodically with State officials to answer questions and will continue to do so for any future reporting.

(13) <u>Board of Directors</u>

(13.1) Mission is in compliance with 18 elected board members and the additional ex-officio members of the Board. See ***Attachment F*** for the Board of Directors listing.

(13.2) Mission's Chief Executive Officer, the Chairman of Mission Foundation and the Immediate Mission Past Board Chairman are presently serving as ex-officio members of the Board bringing the total complement to 21.

(13.3) So noted.

(13.4) Four physicians served as voting members of the Board during the 2016 fiscal year.

(14) <u>Change of Legal Status or Sale</u>

(14.1) Mission Hospital, Inc. and its constituent hospitals retained their tax-exempt status as non-profit entities last year.

(14.2) So noted.

(15) <u>Legal Exposure</u>

So noted.

(16) <u>Averment of Truth</u>

So noted.

(17) <u>Review and Amendment</u>

So noted.

(18) <u>Binding Effect</u>

So noted.

(19) <u>Effective Date</u>

So noted.

KPMG

MISSION HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

KPMG LLP
Duke Energy Center
Suite 3200
550 South Tryon Street
Charlotte, NC 28202-4214

Independent Auditors' Report

The Board of Directors
Mission Health System, Inc.:

We have audited the accompanying consolidated financial statements of Mission Health System, Inc. and Affiliates (Mission), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Mission'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 Mission'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.

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mission Health System, Inc. and Affiliates as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Charlotte, North Carolina
December 22, 2016

MISSION HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Balance Sheets

September 30, 2016 and 2015

(In thousands)

Assets		2016	2015
Current assets:			
Cash and cash equivalents	$	112,341	97,479
Investments		31,983	13,303
Current portion of assets limited as to use		18,786	17,288
Accounts receivable, less allowance for uncollectible accounts of $113,967 in 2016 and $100,145 in 2015		245,628	220,464
Other receivables		37,736	27,369
Inventories		23,428	23,143
Prepaid expenses and other		30,512	22,766
Total current assets		500,414	421,812
Assets limited as to use		940,676	941,212
Property and equipment, net		901,115	864,726
Other assets		47,069	51,934
Total assets	$	2,389,274	2,279,684
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	21,208	13,022
Lines of credit		15,500	500
Accounts payable		48,172	42,129
Accrued payroll and other expenses		134,779	134,702
Due to third-party payors		57,367	50,816
Total current liabilities		277,026	241,169
Long-term debt		549,813	563,333
Other long-term liabilities		38,841	45,339
Total liabilities		865,680	849,841
Net assets:			
Unrestricted		1,498,824	1,405,826
Temporarily restricted		18,289	17,908
Permanently restricted		6,148	5,848
Total net assets attributable to Mission Health System, Inc.		1,523,261	1,429,582
Noncontrolling interests		333	261
Total net assets		1,523,594	1,429,843
Total liabilities and net assets	$	2,389,274	2,279,684

See accompanying notes to consolidated financial statements.

**MISSION HEALTH SYSTEM, INC.
AND AFFILIATES**

Consolidated Statements of Operations

Years ended September 30, 2016 and 2015

(In thousands)

		2016	2015
Unrestricted revenue, gains, and other support:			
Net patient service revenue	$	1,682,256	1,526,342
Provision for bad debts		(141,609)	(123,299)
Net patient service revenue less provision for bad debts		1,540,647	1,403,043
Other revenue		92,235	85,190
Total unrestricted revenue, gains, and other support		1,632,882	1,488,233
Expenses:			
Salaries and wages		784,457	700,063
Employee benefits		149,350	137,866
Supplies and other expenses		534,884	493,908
Depreciation and amortization		89,021	88,019
Interest		21,419	23,624
Total expenses		1,579,131	1,443,480
Operating income		53,751	44,753
Nonoperating gains (losses):			
Investment income (loss), net		45,438	(35,957)
Net unrealized gains on investments recharacterized as trading		—	10,879
Other nonoperating losses, net		(8,785)	(5,634)
Nonoperating gains (losses), net		36,653	(30,712)
Revenue, gains, and other support in excess of expenses and losses before noncontrolling interests		90,404	14,041
Noncontrolling interests		(134)	(151)
Revenue, gains, and other support in excess of expenses and losses attributable to Mission Health System, Inc.		90,270	13,890
Net unrealized gains on investments recharacterized as trading		—	(10,879)
Other		(3)	(205)
Net assets released from restriction for capital expenditures and contributed capital equipment		2,731	4,915
Change in unrestricted net assets	$	92,998	7,721

See accompanying notes to consolidated financial statements.

MISSION HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2016 and 2015

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Noncontrolling interests	Total
Balance at September 30, 2014	$ 1,398,105	21,394	5,755	1,351	1,426,605
Revenue, gains, and other support in excess of expenses and losses	13,890	—	—	151	14,041
Net unrealized losses on investments	—	(1,484)	—	—	(1,484)
Net unrealized gains on investments recharacterized as trading	(10,879)	—	—	—	(10,879)
Investment gain, net	—	260	—	—	260
Donor-restricted gifts, grants, and bequests	—	9,991	139	—	10,130
Other	(205)	—	(46)	—	(251)
Purchase of Asheville Radiology Associates, Inc. noncontrolling interests	—	—	—	(1,141)	(1,141)
Distributions to noncontrolling interests	—	—	—	(100)	(100)
Net assets released from restriction for operations	—	(7,338)	—	—	(7,338)
Net assets released from restriction for capital expenditures and contributed capital equipment	4,915	(4,915)	—	—	—
Change in net assets	7,721	(3,486)	93	(1,090)	3,238
Balance at September 30, 2015	1,405,826	17,908	5,848	261	1,429,843
Revenue, gains, and other support in excess of expenses and losses	90,270	—	—	134	90,404
Investment gain, net	—	595	—	—	595
Donor-restricted gifts, grants, and bequests	—	7,404	300	—	7,704
Other	(3)	—	—	—	(3)
Distributions to noncontrolling interests	—	—	—	(62)	(62)
Net assets released from restriction for operations	—	(4,887)	—	—	(4,887)
Net assets released from restriction for capital expenditures and contributed capital equipment	2,731	(2,731)	—	—	—
Change in net assets	92,998	381	300	72	93,751
Balance at September 30, 2016	$ 1,498,824	18,289	6,148	333	1,523,594

See accompanying notes to consolidated financial statements.

MISSION HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2016 and 2015

(In thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 93,751	3,238
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	(42,164)	38,798
Depreciation and amortization	89,021	88,019
Provision for uncollectible accounts	141,609	123,299
Distributions to noncontrolling interests	62	100
Loss (gain) on sale of property and equipment	4,306	(802)
Permanently restricted and capital contributions	(2,731)	(5,008)
Changes in operating assets and liabilities:		
Patient receivables	(166,773)	(125,417)
Accounts payable and accrued payroll and other expenses	6,120	26,918
Other operating assets and liabilities, net	(13,480)	24,799
Net cash provided by operating activities	109,721	173,944
Cash flows from investing activities:		
Capital expenditures	(130,160)	(112,614)
Purchases of investments	(18,680)	(8,803)
Purchases of assets limited as to use	(176,070)	(275,515)
Sales of assets limited as to use	217,272	255,669
Proceeds from sale of property and equipment	444	4,931
Net cash used in investing activities	(107,194)	(136,332)
Cash flows from financing activities:		
Line of credit borrowings and repayments, net	15,000	(26,500)
Proceeds from issuance of debt	112,103	124,060
Repayment of debt	(117,437)	(108,866)
Distributions to noncontrolling interests	(62)	(100)
Permanently restricted and capital contributions	2,731	5,008
Net cash provided by (used in) financing activities	12,335	(6,398)
Net increase in cash and cash equivalents	14,862	31,214
Cash and cash equivalents, beginning of year	97,479	66,265
Cash and cash equivalents, end of year	$ 112,341	97,479
Supplemental information:		
Cash paid for interest, net of amount capitalized	$ 24,657	23,219

See accompanying notes to consolidated financial statements.

(1) Organization and Principles of Consolidation

Mission Health System, Inc. (Mission) is a multidimensional healthcare organization, principally located in Asheville, North Carolina, providing inpatient, outpatient, and emergency services largely for residents of western North Carolina.

The consolidated financial statements include the accounts of Mission and its controlled affiliates. Such affiliates of Mission include Mission Hospital, Inc. (the Hospital), Mission Medical Associates, Inc. (MMA), Mission Ventures, Inc. (formerly known as Horizon Health Corporation), Imaging Realty, LLC, WNC CareSource, LLC, Mission Imaging Services, LLC, Asheville Specialty Hospital, Blue Ridge Regional Hospital, Inc., The McDowell Hospital, Inc. (McDowell), Mission Healthcare Foundation, Inc., Transylvania Community Hospital, Inc., Angel Medical Center, Inc., Dogwood Insurance Company (SPC), Ltd., Community CarePartners, Inc., Highlands-Cashiers Hospital, Inc. and Affiliate, Mission Community Anesthesiology Specialists, LLC, Healthy State, Inc., and Mission Health Partners, Inc.

Dogwood Insurance Company (SPC), Ltd. (Dogwood) is incorporated as an exempted Segregated Portfolio Company with Limited Liability under the Companies Law of the Cayman Islands, and holds an Unrestricted Class 'B' Insurer's license under Section 4 of Cayman Islands Insurance Law. The license enables Dogwood to transact insurance business, other than domestic business, from within the Cayman Islands. At September 30, 2016, Dogwood is equally owned by Mission and WakeMed, was originally incorporated under the name Dogwood Insurance Company, Ltd. on April 9, 2010, and, on November 18, 2010, changed its name to Dogwood Insurance Company (SPC), Ltd. Dogwood currently consists of the "General Company" (which comprises only nominal financial amounts) and two segregated portfolios. The segregated portfolios are Mission Segregated Portfolio (Mission SP) and WakeMed Segregated Portfolio. The accompanying consolidated financial statements include the financial position and results of operations of Mission SP only. See additional discussion at note 19.

Noncontrolling interests related to Asheville Imaging, LLP have been recorded to recognize the portion of the net assets and operating results of affiliates not wholly owned by Mission.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, recoverability of long-lived assets, accrued general and professional liability costs, reserves for employee healthcare and workers' compensation claims, estimated third-party payor settlements, and the valuation of certain alternative investments as further described in note 2(e).

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term.

(b) ***Cash Equivalents***

Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Mission maintains cash balances at various financial institutions. The accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. At times, the amounts on deposit with these financial institutions exceed the insured limit.

(c) ***Inventories***

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

(d) ***Assets Limited as to Use***

Assets limited as to use primarily include assets held by trustees under indenture agreements, funds subject to donor restriction, and assets set aside by the Board of Directors for future operational and capital needs, and assets held under terms of defined compensation plan agreements. Amounts required to meet related current liabilities of Mission are classified as current assets in the accompanying consolidated balance sheets.

(e) ***Investments and Investment Income***

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income items (including realized and unrealized gains and losses on investments, earnings and losses on equity method alternative investments, impairment losses, interest, and dividends) are included in revenue, gains, and other support in excess of expenses and losses unless the income or loss is restricted by donor or law.

Mission made a policy change as of September 30, 2015 to reclassify all investments from other-than-trading securities to trading securities under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 954, *Health Care Entities*. Due to this reclassification, unrealized gains and losses on unrestricted investments are included in revenue, gains, and other support in excess of expenses and losses in the consolidated statements of operations. The accumulated unrealized gains and losses on other-than-trading securities historically included as a component of unrestricted net assets were reclassified and included in nonoperating income during 2015 at the time of the policy change.

Mission also has investments in certain marketable and nonmarketable alternatives (most often referred to as hedge funds or private equity funds and generally organized as limited partnerships, limited liability companies or corporations) and commingled funds (generally organized as collective trust funds). Mission accounts for marketable and nonmarketable alternatives organized as limited partnerships or limited liability companies with specific ownership accounts using the equity method, which generally approximates net asset value. Mission accounts for commingled funds using the fair value method or the equity method, dependent on its percentage ownership in a specific fund. Mission accounts for marketable and nonmarketable alternatives organized as corporations at net asset value as a practical expedient to fair value, when the investment has a readily determinable value and transacts frequently (at least quarterly).

Management is required to make certain estimates in the preparation of the consolidated financial statements. Potentially significant estimates include the valuation of certain marketable and nonmarketable alternatives. These estimates may be subjective and can require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Mission believes that the carrying amounts of these investments are reasonable estimates of fair value. Changes in assumptions or actual results that differ from such estimates could have a material impact on the consolidated financial statements.

(f) Fair Value Measurements

Mission applies the following financial accounting and reporting literature regarding fair value measurements:

- FASB ASC 820, *Fair Value Measurement*, which defines fair value, establishes an enhanced framework for measuring fair value, and expands disclosures about fair value measurements;
- FASB Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*, which amended Topic 820 and also requires that Mission provide additional enhanced disclosures related to its fair value measurements;
- FASB ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, as it applies to certain investments in funds that do not have readily determinable fair values – including private equity investments, hedge funds, real estate, and other funds. This guidance amends ASC 820 and permits, as a practical expedient, the use of net asset value or its equivalent for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to ASC 820.
- FASB ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. Mission adopted ASU 2015-07 in 2016 and removed these investments from the summary of levels within the fair value hierarchy footnote disclosure.

(Continued)

- FASB ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU, among other things, removes the requirement to disclose the fair value of financial instruments measured at amortized costs for entities that are not public business entities. Mission early adopted this specific provision of ASU 2016-01 in 2016 and removed the related fair value disclosure for its long-term debt.

(g) Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Equipment under capital lease obligations is amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life. Such amortization is included in depreciation and amortization expense in the accompanying consolidated statements of operations.

Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support and are excluded from revenue, gains, and other support in excess of expenses and losses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service. Contributions restricted to the purchase of property and equipment, which restrictions are met within the same year as received, are reported as increases in unrestricted net assets in the consolidated financial statements.

(h) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. If applicable, assets to be disposed of are separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. If applicable, the assets and liabilities of a disposal group classified as held-for-sale are presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

(i) Costs of Borrowing

Bond issuance costs and bond discounts are amortized over the term of the related bond issue using a method that approximates the interest method.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized, net of income earned on related trusteed assets, as a component of the cost of acquiring those assets.

(j) Derivative Financial Instruments

Mission includes the accrued differential payable or receivable on its derivative financial instruments in operating income. Estimated gains or losses arising from fair value changes in derivatives are included as nonoperating items in the determination of revenue, gains, and other support in excess of expenses and losses. Mission has not elected hedge accounting with respect to any of its derivatives.

(k) Contributions

Unconditional promises to give cash and other assets are reported at estimated fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met, and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restriction.

(l) Unrestricted, Temporarily and Permanently Restricted Net Assets

Unrestricted net assets are assets not subject to donor-imposed restrictions. Temporarily restricted net assets are assets, which use by Mission is restricted by donors for a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

(m) Endowment Accounting

Mission follows FASB ASC 958, *Not-for-Profit Entities*. Among its financial reporting guidance for such entities, ASC 958 provides guidance on (a) the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and (b) related enhanced disclosures about an organization's endowment funds (both donor-restricted and board-designated).

Mission maintains board-designated endowment funds and donor-restricted endowment assets (and related activities) are immaterial for purposes of the detail disclosures mentioned above.

(n) Revenue, Gains, and Other Support in Excess of Expenses and Losses

The consolidated statements of operations include revenue, gains, and other support in excess of expenses and losses. Changes in unrestricted net assets, which are excluded from revenue, gains, and other support in excess of expenses and losses, include contributions of long-lived assets, specifically defined impacts from adoption of required accounting standards, and certain investment income items as previously described.

(o) 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 arising from future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

(p) Charity Care

Mission provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Mission does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(q) Income Taxes

Mission and its affiliates, except for WNC CareSource, LLC, Mission Imaging Services, LLC, Mission Health Partners, Inc., Mission Community Anesthesiology Specialists, LLC, Healthy State, Inc., Mission Ventures, Inc., Transylvania Services, Inc. (a wholly owned subsidiary of Transylvania Community Hospital, Inc.), Imaging Realty, LLC, and Asheville Specialty Hospital, have been recognized as exempt from federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(3), and therefore, related income is generally not subject to federal or state income taxes. WNC CareSource, LLC, Mission Community Anesthesiology Specialists, LLC, and Mission Imaging Services, LLC are single member LLC's and are disregarded entities for tax purposes. Mission Health Partners, Inc., Healthy State, Inc., Mission Ventures, Inc., and Transylvania Services, Inc. are for-profit corporations and subject to federal and state income taxes. Imaging Realty, LLC and Asheville Specialty Hospital are taxable pass-through entities. Taxes on unrelated business income and taxable income from Mission Health Partners, Inc., Healthy State, Inc., Mission Ventures, Inc., and Transylvania Services, Inc. are recognized as necessary in the accompanying consolidated financial statements; regardless, associated tax accounting impacts are not material.

Mission applies the provisions of FASB ASC 740, *Income Taxes*, in accounting for uncertainty in income taxes. ASC 740 provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There is currently no impact on Mission's consolidated financial statements as a result of the application of ASC 740.

(r) Estimated Professional and General Liability Costs

The provision for estimated professional and general liability costs includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(s) Functional Expense Classification

All expenses in the accompanying consolidated statements of operations were incurred for or related to the provision of healthcare services by Mission.

(t) Guarantees

Mission follows the provisions of FASB ASC 460, *Guarantees*. ASC 460 requires entities to disclose additional information about certain guarantees, or groups of similar guarantees, even if the likelihood of the guarantor having to make any payments under the guarantee is remote. For certain guarantees, ASC 460 also requires that a guarantor recognize a liability equal to the fair value of the guarantee upon its issuance. ASC 460 recognition accounting has had no impact on the accompanying consolidated financial statements, and Mission otherwise complies with the additional disclosure requirements of ASC 460 when applicable.

(u) Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 consolidated financial statement presentation. The reclassifications had no effect on net assets or revenue, gains, and other support in excess of expenses and losses attributable to Mission Health System, Inc. for the year ended September 30, 2015.

(3) Certificate of Public Advantage

A Certificate of Public Advantage (COPA) was issued by the State of North Carolina in December 1995 to permit a collaborative relationship between the then-separate Memorial Mission Hospital and St. Joseph's Hospital to achieve economies of scale through cost reduction initiatives. As part of the acquisition of St. Joseph's Hospital in October 1998, the COPA was amended. Among other provisions, the COPA requires that Mission maintain certain operating margin and cost targets (as amended in 2005). Compliance with COPA restrictions is the responsibility of Mission's management and is subject to monitoring by state regulatory agencies. Management believes they are in compliance with COPA restrictions at September 30, 2016.

(In thousands)

(4) Investments and Assets Limited as to Use

The composition of investments and assets limited as to use follows:

	2016	2015
Investments:		
Fixed income securities	$ 17,046	9,076
Common stocks	13,424	4,227
Alternative investments	1,513	—
	31,983	13,303
Assets limited as to use:		
By indenture agreements – held by trustee:		
Cash and cash equivalents	18,786	17,288
By donor restriction:		
Cash and cash equivalents	379	902
Fixed income securities	2,419	931
Common stocks	6,265	9,223
Alternative investment vehicles	1,245	1,838
Collective trust funds	—	994
	10,308	13,888
By board for future needs:		
Cash and cash equivalents	70,621	121,516
Fixed income securities	213,538	217,765
Common stocks	101,860	129,240
Alternative investment vehicles	249,361	237,764
Collective trust funds	280,632	206,915
	916,012	913,200
Under terms of compensation plan agreements:		
Cash and cash equivalents	7,324	7,219
Fixed income securities	1,028	705
Common stocks	6,004	6,200
	14,356	14,124
	991,445	971,803
Amounts classified as current assets	(50,769)	(30,591)
	$ 940,676	941,212

Alternative investment vehicles include limited partnerships and offshore investment funds. These funds may invest in certain types of financial instruments intended to hedge against market risk, including, among others, futures and forward contracts, options, and securities sold not yet purchased. These financial instruments, which involve varying degrees of off-balance sheet risk, may result in loss due to market risk and other factors. Alternative investment vehicles by strategy type follow:

(In thousands)

	2016	2015
Hedge funds	$ 134,766	131,894
Private equity	96,292	83,078
Real estate	8,549	9,704
Natural resources	12,512	14,926
	$ 252,119	239,602

Mission has outstanding commitments to private equity interests to provide capital infusions upon request. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

2017	$ 18,500
2018	17,300
2019	17,900
2020	19,500
2021	28,300
Thereafter	20,000
	$ 121,500

Private equity interests have initial 10 to 12 year terms, with potential extensions of 1 to 6 years. As of September 30, 2016, the average remaining contractual life of the private equity interests is approximately 9 years.

Mission's current hedge fund investments are generally restricted from redemption for defined lock-up periods. Some of the hedge fund investments with redemption restrictions allow early redemption for specified fees. The terms and conditions under which Mission may redeem these investments vary, usually requiring 30 to 180 days of notice after the initial lock-up period.

(In thousands)

Based upon the terms and conditions in effect at September 30, 2016, Mission's hedge fund investments can be redeemed or sold as follows:

Fiscal year:		
2017	$	127,342
2018		1,921
Thereafter		5,503
Total	$	134,766

For financial reporting purposes, the collective trust funds, in all material respects, "private mutual funds" comprise fully marketable debt and equity securities, which are carried in the accompanying consolidated balance sheets at Mission's proportionate interest in the underlying fair value of the related fund investments. The terms and conditions associated with Mission's participation in the noted collective trust funds do not require that Mission make additional investments in the funds nor is Mission restricted in its ability to make withdrawals from the funds. Therefore, Mission appropriately measures its ability and intent at the fund level.

Unrealized losses on investments are generally due to fluctuations in market price caused by factors such as credit quality of issuers, interest rates, demand, and market expectations. As a result of evaluation of these factors, net investment income reported in unrestricted net assets comprises the following:

		2016	2015
Net investment income (loss) included in nonoperating gains (losses), net:			
Interest and dividend income	$	3,274	3,021
Realized gains on sales of investments, net		9,961	29,472
Alternative investment program gains, net		3,784	3,780
Net unrealized (losses) gains on investments		28,419	(72,230)
Total	$	45,438	(35,957)

(In thousands)

(5) Property and Equipment

Property and equipment consist of the following:

		2016	2015
Land and land improvements	$	111,229	106,329
Buildings		992,462	958,328
Equipment and capitalized software costs		619,452	584,409
		1,723,143	1,649,066
Accumulated depreciation and amortization		(954,761)	(877,580)
		768,382	771,486
Construction in progress		132,733	93,240
	$	901,115	864,726

Construction in progress at September 30, 2016 is principally related to projects for facility enhancements, clinical equipment, and information system upgrades. These projects are expected to be completed during fiscal year 2017 at an estimated total remaining cost to complete of approximately $123,000 to be funded from operations. Mission capitalized interest of $1,043 and $405 in 2016 and 2015, respectively.

(6) Employee Benefit Plans

Mission has a defined contribution savings plan available to all employees who have met certain length of service requirements. Under this plan, Mission matches employee contributions up to 6% of compensation depending on years of service and hire date. Expense associated with the plan was $15,397 and $15,068 in 2016 and 2015, respectively.

Mission sponsored a nonqualified deferred income plan for certain members of senior management, funded entirely by elective contributions of the participants. Funding of this plan was discontinued in May 2002. Participants are fully vested in the associated prior funding and, therefore, a liability equal to the corresponding funding is recognized by Mission. Plan funding and the related liability, each totaling $1,154 and $1,091, respectively, at September 30, 2016 and 2015, are included in assets limited as to use and other long-term liabilities, respectively, in the accompanying consolidated balance sheets.

Mission sponsors and funds a nonqualified deferred income plan for certain members of senior management. Plan participants are entitled to the benefits once they comply with established substantial risk of forfeiture rules. Plan funding, including accrued earnings, and the related liability of $5,792 and $5,765, respectively, at September 30, 2016 and 2015, are included in assets limited as to use and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. The plan also includes a split dollar insurance agreement funded by Mission. The cash surrender value of $191 and $193 is included in assets limited as to use at September 30, 2016 and 2015, respectively, in the accompanying consolidated balance sheets.

(In thousands)

(7) Accrued Payroll and Other Expenses

Accrued payroll and other expenses consist of the following:

	2016	2015
Accrued salaries, wages, and benefits	$ 77,644	69,615
Other accrued expenses	21,273	25,403
Interest payable	8,434	9,995
Employee health liability	12,297	10,928
Patient credit balances	11,058	12,038
Workers' compensation liability	4,073	4,393
Due to related party	—	2,330
	$ 134,779	134,702

(8) Lines of Credit

In August 2016, Mission entered into an agreement with a bank to provide an unsecured revolving line of credit of $85,000 for capital purchases at a fixed rate of 2.89%. Mission will pay interest only for the first two years on any balance. The outstanding balance as of August 2018 will be repaid over a term of 20 years. The outstanding balance at September 30, 2016 was $0.

Mission maintains a $60,000 unsecured line of credit with a bank at LIBOR plus 0.35% plus a 0.125% fee on the undrawn balance. Mission's line of credit had an outstanding balance of $15,000 and $0 at September 30, 2016 and 2015, respectively. The line of credit expires on May 31, 2017, and management anticipates routine renewal of the expiring facility under substantially the same terms and conditions as noted.

Highlands-Cashiers maintains a $500 unsecured line of credit with a bank at LIBOR plus 0.35% plus a 0.125% fee on the undrawn balance. The line of credit had an outstanding balance of $500 at September 30, 2016 and 2015. The line of credit expires on May 29, 2017, and management anticipates routine renewal of the expiring facility under substantially the same terms and conditions as noted.

Asheville Specialty Hospital maintains a $1,500 unsecured line of credit with a bank at LIBOR plus 0.35% plus a 0.125% fee on the undrawn balance. No amounts were outstanding at September 30, 2016 or 2015. The line of credit expires on May 31, 2017, and management anticipates routine renewal of the expiring facility under substantially the same terms and conditions as noted.

(In thousands)

(9) Long-Term Debt

A summary of long-term debt follows:

	2016	2015
Revenue bonds, issued in September 2016 through the North Carolina Medical Care Commission (the Commission). Interest rates range from 2.00% to 5.00%; interest payments due semiannually on April 1 and October 1; principal payments due annually on October 1 through 2035.	$ 53,985	—
Revenue bonds, issued in November 2015 through the Commission. Interest is 1.54% for the first five years. principal and interest payments are due semiannually on April 1 and October 1 through 2029.	46,945	—
Revenue bonds, issued in March 2015 through the Commission. Interest rates range from 3.00% to 5.00%; interest payments due semiannually on April 1 and October 1; principal payments due annually on October 1 through 2036.	73,735	73,885

(In thousands)

	2016	2015
Taxable revenue bonds, issued in March 2015 under a trust agreement between Mission and The Bank of New York Mellon. Interest rates range from 0.90% to 3.75%; interest payments due semiannually on April 1 and October 1; principal payments due annually on October 1 through 2028.	$ 50,010	50,175
Revenue bonds, issued in January 2007 through the Commission. Interest rates range from 4.00% to 5.00%; interest payments due semiannually on April 1 and October 1; principal payments due annually on October 1 through 2032.	126,370	140,455
Taxable revenue bonds, issued in November 2012 under a trust agreement between Mission and The Bank of New York Mellon. Interest rates range from 4.22% to 4.42%. Debt sinking fund service payments are due annually starting in 2029.	179,850	179,850
Revenue bonds, issued in February 2010 through the Commission. Interest rates range from 3.00% to 5.00%; interest payments due semiannually on April 1 and October 1; principal payments due annually on October 1 through 2035.	7,800	58,380
Revenue bonds, issued in August 2011 through the Commission. Interest rate is 2.50% for the first five years; interest payments due semiannually on April 1 and October 1; principal payments due annually on October 1 through 2028; repaid during 2016.	—	28,545
Revenue bonds, issued in 2011, through the Commission with variable interest rates. The debt matures in varying amounts through 2028; repaid during 2016.	—	12,035
Revenue bonds, 2007 issue, variable interest paid monthly, principal due in various installments through April 2029; repaid during 2016. At September 30, 2015, the interest rate was 0.74%.	—	8,570

(In thousands)

	2016	2015
Revenue bonds, issued in October 2003 through the Commission. Interest at variable rates (0.34% at September 30, 2016); interest payments due monthly; principal payments due annually on October 1 through 2018.	$ 4,655	6,070
Net unamortized premium	19,215	9,655
Net unamortized issuance costs	(4,118)	(4,290)
Total revenue bonds	558,447	563,330
Various notes payable and capital lease obligations, interest ranging from 2.70% to 4.20%, maturing through June 2023, generally secured by property and equipment	12,574	13,025
Total long-term debt	571,021	576,355
Current portion	(21,208)	(13,022)
Long-term debt, excluding current portion	$ 549,813	563,333

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and that the amortization of debt issuance costs be reported as interest expense. Mission adopted ASU 2015-03 in fiscal year 2016 and reclassified the September 30, 2015 bond issuance costs balances of $4,290 from other assets to long-term debt. Mission will continue to amortize the costs to interest expense.

Future maturities of long-term debt follow:

	Amount
2017	$ 21,208
2018	13,711
2019	14,428
2020	14,903
2021	15,073
Thereafter	476,601
	555,924
Plus net unamortized premium and issuance costs	15,097
	$ 571,021

All revenue bonds are generally secured by Mission net revenue (as defined) and certain trusteed funds described in note 4. Additionally, there are a number of customary restrictive covenants contained in the agreements related to Mission's revenue bond issues, including maintenance of certain debt service coverage and other financial ratios.

The 2003 revenue bonds bear interest at variable rates. The 2003 bonds are supported by remarketing and standby bond purchase agreements. The standby bond purchase agreement expires October 1, 2018. Interest rates are periodically adjusted based upon prevailing rates for the contract period related to the remarketed tranche. In the event a market for variable rate instruments is not sustained, the standby agreements provide for refinancing the bonds. The average annual interest rate on the 2003 revenue bonds approximated 3.59% and 1.29% for the years ended September 30, 2016 and 2015, respectively.

In September 2016, Mission issued $53,985 in tax-exempt revenue bonds, Series 2016, through the Commission. Mission used the proceeds of the Series 2016 bonds to advance refund $9,645 of the Series 2007 revenue bonds and $48,805 of the Series 2010 revenue bonds. The proceeds of the Series 2016 bonds were used to pay certain expenses incurred in connection with the authorization, issuance, and sale of the Series 2016 bonds. In August 2016, Mission entered into a forward delivery contract of purchase to issue $100,285 in tax-exempt revenue bonds, Series 2017 through the Commission. The Series 2017 bond proceeds are expected to be received in July 2017 when the bonds are issued under the forward delivery contract of purchase and will be used to refund $116,875 of the 2007 revenue bonds.

If Mission, the Commission, and the North Carolina Local Government Commission are unable to satisfy the conditions contained in the forward delivery contract of purchase (contract), then the contract will terminate, and the forward refunding bonds (bonds) will not be issued. The underwriter is also not required to purchase the bonds unless certain conditions are satisfied as specified in the contract and other documents.

In November 2015, Mission issued $47,265 in tax-exempt revenue bonds through the Commission. The proceeds of this issue were used to refund the 2011 and 2007 direct bank purchase bonds. As a part of this transaction, Angel Medical Center, Inc. and Transylvania Community Hospital, Inc. were admitted as designated members to the Obligated Group and these bonds were combined into one series with three subseries. The Obligated Group includes Mission Health System, Inc., Mission Hospital, Inc., Mission Medical Associates, Inc., Mission Ventures, Inc., Mission Healthcare Foundation, Inc., Blue Ridge Regional Hospital, Inc., Transylvania Community Hospital, Inc., and Angel Medical Center, Inc.

In March 2015, Mission issued $50,175 in taxable revenue bonds, Series 2015 and $73,885 in tax-exempt revenue bonds through the Commission. Mission used the proceeds of the Series 2015 bonds to advance refund $98,875 of the Series 2007 revenue bonds, which will be called on October 1, 2017, and $23,190 of the taxable revenue bonds will be used to finance the costs of various capital improvements, equipment, and other strategic initiatives for the benefit of Mission. The proceeds were also used to pay certain expenses incurred in connection with the authorization, issuance, and sale of the Series 2015 bonds.

(In thousands)

(10) Derivative Financial Instruments

Mission does not use derivative financial instruments for trading purposes. In each instance, the fair value of the relevant instrument is generally estimated as the amount Mission would receive or pay for the termination right at the reporting date, taking into account current interest rates and other factors, including credit default risk.

In 2000, McDowell entered into a swap agreement, which is in effect until May 2016. The swap agreement exchanges a variable rate for a fixed rate of 4.92%. The fair value of the swap as of September 30, 2016 and 2015 was a liability of $0 and $19, respectively, which is included in other long-term liabilities in the consolidated balance sheets.

In September 2002, Mission entered into a forward-starting swap agreement, which is in effect until October 2018 that was executed in conjunction with the refunding of the balance of the Series 1993 revenue bonds, which were refunded with proceeds from the Series 2003 bonds. The swap agreement exchanged a variable rate for a fixed rate of 3.59%. The effective date of this transaction was October 2003, which mirrored the call date of the Series 1993 bonds. The fair value of the swap was a net liability of $159 and $308 at September 30, 2016 and 2015, respectively, which is included in other long-term liabilities in the consolidated balance sheets.

(11) Other Long-Term Liabilities

A summary of other long-term liabilities follows:

	2016	2015
Accrued general and professional liability costs	$ 21,805	20,546
Fair value of derivative financial instruments	159	327
Deferred compensation payable	14,297	13,975
Annuities payable	1,854	524
Other	726	9,967
	$ 38,841	45,339

(12) Fair Value of Financial Instruments

(a) *Fair Value of Financial Instruments*

The carrying amounts of all applicable asset and liability financial instruments reported in the consolidated balance sheets (except for certain fixed-rate debt instruments) approximate their fair values at September 30, 2016 and 2015. Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

(In thousands)

(b) Fair Value Hierarchy

In accordance with ASC 820, Mission has categorized its financial instruments, based on the priority of inputs used in related valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Mission has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 (including net asset value) that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy of investments and assets limited as to use at September 30, 2016 and 2015 follows:

	2016				
	Level 1	**Level 2**	**Level 3**	**Investments at net asset value**	**Total**
Cash and cash equivalents	$ 97,110	—	—	—	97,110
Fixed income securities:					
Domestic	194,937	27,130	—	—	222,067
International	11,964	—	—	—	11,964
Common stocks:					
Domestic	86,772	11,994	—	—	98,766
International	28,787	—	—	—	28,787
Alternative investment vehicles:					
Hedge funds	620	5,310	22,647	106,189	134,766
Private equity	—	—	96,292	—	96,292
Real estate	—	—	8,549	—	8,549
Natural resources	—	—	12,512	—	12,512
Collective trust funds:					
Domestic	—	130,893	—	—	130,893
International	—	149,739	—	—	149,739
	$ 420,190	325,066	140,000	106,189	991,445

(Continued)

(In thousands)

	2015				
	Level 1	Level 2	Level 3	Investments at net asset value	Total
Cash and cash equivalents	$ 146,925	—	—	—	146,925
Fixed income securities:					
Domestic	204,904	23,093	—	—	227,997
International	480	—	—	—	480
Common stocks:					
Domestic	110,870	—	—	—	110,870
International	27,263	10,757	—	—	38,020
Alternative investment vehicles:					
Hedge funds	—	11,439	14,268	106,187	131,894
Private equity	—	—	83,078	—	83,078
Real estate	—	—	9,704	—	9,704
Natural resources	—	—	14,926	—	14,926
Collective trust funds:					
Domestic	—	83,954	—	—	83,954
International	—	123,955	—	—	123,955
	$ 490,442	253,198	121,976	106,187	971,803

The rollforward of Level 3 assets limited as to use for the years ended September 30, 2016 and 2015 follows:

Fair value at September 30, 2014	$ 97,089
Unrealized and realized gains, net	11,702
Sales	(16,666)
Purchases	29,851
Fair value at September 30, 2015	121,976
Unrealized and realized gains, net	2,982
Sales	(16,944)
Purchases	31,986
Fair value at September 30, 2016	$ 140,000

Assets limited as to use classified as Level 2 are generally categorized based on the following principles:

- Shares or units in collective trust funds (as opposed to direct interests in the funds' underlying holdings) and hedge funds, which may be marketable: Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of Mission's interest therein, classification as Level 2 is based on Mission's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

- Bonds whose fair values are determined by independent vendors: The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

Assets limited as to use classified as Level 3 are generally categorized based on the following principles:

- Ownership interests in hedge funds and private equity are valued by and obtained from the fund manager. Account statements are received directly from independent administrators or the underlying hedge funds managers, who are responsible for the pricing of these funds. Before reliance on these valuations, Mission evaluates the fair value estimation processes and control environment, the investee fund's policies and procedures for estimating fair value of underlying investments, the investee fund's use of independent third-party valuation experts, and the professional reputation and standing of the investee fund's auditor.
- Mission had no significant transfers of assets and liabilities into or out of Level 1, Level 2, or Level 3 during either fiscal year 2016 or 2015.

Mission's interest rate swaps are executed over the counter and are valued using the net present value of the cash flow streams and current market rates, as no quoted market prices exist for such instruments. Mission categorizes its interest rate swaps as Level 2 within the fair value hierarchy.

(c) Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(13) Leases

Rental expense, including short-term cancelable rentals, was $27,531 and $29,102 during 2016 and 2015, respectively.

Mission has master agreements with financing companies (the Lessors) and the Commission for certain equipment financing. Financing under the agreements is provided concurrent with Mission's assignment of security interest and title in eligible assets to the Lessors and the Commission. The Lessors obtain financing from the Commission, reimburse Mission for its purchase cost of eligible assets, and then lease the related assets back to Mission. Individual lease arrangements under the agreements are generally structured as operating leases, and related payments are included in the future minimum lease payments outlined below. Mission has the option to purchase the equipment from the Lessors at the end of the respective lease terms, generally at fair value (as defined).

(In thousands)

The following is a schedule by year of future minimum lease payments due under noncancelable operating leases as of September 30, 2016 that have initial or remaining lease terms in excess of one year:

		Amount
2017	$	19,861
2018		15,580
2019		13,445
2020		11,584
2021		9,480
Thereafter		41,917
	$	111,867

In late 2010, the FASB issued for comment *Proposed Accounting Standards Update – Leases (Topic 840)*. After receiving and considering significant feedback, the FASB issued a final ASU during 2016. ASU 2016-02, *Leases,* is expected to require Mission to recognize virtually all of its leases on the consolidated balance sheets. Adoption could cause considerable changes in the presentation of Mission's debt and interest expense in its consolidated financial statements (among other things). Management is reviewing the implications of the ASU for Mission, including potential implications for many complex agreements and arrangements, which might be impacted by this major accounting change. While that work is ongoing, management is optimistic that there will not be material impacts associated with important related matters, such as overall Mission credit ratings or future debt covenant compliance.

(14) Net Patient Service Revenue

Certain affiliates of Mission have agreements with governmental and other third-party payors that provide for reimbursement to such affiliates at amounts different from established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare – Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to patient classification systems based on clinical, diagnostic, and other factors. Additionally, payments for certain other reimbursable items are made at tentative rates, with final settlements determined after submission of annual cost reports by Mission and audits by the Medicare fiscal intermediary. Mission's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2011. Revenue from the Medicare program totaled approximately 38% of Mission's net patient service revenue for the years ended September 30, 2016 and 2015, respectively.

(Continued)

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are generally paid based upon cost reimbursement methodologies. Mission is reimbursed at a tentative rate with final settlement determined after it submits its annual Medicaid cost reports. Mission's Medicaid cost reports have been audited by the Medicaid program through September 30, 2010. Revenue from the Medicaid program totaled approximately 12% and 14% of Mission's net patient service revenue for the years ended September 30, 2016 and 2015.

Mission receives supplemental Medicaid payments from the state of North Carolina through a federally approved disproportionate share program (Medicaid DSH). Assessment payments, as well as existing state funds, are matched by federal funds and redistributed so that declines in private hospital payments are mitigated. Mission's gross Medicaid receipts from the DSH Program were $88,588 and $100,613 for the years ended September 30, 2016 and 2015, respectively. Total assessments paid by Mission during the year were $26,037 and $30,889 for the years ended September 30, 2016 and 2015, respectively. The net of the gross receipts less the assessment is included as an increase in net patient service revenue.

There can be no assurance that Mission will continue to qualify for future participation in these programs or that the programs will not be discontinued or materially modified.

Other – Mission has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and directly with local employers. The basis for payment to Mission under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, Mission must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology. The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adaption of EHR technology. Mission anticipates system-wide compliance with the meaningful use objectives mandated in the HITECH legislation. Certain Mission entities have met and attested to various stages of meaningful use in 2016 and 2015, with $400 and $1,000 of incentives recognized and either received or pending final third-party settlement in 2016 and 2015, respectively.

(In thousands)

With respect to reserves for third-party payor cost report audits and anticipated settlements, Mission routinely provides such reserves through the periods of initial audit and final settlement of the cost reports. Mission has historically provided such reserves in recognition of the complexity of relevant reimbursement regulations and the volatility of related settlement processes. In any event, Mission's estimates in this area will differ from actual experience, and those differences may be material. During 2016 and 2015, net patient service revenue increased $8,590 and $6,756, respectively, due to settlements related to prior periods, changes in estimates related to prior cost reporting periods, and removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

The composition of net patient service revenue follows:

		2016	2015
Gross patient service revenue	$	4,037,766	3,597,045
Less provision for contractual and other adjustments		(2,355,510)	(2,070,703)
Less provision for bad debts		(141,609)	(123,299)
Net patient service revenue	$	1,540,647	1,403,043

Patient accounts receivable are reduced by an allowance for bad debts. In evaluating the collectibility of accounts receivable, Mission analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluation of the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, Mission analyzes contractually due amounts and provides an allowance for uncollectible accounts, allowance for contractual adjustments, provision for bad debts, and contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, Mission records a significant provision for bad debts in the period of service on the basis of its historical collections, which indicates that many patients decline to pay the portion of their bill for which they are financially responsible. The difference between the discounted rate and the amounts collected after all reasonable collection efforts have been exhausted is written off against the allowance for uncollectible accounts. Mission's self-pay write-offs increased by approximately $34,821 for fiscal year 2016 to approximately $127,893. Mission maintains an allowance for uncollectible accounts from other third-party payors, which is not material.

(15) Service to the Community

Mission accepts all patients regardless of their ability to pay. Mission has established a formal policy whereby a patient may qualify for charity care if certain criteria are met. These policies define charity services as those services for which no or only partial payment is anticipated because of a patient's ability to pay. In assessing a patient's ability to pay, Mission utilizes the generally recognized poverty income levels, but also includes certain cases where incurred charges are significant when compared to the patient's available resources. In addition to providing services to the financially disadvantaged, Mission participates in state and federal programs designed for the indigent and elderly whereby healthcare services are often times reimbursed at or below Mission's full cost of providing such services. Additionally, Mission subsidizes graduate medical education in the community. Estimated total community benefit costs and unreimbursed costs of government healthcare programs for Mission are $183,426 and $148,881 for September 30, 2016 and 2015, respectively (as detailed below). Additionally, costs of services associated with uncollectible accounts are estimated at $40,248 and $37,257 for September 30, 2016 and 2015, respectively:

(In thousands)

		2016	2015
Estimated costs of treating charity care patients	$	29,577	28,049
Unreimbursed medical education and research costs		4,924	3,738
Other direct community benefit costs		73,733	67,642
Total community benefit costs		108,234	99,429
Estimated unreimbursed costs of treating Medicare patients		64,323	55,832
Estimated unreimbursed costs of treating Medicaid patients		10,869	(6,380)
Total community benefit costs and unreimbursed costs of government healthcare programs	$	183,426	148,881

The above estimates were developed using the methodology adopted by the North Carolina Hospital Association in 2006 for such costs, including information from Mission's cost reporting systems used to support its related filings with the Medicare and Medicaid programs.

Mission presents the above information as only one series of quantifiable measures associated with its community commitment. Importantly, management believes this information presents only one facet of the multiple ways in which Mission fulfills its obligation to serve the communities within its service area.

(16) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

		2016	2015
Capital expenditures	$	1,919	2,179
Hospital programs		16,370	15,729
	$	18,289	17,908

Permanently restricted net assets consist of endowment contributions to be maintained in perpetuity, the income from which is expendable to support healthcare services.

(17) Insurance Programs

The accompanying consolidated financial statements include Mission SP, which as described in note 1 is a segregated portfolio of Dogwood, a captive insurance affiliate of Mission that issues professional and general liability insurance to Mission. Mission is self-insured with respect to general and professional liability risks in an underlying layer of $4,000 per occurrence, with an additional $2,000 per occurrence, $4,000 aggregate buffer layer, and $16,000 aggregate retention. Incurred losses under Mission's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate Mission's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. As of September 30, 2016 and 2015, Mission has recorded an accrual for estimated losses, discounted at 2%, of $21,805 and $20,546, respectively, which is included in other long-term liabilities in the accompanying consolidated balance sheets.

Mission has substantial excess professional liability coverage available under the provisions of excess claims-made policies, which expire June 1, 2017. To the extent that any claims-made coverage is not renewed or replaced with equivalent insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through Mission's incident reporting system, that any such claims would not have a material effect on Mission's operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires. Mission also has substantial excess general liability coverage under the provisions of occurrence-based excess policies.

Mission is self-insured with respect to employee health coverage, up to a lifetime limit of $2,000 per employee. In addition, Mission is self-insured with respect to workers' compensation coverage, up to a limit of $750 per individual occurrence. Substantial coverage with a third-party carrier is maintained for excess losses with respect to both employee health and workers' compensation exposures.

As of September 30, 2016 and 2015, Mission has recorded accruals for employee health and workers' compensation exposures, including the cost of both reported and unreported claims, totaling $15,723 and $14,646, respectively, which are included in accrued payroll and other expenses in the accompanying consolidated balance sheets.

Mission's self-insured employee health plan allows employees to elect a consumer-driven option, whereby Mission funds first-dollar coverage of qualifying medical expenses up to certain limits. Unused amounts credited under the first-dollar coverage may be rolled into future plan years, subject to a ceiling.

Beginning in fiscal year 2009, amounts in excess of the carry-over ceiling are credited to a health reimbursement account and a post-retirement benefit component was added to the health plan. Excluding an employee's interest in their qualifying balance, all other unused balances are forfeited upon termination of employment. As of September 30, 2016 and 2015, Mission has recognized a liability of $2,789 and $2,233, respectively, which is included in accrued payroll and other expenses, for the post-retirement obligation component (as defined) of the plan.

(In thousands)

Mission's commitment to fund first-dollar health expenses as described above is recognized in employee health plan expense as employees incur medical costs and file for reimbursement with the health plan. Future commitments, based on active employees, under the first-dollar healthcare reimbursement plan at September 30, 2016 are $2,800. Actual future utilization under the plan is not reasonably estimable.

(18) Concentrations of Credit Risk

Mission grants credit to patients, substantially all of whom reside in the service areas of Mission. Mission generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, and other preferred provider arrangements and commercial insurance policies). The mix of gross receivables from patients and third-party payors is as follows:

	2016	2015
Medicare	26%	27%
Medicaid	15	15
Other third-party payors	32	31
Commercial	13	14
Patients	14	13
	100%	100%

(19) Subsequent Events

In December 2016, Mission purchased WakeMed's shares in Dogwood Insurance Company, making Mission the sole owner.

In December 2016, Mission entered into an agreement to receive financing up to $28,958 for certain equipment at an estimated fixed rate of 2.88% secured by equipment purchased. The repayment terms provide for two annual payments beginning April 2017 with a final maturity July 2018. Mission may request and Lender agrees to renew the financing at maturity based on mutually agreeable reasonable market terms.

Mission has evaluated subsequent events for recognition and disclosure through December 22, 2016, the date the consolidated financial statements were issued.

COPA Financial Data

For fiscal years ending 9/30/2016 and 9/30/2015

Updated: 12/14/2016

Mission Hospital

	FY16	FY15
Operating revenue per case-mix and revenue adjusted discharges	$ 8,360	$ 8,095
Operating expense per case-mix and revenue adjusted discharges	$ 7,611	$ 7,402
Unadjusted discharges	41,164	40,581
Inpatient revenue percentage	0.5326	0.5458
Revenue adjusted discharges	77,290	74,353
Case-mix index	1.8249	1.7836
Case-mix and revenue adjusted discharges	141,051	132,612
Patient revenue (000's)		
Inpatient	$ 1,648,555	$ 1,511,899
Outpatient	1,446,803	1,258,209
Gross patient revenue	3,095,358	2,770,109
Deductions from revenue		
Contractual allowances	(1,819,139)	(1,602,386)
Bad debt	(83,476)	(80,050)
Charity care	(74,660)	(68,127)
Total deductions from revenue	(1,977,275)	(1,750,563)
Net patient revenue	1,118,083	1,019,546
Other operating revenue	61,124	53,960
Net operating revenue	$ 1,179,207	$ 1,073,506
Net operating expense	$ 1,073,529	$ 981,611

Mission Health System, Inc.

	FY16	FY15
Net operating revenue (000's)	$ 1,632,882	$ 1,488,233
Operating expenses	1,579,131	1,443,480
Operating margin	$ 53,751	$ 44,753
Operating margin percentage	3.29%	3.01%

2016 COPA Report Physician Schedule - Primary Service Area

Specialty	Primary Service Area	Mission Employed (MMA)	Percentage Employed	Mission Exclusive	Percentage	Exclusive Practice Name
Cardiology	26	26	100%	26	100%	Asheville Cardiology (Through MMA)
Genetics	2	2	100%	0	0%	
Hospice/Palliative Care	10	10	100%	0	0%	
Hospitalist	57	57	100%	0	0%	
Neonatology	7	7	100%	0	0%	
Neuro-Hospitalist	4	4	100%	0	0%	
Pediatric Cardiology	3	3	100%	0	0%	
Pediatric Endocrinology	2	2	100%	0	0%	
Pediatric Gastroenterology	0	0	100%	0	0%	
Pediatric Hospitalist	5	5	100%	0	0%	
Pediatric Intensivist	4	4	100%	0	0%	
Pediatric Oncology	4	4	100%	0	0%	
Pediatric Orthopedics	2	2	100%	0	0%	
Pediatric Pulmonology	1	1	100%	0	0%	
Pediatric Surgery	1	1	100%	0	0%	
Trauma Orthopedics	4	4	100%	0	0%	
Trauma Surgery	10	10	100%	0	0%	
Infectious Disease	7	5	71%	0	0%	
Pediatric Psychiatry/Developmental Pediatrics	3	2	67%	0	0%	
Neurology	17	11	65%	0	0%	
Pediatric Neurology	2	1	50%	0	0%	
Anesthesiology	49	21	43%	0	0%	
Pediatrics-Internal Medicine	4	1	25%	0	0%	
Psychiatry	51	11	22%	0	0%	
Family Medicine	145	27	19%	0	0%	
Orthopedics	35	6	17%	0	0%	
General Pediatrics/Adolescent	36	6	17%	0	0%	
Internal Medicine	42	6	14%	0	0%	
Emergency Medicine	35	3	9%	35	100%	Carolina Mountain Emergency Medicine
General Surgery	17	1	6%	0	0%	
OB/Gyn	44	1	2%	0	0%	
Allergy and Immunology	8	0	0%	0	0%	
Cardiovascular Surgery	5	0	0%	0	0%	
Dermatology	18	0	0%	0	0%	
Endocrinology	6	0	0%	0	0%	
Gastroenterology	19	0	0%	0	0%	
GYN Oncology	6	0	0%	0	0%	
Hand Surgery	4	0	0%	0	0%	
Hematology/Oncology	19	0	0%	0	0%	
Maternal Fetal Medicine	3	0	0%	0	0%	
Nephrology	10	0	0%	10	100%	Mountain Kidney & Hypertension Associates
Neuroradiology	5	0	0%	0	0%	

2016 COPA Report Physician Schedule - Primary Service Area

Specialty	Primary Service Area	Mission Employed (MMA)	Percentage Employed	Mission Exclusive	Percentage	Exclusive Practice Name
Neurosurgery	13	0	0%	0	0%	
Ophthalmology	23	0	0%	0	0%	
Otorhinolaryngology	31	0	0%	0	0%	
Pathology	14	0	0%	14	100%	PML Pathology
Physical Medicine and Rehabilitation	10	0	0%	0	0%	
Plastic Surgery	6	0	0%	0	0%	
Pulmonary/Adult Critical Care	21	0	0%	0	0%	
Radiation Oncology	9	0	0%	6	67%	Mountain Radiation Oncology
Radiology	49	0	0%	0	0%	
Rheumatology	6	0	0%	0	0%	
Urology	18	0	0%	0	0%	
Vascular Surgery	7	0	0%	0	0%	

COPA Reporting for 2016
Source Data: NC Medical Board Database 4/2016
Mission Hospital Medical Staff Roster
Mission Hospital Contract Database/Legal Records
Compiled by: Brian Moore 11/17/2016
Primary Service Area is Buncombe and Madison Counties
Top Area in yellow indicates specialties excluded by COPA and/or previously reported

2016 COPA Report Physician Schedule - Secondary Service Area

Specialty	Secondary Service Area	Mission Employed (MMA)	Percent
Cardiology	17	11	65%
OB/Gyn	52	11	21%
Urology	21	4	19%
Family Medicine	222	40	18%
Orthopedics	36	6	17%
Hospitalist	55	9	16%
Pediatrics	68	10	15%
General Surgery	56	6	11%
Emergency Medicine	107	10	9%
Internal Medicine	105	8	8%
Pulmonary/Adult Critical Care	15	1	7%
Allergy and Immunology	1		0%
Anesthesiology	35		0%
Cardiovascular Surgery	0		0%
Dermatology	11		0%
Endocrinology	3		0%
Gastroenterology	12		0%
General Pediatrics/Adolescent	57		0%
Genetics	0		0%
GYN Oncology	0		0%
GYN Surgery	9		0%
Hand Surgery	1		0%
Hematology/Oncology	5		0%
Infectious Disease	3		0%
Maternal Fetal Medicine	0		0%
Neonatology	4		0%
Nephrology	2		0%
Neuro-Hospitalist	0		0%
Neurology	9		0%
Neuroradiology	0		0%
Neurosurgery	0		0%
Ophthalmology	30		0%
Otorhinolaryngology	1		0%
Pathology	9	0	0%
Pediatric Cardiology	0		0%
Pediatric Endocrinology	0		0%
Pediatric Gastroenterology	0		0%
Pediatric Hospitalist	0		0%
Pediatric Intensivist	0		0%
Pediatric Neurology	0		0%
Pediatric Oncology	0		0%
Pediatric Orthopedics	0		0%
Pediatric Psychiatry/Developmental Pediatrics	0		0%
Pediatric Pulmonology	0		0%
Pediatric Surgery	0		0%
Physical Medicine and Rehabilitation	0		0%
Plastic Surgery	3		0%
Psychiatry	54		0%
Radiation Oncology	8		0%
Radiology	11		0%
Rheumatology	3		0%
Trauma Orthopedics	0		0%
Trauma Surgery	0		0%
Vascular Surgery	0		0%

Notes:
Prepared by Brian Moore, Mission Health, Inc.
Excluded per COPA
Excludes VA Physicians from count
Secondary Service Area includes Avery, Burke, Clay, Cherokee, Graham, Haywood, Henderson, Jackson, Macon, McDowell, Mitchell, Polk, Rutherford, Swain, Transylvania, and Yancey

Sources:
Cecil Sheps Center For Health Services Health Professionals Database (UNC)
Mission Hospital Contract Database/Legal Records
NC Medical Board Database 4/2016

MISSION HEALTH

MISSION HEALTH SYSTEM, INC.
MISSION HOSPITAL, INC.

OFFICER'S CERTIFICATE

I, RONALD A. PAULUS, M.D., DO HEREBY CERTIFY that I was the President and Chief Executive Officer of Mission Health, Inc., ("Health") and Mission Hospital, Inc., ("Hospital"), at fiscal year-end September 30, 2016 and that I am authorized to execute this Certificate on behalf of Health and Hospital.

I hereby further represent that to the best of my knowledge, after due investigation and except as herein noted, Health and Hospital are in compliance with the Third Amended Certificate of Public Advantage.

WITNESS my hand this 23rd day of January 2017.

MISSION HEALTH, INC.
MISSION HOSPITAL, INC.

Ronald A. Paulus, M.D.
President and Chief Executive Officer

Mission Hospital Market Share Trends FY 2016 Q2

County	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	YTD 2016 Q1-Q2*	FY10-FYTD FY16 % Change
PSA								
Buncombe	91.1%	90.8%	89.8%	90.3%	89.0%	87.3%	86.4%	(5%)
SSA								
Haywood	33.2%	33.7%	32.6%	36.3%	38.6%	35.8%	36.6%	10%
Henderson	27.4%	28.1%	29.1%	27.5%	28.6%	28.0%	30.0%	9%
Madison	90.5%	92.1%	90.2%	92.8%	91.0%	89.9%	89.9%	(1%)
McDowell	37.4%	39.4%	38.0%	39.2%	36.6%	40.5%	44.5%	19%
SSA Total	***35.7%***	***37.0%***	***36.7%***	***37.2%***	***37.6%***	***37.1%***	***39.4%***	10%
TSA								
Avery	5.9%	8.2%	8.4%	10.1%	7.6%	8.2%	7.2%	20%
Burke	6.2%	7.3%	6.4%	6.3%	5.0%	5.9%	6.1%	(2%)
Cherokee	18.2%	18.8%	21.4%	23.3%	22.5%	23.0%	24.7%	36%
Clay	21.8%	21.9%	24.0%	28.1%	28.4%	24.1%	30.0%	38%
Graham	28.9%	33.0%	33.1%	29.5%	31.2%	30.2%	29.3%	1%
Jackson	29.0%	28.5%	29.9%	30.1%	30.7%	30.3%	29.4%	1%
Macon	31.5%	32.2%	32.4%	32.1%	30.5%	33.7%	33.8%	8%
Mitchell	29.5%	33.4%	35.7%	34.4%	35.1%	40.6%	41.8%	42%
Polk	15.7%	19.0%	19.3%	20.6%	18.2%	21.4%	20.8%	32%
Rutherford	8.3%	10.2%	9.8%	9.2%	9.8%	11.3%	12.2%	47%
Swain	27.5%	30.8%	36.0%	35.8%	34.6%	35.8%	36.6%	33%
Transylvania	34.8%	32.1%	35.0%	35.7%	34.8%	40.1%	42.6%	23%
Yancey	50.3%	52.5%	53.3%	55.3%	56.3%	65.5%	66.4%	32%
TSA total	***19.3%***	***20.8%***	***21.6%***	***21.5%***	***20.8%***	***22.9%***	***23.5%***	21%
Grand Total	**42.3%**	**43.4%**	**43.5%**	**43.8%**	**43.3%**	**43.4%**	**44.3%**	**4.8%**

*FYTD 2016 Q1-Q2 represents Oct. 1, 2015 to Mar. 31, 2016

**Excludes Normal Newborns and Rehab IP discharges

Source: Truven IP State Database

Updated 11/11/2016, Strategic Growth and Business Development

2016
BOARD OF DIRECTORS
MISSION HEALTH SYSTEM, INC.
AND MISSION HOSPITAL, INC.