THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Carolinas HealthCare System)

Basic Financial Statements and
Other Financial Information

December 31, 2014 and 2013

(With Independent Auditors' Reports Thereon)

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

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Independent Auditors' Report

The Board of Commissioners
The Charlotte-Mecklenburg Hospital Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of The Charlotte-Mecklenburg Hospital Authority (d/b/a Carolinas HealthCare System) (the System) and its discretely presented component units, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Charlotte-Mecklenburg Hospital Authority (d/b/a Carolinas HealthCare System) and its discretely presented component units as of December 31, 2014 and 2013, and the respective changes in net position and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1 to the financial statements, the System became the sole member of Stanly Health Services, Inc. and affiliates (Stanly) during 2014. This transaction has been reported as a change in reporting entity and prior year financial statements have been retrospectively restated to include Stanly as a discretely presented component unit.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 through 13, the schedule of plan funding process on page 47 and the historical summary of actual and required pension contributions on page 48 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The combining schedule of assets, liabilities and net position – discretely presented component units and the combining schedule of revenues, expenses and changes in net position – discretely presented component units, for the years ended December 31, 2014 and 2013, and the combining schedule of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position – combined group, the combining schedule of revenues, expenses and changes in net position – combined group and the combining schedule of cash flows – combined group, for the years ended December 31, 2014 and 2013 (collectively, the Combining Information) are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the audited procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Charlotte, North Carolina
April 23, 2015

This Management's Discussion and Analysis report provides an overview of the financial position and results of activities of Carolinas HealthCare System (the System) for the years ended December 31, 2014, 2013, and 2012. It has been prepared by management and is required supplemental information to the basic financial statements and the notes that follow this section. Except as otherwise noted, the financial highlights in this analysis refer exclusively to the Primary Enterprise as described in note 1 of the notes to financial statements.

Required Financial Statements

The Governmental Accounting Standards Board (GASB) requires three financial statements: the statement of net position (balance sheet); the statement of revenues, expenses and changes in net position; and the statement of cash flows.

The balance sheets include all of the System's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets), future consumption of net position (deferred outflows of resources), the obligations to the System's creditors (liabilities), and future acquisition of net position (deferred inflows of resources). The balance sheets, along with the related notes, also provide the basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System.

All of the System's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net position. This statement measures the financial performance of the System's operations over the past years and can be used to determine whether the System has recovered its costs through its fees and other sources of revenue, as well as its creditworthiness.

The statements of cash flows provide information on where cash came from, what it was used for, and what the change in the cash balance was by reporting cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

(Continued)

Balance Sheets

Condensed balance sheets at December 31:

		2014		2013		2012
Cash and short-term investments	$	96,271	$	99,544	$	91,538
Other current assets		906,059		855,180		803,157
Capital assets – net		3,003,692		2,887,794		2,571,957
Investments designated for capital improvements		2,849,058		2,611,914		2,205,144
Other noncurrent assets		358,507		360,154		346,640
Total assets		7,213,587		6,814,586		6,018,436
Deferred outflows of resources		238,993		130,753		315,848
Total assets and deferred outflows of resources	$	7,452,580	$	6,945,339	$	6,334,284
Long-term debt	$	1,907,183	$	1,923,387	$	1,753,551
Other current and long-term liabilities		1,469,522		1,229,958		1,218,273
Total liabilities		3,376,705		3,153,345		2,971,824
Deferred inflows of resources		46,612		52,605		58,424
Net investment in capital assets		1,087,370		972,812		874,140
Restricted – by donor		24,771		22,069		15,119
Unrestricted		2,917,122		2,744,508		2,414,777
Total net position		4,029,263		3,739,389		3,304,036
Total liabilities, deferred inflows of resources and net position	$	7,452,580	$	6,945,339	$	6,334,284

The System's cash position (cash, short-term investments and investments designated for capital improvements) at December 31, 2014, 2013 and 2012 was $2,945,329, $2,711,458 and $2,296,682, respectively, while the System's long-term debt at December 31, 2014, 2013 and 2012 was $1,907,183, $1,923,387 and $1,753,551, respectively. This debt currently carries credit ratings of AA- with a stable outlook from Standard & Poor's and Aa3 with a stable outlook from Moody's Investors Service. Debt service (scheduled principal and interest payments, excluding refinancing activity) for 2014, 2013 and 2012 totaled $122,825, $125,370 and $104,909, respectively.

The System's credit ratings, noted above, reflect an assessment of its future ability to meet its debt obligations and have a direct impact on its cost of borrowing. In addition to evaluating ongoing operating performance, rating agencies also measure balance sheet strength to assess how well an organization can withstand periods of financial stress. In doing so, they evaluate the amount of long-term debt as well as unrestricted cash and investments (cash, short-term investments and investments designated for capital improvements) on the balance sheet. Sufficient levels of unrestricted cash and investments and related liquidity provide assurance that the System can not only pay its operating expenses and service its debt, but also continue to make necessary capital investments even in prolonged periods of operating volatility.

Rating agencies measure the System's ability to withstand volatility primarily with two key ratios: days cash on hand, the number of days the System could continue paying its operating expenses from current cash and investment balances; and cash-to-debt, which represents the percentage of the System's existing debt that could be retired immediately. The ability to maintain these ratios and credit ratings at current levels enhances the ability of the System to borrow affordably when necessary and continue to provide high quality healthcare services to its communities even in difficult times.

	2014	2013	2012
Days cash on hand	239	234	220
Cash-to-debt	154.4%	141.0%	131.0%

More detailed information about the System's cash, investments and other financial instruments and debt is presented in notes 2 and 5 of the notes to financial statements, respectively.

The net position of the System at December 31, 2014 increased $289,874 from December 31, 2013. The increase in net position was due to positive results of operations of $185,868, investment and other nonoperating income of $96,926, and capital and other contributions of $7,080.

The net position of the System at December 31, 2013 increased $435,353 from December 31, 2012. The increase in net position was due to positive results of operations of $116,065, investment and other nonoperating income of $207,145, capital and other contributions of $14,536 and net inherent contributions of acquired entities of $97,607.

Statements of Revenues, Expenses, and Changes in Net Position

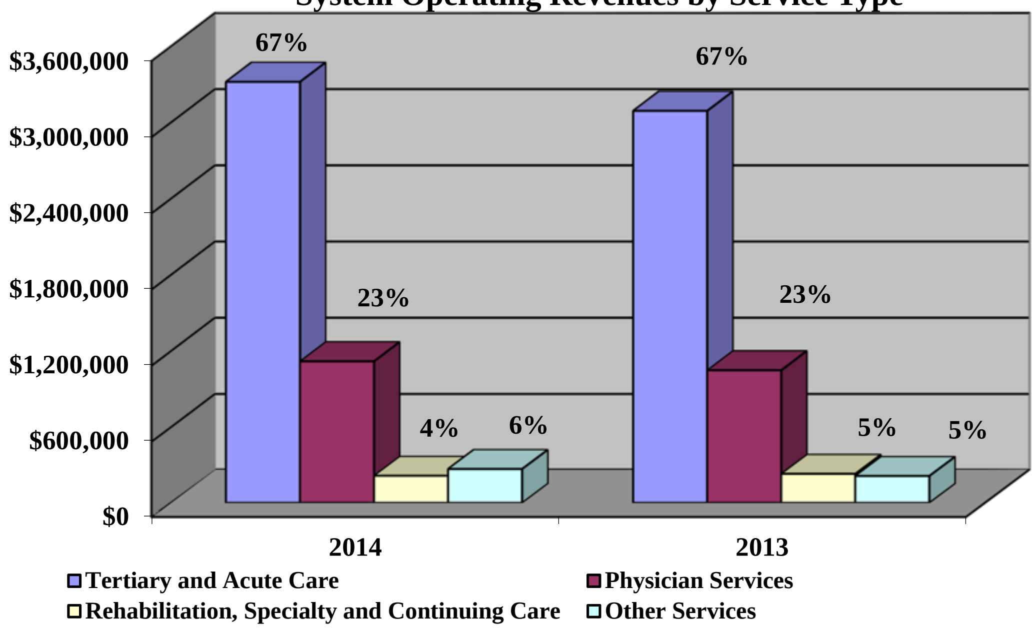
Condensed statements of revenues, expenses and changes in net position for the years ended December 31:

	2014	2013	2012
Operating revenues	$ 4,928,711	$ 4,589,014	$ 4,193,692
Operating expenses	4,742,843	4,472,949	4,027,238
Operating income	185,868	116,065	166,454
Nonoperating income – net	96,926	207,145	207,269
Revenue over expenses before contributions	282,794	323,210	373,723
Capital contributions	7,012	5,649	9,307
Other contributions	68	8,887	7,460
Special item:			
Net inherent contributions of acquired entities for previously reported component units now part of the primary enterprise	0	97,607	0
Increase in net position	289,874	435,353	390,490
Beginning net position	3,739,389	3,304,036	2,913,546
Ending net position	$ 4,029,263	$ 3,739,389	$ 3,304,036

Operating revenues in 2014 increased 7.4% from the prior year, largely due to increases in inpatient and outpatient volumes. The acute and tertiary care hospitals, comprising 67% (Figure 1) of the System's net operating revenues, experienced a 3.2% increase in inpatient volumes from the prior year. In addition, the CHS Medical Group operating revenues grew 7% due primarily to growth in the number of new physicians and advanced clinical practitioners (ACPs) joining CHS Medical Group and growth in visits.

Operating revenues in 2013 increased 9.4% from the prior year primarily due to the addition of Cleveland County HealthCare System (CCHS) and Healthy@Home as discussed in note 1 of the notes to financial statements. The acute and tertiary care hospitals, which comprised 67% of the System's net operating revenues (Figure 1), experienced an 8.9% increase in inpatient volumes, which included the addition of CCHS. The CHS Medical Group operating revenues grew 7% due primarily to growth in the number of new physicians and ACPs joining CHS Medical Group and growth in visits.

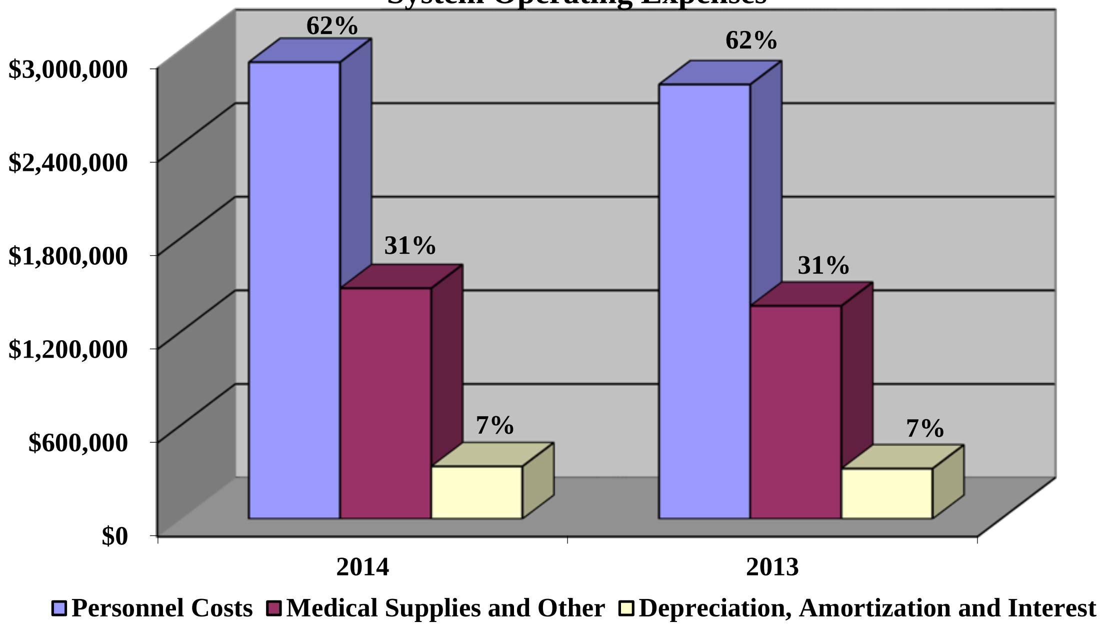
Figure 1
System Operating Revenues by Service Type



Operating expenses in 2014 increased 6% from the prior year. Personnel costs, comprising 62% of the total System operating expenses in 2014 (Figure 2), increased 5.1% due to CHS Medical Group growth, the effects of annual wage and market adjustments and additional personnel associated with System growth, including two new hospital facilities and two new freestanding emergency rooms. Other operating expenses, consisting primarily of pharmaceutical and supply costs, professional fees, rent and purchased services, increased 8.3%, primarily due to growth and inflationary cost increases, including the cost of new technologies.

Operating expenses in 2013 increased 11.1% from the prior year. Personnel costs, comprising 62% of the total System operating expenses in 2013 (Figure 2), increased 10.5% due to the addition of CCHS and Healthy@Home, CHS Medical Group growth, the effects of annual wage and market adjustments and additional personnel associated with System growth. Other operating expenses, consisting primarily of pharmaceutical and supply costs, professional fees, rent and purchased services, increased 12.2%, primarily due to growth and inflationary cost increases, including the cost of new technologies.

Figure 2
System Operating Expenses



Nonoperating income, which consists primarily of investment results, was impacted favorably by market value appreciation of the System's investments. As a governmental entity, the System is required to record all investment market value changes as a component of nonoperating income (loss). Total nonoperating income in 2014 included $7,893 of unrealized investment losses, whereas nonoperating income in 2013 included $124,924 of unrealized investment gains.

Statements of Cash Flows

Condensed statements of cash flows for the years ended December 31:

	2014	2013	2012
Net cash provided by operating activities	$ 607,249	$ 484,256	$ 438,763
Noncapital financing activities	(3,759)	(441)	(434)
Net cash used in capital and related financing activities	(472,519)	(498,163)	(396,609)
Net cash (used in) provided by investing activities	(122,243)	16,118	(9,983)
Increase in cash and cash equivalents	8,728	1,770	31,737
Cash and cash equivalents, beginning of year	87,373	85,603	53,866
Cash and cash equivalents, end of year	$ 96,101	$ 87,373	$ 85,603

The System relies primarily on cash earned from operations to fund its capital needs and to pay principal and interest due on its long-term debt. Any excess cash is invested for future capital needs and new clinical programs. Maintaining clinical excellence and financial viability of the System is dependent upon capital investment in new technologies, programs, and additional facilities, as well as the routine replacement of existing property, plant and equipment. Capital additions, net of retirements, for 2014, 2013 and 2012 totaled $358,062, $432,034 and $382,357, respectively. During 2014, the System invested in new clinical programs, facilities and capital improvements needed to provide services that enhance the quality and increase the availability of treatments, such as expanded behavioral health services, freestanding emergency departments, medical office buildings and other hospital facilities. More detailed information about the System's capital assets is presented in note 4 of the notes to financial statements.

Events and Factors Expected to Impact Future Periods

Revenue pressure continues to be the primary external factor impacting the System and healthcare providers in the years ahead. The stress on providers' future revenue growth, both in the traditional fee-for-service healthcare environment and in the new world of reimbursement models emphasizing more preventive care and improved medical outcomes, is a primary reason that all three credit agencies issued a negative outlook for nonprofit healthcare in 2015. Moody's Investors Service, in its recently published *Outlook for U.S. Not-for-Profit Hospitals Remains Negative*, expects hospitals in 2015 to "grapple with operating under two very different reimbursement models" and Fitch Ratings, in its *2015 Outlook on U.S. Nonprofit Hospitals and Healthcare Systems*, indicates reimbursement challenges will arise from "ongoing uncertainties surrounding the implementation and legality of key provisions of the Affordable Care Act (ACA) and continued movement toward value-based reimbursement models."

As private payers seek to manage their health plan costs and government payers seek to find ways to balance budgets, the traditional, volume-based rate increases for healthcare providers likely will continue to experience downward pressure. In reviewing hospital reimbursement data collected by the U.S. Bureau of Labor Statistics, Modern Healthcare reports that January 2015 data, when compared to January 2014, reflects "in aggregate, the price of acute care hospital care for Medicare, Medicaid, and private insurers declined 0.1%," which is the first decline since government officials began collecting the data. The data also indicates that reimbursement to hospitals from private health plans increased just 1.6%, the slowest rate for any one year period since July 1998, while reimbursement rates from both government payers declined between the years. At the Federal level, President

Obama’s 2016 budget proposal, submitted in February 2015, contains $423 billion of net Medicare spending reductions over 10 years, with approximately 1/3 of it in the form of reduced payments to healthcare providers. In North Carolina, the 2015 budget plan calls for an estimated $35 million reduction in Medicaid acute care reimbursement and with the state currently facing a $270 million revenue shortfall, it is possible that additional reimbursement cuts could be on the horizon in future years. Additionally, through 2014, North Carolina government leaders have continued resisting the expansion of Medicaid to all people with income less than 133% of the federal poverty level as permitted by the Affordable Care Act, foregoing in the process an estimated $2 billion annually in federal funding for North Carolina providers.

While private payers put pressure on future price increases, they are simultaneously shifting a greater portion of the payment responsibility to the patient. The Kaiser Family Foundation, based on the latest available government and industry information sources, estimates that the average total out-of-pocket spend among Medicare beneficiaries increased 44% from 2001 to 2010; while average annual worker costs for family coverage premiums and deductibles from 2006 to 2014 have increased approximately 62% and 72%, respectively. Kaiser also estimates that 27% of firms offering health benefits have a high deductible health plan and in 2015, one in five U.S. residents will be covered by these plans. With the patient’s portion of healthcare costs on the rise, healthcare providers’ revenue growth is likely to be pressured with growing uncollectible charges as patients find themselves unable to pay their higher out-of-pocket costs, as well as pressured with dampened consumer demand as some patients decide to defer both elective and, unfortunately, necessary healthcare.

The healthcare industry’s model for reimbursement is evolving to value-based from fee for service. Purchasers of health services are increasingly emphasizing value and quality of services provided – that is to say, healthcare purchasers are becoming healthcare consumers who are focused on the best care management and medical outcomes for the lowest possible cost. The Centers for Medicare and Medicaid Services (CMS) recently announced an aggressive payment reform timeline to reward care givers for improved access to care, improved quality outcomes, and improved care coordination. CMS intends to link 30% of Medicare reimbursements to alternative payment models by the end of 2016 and 50% by the end of 2018. Likewise, The Health Care Transformation Task Force, which includes numerous well-known providers, insurers, and employers, has also committed to an aggressive goal – 75% of their respective operations will be subject to value-based reimbursement arrangements by 2020. These new payment models have the potential to exert ongoing revenue pressures thereby stressing those healthcare providers incapable of large scale data analytics, transformation of care delivery and cost of care reductions, all of which will be essential to remaining financially viable as the reimbursement model evolves.

A fundamental component of the evolution of the reimbursement model is the ACA; however, given the ongoing political differences surrounding the law and the legality of certain aspects of the ACA, some healthcare providers are experiencing even greater risks to revenue growth. North Carolina government leaders have continued to resist the expansion of Medicaid to all people with income less than 133% of the federal poverty level as permitted by the ACA, foregoing in the process an estimated $2 billion annually in federal funding for North Carolina providers. Currently, the U.S. Supreme Court, in hearing the case of King vs. Burwell, is attempting to determine whether the ACA extends eligibility for federal tax subsidies to people in all states or only those states that established their own public insurance exchanges. Depending on the high court’s ruling, North Carolina, which is one of 37 states that is relying on the federal insurance exchange, could have the subsidies of more than 500,000 of its low income citizens disappear. According to an Urban Institute estimate, if the subsidies are ruled illegal and if none of the 37 states operate their own public health insurance exchange, approximately 8 million fewer people across the country would have health insurance in 2016.

Management believes that both traditional and new healthcare reimbursement models will yield lower revenue growth across the industry in the future. Additionally, we believe only those healthcare providers that can efficiently perform data analytics, effectively transform care delivery, and innovatively implement change will be able to mitigate this revenue stream pressure. Carolinas HealthCare System remains a financially viable entity with a strong governing board, experienced management team, extensive vertical integration, a significant geographic reach and a commitment to high levels of transformation, data analytics, quality, service and efficiency, which we believe, along with other attributes, will enable us to respond to these and future challenges.

Community Benefit

The mission of Carolinas HealthCare System is to create and operate a comprehensive system to provide healthcare and related services, including education and research opportunities, for the benefit of the people it serves. Our commitment to this mission requires both an "investment in" and a "partnership with" the community spanning the entire geographic region within which the System operates.

The System defines and measures this "investment in" and "partnership with" the community consistently with the North Carolina Hospital Association (NCHA) guidelines and includes costs associated with:

- patient care provided to underinsured and uninsured patients,
- medical education provided to the next generation of healthcare professionals,
- medical research to stay on the "cutting edge" for new treatments and cost effective care,
- volunteerism of System teammates and contributions to community groups and local nonprofit organizations, and
- vital healthcare and community health improvement services as well as community building activities.

Growth in the community's unreimbursed care constitutes both a challenge and an opportunity for the System. It is a challenge to ensure that the necessary patient care personnel and facility infrastructures are in place to meet the demand for all patients. It is also an opportunity to provide access to needed healthcare services for the large uninsured and underinsured population. The cornerstone of the System's overall community benefit is its commitment to provide hospital and other healthcare services to all patients regardless of their ability to pay. North and South Carolina's Medicaid programs, while providing healthcare coverage for many of the poor, disabled, and elderly residents, do not cover all who are unable to pay for healthcare. Also, Medicaid, by design, reimburses healthcare providers at less than actual cost and has not kept pace in recent years with the industry's rapidly rising cost of technology and enrollment. Within Mecklenburg, Cabarrus, Cleveland, Lincoln, Union and Anson counties, the System provides approximately 81% of the hospital services to the Medicaid and uninsured patient populations. In many cases, the System provides the only access to certain outpatient and physician specialty care for those in the community in need of financial assistance as well as serving uninsured patients who are not eligible for financial assistance discounts, Medicaid, or other governmental funding. More detailed information about the System's net patient service revenue is presented in notes 1 and 6 of the notes to financial statements.

The System supports and subsidizes medical education and research, which benefits not only the System and the patients it serves, but the entire healthcare provider community. Carolinas Medical Center (CMC) has in training 295 medical residents in 33 programs. In 2014, approximately 33% of the 95 residents that completed the program stayed in the Carolinas, with a majority of them residing in Mecklenburg County. The System continues to expand medical school access at the Charlotte campus of the University of North Carolina (UNC) School of Medicine by providing clinical education for medical students and growing the number of students that will be completing their third and fourth years of medical school. During the 2014-2015 academic year, the Charlotte campus will have 40 UNC medical students in dedicated program training at CMC, plus another 256 students who will take advantage of CMC's medical student rotation options. The Union Family Medicine program trains physicians to provide full-scope primary care to the underserved in small towns or rural settings. The program, which currently trains seven residents, is embedded in Union Family Practice and Carolinas Medical Center – Union, and is designed as an "apprenticeship model" in which the residents learn by practicing side-by-side with private practitioners. Carolinas Medical Center – NorthEast sponsors the Cabarrus Family Medicine Residency Program, a primary care sports medicine fellowship, and a hospitalist fellowship, which trains 24 family medicine residents, one sports medicine fellow and one hospitalist fellow each year. Since its inception in 1996, the Cabarrus Family Medicine Residency Program has graduated 120 family medicine residents, with 75% staying in the Carolinas to practice.

Through three of its hospitals, the System owns, operates and subsidizes three schools that offer nursing and allied health programs culminating in certificates, diplomas and degrees at the associate, baccalaureate and master's degree levels as well as noncredit continuing education programs and workshops. Carolinas College of Health Sciences and Mercy School of Nursing are located in Mecklenburg County, while Cabarrus College of Health Sciences is located in Cabarrus County. Collectively, based on fall 2014 registration, nearly 1,100 students are enrolled in for-credit, clinically based programs such as Nursing, Surgical Technology, Pharmacy Technology, Medical Lab Science, Radiation Therapy, Radiological Technology, Medical Assistant, Nurse Anesthesia and Occupational Therapy with another 1,008 students having completed one of the schools noncredit clinical programs in 2014. With 420 graduates in 2014 alone, the System is one of the top producing nursing and allied health entities in North Carolina. More importantly, approximately 80% of graduates accept positions locally in their field of training, providing an invaluable workforce resource to alleviate projected clinical personnel shortages. In 2014, Cabarrus College of Health Sciences was listed in *USA Today*'s top 10 colleges and universities in North Carolina.

Additionally, the Charlotte Area Health Education Center, operated by the System, is the only organization providing continuing education to all area healthcare professionals from all settings, including hospitals, long-term care and physician practices.

The ability to develop and advance medical discovery is a critical component to the System's giving back to the community locally, nationally and globally. As scientific technologies and medical breakthroughs advance, more patients experience enriched, longer lasting quality of life standards. The Division of Therapeutic Research and Development cultivates patient-centered projects that are clinically relevant and fundamentally important to improving healthcare quality and effectiveness. Research programs throughout the System, encompassing more than 320 investigators and almost 1,150 active clinical studies, are focused on the development of new treatments, therapies, diagnostics, or devices as well as conducting population-based research, developing innovative care delivery models and analyzing healthcare economics. The System's research programs and initiatives leverage the scope and scale of CHS to provide patients with leading-edge treatments and therapies as well as attract nationally respected physicians to the community.

The System and its team members together are "building strong and healthy communities" by becoming actively involved with, or contributing to, various organizations that seek to improve the overall health and well-being of the community. In 2014, System teammates volunteered nearly 42,000 work-hours participating in over 3,000 service projects including, but not limited to: distributing gifts across nine counties to more than 2,000 individuals and families as part of the *Holiday Cheer* project; providing 10,000 backpacks of nutritious food to low income children and families across the region; serving meals to those in need at the Dilworth Soup Kitchen and The Men's Homeless Shelter; planting over 1,000 trees at Dillehay Courts and Croft Elementary School; and contributing nearly 14,000 pounds of donations to Goodwill. Most of this volunteerism in 2014 was, directed to organizations that support and promote community health priorities and other social determinants of health. In addition to teammate hours, the System also donated $5 million in medical equipment, computer equipment and materials to international nonprofit organizations to help people in need as well as numerous other donations to local community partners such as the Salvation Army Christmas Bureau, Crisis Assistance organizations and Second Harvest Food Bank.

(Continued)

To further improve the physical, mental, and spiritual health of our community in 2014, the System:

- partnered with the YMCA of Greater Charlotte to work to “Reverse the Risk” for diabetes by offering a free risk assessment test to identify individuals who are at-risk for developing pre-diabetes or diabetes and screened over 50,000 individuals,
- screened over 2,700 athletes in Mecklenburg, Union and Lincoln counties in North Carolina and York County in South Carolina during the annual *Heart of a Champion Day* with over 100 student-athletes referred for additional medical evaluation,
- trained 60 teammates and community citizens in the Mental Health First Aid program, a groundbreaking public education program that helps identify, understand, and respond to signs of mental illnesses and substance use disorders,
- added 30 new Faith Communities to bring the total to 164 in 11 counties within the CHS Faith Community Health Ministry, a partnership program between the System and faith communities designed to promote better health through education, access to healthcare and encouragement toward wellness and wholeness, and
- re-energized the prevention of childhood obesity through the work of the *Healthy Weight Healthy Child* Community Coalition.

In addition to their time, System teammates continue to donate millions of their own dollars to charitable organizations, schools, churches, and countless other community based entities. In the 2014 Community Giving Campaign, System teammates contributed over $3,693 (not included in costs in note 1 of the notes to financial statements) to United Way, Arts Councils of Cabarrus, Cleveland, Gaston, Lincoln, Mecklenburg, Stanly, Union and York counties and Children’s Miracle Network.

The System operates, often at a deficit, certain health services that are essential to the community. For example, the Teen Health Connection is an adolescent healthcare practice that provides comprehensive services to meet the health and well-being needs of our community’s adolescents through the delivery of medical and mental healthcare and by providing preventive health education for both teens and their parents. The System, regardless of payer, offers behavioral health services through multiple outlets including outreach and educational programs to the community, a suicide prevention hotline available 24 hours a day at no charge to the client, and quality services to patients across its multiple healthcare treatment locations, including the newest constructed behavioral health hospital in Davidson. Carolinas HealthCare System provides patient centered medical homes to serve uninsured and Medicaid patients. The Office of Healthy Environments, created in 2012, demonstrates committed resources to understand and mitigate negative environmental impacts while seeking creative solutions for healthy patient centered operations.

Additional detail regarding the System’s financial commitment to the community (19.4% of the Primary Enterprise’s operating expenses) is presented in note 1 of the notes to financial statements.

Finance Contact

The System’s financial statements are designed to present users with a general overview of the System’s finances and to demonstrate the System’s accountability. If you have any questions about the report or need additional financial information, please contact the Senior Vice President of Finance, Carolinas HealthCare System, 1000 Blythe Boulevard, Charlotte, NC 28203.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Balance Sheets

December 31, 2014 and 2013

(Dollars in thousands)

	2014		Note 1 2013	
Assets and Deferred Outflows of Resources	**Primary Enterprise**	**Component Units**	**Primary Enterprise**	**Component Units**
Current assets:				
Cash and cash equivalents	$ 96,101	$ 22,117	$ 87,373	$ 11,486
Short-term investments	170	6,032	12,171	7,171
Patient accounts receivable – net	655,489	14,972	639,912	15,856
Other accounts receivable	106,191	16,883	99,086	7,150
Assets limited as to use – investments	41,779	14	23,945	0
Inventories	55,424	2,459	52,072	2,874
Prepaid expenses	47,176	2,184	40,165	2,148
Total current assets	1,002,330	64,661	954,724	46,685
Capital assets	4,910,999	169,881	4,599,926	170,221
Accumulated depreciation	(1,907,307)	(121,121)	(1,712,132)	(116,027)
Total capital assets – net	3,003,692	48,760	2,887,794	54,194
Other noncurrent assets:				
Assets limited as to use:				
Bond proceeds held by trustee	0	2,902	0	2,901
Investments designated for capital improvements	2,849,058	33,705	2,611,914	31,889
Foundation long-term investments	0	271,645	0	276,400
Other assets limited as to use – investments	118,403	0	132,307	0
Other assets	240,104	17,948	227,847	22,519
Total other noncurrent assets	3,207,565	326,200	2,972,068	333,709
Total assets	7,213,587	439,621	6,814,586	434,588
Deferred outflows of resources	238,993	0	130,753	0
Total assets and deferred outflows of resources	$ 7,452,580	$ 439,621	$ 6,945,339	$ 434,588
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Accounts payable	$ 194,893	$ 4,283	$ 174,098	$ 4,419
Salaries and benefits payable	287,853	3,484	255,929	3,477
Other liabilities and accruals	222,987	6,276	173,219	7,734
Estimated third-party payer settlements	162,594	6,684	144,888	3,903
Current portion of long-term debt	31,800	2,639	28,298	2,381
Total current liabilities	900,127	23,366	776,432	21,914
Long-term debt – less current portion	1,875,383	15,772	1,895,089	18,642
Interest rate swap liability	252,156	0	145,036	0
Other liabilities	349,039	1,320	336,788	1,450
Total liabilities	3,376,705	40,458	3,153,345	42,006
Commitments and contingencies (notes 1, 2, 5 and 9)				
Deferred inflows of resources	46,612	0	52,605	0
Net position:				
Net investment in capital assets	1,087,370	30,366	972,812	33,199
Restricted – by donor	24,771	251,838	22,069	246,505
Unrestricted	2,917,122	116,959	2,744,508	112,878
Total net position	4,029,263	399,163	3,739,389	392,582
Total liabilities, deferred inflows of resources and net position	$ 7,452,580	$ 439,621	$ 6,945,339	$ 434,588

See accompanying notes to financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2014 and 2013

(Dollars in thousands)

	2014		Note 1 2013	
	Primary Enterprise	**Component Units**	**Primary Enterprise**	**Component Units**
Net patient service revenue	$ 4,491,997	$ 123,485	$ 4,174,175	$ 153,517
Other revenue	436,714	25,799	414,839	17,304
Total revenue	4,928,711	149,284	4,589,014	170,821
Operating expenses:				
Personnel costs	2,927,685	73,678	2,784,815	96,586
Supplies	801,821	19,753	748,617	23,800
Purchased services	290,019	4,510	261,520	3,220
Other expenses	386,500	49,603	355,464	59,598
Depreciation and amortization	251,847	8,434	234,908	10,270
Interest expense	84,971	1,107	87,625	1,502
Total operating expenses	4,742,843	157,085	4,472,949	194,976
Operating income (loss)	185,868	(7,801)	116,065	(24,155)
Nonoperating income:				
Interest and dividend income	45,271	3,866	35,394	5,589
Net increase in the fair value of investments	52,683	10,233	175,611	33,028
Other – net	(1,028)	(82)	(3,860)	215
Total nonoperating income – net	96,926	14,017	207,145	38,832
Revenue over expenses before contributions	282,794	6,216	323,210	14,677
Capital contributions	7,012	(1,486)	5,649	(112)
Other contributions	68	1,851	8,887	2,021
Special items:				
Net inherent contributions of acquired entities for previously reported component units now part of the primary enterprise	0	0	97,607	0
Acquired net position for previously reported component units now part of the primary enterprise	0	0	0	(163,128)
Increase (decrease) in net position	289,874	6,581	435,353	(146,542)
Net position:				
Beginning of year	3,739,389	392,582	3,304,036	539,124
End of year	$ 4,029,263	$ 399,163	$ 3,739,389	$ 392,582

See accompanying notes to financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Statements of Cash Flows

Years ended December 31, 2014 and 2013

(Dollars in thousands)

	2014		Note 1 2013	
	Primary Enterprise	**Component Units**	**Primary Enterprise**	**Component Units**
Cash flows from operating activities:				
Receipts from third-party payers and patients	$ 4,494,676	$ 127,147	$ 4,172,348	$ 157,392
Payments to suppliers	(1,450,923)	(60,816)	(1,350,522)	(81,120)
Payments to employees	(2,846,795)	(73,202)	(2,750,649)	(94,645)
Other receipts – net	410,291	7,613	413,079	6,629
Net cash provided by (used in) operating activities	607,249	742	484,256	(11,744)
Noncapital financing activities	(3,759)	223	(441)	2,797
Cash flows from capital and related financing activities:				
Purchase of capital assets	(358,062)	(4,016)	(432,034)	(8,459)
Donated funds designated for building and equipment purchases	7,012	(1,138)	5,649	(283)
Acquisition of health related businesses, net of cash acquired	0	0	(315)	(22,337)
Principal payments, refunding and retirements on short and long–term debt	(27,065)	(2,623)	(426,816)	(149)
Interest payments on short and long–term debt	(95,760)	(1,132)	(91,609)	(1,863)
Decrease in bond proceeds held by trustee	0	0	593	0
Proceeds from issuance of long-term debt	0	0	455,557	0
Decrease (increase) in other assets affecting capital and related financing activities	1,356	(1,003)	(7,364)	1,067
Other contributions	0	1,417	(1,824)	1,505
Net cash used in capital and related financing activities	(472,519)	(8,495)	(498,163)	(30,519)
Cash flows from investing activities:				
Withdrawal from investments designated for capital improvements	341,000	22,689	293,250	15,476
Contribution to investments designated for capital improvements	(480,500)	(4,568)	(296,000)	0
Investment earnings	241	54	649	1,716
Decrease (increase) in other trusteed assets	14,491	(14)	19,289	33
Decrease (increase) in loans to affiliates	7,473	0	(777)	0
Purchase of investments	(4,948)	0	(293)	0
Net cash (used in) provided by investing activities	(122,243)	18,161	16,118	17,225
Net increase (decrease) in cash and cash equivalents	8,728	10,631	1,770	(22,241)
Cash and cash equivalents:				
Beginning of year	87,373	11,486	85,603	33,727
End of year	$ 96,101	$ 22,117	$ 87,373	$ 11,486
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 185,868	$ (7,801)	$ 116,065	$ (24,155)
Interest expense considered capital financing activity	84,971	1,107	87,625	1,502
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	251,847	8,434	234,908	10,270
(Increase) decrease in patient accounts receivable – net	(15,627)	884	(19,764)	4,453
(Increase) decrease in inventories and other current assets	(29,208)	(2,648)	8,383	774
(Increase) decrease in other assets affecting operating activities	(720)	499	(1,542)	(2,340)
Increase (decrease) in accounts payable and other current liabilities	142,844	(757)	91,948	(960)
Decrease in other liabilities affecting operating activities	(30,432)	(1,755)	(58,902)	(710)
Increase (decrease) in estimated third-party payer settlements	17,706	2,779	25,535	(578)
Net cash provided by (used in) operating activities	$ 607,249	$ 742	$ 484,256	$ (11,744)

See accompanying notes to financial statements.

(1) Significant Accounting Policies

(a) Organization, Basis of Presentation, and Discretely Presented Component Unit

Carolinas HealthCare System (the System) is the largest healthcare system in North and South Carolina and the second largest public, multihospital system in the nation. The System's diverse network of care locations includes academic medical centers, hospitals, freestanding emergency departments, physician practices, surgical and rehabilitation centers, home health agencies, long-term care facilities and behavioral health centers, as well as hospice and palliative care services. The System was organized in 1943 under the North Carolina Hospital Authorities Act. It is a public body and a body corporate and politic and, therefore, has been determined by the Internal Revenue Service to be exempt from federal and state income taxes. The System has its headquarters in Charlotte, North Carolina.

For financial reporting purposes, the System is divided into the "Primary Enterprise" and "Component Units." The Primary Enterprise consists of The Charlotte-Mecklenburg Hospital Authority (d/b/a Carolinas HealthCare System) and all affiliates whose assets and income the System controls without limitation.

In March 2013, the System entered into an Amended and Restated Interlocal Agreement with Cleveland County, North Carolina for the purpose of more fully integrating Cleveland County HealthCare System (CCHS) with the System and enhancing the System's ability to provide services to the residents of Cleveland County. As part of the Agreement, the System paid Cleveland County \$100,000, including \$23,000 paid in March 2013 and \$77,000 payable under an unsecured, noninterest bearing note payable through 2038 (note 5), and acquired certain real property previously owned by Cleveland County and obtained full operating control and governance of CCHS, including acquiring title to substantially all assets and liabilities of CCHS, which consists primarily of Cleveland Regional Medical Center and Kings Mountain Hospital. Upon the effective date of the Agreement, CCHS became part of the Primary Enterprise and is included as such with the financial information presented as of and for the years ended December 31, 2014 and 2013, respectively.

In March 2013, the System acquired 100% ownership interest in Carolinas Medical Center at Home, LLC d/b/a Healthy@Home for the purpose of exercising greater control over its operations and integrating its services more fully into the System's continuum of patient care. Healthy@Home became part of the Primary Enterprise upon the acquisition of 100% of the ownership interest and is included as such with the financial information presented as of and for the years ended December 31, 2014 and 2013, respectively.

In October 2014, the System assumed sole membership of Pineville LTACH/Rehab Hospital, LLC (the LLC), a North Carolina limited liability company that owns and leases a facility located on the campus of Carolinas Medical Center – Pineville. On the same date, the System became the sole tenant of the facility. Previously, the System had held a 50% ownership interest in the LLC and shared tenancy of the building with a third party whose lease payments had been guaranteed by the System. Because the LLC provides services entirely to the System, the LLC is considered to be a blended component unit and its financial information has been incorporated into the Primary Enterprise as of and for the year ended December 31, 2014. Transactions between the LLC and the System that generate intercompany receivables, payables, revenues, and expenses have been eliminated. After the eliminations, the remaining balances and transactions of the LLC, which are not material to the System, are included in the System's assets, liabilities, revenues and expenses.

The Component Units, all located in North Carolina, consist of The Carolinas HealthCare Foundation, Inc. (the Foundation), a 501(c)3 foundation that raises and holds economic resources for the direct benefit of the System, and Stanly Health Services, Inc. (Stanly), which, prior to a 2014 agreement discussed below, was managed by the System. These component units are reported on a basis consistent with the System's calendar year and are discretely presented. Transactions between the System and the discretely presented component units resulting in intercompany receivables, payables, revenues and expenses are not eliminated.

The Foundation operates to raise funds to enhance, promote and support medical services, scientific education and research. It solicits contributions for System entities and, in the absence of donor restrictions, its Board of Directors has discretionary control over the amounts to be distributed. Net capital and operating contributions to the System from the Foundation included in the statements of revenues, expenses and changes in net position were $25,510 and $26,683 for the years ended December 31, 2014 and 2013, respectively.

In February 2014, the System entered into a change of control agreement with Stanly for the purpose of more closely integrating Stanly with the System. As part of the agreement, the System contributed assets valued at $3,000 to the Stanly Regional Medical Center Foundation, an unaffiliated entity, and assumed all assets and liabilities of Stanly. The System has the right to approve the annual budgets of Stanly and is responsible for appointing the voting majority of Stanly's Board of Directors. This transaction has been reported as a change in reporting entity and has been retrospectively applied to the fiscal year ended December 31, 2013 to include Stanly as a discretely presented component unit. Concurrent with the refunding of Stanly's tax-exempt debt, in January 2015 Stanly Health Services, Inc. and its subsidiaries, Stanly Regional Medical Center, Stanly Manor, Inc. and Stanlex Inc., became members of the Combined Group. See note 5 for further details on the 2015 refunding of Stanly's tax-exempt debt.

Certain healthcare facilities in the Carolinas and Georgia (the Regional Enterprise Facilities) are managed by the System or its affiliates pursuant to management agreements; however, only the management and contracted services fees earned by the System, not the financial position or results of operation of those facilities, are reflected in the financial statements of the System.

(b) The Combined Group

The System's Second Amended and Restated Bond Order authorizes the creation of a Combined Group, which consists of the Obligated Group and Designated Affiliates (there are no Designated Affiliates at this time). Only the Combined Group has a direct or indirect obligation to pay amounts due on the System's bonds. As of December 31, 2014, the members of the Combined Group were substantially all of the members of the Primary Enterprise and the Foundation, a Discretely Presented Component Unit of the System. In addition, there are some affiliates of the Primary Enterprise, including Healthy@Home, which are not part of the Combined Group. The affiliates that are part of the Primary Enterprise, but not part of the Combined Group, made up less than 3% of the total revenue and less than 1% of the total assets of the Primary Enterprise for each of the years ended December 31, 2014 and 2013. In addition to Stanly and its subsidiaries described above, in January 2015 the System admitted into the Combined Group several entities that are currently part of the Primary Enterprise but whose assets and revenues are not material to the System, including Healthy@Home.

Supplemental financial information for the Combined Group as of and for the years ended December 31, 2014 and 2013 is presented as Other Financial Information following the notes to financial statements.

(c) Governmental Accounting Standards

In 2014, the System adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which provides additional guidance to governments on measuring and recognizing liabilities or revenue as a result of extending or receiving nonexchange financial guarantees. Additionally, the new guidance provides expanded disclosure requirements for both extended and received guarantees. The adoption of this Statement had no material impact on the basic financial statements of the System.

(d) Basis of Accounting

The basic financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the GASB.

(e) Cash Equivalents

For purposes of the balance sheets and statements of cash flows, the System considers all investments purchased with a maturity of three months or less and which are not limited as to use to be cash equivalents.

(f) Patient Accounts Receivable – Net

Patient accounts receivable is recorded net of allowances for uncollectible accounts of $340,335 and $310,040 at December 31, 2014 and 2013, respectively. Net patient revenue is shown net of provision for uncollectible accounts of $541,615 and $431,692 for the years ended December 31, 2014 and 2013, respectively.

(g) Capital Assets

Property, plant and equipment are stated at cost. The System capitalizes expenditures for equipment when the unit of acquisition cost is five hundred dollars or greater and the estimated useful life is greater than three years. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs and replacements are charged to expense when incurred. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets.

Property classification	Estimated lives (years)
Land improvements	8–15
Buildings	5–40
Equipment	3–15

The System evaluates long-lived assets regularly for impairment. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. No material impairment charges to long-lived assets were recorded for the fiscal years ended December 31, 2014 and 2013.

(h) Cost of Borrowing

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

(i) Other Assets Limited as to Use

Other assets limited as to use include investments held in a revocable trust for the payment of contingencies not covered by insurance, amounts the System holds as custodian and amounts intended for future expenditures of the System.

(j) Other Assets

Other assets consist of goodwill (representing the cost in excess of the fair value of the net position acquired in periods prior to the adoption of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*), employee benefit plan assets and investments in certain healthcare-related businesses accounted for using the cost or equity method.

(k) Deferred Outflows of Resources

Deferred outflows of resources consist of the unamortized amounts related to long-term debt refunding transactions, the aggregate negative fair value of interest rate swaps that are effective hedges and the excess cost of net position acquired following the implementation of GASB Statement No. 69. The balance of the deferred outflows of resources at December 31, 2014 and 2013 is composed of the following:

	2014	2013
Refunding of debt	$ 121,141	$ 127,044
Aggregate negative fair value of interest rate swaps	116,469	3,709
Excess cost of net position acquired	1,383	0
	$ 238,993	$ 130,753

(l) Other Liabilities and Accruals

Other liabilities and accruals consists primarily of the current portion of employee benefit and incentive plan liabilities, current interest payable on long-term debt and other current accruals.

(m) Other Long-term Liabilities

Other liabilities consist primarily of the long-term portions of self-insurance and benefit plan and incentive plan liabilities, a long-term liability payable to Union County and unearned rent. The provision for self-insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred, but not reported.

(n) Deferred Inflows of Resources

Deferred inflows of resources consists of the gain related to a 2008 sale-leaseback transaction, which is being amortized over the terms of the related leases.

(o) Net Position

The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of assets generated from revenues that have third-party limitations on their use. Unrestricted net position has no third-party restrictions on use. When both restricted and unrestricted resources are available for use, generally it is the System's policy to use restricted resources first and then unrestricted resources when they are needed.

(p) Operating Revenues and Expenses

For purposes of financial reporting, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services, including interest costs, are reported as operating revenues and expenses; otherwise, they are reported as nonoperating income and losses.

(q) HITECH Incentive Funding for Meaningful Use of Electronic Health Records (EHR)

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified EHR technology. The program is commonly referred to as the Health Information Technology for Economic and Clinical Health (HITECH) Act. To qualify for incentives under the HITECH Act, healthcare providers must meet designated EHR meaningful use criteria as defined by the Centers for Medicare and Medicaid Services (CMS). Incentive payments are awarded to healthcare providers who have attested to CMS that applicable meaningful use criteria have been met. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period.

The System recognizes revenue for EHR incentive payments in the period in which it has obtained reasonable assurance that it is in compliance with the applicable EHR meaningful use requirements. Accordingly, the System recognized other revenues for EHR incentives of approximately $20,776 and $38,886 for the years ended December 31, 2014 and 2013, respectively.

(r) Financial Assistance and Community Benefit Costs

The System, under its coverage and financial assistance programs, provides care without charge or at discounted rates to certain uninsured patients as well as any patient, regardless of their insurance coverage, who experiences financial hardship. Key elements used to determine eligibility for financial assistance include a patient's demonstrated inability to pay based on family size and household income relative to federal income poverty guidelines. Patients potentially eligible for other governmental programs, such as Medicaid, must pursue those options by fully cooperating in the eligibility process before receiving financial assistance from the System. The System's cost of care (estimated using applicable cost to charge ratios) extended to uninsured patients qualifying for financial assistance was $155,076 and $183,588 for the years ended December 31, 2014 and 2013, respectively.

(Continued)

In addition to providing financial assistance to uninsured patients and in furtherance of its mission, the System provides a broad range of benefits and services, including medical education and research opportunities, to the community spanning the geographic region within which the System operates. These community benefits can be measured and categorized as follows:

- Cost of care extended to uninsured and underinsured patients who do not qualify for financial assistance, estimated using applicable cost to charge ratios.
- Unpaid Cost of Medicare and Medicaid Services – Represents the net unreimbursed cost, estimated using the applicable cost to charge ratios, of services provided to patients who qualify for federal and/or state government healthcare benefits.
- Community Benefit Programs – Includes the unreimbursed cost of various medical education programs, and costs of various research programs, nonbilled medical services, in-kind donations and other services that meet a community need, but do not pay for themselves and would not be provided if based solely on financial considerations alone.

The total estimated cost of financial assistance and the aforementioned programs and services that benefit the community is as follows for the year ended December 31:

		2014		**2013**
Cost of financial assistance to uninsured patients	$	155,076	$	183,588
Unpaid cost of Medicare and Medicaid services		473,646		354,630
Community benefit programs		87,735		163,675
Community benefit subtotal		716,457		701,893
Cost of care extended to uninsured and underinsured patients who do not qualify for financial assistance		203,269		149,373
Community benefit including cost of care for patients not qualifying for financial assistance	$	919,726	$	851,266

(s) Capital Contributions and Grants

Funds donated to acquire property, plant and equipment are considered donations of capital and are included as a component of capital assets and net position.

(t) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenues; valuation of accounts receivable, including contractual allowances and provisions for bad debts; reserves for losses and expenses related to employee healthcare, professional liabilities, workers' compensation and general liabilities; valuation of pension and other retirement obligations; and estimated third-party payer settlements. Actual results could differ from those estimates.

(u) Reclassifications

Certain 2013 balances have been reclassified to conform to the 2014 presentation.

(v) Future Accounting and Reporting Requirements

In 2013, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires enhanced note disclosure and required supplementary information for both defined benefit and defined contribution pension plans as well as provides standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses for pension plans. GASB Statement No. 68 must be adopted no later than the year ending December 31, 2015. The System has not yet determined the impact of the Statement on the basic financial statements.

In 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement is an amendment to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and is to be applied simultaneously with the provisions of GASB Statement No. 68. This Statement addresses issues related to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The System has not yet determined the impact of the Statement on the basic financial statements.

In 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*, which provides additional guidance to governments on the fair value measurement of specific assets and liabilities and requires enhancements to the related disclosures. The provisions of this Statement must be adopted no later than the year ending December 31, 2016. The System has not yet determined the impact of the Statement on the basic financial statements.

(w) Business Combinations and Certain Other Affiliations

The System accounts for the acquisition of healthcare-related businesses in accordance with GASB Statement No. 69. Any excess of purchase price over the net position acquired is recorded as a deferred outflow of resources and is attributed to future periods in a systematic manner based upon professional standards. Any purchase price in excess of net position acquired prior to January 1, 2013 is being amortized over periods that do not exceed 25 years. The results of operations of these acquired entities are included in the System's results of operations from the dates of acquisition.

(2) Cash, Investments and Other Financial Instruments

(a) Cash and Cash Equivalents

As of December 31, 2014 and 2013, the System had cash and cash equivalents of $96,101 and $87,373, respectively, of which a portion was invested with the North Carolina Capital Management Trust's Cash Portfolio, which has a rating of AAAm from Standard & Poor's.

For cash and cash equivalents, the System follows North Carolina General Statute 159-30, whereby all deposits of the System are held in depositories that are either insured or covered under statewide single financial institution collateral pools (the Pooling Method). Collateral is maintained for all the depositories' governmental units in the state. The North Carolina State Treasurer monitors the Pooling Method depositories for adequate collateralization. Under the Pooling Method, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the System. Because of the inability to measure the exact amount of collateral pledged for the System under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, each Pooling Method Depository is subject to financial stability standards and oversight by the State Treasurer of North Carolina.

(b) Investments Designated for Capital Improvements and Other Assets Limited as to Use

The System may, for funds not required for immediate disbursement, make investments that are permissible for trustees, executors, and other fiduciaries under North Carolina law. Funds that are not needed for immediate operating needs and that have been designated by the Board of Commissioners for capital improvements, along with other trusteed assets, are invested in cash equivalents, fixed income, equity securities, equity securities held in common collective trust funds, and limited partnerships. Investments included in the portfolio are reflected at fair value at the balance sheet date, as noted in the table below, with gains and losses reflected in nonoperating income (loss) in the accompanying statements of revenues, expenses and changes in net position.

The System operates a regional integrated healthcare system, which has significant capital needs arising from both changes in medical technology and a growing demand for healthcare services. At December 31, 2014, the fair value of investments designated for capital improvements of $2,849,058 is substantially less than the historical cost of property, plant and equipment of $4,910,999.

The System's investments designated for capital improvements and other assets limited as to use, based on fair value as of December 31, 2014, and organized by investment type to provide an indication of the level of investment and deposit risks assumed, are as follows:

	Ratings by nationally recognized agency	Effective duration in years	Designated for capital improve-ments	Other assets limited as to use
Cash equivalents			$ 246,395	$ 27,468
Fixed income:				
U.S. government treasuries and agencies	AA	6.36	118,855	7,681
	A	7.99	1,443	114
	BBB	15.63	1,069	100
Mortgage pass-throughs	AAA	3.47	25,661	2,031
	AA	3.74	79,121	3,983
	A	1.72	7,042	782
	BBB	1.83	2,685	313
Collateralized mortgage obligations	AA	4.51	13,787	1,247
	BBB	7.86	981	90
Corporate bonds	AAA	9.44	6,037	165
	AA	7.31	20,492	1,222
	A	6.08	59,980	4,090
	BBB	8.09	62,894	6,242
Municipal bonds	AAA	6.07	5,479	197
	AA	8.23	18,082	1,451
	A	3.80	1,048	212
Asset-backed securities	AAA	2.05	34,154	3,626
	AA	4.79	19,864	1,404
	A	4.42	2,724	284
	BBB	5.99	955	123
Fixed income (mutual funds)	N/A	1.03	314,578	622
Long/short fixed income limited partnerships	N/A	N/A	44,479	8,377
Total fixed income (weighted average duration)		3.84	841,410	44,356
Equity:				
Domestic equities			346,870	16,273
International equities			586,187	23,768
Common collective trust funds – domestic			438,458	13,805
Long/short equity limited partnerships			173,201	13,343
Total equity			1,544,716	67,189
Multi-strategy hedge fund limited partnerships			119,851	10,824
Commodities fund of funds limited partnerships			50,308	3,325
Hedge fund of funds limited partnerships			212	0
Private equity fund of funds and limited partnerships			46,166	7,020
Total reported value			$ 2,849,058	$ 160,182

The System's investments designated for capital improvements and other assets limited as to use, based on fair value as of December 31, 2013, and organized by investment type to provide an indication of the level of investment and deposit risks assumed, are shown below:

	Ratings by nationally recognized agency	Effective duration in years	Designated for capital improve-ments	Other assets limited as to use
Cash equivalents			$ 245,227	$ 12,673
Fixed income:				
U.S. government treasuries and agencies	AA	5.63	122,265	9,619
	A	7.10	1,445	127
	BBB	14.94	566	58
Mortgage pass-throughs	AAA	2.56	24,347	2,623
	AA	4.51	57,940	3,692
	A	2.57	6,115	696
	BBB	2.50	1,826	196
Collateralized mortgage obligations	AA	3.83	14,408	1,900
	BBB	7.90	757	86
Corporate bonds	AAA	6.62	2,960	209
	AA	7.43	19,980	1,745
	A	5.31	50,902	4,428
	BBB	7.35	45,431	4,930
Municipal bonds	AAA	6.42	4,509	183
	AA	7.98	14,449	1,248
	A	4.49	1,251	290
Asset-backed securities	AAA	1.45	19,408	2,583
	AA	4.41	12,469	1,397
	A	5.72	2,372	126
Fixed income (mutual funds)	N/A	3.56	239,416	0
Long/short fixed income limited partnerships	N/A	N/A	43,493	8,165
Total fixed income (weighted average duration)		4.42	686,309	44,301
Equity:				
Domestic equities			312,917	17,947
International equities			582,766	27,794
Common collective trust funds – domestic			413,592	16,118
Long/short equity limited partnerships			152,352	12,632
Total equity			1,461,627	74,491
Multi-strategy hedge fund limited partnerships			114,420	14,540
Commodities fund of funds limited partnerships			56,610	3,724
Hedge fund of funds limited partnerships			40	0
Private equity fund of funds limited partnerships			47,681	6,523
Total reported value			$ 2,611,914	$ 156,252

Fair value for financial reporting purposes is based on quoted market prices or an amount determined by external investment managers if quoted market prices are not available. Common collective trust funds, long/short equity funds, and limited partnerships are stated at fair value as determined by the issuer of the trust funds based on the fair market value of the underlying investments. Management reviews and evaluates the fair value that is provided by the external investment managers, as well as the valuation methods and assumptions used in determining the fair value of such investments. Although management believes the fair value estimated for limited partnership interests that do not have readily determinable market values to be reasonable at December 31, 2014, such estimated fair values (amounting to $477,106 and $460,180 at December 31, 2014 and 2013, respectively) may differ from the ultimate realizable value of the investments. In addition, such investments are generally less liquid than investments with a readily determinable market value. The System has committed approximately $71,000 to private equity limited partnerships. As of December 31, 2014, approximately $67,000 had been contributed with the remaining amount to be allocated from existing investments. These amounts are a combination of both funds, investments designated for capital improvements and other assets limited as to use.

(c) Custodial Credit Risk

Custodial credit risk is the risk that the System will not be able to recover the value of its bank deposits, which are exposed to custodial credit risk if they are uninsured and uncollateralized. As of December 31, 2014, all of the System's bank deposits were either insured by federal depository insurance or collateralized by the Pooling Method.

Fixed income investments and equity securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent, but not in the System's name. As of December 31, 2014, all of the System's fixed income investments and equity securities are held by the System's custodial bank in the System's name and are, therefore, not exposed to custodial credit risk.

(d) Credit Risk

With respect to fixed income investments, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations as required by the fixed income security. The System's investment policy requires that the overall average credit quality of the core fixed income portfolios must be maintained at AA or higher, and the overall average credit quality of the core plus fixed income portfolios must be maintained at A or higher. As of December 31, 2014, the System's fixed income portfolio met these overall average requirements. The quality ratings of the System's investments in fixed income securities (excluding long/short fixed income limited partnerships), as determined by nationally recognized statistical rating organizations are disclosed in the preceding tables.

(e) Concentration of Credit Risk

Credit concentration risk results from not adequately diversifying investments. Per the System's investment policy equity and fixed income restrictions, (1) no more than 7% of any investment manager's equity portfolio may be invested in securities of any one issuing corporation, and (2) fixed income investments in any single issuer (excluding obligations of the U.S. government and its agencies) may not exceed 5% of any investment manager's portfolio market value at the time of purchase. Although exceptions to these policy restrictions are at times granted to investment managers, at no time may an investment in any one corporation exceed 5% of that corporation's outstanding shares while fixed income investments in any single issuer (excluding obligations of the U.S. government and its agencies) may not exceed 5% of the total issue at the time of purchase. At December 31, 2014, no investment in any one corporation or single issuer exceeded 5% of the outstanding shares or total issue at the time of purchase, respectively.

(f) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of a fixed income investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System monitors the interest rate risk inherent in its fixed income portfolio by measuring the effective duration in years, which measures the expected change in value of a fixed income security or portfolio for a given change in interest rates.

As a means of limiting interest rate risk, the System's investment policy (excluding long/short fixed income limited partnerships) limits the effective duration in years of the core fixed income portfolio to a range of 75% to 125% of the duration of its benchmark (Barclay's Capital Aggregate Bond Index) and limits the effective duration in years of the core plus fixed income portfolio to a range of 50% to 150% of the duration of its benchmark (blend of Barclays Capital Government/Credit Bond Index and Citi World Government Bond Index (WGBI)) at all times. As noted in the December 31, 2014 table above, the effective duration in years of the System's total core and core plus fixed income portfolios was 3.84 years while the Barclays Capital Aggregate Bond Index's effective duration was 5.55 years and the blend of the Barclay's Capital Government/Credit Bond Index and the Citi WGBI was 6.53 years.

The System's fixed income investments also include asset-backed securities that are sensitive to interest rate fluctuations due to embedded prepayment options.

(g) Foreign Currency Risk

Foreign currency risk is the chance that changes in exchange rates will adversely affect the fair value of investments and deposits. The System's investment policy limits foreign currency investments to international and global managers who can utilize such investments for currency hedging purposes only.

At December 31, 2014, the System had $276,575 exposure to foreign currency risk in the form of global depository receipts $8,828, preferred stock $21, mutual funds $44,465 and common stock in foreign currencies ($223,261, including approximately 32% in the British Pound, approximately 21% in the Euro, approximately 20% in the Swiss Franc and the remaining 27% spread over other common stock in foreign currencies, none of which exceed 7%).

(h) Foundation's Investments

The Foundation's investments comprise the following at December 31:

	The Carolinas HealthCare Foundation, Inc.	
	2014	**2013**
Cash equivalents	$ 12,613	$ 12,335
Fixed income securities	60,357	58,291
Domestic equities	33,012	35,900
International equities	60,089	63,225
Common collective trust funds – domestic	39,545	40,211
Long/short equity limited partnerships	19,613	20,882
Long/short fixed income limited partnerships	7,385	7,239
Commodities fund of funds limited partnerships	5,239	5,894
Multi-strategy hedge fund limited partnerships	21,438	22,000
Private equity limited fund of funds partnerships	18,386	17,594
	$ 277,677	$ 283,571

Fair value for financial reporting purposes is based on quoted market prices or an amount determined by external investment managers if quoted market prices are not available. Management reviews and evaluates fair value provided by the external investment managers, as well as the valuation methods and assumptions used in determining the fair value of such investments. Although management believes the fair value estimated for limited partnership interests that do not have readily determinable market values to be reasonable at December 31, 2014, such estimated fair values (amounting to $72,061 and $73,609 at December 31, 2014 and 2013, respectively) may differ from the ultimate realizable value of the investments. In addition, such investments are generally less liquid than investments with a readily determinable market value.

(3) Other Accounts Receivable

Other accounts receivable balances as of December 31, were as follows:

	2014	2013
Due from Component Units and Regional Enterprise Facilities	$ 30,649	$ 33,577
Due from governments	36,397	42,060
Other	39,145	23,449
	$ 106,191	$ 99,086

(4) Capital Assets

Capital assets activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Depreciable capital assets:					
Land improvements	$ 103,885	$ 17	$ 1,444	$ (869)	$ 104,477
Buildings	2,577,363	39,046	207,992	(33,236)	2,791,165
Equipment	1,453,581	28,443	157,396	(44,327)	1,595,093
Depreciable capital assets – gross	4,134,829	67,506	366,832	(78,432)	4,490,735
Accumulated depreciation	(1,712,132)	(250,763)	0	55,588	(1,907,307)
Depreciable capital assets – net	2,422,697	(183,257)	366,832	(22,844)	2,583,428
Nondepreciable capital assets:					
Land	186,813	0	1,140	(283)	187,670
Construction in progress	278,284	322,282	(367,972)	0	232,594
Net capital assets	$ 2,887,794	$ 139,025	$ 0	$ (23,127)	$ 3,003,692

Capital assets activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Depreciable capital assets:					
Land improvements	$ 99,583	$ 3,701	$ 1,080	$ (479)	$ 103,885
Buildings	2,286,835	192,202	139,321	(40,995)	2,577,363
Equipment	1,273,793	123,566	144,839	(88,617)	1,453,581
Depreciable capital assets – gross	3,660,211	319,469	285,240	(130,091)	4,134,829
Accumulated depreciation	(1,433,444)	(400,376)	0	121,688	(1,712,132)
Depreciable capital assets – net	2,226,767	(80,907)	285,240	(8,403)	2,422,697
Nondepreciable capital assets:					
Land	174,346	15,320	(2,825)	(28)	186,813
Construction in progress	170,844	389,855	(282,415)	0	278,284
Net capital assets	$ 2,571,957	$ 324,268	$ 0	$ (8,431)	$ 2,887,794

Net capitalized interest expense of $8,774 and $7,651 for the years ended December 31, 2014 and 2013, respectively, was included in the cost of projects. The cost of capital expenditures included in accounts payable was $21,245 and $34,046 as of December 31, 2014 and 2013, respectively.

(5) Long-Term Debt

Long-term debt, net of related issuance premiums and unamortized gains on debt-related derivative agreements, consists of the following as of December 31:

	2014	2013
The System Series 2005 B, C, and D Variable Rate Refunding Revenue Bonds, maturing 2015 through 2026, bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2014 was 0.04%)	$ 64,595	$ 69,010
The System Series 2007 A Revenue and Refunding Revenue Bonds, maturing 2015 through 2031, bearing interest at 4.5% to 5.0%	165,855	176,335
The System Series 2007 B Variable Rate Refunding Revenue Bonds, maturing 2015 through 2038, bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2014 was 0.04%)	84,260	85,035
The System Series 2007 C Variable Rate Refunding Revenue Bonds, maturing 2027 through 2037, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2014 was 0.06%)	87,635	87,635

(Continued)

		2014		2013
The System Series 2007 D Variable Rate Revenue Bonds, maturing 2041 through 2043, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2014 was 1.10%)	$	67,140	$	67,140
The System Series 2007 E Variable Rate Revenue Bonds, maturing 2041 through 2044, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2014 was 0.04%)		77,220		77,220
The System Series 2007 F Variable Rate Revenue Bonds, maturing 2030 through 2042, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2014 was 1.03%)		57,055		57,055
The System Series 2007 G Variable Rate Revenue Bonds, maturing 2031 through 2041, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2014 was 0.84%)		113,825		113,825
The System Series 2007 H Variable Rate Revenue Bonds, maturing 2027 through 2045, bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2014 was 0.04%)		166,050		166,050
The System Series 2008 A Refunding Revenue Bonds, maturing 2015 through 2047, bearing interest at 3.75% to 5.25%		304,460		305,765
The System Series 2009 A Refunding Revenue Bonds, maturing 2015 through 2039, bearing interest at 3.5% to 5.25%		194,385		197,410
The System Series 2011 A Revenue Bonds, maturing 2015 through 2042 bearing interest at 2.5% to 5.25%		142,390		145,220
The System Series 2012 A Revenue and Refunding Revenue Bonds maturing 2015 through 2043 bearing interest at 2.0% to 5.0%		154,110		155,060
The System Series 2013 A Revenue and Refunding Revenue Bonds, maturing 2015 through 2039 bearing interest at 3.0% to 5.0%		126,015		127,260
Other long-term debt		75,130		64,988
		1,880,125		1,895,008
Current portion		(31,800)		(28,298)
		1,848,325		1,866,710
Net unamortized premiums		22,751		23,681
Unamortized gains on debt-related derivative agreements		4,307		4,698
	$	1,875,383	$	1,895,089

A summary of changes in long-term debt during 2014 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Fixed rate revenue bonds	$ 1,107,050	$ 0	$ (19,835)	$ 1,087,215
Variable rate revenue bonds	722,970	0	(5,190)	717,780
Other long-term debt	64,988	29,306	(19,164)	75,130
	$ 1,895,008	$ 29,306	$ (44,189)	$ 1,880,125

A summary of changes in long-term debt during 2013 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Fixed rate revenue bonds	$ 1,001,350	$ 201,515	$ (95,815)	$ 1,107,050
Variable rate revenue bonds	727,990	315,240	(320,260)	722,970
Other long-term debt	7,847	67,882	(10,741)	64,988
	$ 1,737,187	$ 584,637	$ (426,816)	$ 1,895,008

As of December 31, 2014 and 2013, all of the System's variable rate revenue bonds were hedged.

Debt service requirements for long-term debt in future years, including the impact of other long-term debt (the note payable to a financial services company and the note payable to Cleveland County) and interest rate swap transactions discussed later in this note, are shown in the table below. Net swap payments, as reflected in the table below, are projected using the December 31, 2014, relationship between the Securities Information and Financial Markets Association (SIFMA) Municipal Swap Index and the one-month London InterBank Offered Rate (LIBOR) of approximately 18%, which is lower than interest projected using the 75% average relationship between SIFMA and LIBOR over the past 10 years.

	Principal	Interest	Total
2015	$ 29,439	$ 86,186	$ 115,625
2016	30,637	84,931	115,568
2017	32,186	83,305	115,491
2018	33,699	81,797	115,496
2019	35,301	80,202	115,503
2020–2024	204,473	373,125	577,598
2025–2029	260,555	317,210	577,765
2030–2034	330,245	247,488	577,733
2035–2039	416,220	160,036	576,256
2040–2044	420,530	59,703	480,233
2045–2049	86,840	2,809	89,649
	$ 1,880,125	$ 1,576,792	$ 3,456,917

The Revenue Bonds are tax-exempt and are secured by and payable from the System's revenues, the money and securities held in certain funds and accounts created by the applicable bond agreements and held by the bond trustee, and in the case of the Combined Group, amounts payable by the other members of the Combined Group under their respective Member Guaranty Agreement or Member Security Agreement. The fixed rate revenue bonds are redeemable at the option of the System at par value upon the expiration of the 10-year no call period subsequent to their respective issuance date.

In December 2005, the System issued Series 2005 B, C and D Variable Rate Refunding Revenue Bonds which, together with $2,855 of System funds, currently refunded $96,760 of Series 1996 A Revenue Bonds. Interest on the Series 2005 B, C and D Variable Rate Refunding Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year. In February 2011, the System utilized a mandatory tender process to substitute new direct pay letters of credit on these bonds. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance.

In August 2007, the System issued Series 2007 A Revenue and Refunding Revenue Bonds, which currently refunded $114,030 of the outstanding Series 1997 A Revenue Bonds and advance refunded $26,445 of the outstanding Series 2001 A Revenue Bonds. Interest on the Series 2007 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

Also in August 2007, the System issued Series 2007 B and C Variable Rate Refunding Revenue Bonds, which advance refunded all $71,015 of the outstanding Series 2003 A Revenue Bonds and all $100,000 of the outstanding Series 2005 A Revenue Bonds. Interest on the Series 2007 B and C Variable Rate Refunding Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year.

In September 2007, the System issued Series 2007 D, E and F Variable Rate Revenue Bonds insured by Financial Security Assurance, Inc., now known as Assured Guaranty Municipal Corp. (AGMC). Interest on the Series 2007 D, E and F Variable Rate Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year. In May 2013, the System utilized a mandatory tender process to convert Series 2007 D and F to direct purchase bonds and to substitute a new direct pay letter of credit on Series 2007 E. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance.

Also in September 2007, the System issued Series 2007 G Variable Rate Revenue Bonds insured by AGMC and Series 2007 H Variable Rate Revenue Bonds. The proceeds of the Series 2007 H Variable Rate Revenue Bonds were used to repay $159,930 of outstanding revenue bonds issued by the North Carolina Medical Care Commission for the benefit of NorthEast Medical Center. Interest on the Series 2007 G Variable Rate Revenue Bonds and the Series 2007 H Variable Rate Revenue Bonds is payable monthly in arrears. Principal is payable on January 15 of each year. In May 2013, the System utilized a mandatory tender process to convert Series 2007 G to direct purchase bonds. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance.

In June 2008, the System issued Series 2008 A Refunding Revenue Bonds which currently refunded all $70,020 of the outstanding Series 1996 B, C and D Variable Rate Revenue Bonds, all $66,175 of the outstanding Series 2003 B Variable Rate Revenue Bonds, all $100,000 of the outstanding Series 2005 E Variable Rate Revenue Bonds and all $71,200 of the outstanding Series 2007 I Variable Rate Revenue Bonds. Interest on the Series 2008 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

In August 2009, the System issued Series 2009 A Refunding Revenue Bonds which currently refunded all $7,810 of the outstanding Series 1997 A Revenue Bonds, all $76,075 of the outstanding Series 2007 J

Variable Rate Revenue Bonds, all $78,225 of the outstanding Series 2007 K Variable Rate Revenue Bonds and all $50,365 of the outstanding Series 2007 L Variable Rate Revenue Bonds. Interest on the Series 2009 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

In May 2011, the System issued Series 2011 A Revenue Bonds. Interest on the Series 2011 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

In May 2012, the System issued Series 2012 A Revenue and Refunding Revenue Bonds which currently refunded all $88,535 of the outstanding Series 2001 A Revenue Bonds and $32,185 of outstanding revenue bonds issued by the North Carolina Medical Care Commission for the benefit of CMC-Union. The Series 2012 A Revenue and Refunding Revenue Bonds also included $50,000 to finance a small portion of the System's capital plan. Interest on the Series 2012 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

In May 2013, the System issued Series 2013 A Revenue and Refunding Revenue Bonds which advance refunded $4,815 of the outstanding Series 2009 A Refunding Revenue Bonds and all $73,250 of outstanding revenue bonds issued by the North Carolina Medical Care Commission for the benefit of Cleveland County HealthCare System. The Series 2013 A Revenue and Refunding Revenue Bonds also included $50,000 to finance a small portion of the System's capital plan. Interest on the Series 2013 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

In the event bondholders elect to tender any or all of the Series 2005 B, C and D Variable Rate Refunding Revenue Bonds or the Series 2007 B, C, E and H Revenue Bonds for purchase and the bonds cannot be remarketed, liquidity facilities and direct pay letters of credit provided by four financial institutions are utilized to purchase the unremarketed bonds. Bonds held by the liquidity facility and letter of credit providers generally require payment of a higher rate of interest. The terms of these liquidity facilities and direct pay letters of credit are described in the table below.

Series	**Facility Type**	**Expiration Year**	**Repayment Period**
2005 BCD	Direct pay letter of credit	2018	5 year
2007 B	Liquidity facility	2017	7 year
2007 C	Liquidity facility	2017	7 year
2007 E	Direct pay letter of credit	2018	5 year
2007 H	Direct pay letter of credit	2019	5 year

The System's Series 2007 D, F and G Revenue Bonds have been purchased by three financial institutions with holding periods that expire as noted in the table below.

Series	**Facility Type**	**Expiration Year**
2007 D	Direct purchase bonds	2023
2007 F	Direct purchase bonds	2023
2007 G	Direct purchase bonds	2020

Interest expense, exclusive of amounts capitalized, was $84,971 and $87,625 for the years ended December 31, 2014 and 2013, respectively. Interest paid to bond holders and other lenders totaled $95,760 and $91,609 for the years ended December 31, 2014 and 2013, respectively.

There are various financial covenants and restrictions contained in the System's Bond Order, liquidity facilities, direct pay letters of credit and continuing covenant agreements for direct purchase bonds, including maintenance of a defined minimum level of annual long-term debt service coverage. As of December 31, 2014, the System was in compliance with these covenants and restrictions.

In October 2014 and as discussed in note 1, the System became the sole member of Pineville LTACH/Rehab Hospital, LLC (the LLC), which owns and leases a facility to the System. The facility was constructed with the proceeds from a $30,101 loan to the LLC from a financial services company that is payable through August 2038 at an interest rate of 3.84%. The loan, which was not issued under the System's Bond Order, is secured by a leasehold deed of trust and assignment of facility leases and rents. The balance of $29,118 at December 31, 2014 is included in other long-term debt. Previously, the LLC was a joint venture between the System and an unaffiliated entity and the System's lease of a portion of the facility with a term beginning in September 2013 and ending in August 2038, resulted in a capital lease obligation of $17,586 at December 31, 2013.

As discussed in note 1, the System's payment to Cleveland County included $77,000 payable under an unsecured, noninterest bearing note payable through 2038. The note is recorded as long-term debt at its net present value.

Interest Rate Swaps

The System has adopted an Interest Rate Exchange Agreement Policy (the Policy) that governs its use of derivative agreements and restricts the use of such agreements to achieving desired interest cost savings, hedging interest rate risk in financing transactions, adjusting the mix of variable and fixed rate debt exposure to appropriate levels, providing flexibility to meet financial objectives not available under then-existing market conditions and improving cash flows. The Policy does not allow the System to speculate using derivative agreements.

On January 15, 2006, the System entered into a 20-year interest rate swap agreement on its Series 2005 B, C and D Variable Rate Refunding Revenue Bonds. This swap is uninsured.

In August 2007, the System entered into four floating-to-fixed interest rate swaps under separate agreements insured by Ambac Assurance Corporation (Ambac) with two counterparties, in connection with its Series 2007 B and C Variable Rate Refunding Revenue Bonds, with an aggregate initial notional amount of $177,835. These swaps were entered into in conjunction with the refunding of the Series 2003 A and 2005 A Revenue Bonds.

In September 2007, the System entered into five AGMC-insured floating-to-fixed interest rate swaps under separate agreements with three counterparties, in connection with its Series 2007 D, E and F Variable Rate Revenue Bonds, with an aggregate initial notional amount of $201,415.

Also in September 2007, the System entered into two Ambac and two AGMC-insured floating-to-fixed interest rate swaps under separate agreements with two counterparties, in connection with its Series 2007 G and H Variable Rate Revenue Bonds, with an aggregate initial notional amount of $279,875.

The significant terms and features of the above transactions as of and for the years ended December 31, 2014 and 2013, are summarized in the below table. The notional amounts of the swaps effectively match the principal amounts of the associated debt. The swaps contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds.

Associated bonds	**2005 BCD**	**2007 B**	**2007 C**	**2007 D**
Notional amount	$ 64,595	$ 84,260	$ 87,635	$ 67,140
Swap type	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed
Origination date	January 15, 2006	August 28, 2007	August 28, 2007	September 19, 2007
Final bond maturity	January 15, 2026	January 15, 2038	January 15, 2037	January 15, 2043
The System pays	5.52%	4.36%	4.38%	3.88%
The System receives	75% of LIBOR	SIFMA	SIFMA	62.97% of LIBOR plus 0.29%
Fair value at December 31, 2014	$ (16,462)	$ (26,376)	$ (28,233)	$ (27,042)
Change in fair value during the year	$ (150)	$ (13,434)	$ (14,082)	$ (12,478)
Fair value at December 31, 2013	$ (16,312)	$ (12,942)	$ (14,151)	$ (14,564)
Change in fair value during the year	$ 6,731	$ 15,548	$ 16,286	$ 12,823

Associated bonds		2007 E		2007 F		2007 G		2007 H
Notional amount	$	77,220	$	57,055	$	113,825	$	166,050
Swap type		Floating-to-fixed		Floating-to-fixed		Floating-to-fixed		Floating-to-fixed
Origination date		September 19, 2007		September 19, 2007		September 19, 2007		September 19, 2007
Final bond maturity		January 15, 2044		January 15, 2042		January 15, 2041		January 15, 2045
The System pays		3.89%		3.90%		3.90%		3.88%
The System receives		62.97% of LIBOR plus 0.29%		62.97% of LIBOR plus 0.29%		62.97% of LIBOR plus 0.29%		67.50% of LIBOR if LIBOR is equal to or greater than 3.5%; 77.5% of LIBOR if LIBOR is less than 3.5%
Fair value at December 31, 2014	$	(31,264)	$	(22,294)	$	(42,021)	$	(58,464)
Change in fair value during the year	$	(14,364)	$	(10,017)	$	(18,311)	$	(24,284)
Fair value at December 31, 2013	$	(16,900)	$	(12,277)	$	(23,710)	$	(34,180)
Change in fair value during the year	$	14,294	$	10,218	$	19,420	$	27,503

The swaps’ aggregate negative fair value of $252,156 and $145,036, as of December 31, 2014 and 2013, respectively, is reported as a long-term liability on the balance sheet. The System has determined that its 14 interest rate swaps are effective hedging derivatives. Because the swaps are effective hedges, aggregate changes in their fair value, including $(107,120) and $122,823 for the years ended December 31, 2014 and 2013 respectively, are deferred and are reported on the balance sheet as a deferred outflow of resources.

In April 2013, the System reduced its counterparty risk by novating four of its swaps with an aggregate notional value of $207,075 from one of its existing counterparties to another existing counterparty with a higher rating. This transaction was treated as a termination of the original swaps and the execution of new swaps with identical terms. As a result of the termination of the swaps and the related hedging relationships, the aggregate change in fair value of the swaps of $76,495, including $2,840 during 2013, which had been deferred on the balance sheet, was recognized as a nonoperating investment loss on the statement of revenues, expenses and changes in net position as of the transaction date. The System determined that the new swaps were effective hedging instruments.

The novation and certain mandatory tender processes discussed above resulted in the termination of the related hedging relationships. Although hedging relationships have been subsequently re-established, the swaps are considered off-market swaps because the fixed rates of the swaps differed from the market rates for similar swaps at the time the hedging relationship was re-established. The negative fair value of the off-market swaps are being amortized using straight-line amortization. As of December 31, 2014, all of the System’s swaps were effective hedges.

In May 2014, the System terminated the Ambac insurance on a swap agreement associated with Series 2007 B, C and H bonds that had an aggregate notional value of $168,973. Other than the termination of the insurance, the terms of the swap agreement remained unchanged.

As of December 31, 2014 and 2013, all swaps had a negative fair value. The negative fair value may be countered by a reduction in total interest payments required under the System's associated variable rate revenue bonds, creating a lower synthetic interest rate. Because the coupons on the variable rate revenue bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The swap fair values were estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

As of December 31, 2014 and 2013, the System was not exposed to credit risk because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the System would be exposed to credit risk in the amount of the swaps' fair value.

The System's 14 interest rate swaps are executed under six swap agreements with various counterparties. Seven swaps, approximating 50% of the notional amount of swaps outstanding, are provided by one counterparty that was rated A and A2 by Standard & Poor's and Moody's Investors Service, respectively, as of December 31, 2014. Five additional swaps, approximating 38% of the outstanding notional value, are provided by another counterparty rated AA– and Aa3. The remaining two swaps are provided by a third counterparty rated A and A2 as of December 31, 2014.

In the event the System's credit ratings, as determined by Standard & Poor's and Moody's Investors Service, fall below a level of A+ or A1, respectively, and the three uninsured swap agreements associated with Series 2005 B, C and D bonds and Series 2007 B, C and H bonds (with one counterparty) and with Series 2007 B and C bonds (with a different counterparty) each has a negative fair value of $25,000 or more, then the System must post collateral on these swap agreements equal to the amount of fair value in excess of $25,000. As of December 31, 2014, the fair values of these swap agreements were $(16,462), $(56,296) and $(27,308), respectively. No collateral was required to be posted by the System for these swap agreements.

In the event the System's credit ratings, as determined by Standard & Poor's and Moody's Investors Service, fall below a level of A+ or A1, respectively, and the uninsured swap agreement associated with Series 2007 H bonds has a negative fair value of $50,000 or more, then the System must post collateral on this swap agreement equal to the amount of fair value in excess of $50,000. As of December 31, 2014, the fair value of this swap agreement was $(29,469). No collateral was required to be posted by the System for this swap agreement.

With respect to the AGMC-insured swap agreement associated with Series 2007 E, F and G bonds, should the financial strength ratings of AGMC, as determined by Standard & Poor's and Moody's Investors Service, fall below A– or A3, respectively, upon the request of the counterparty, the System, at its option, must either procure replacement swap insurance policies from counterparties rated at least AAA by Standard & Poor's and Aaa by Moody's Investors Service, respectively, or agree to post collateral on those swap agreements equal to the amount of negative fair value in excess of $25,000 if the System's credit ratings, as determined by Standard & Poor's and Moody's Investors Services, fall below a level of A+ or A1, respectively. As of December 31, 2014, the fair value of this swap agreement was $(47,282). No collateral was required to be posted by the System for this swap agreement given AGMC's ratings of AA and A2.

With respect to the AGMC-insured swap agreement associated with Series 2007 D, E, F and G bonds, should the financial strength ratings of AGMC, as determined by Standard & Poor's and Moody's Investors Service, fall below A– or A3, respectively, upon the request of the counterparty the System, at its option, must either procure replacement swap insurance policies from counterparties rated at least AAA by Standard & Poor's and Aaa by Moody's Investors Service, respectively, or agree to post collateral on this swap agreement equal to the amount of negative fair value in excess of $50,000 if the System's credit ratings, as determined by Standard & Poor's and Moody's Investors Service, fall below a level of A+ or A1, respectively. As of December 31, 2014, the fair value of this insured swap agreement was $(75,339). No collateral was required to be posted by the System for this swap agreement given AGMC's ratings of AA and A2.

The System's Series 2005 B, C and D bonds, and Series 2007 B, C, E and H bonds bear interest at a rate that is equivalent to the SIFMA rate while the Series 2007 D, F and G bonds bear interest at LIBOR plus a spread. For those swaps on the SIFMA-based variable rate revenue bonds for which it receives a variable rate based on LIBOR, the System is exposed to basis risk depending upon the relationship between SIFMA and LIBOR. If that relationship changes, the effective synthetic rate on the SIFMA-based variable rate revenue bonds may be higher than the intended synthetic rate. As of December 31, 2014, the SIFMA rate was 0.03% and LIBOR was 0.17%, resulting in a SIFMA to LIBOR relationship of approximately 18%.

The System or the counterparty may terminate any of the swaps if either party fails to perform under the terms of the agreement. If any of the swaps are terminated, the associated variable rate revenue bonds would no longer carry synthetic interest rates. Also, if the swap has a negative fair value at the time of termination, the System would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at the time of termination, the System would be entitled to a payment equal to the swap's fair value from the counterparty terminating the swap.

Debt service requirements of the System's outstanding variable rate revenue bonds and net swap payments, assuming current interest rates and the SIFMA to LIBOR relationship remain the same, as of December 31, 2014, were as follows:

	Variable Rate Bonds		Interest Rate	
	Principal	**Interest**	**Swap – net**	**Total**
2015	$ 3,775	$ 2,416	$ 27,994	$ 34,185
2016	900	2,416	27,949	31,265
2017	6,120	2,415	27,639	36,174
2018	6,400	2,414	27,304	36,118
2019	6,820	2,412	26,947	36,179
2020–2024	35,530	12,039	129,255	176,824
2025–2029	53,500	11,986	118,351	183,837
2030–2034	103,855	11,646	103,124	218,625
2035–2039	183,490	10,776	72,040	266,306
2040–2044	310,565	3,640	25,376	339,581
2045–2049	6,825	0	11	6,836
	$ 717,780	$ 62,160	$ 585,990	$ 1,365,930

In January 2015, the System issued $13,125 of Series 2015 A Taxable Health Care Refunding Revenue Bonds which, together with funds held by Stanly in Debt Service Reserve Funds, currently refunded all $16,030 of outstanding revenue bonds issued by the North Carolina Medical Care Commission for the benefit of Stanly. The Series 2015 A Taxable Refunding Revenue Bonds were purchased by a financial institution and will be held through their maturity on January 15, 2024.

(6) Net Patient Service Revenue

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

Under the Medicare and Medicaid programs, the System is entitled to reimbursements for certain patient charges at rates determined by federal and state governments. Differences between established billing rates and reimbursements from these programs are recorded as contractual adjustments to arrive at net patient service revenue. Final determination of amounts due from Medicare and Medicaid programs is subject to review by these programs. Changes resulting from final determination are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for adjustments, if any, that may result from such reviews. Net patient service revenue increased approximately $16,000 and $25,000 for the years ended December 31, 2014 and 2013, respectively, due to 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 and reviews.

Net patient service revenue consisted of the following for the years ended December 31:

	2014	2013
Gross patient charges at established rates – including charges forgone for patients qualifying for financial assistance	$ 14,027,141	$ 12,531,842
Deductions:		
Contractual adjustments	(8,195,719)	(7,102,978)
Adjustments for uninsured and underinsured patients both qualifying and not qualifying for financial assistance	(1,339,425)	(1,254,689)
Net patient service revenue	$ 4,491,997	$ 4,174,175

The sources of the System’s gross patient revenue by type of payer, expressed as a percentage of total gross patient revenue, consisted of the following for the years ended December 31:

	2014	2013
Medicare	37.7%	37.1%
Commercial	35.4	35.2
Medicaid	16.2	16.3
Direct from patient/other	10.7	11.4
	100.0%	100.0%

The System has, since 1996, participated in the North Carolina Medicaid Reimbursement Initiative (the MRI Plan). In April 2012, CMS approved a North Carolina Medicaid assessment plan to reduce the gap between Medicaid and uninsured costs and payments (the GAP Plan). Under the GAP Plan, providers periodically pay an assessment to the State and periodically receive Medicaid payments from the State. The System reports assessments and receipts within other expenses and net patient service revenue, respectively, in the accompanying statements of revenues, expenses, and changes in net position. The following is a summary of the funds received and assessments paid under these programs for the years ended December 31, 2014 and 2013, respectively:

		2014		2013
MRI, net funds received	$	150,745	$	136,545
GAP Plan funds received		42,775		50,306
Less assessments paid		(25,814)		(24,763)
Net amounts recognized	$	167,706	$	162,088

(7) Other Revenue

Other revenue is composed of the following amounts for the years ended December 31:

		2014		2013
Medical education and research grants and contracts	$	73,652	$	106,622
Reimbursed services provided to Component Units and Regional Enterprise Facilities		106,290		94,034
Rental, sales and other revenue		256,772		214,183
	$	436,714	$	414,839

(8) Employee Benefit Plans

The CHS Plan is a single employer defined benefit plan that provides pension benefits to all System employees who have attained five or more years of service. These benefits are based on years of service and the employees' compensation. Employees meeting specified employment, age, and service criteria are grandfathered and will continue to accrue benefits under the CHS pre-cash balance formula. The Board of Commissioners of the System has the authority to amend benefit provisions.

Annual contributions are based upon actuarial calculations. Beginning in 2014, the CHS Plan utilizes the entry age normal method to determine annual contributions. For the year ended December 31, 2013, the CHS Plan utilized the projected unit-credit method to determine the annual contributions. There are no employee contributions to the CHS Plan.

The System’s annual pension cost and net pension asset pertaining to the CHS Plan were as follows for the years ended December 31:

	2014	2013
Annual required contribution	$ 79,015	$ 88,469
Interest on net pension asset	(4,438)	(4,448)
Adjustment to annual required contribution	4,563	4,573
Annual pension cost	79,140	88,594
Contributions made	(79,015)	(88,469)
Decrease in net pension asset	(125)	(125)
Net pension asset – beginning of year	55,481	55,606
Net pension asset – end of year	$ 55,356	$ 55,481

The annual required contribution for 2014 was determined as part of the January 1, 2014 actuarial valuation. Actuarial assumptions used were as follows for the years ended December 31:

	2014	2013
Inflation rate	3.0%	3.0%
Investment rate of return	8.0	8.0
Pre-retirement interest rate	8.0	8.0
Lump sum interest rate	5.5	6.5
Projected salary increases	4.0	4.0
Asset valuation method	Market	Market-related value

The underfunded actuarial accrued liability is being amortized over a 30-year period on an open basis using the level-dollar method. The System’s annual pension cost and funding were as follows (unaudited):

Fiscal Years Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
December 31, 2013	$ 88,594	100.0%	$ 55,481
December 31, 2014	79,140	100.0	55,356

The System's progress in accumulating sufficient assets to pay benefits when due is presented below:

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL)	Underfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
January 1, 2011	$ 620,832	$ 723,631	$ (102,799)	85.8%	$ 1,508,098	(6.8)%
January 1, 2012	645,161	807,632	(162,471)	79.9	1,620,245	(10.0)
January 1, 2013	717,176	1,002,512	(285,336)	71.5	1,816,399	(15.7)
January 1, 2014	799,250	1,124,067	(324,817)	71.1	1,909,014	(17.0)

The schedules of Plan funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of CHS Plan assets are increasing or decreasing over time relative to the AAL for benefits.

The System, as plan sponsor, has fiduciary responsibility for the CHS Plan assets on behalf of the plan participants and beneficiaries. The following table summarizes changes in CHS Plan net assets for the years ended December 31:

	2014	2013
Changes in plan net assets:		
Fair value of plan net assets – beginning of year	$ 799,250	$ 658,768
Transfer of CMC-Union plan assets	0	42,249
Employer contributions	79,015	88,469
Investment gains	39,008	100,670
Benefits paid	(111,381)	(89,134)
Administrative expenses	(2,061)	(1,772)
Fair value of plan net assets – end of year	$ 803,831	$ 799,250

CHS Plan assets were invested as follows as of December 31:

	2014	2013
Cash and cash equivalents	2%	3%
Fixed income securities	15	14
Long/short fixed income limited partnerships	7	7
Multi-strategy hedge fund limited partnerships	6	6
Domestic equities	5	6
International equities	27	28
Common collective trust funds – domestic	18	16
Long/short equity limited partnerships and mutual funds	14	15
Commodities fund of funds limited partnership	2	2
Private equity fund of funds limited partnerships	4	3
Total	100%	100%

The fair value of CHS Plan net assets at December 31, 2014 of $803,831 are 69.6% of the estimated actuarial accrued liability of $1,155,000. Although management believes the fair value estimated for investments without readily determinable market values to be reasonable at December 31, 2014, such estimated fair values (amounting to $216,628 and $221,323 at December 31, 2014 and 2013, respectively) may differ from the ultimate realizable value of the investments. Fair value for financial reporting purposes is based on quoted market prices or an amount determined by external investment managers if quoted market prices are not available. Common collective trust funds are stated at fair value as determined by the issuer of the common collective trust funds based on the fair market value of the underlying investments.

Management reviews and evaluates fair value provided by the external investment managers, as well as the valuation methods and assumptions used in determining the fair value of such investments.

Late in 2013, CHS undertook certain steps to modernize its retirement benefits by moving away from a defined benefit plan to a more market competitive defined contribution only plan option. As such, the CHS Plan was closed to employees hired after January 1, 2014 and will be discontinued or frozen for all employees effective January 1, 2018, after which no additional benefits will accrue under the CHS Plan.

Cleveland County HealthCare System has a single employer defined benefit pension plan (the CCHS Plan), which continues to provide ongoing benefit accruals as of December 31, 2014. As of January 1, 2014, the most recent actuarial valuation, the plan had actuarially valued assets of $65,237 and actuarially accrued liabilities of $69,431. The actuarial assumptions used for the CCHS Plan are similar to assumptions used for the CHS Plan. As such, the CCHS Plan has also been closed to employees hired after January 1, 2015 and discontinued for all employees effective January 1, 2018, after which no additional benefits will accrue under the CCHS Plan.

The System's defined contribution retirement plan is a Section 401(k) plan and covers all full-time employees. The 401(k) plan is funded by voluntary employee contributions and certain matching contributions by the System. Total expense for this plan was $59,834 and $52,293 for the years ended December 31, 2014 and 2013, respectively. This plan has been enhanced for employees hired after January 1, 2014 and will be enhanced for all employees effective January 1, 2018 with an increase in the System's matching contribution. In addition, the System provides retirement benefits to certain employees under other benefit plans.

(9) Commitments and Contingencies

The System is subject to legal proceedings and claims that arise in the course of providing healthcare services. The System has instituted a limited self insurance program for professional liability and general liability claims. Self-insurance is limited to $5,000,000 per occurrence, with no aggregate limit. General liability and professional liability are also covered by umbrella liability insurance policies. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for asserted and unasserted claims not covered by the policy and any other uninsured liability.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

(Continued)

Obligations under noncancelable operating leases, principally real estate leases for medical office space, as of December 31, 2014, were as follows:

2015	$	65,458
2016		56,621
2017		51,557
2018		46,188
2019		37,397
2020–2024		110,894
2025–2029		9,284
	$	377,399

The System has entered into contracts for various construction projects, for which remaining commitments totaled approximately $80,275 at December 31, 2014.

The System has committed $4,500 to an affiliate organization for the construction of new healthcare facilities. At December 31, 2014, the remaining amount under this commitment was $2,000.

In connection with the merger with Cabarrus Memorial Hospital d/b/a NorthEast Medical Center in 2007, the System has committed to invest $600,000 in healthcare facilities and services in Cabarrus County, North Carolina prior to June 30, 2015. As of December 31, 2014, the System has spent $418,784 toward this commitment and approved an additional $181,216 for specific healthcare facility projects and services in Cabarrus County.

Effective January 1, 2012, under the terms of a Lease Agreement between the System and Union County, the System leases hospital real estate from, and makes annual lease payments to, Union County. The initial term of the Lease Agreement remains in effect until December 31, 2061, unless earlier terminated, extended or renewed in accordance with the provisions of the Lease Agreement. Upon the expiration of the initial term, unless certain events of default exist, the System has the option to extend and renew the Lease Agreement for an initial renewal term of 25 years. During the term of the Lease Agreement, Union County has the right to require the System to purchase the hospital real estate at a stated price determined in accordance with the Lease Agreement. If Union County elects to require the System to purchase the hospital real estate, the System will have no further obligations under the Lease Agreement. As of December 31, 2014, the purchase price as stated in the Lease Agreement was $129,073. The present value of the System's obligation for the annual lease payments, discounted using an effective interest rate of 4.34%, was $125,678 as of December 31, 2014, and is recorded on the balance sheet as a long-term liability. The liability and related interest are payable in annual installments of approximately $6,000 per year through 2061.

Additionally, as part of the Lease Agreement between the System and Union County, the System has committed to reinvest in healthcare related facilities and operations in Union County. As measured in 15 year increments commencing January 1, 2012, the System has committed to spending in Union County no less than 75% of the capital spending ratio of the System as a whole (defined as capital investments divided by net operating revenues), but limited to 75% of the operating income of the Union Healthcare Enterprise as defined in the Lease Agreement. The System has reinvested in excess of the commitment levels for the first two years of the 15 year period.

Effective April 5, 2012, the System entered into an Interlocal Agreement (the Agreement) with Anson County, North Carolina, through which the System agreed to invest approximately $20,000 in healthcare facilities and services in Anson County. The System fulfilled this commitment in July 2014 with the opening of a facility to replace the existing hospital that is owned and operated by the System.

As part of the change of control agreement discussed in note 1, the System committed to invest $70,000 in Stanly and its subsidiaries over a period of 12 years.

REQUIRED SUPPLEMENTARY INFORMATION

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Required Supplementary Information

Schedule of Plan Funding Progress
(Unaudited)

December 31, 2009 through December 31, 2014

(In thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c)
January 1, 2009	$ 510,299	$ 562,072	$ (51,773)	90.8%	$ 1,236,294	(4.2)%
January 1, 2010	579,529	630,926	(51,397)	91.9	1,384,234	(3.7)
January 1, 2011	620,832	723,631	(102,799)	85.8	1,508,098	(6.8)
January 1, 2012	645,161	807,632	(162,471)	79.9	1,620,245	(10.0)
January 1, 2013	717,176	1,002,512	(285,336)	71.5	1,816,399	(15.7)
January 1, 2014	799,250	1,124,067	(324,817)	71.1	1,909,014	(17.0)
January 1, 2015 (estimated)	803,872	1,155,000	(351,128)	69.6	1,985,375	(17.7)

See accompanying independent auditors' report.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Required Supplementary Information

Historical Summary of Actual and Required
Pension Contributions (Unaudited)

December 31, 2009 through December 31, 2014

(In thousands)

Fiscal plan year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension asset
December 31, 2009	$ 48,745	100.0%	$ 54,384
December 31, 2010	53,456	100.0	54,343
December 31, 2011	61,817	100.0	54,302
December 31, 2012	70,345	100.0	54,261
December 31, 2013	88,594	100.0	55,481
December 31, 2014	79,140	100.0	55,356

See accompanying independent auditors' report.

OTHER FINANCIAL INFORMATION

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Combining Schedule of Assets, Liabilities and Net Position – Discretely Presented Component Units

December 31, 2014 and 2013

(Dollars in thousands)

	2014			2013				
Assets	**Stanly Health Services, Inc.**	**The Carolinas HealthCare Foundation, Inc.**	**Combined**	**Cleveland County HealthCare System**	**Healthy@ Home**	**Stanly Health Services, Inc.**	**The Carolinas HealthCare Foundation, Inc.**	**Combined**
Current assets:								
Cash and cash equivalents	$ 18,961	$ 3,156	$ 22,117	$ 0	$ 0	$ 8,909	2,577	$ 11,486
Short-term investments	0	6,032	6,032	0	0	0	7,171	7,171
Patient accounts receivable – net	14,972	0	14,972	0	0	15,856	0	15,856
Other accounts receivable	3,689	13,194	16,883	0	0	3,404	3,746	7,150
Assets limited as to use – current portion	14	0	14	0	0	0	0	0
Inventories	2,459	0	2,459	0	0	2,874	0	2,874
Prepaid expenses	1,801	383	2,184	0	0	1,920	228	2,148
Total current assets	41,896	22,765	64,661	0	0	32,963	13,722	46,685
Capital assets	159,635	10,246	169,881	0	0	163,072	7,149	170,221
Accumulated depreciation	(116,266)	(4,855)	(121,121)	0	0	(111,659)	(4,368)	(116,027)
Total capital assets – net	43,369	5,391	48,760	0	0	51,413	2,781	54,194
Other noncurrent assets:								
Assets limited as to use:								
Bond proceeds held by trustee	2,902	0	2,902	0	0	2,901	0	2,901
Investments designated for capital improvements	33,705	0	33,705	0	0	31,889	0	31,889
Foundation long-term investments	0	271,645	271,645	0	0	0	276,400	276,400
Other assets limited as to use	0	0	0	0	0	0	0	0
Other assets	3,247	14,701	17,948	0	0	1,148	21,371	22,519
Total other noncurrent assets	39,854	286,346	326,200	0	0	35,938	297,771	333,709
Total assets	$ 125,119	$ 314,502	$ 439,621	$ 0	$ 0	$ 120,314	314,274	$ 434,588
Liabilities and Net Position								
Current liabilities:								
Accounts payable	$ 4,046	$ 237	$ 4,283	$ 0	$ 0	$ 4,192	227	$ 4,419
Salaries and benefits payable	3,484	0	3,484	0	0	3,477	0	3,477
Other liabilities and accruals	2,240	4,036	6,276	0	0	2,116	5,618	7,734
Estimated third-party payer settlements	6,684	0	6,684	0	0	3,903	0	3,903
Current portion of long-term debt	2,639	0	2,639	0	0	2,381	0	2,381
Total current liabilities	19,093	4,273	23,366	0	0	16,069	5,845	21,914
Long-term debt – less current portion	15,772	0	15,772	0	0	18,642	0	18,642
Other liabilities	0	1,320	1,320	0	0	0	1,450	1,450
Total liabilities	34,865	5,593	40,458	0	0	34,711	7,295	42,006
Net position:								
Net investment in capital assets	24,975	5,391	30,366	0	0	30,418	2,781	33,199
Restricted – by donor	935	250,903	251,838	0	0	656	245,849	246,505
Unrestricted	64,344	52,615	116,959	0	0	54,529	58,349	112,878
Total net position	90,254	308,909	399,163	0	0	85,603	306,979	392,582
Total liabilities and net position	$ 125,119	$ 314,502	$ 439,621	$ 0	$ 0	$ 120,314	314,274	$ 434,588

Financial information as of December 31, 2013 has been adjusted as if Stanly Health Services, Inc. had been a discretely presented component unit.

See accompanying independent auditors' report

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Combining Schedule of Revenues, Expenses and Changes in Net Position – Discretely Presented Component Units

Years ended December 31, 2014 and 2013

(Dollars in thousands)

	2014			2013				
	Stanly Health Services, Inc.	**The Carolinas HealthCare Foundation, Inc.**	**Combined**	**Cleveland County HealthCare System**	**Healthy@ Home**	**Stanly Health Services, Inc.**	**The Carolinas HealthCare Foundation, Inc.**	**Combined**
Net patient service revenue	$ 123,485	$ 0	$ 123,485	$ 0	$ 0	$ 153,517	0	$ 153,517
Other revenue	6,959	18,840	25,799	0	0	7,072	10,232	17,304
Total revenue	130,444	18,840	149,284	0	0	160,589	10,232	170,821
Operating expenses:								
Personnel costs	71,358	2,320	73,678	0	0	94,208	2,378	96,586
Supplies	19,753	0	19,753	0	0	23,800	0	23,800
Purchased services	4,390	120	4,510	0	0	3,085	135	3,220
Other expenses	23,102	26,501	49,603	0	0	32,422	27,176	59,598
Depreciation and amortization	7,944	490	8,434	0	0	9,824	446	10,270
Interest expense	1,107	0	1,107	0	0	1,502	0	1,502
Total operating expenses	127,654	29,431	157,085	0	0	164,841	30,135	194,976
Operating (loss) income	2,790	(10,591)	(7,801)	0	0	(4,252)	(19,903)	(24,155)
Nonoperating income:								
Interest and dividend income	79	3,787	3,866	0	0	1,681	3,908	5,589
Net increase in the fair value of investments and other assets	1,778	8,455	10,233	0	0	1,234	31,794	33,028
Other – net	(82)	0	(82)	0	0	215	0	215
Total nonoperating income – net	1,775	12,242	14,017	0	0	3,130	35,702	38,832
Revenue over (under) expenses before contributions	4,565	1,651	6,216	0	0	(1,122)	15,799	14,677
Capital contributions	(348)	(1,138)	(1,486)	0	0	171	(283)	(112)
Other contributions	434	1,417	1,851	0	0	516	1,505	2,021
Special item:								
Acquired net position for previously reported component units now part of the primary enterprise	0	0	0	(167,636)	4,508	0	0	(163,128)
(Decrease) increase in net position	4,651	1,930	6,581	(167,636)	4,508	(435)	17,021	(146,542)
Net position:								
Beginning of year	85,603	306,979	392,582	167,636	(4,508)	86,038	289,958	539,124
End of year	$ 90,254	$ 308,909	$ 399,163	$ 0	$ 0	$ 85,603	306,979	$ 392,582

Financial information as of December 31, 2013 has been adjusted as if Stanly Health Services, Inc. had been a discretely presented component unit. Due to a change in the fiscal year end, the period reported includes the 15 months ended December 31, 2013.

See accompanying independent auditors’ report

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position – Combined Group

December 31, 2014 and 2013

(Dollars in thousands)

	2014					2013				
Assets and Deferred Outflows of Resources	**Primary Enterprise**	**The Carolinas HealthCare Foundation, Inc.**	**Subtotal**	**Eliminations**	**Total**	**Primary Enterprise**	**The Carolinas HealthCare Foundation, Inc.**	**Subtotal**	**Eliminations**	**Total**
Current assets:										
Cash and cash equivalents	$ 96,101	$ 3,156	$ 99,257	$ 0	$ 99,257	$ 87,373	$ 2,577	$ 89,950	$ 0	$ 89,950
Short-term investments	170	6,032	6,202	0	6,202	12,171	7,171	19,342	0	19,342
Patient accounts receivable – net	655,489	0	655,489	0	655,489	639,912	0	639,912	0	639,912
Other accounts receivable	106,191	13,194	119,385	(3,855)	115,530	99,086	3,746	102,832	(3,683)	99,149
Assets limited as to use – current portion	41,779	0	41,779	0	41,779	23,945	0	23,945	0	23,945
Inventories	55,424	0	55,424	0	55,424	52,072	0	52,072	0	52,072
Prepaid expenses	47,176	383	47,559	0	47,559	40,165	228	40,393	0	40,393
Total current assets	1,002,330	22,765	1,025,095	(3,855)	1,021,240	954,724	13,722	968,446	(3,683)	964,763
Capital assets	4,910,999	10,246	4,921,245	0	4,921,245	4,599,926	7,149	4,607,075	0	4,607,075
Accumulated depreciation	(1,907,307)	(4,855)	(1,912,162)	0	(1,912,162)	(1,712,132)	(4,368)	(1,716,500)	0	(1,716,500)
Total capital assets – net	3,003,692	5,391	3,009,083	0	3,009,083	2,887,794	2,781	2,890,575	0	2,890,575
Other noncurrent assets:										
Assets limited as to use:										
Bond proceeds held by trustee	0	0	0	0	0	0	0	0	0	0
Investments designated for capital improvements	2,849,058	0	2,849,058	0	2,849,058	2,611,914	0	2,611,914	0	2,611,914
Foundation long-term investments	0	271,645	271,645	0	271,645	0	276,400	276,400	0	276,400
Other assets limited as to use	118,403	0	118,403	0	118,403	132,307	0	132,307	0	132,307
Other assets	240,104	14,701	254,805	(176)	254,629	227,847	21,371	249,218	(1,929)	247,289
Total other noncurrent assets	3,207,565	286,346	3,493,911	(176)	3,493,735	2,972,068	297,771	3,269,839	(1,929)	3,267,910
Total assets	7,213,587	314,502	7,528,089	(4,031)	7,524,058	6,814,586	314,274	7,128,860	(5,612)	7,123,248
Deferred outflows of resources	238,993	0	238,993	0	238,993	130,753	0	130,753	0	130,753
Total assets and deferred outflows of resources	$ 7,452,580	$ 314,502	$ 7,767,082	$ (4,031)	$ 7,763,051	$ 6,945,339	$ 314,274	$ 7,259,613	$ (5,612)	$ 7,254,001
Liabilities, Deferred Inflows of Resources and Net Position										
Current liabilities:										
Accounts payable	$ 194,893	$ 237	$ 195,130	$ 0	$ 195,130	$ 174,098	$ 227	$ 174,325	$ 0	$ 174,325
Salaries and benefits payable	287,853	0	287,853	0	287,853	255,929	0	255,929	0	255,929
Other liabilities and accruals	222,987	4,036	227,023	(4,031)	222,992	173,219	5,618	178,837	(5,612)	173,225
Estimated third-party payer settlements	162,594	0	162,594	0	162,594	144,888	0	144,888	0	144,888
Current portion of long-term debt	31,800	0	31,800	0	31,800	28,298	0	28,298	0	28,298
Total current liabilities	900,127	4,273	904,400	(4,031)	900,369	776,432	5,845	782,277	(5,612)	776,665
Long-term debt – less current portion	1,875,383	0	1,875,383	0	1,875,383	1,895,089	0	1,895,089	0	1,895,089
Interest rate swap liability	252,156	0	252,156	0	252,156	145,036	0	145,036	0	145,036
Other liabilities	349,039	1,320	350,359	0	350,359	336,788	1,450	338,238	0	338,238
Total liabilities	3,376,705	5,593	3,382,298	(4,031)	3,378,267	3,153,345	7,295	3,160,640	(5,612)	3,155,028
Commitments and contingencies										
Deferred inflows of resources	46,612	0	46,612	0	46,612	52,605	0	52,605	0	52,605
Net position:										
Net investment in capital assets	1,087,370	5,391	1,092,761	0	1,092,761	972,812	2,781	975,593	0	975,593
Restricted – by donor	24,771	250,903	275,674	0	275,674	22,069	245,849	267,918	0	267,918
Unrestricted	2,917,122	52,615	2,969,737	0	2,969,737	2,744,508	58,349	2,802,857	0	2,802,857
Total net position	4,029,263	308,909	4,338,172	0	4,338,172	3,739,389	306,979	4,046,368	0	4,046,368
Total liabilities, deferred inflows of resources and net position	$ 7,452,580	$ 314,502	$ 7,767,082	$ (4,031)	$ 7,763,051	$ 6,945,339	$ 314,274	$ 7,259,613	$ (5,612)	$ 7,254,001

The Total column presented above represents the Combined Group, which consists of the Obligated Group and its Designated Affiliates (including non-Obligated Group affiliates that at December 31, 2014 represent less than 3% of the total revenue and less than 1% of the total assets of the Combined Group; these same non-Obligated Group affiliates represent less than 3% of the total revenue and less than 1% of the total assets of the Primary Enterprise column), as such terms are defined in Section 101 of the Charlotte-Mecklenburg Hospital Authority's Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended. Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

See accompanying independent auditors' report.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Combining Schedule of Revenues, Expenses and Changes in Net Position – Combined Group

Years ended December 31, 2014 and 2013

(Dollars in thousands)

	2014					2013				
	Primary Enterprise	**The Carolinas HealthCare Foundation, Inc.**	**Subtotal**	**Eliminations**	**Total**	**Primary Enterprise**	**The Carolinas HealthCare Foundation, Inc.**	**Subtotal**	**Eliminations**	**Total**
Net patient service revenue	$ 4,491,997	$ 0	$ 4,491,997	$ 0	$ 4,491,997	$ 4,174,175	$ 0	$ 4,174,175	$ 0	$ 4,174,175
Other revenue	436,714	18,840	455,554	(26,536)	429,018	414,839	10,232	425,071	(24,739)	400,332
Total revenue	4,928,711	18,840	4,947,551	(26,536)	4,921,015	4,589,014	10,232	4,599,246	(24,739)	4,574,507
Operating expenses:										
Personnel costs	2,927,685	2,320	2,930,005	0	2,930,005	2,784,815	2,378	2,787,193	0	2,787,193
Supplies	801,821	0	801,821	0	801,821	748,617	0	748,617	0	748,617
Purchased services	290,019	120	290,139	0	290,139	261,520	135	261,655	0	261,655
Other expenses	386,500	26,501	413,001	(24,036)	388,965	355,464	27,176	382,640	(24,739)	357,901
Depreciation and amortization	251,847	490	252,337	0	252,337	234,908	446	235,354	0	235,354
Interest expense	84,971	0	84,971	0	84,971	87,625	0	87,625	0	87,625
Total operating expenses	4,742,843	29,431	4,772,274	(24,036)	4,748,238	4,472,949	30,135	4,503,084	(24,739)	4,478,345
Operating income (loss)	185,868	(10,591)	175,277	(2,500)	172,777	116,065	(19,903)	96,162	0	96,162
Nonoperating income										
Interest and dividend income	45,271	3,787	49,058	0	49,058	35,394	3,908	39,302	0	39,302
Net increase in the fair value of investments	52,683	8,455	61,138	0	61,138	175,611	31,794	207,405	0	207,405
Other – net	(1,028)	0	(1,028)	2,500	1,472	(3,860)	0	(3,860)	0	(3,860)
Total nonoperating income – net	96,926	12,242	109,168	2,500	111,668	207,145	35,702	242,847	0	242,847
Revenue over expenses before contributions	282,794	1,651	284,445	0	284,445	323,210	15,799	339,009	0	339,009
Capital contributions	7,012	(1,138)	5,874	0	5,874	5,649	(283)	5,366	0	5,366
Other contributions	68	1,417	1,485	0	1,485	8,887	1,505	10,392	0	10,392
Special item:										
Net inherent contributions of acquired entities for previously reported component units now part of the primary enterprise	0	0	0	0	0	97,607	0	97,607	0	97,607
Increase in net position	289,874	1,930	291,804	0	291,804	435,353	17,021	452,374	0	452,374
Net position:										
Beginning of year	3,739,389	306,979	4,046,368	0	4,046,368	3,304,036	289,958	3,593,994	0	3,593,994
End of year	$ 4,029,263	$ 308,909	$ 4,338,172	$ 0	$ 4,338,172	$ 3,739,389	$ 306,979	$ 4,046,368	$ 0	$ 4,046,368

The Total column presented above represents the Combined Group, which consists of the Obligated Group and its Designated Affiliates (including non-Obligated Group affiliates that at December 31, 2014 represent less than 3% of the total revenue and less than 1% of the total assets of the Combined Group; these same non-Obligated Group affiliates represent less than 3% of the total revenue and less than 1% of the total assets of the Primary Enterprise column), as such terms are defined in Section 101 of the Charlotte-Mecklenburg Hospital Authority's Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended. Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

See accompanying independent auditors' report.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

Combining Statements of Cash Flows – Combined Group

Years ended December 31, 2014 and 2013

(Dollars in thousands)

	2014					2013				
	Primary Enterprise	**The Carolinas HealthCare Foundation, Inc.**	**Subtotal**	**Eliminations**	**Total**	**Primary Enterprise**	**The Carolinas HealthCare Foundation, Inc.**	**Subtotal**	**Eliminations**	**Total**
Cash flows from operating activities:										
Receipts from third-party payers and patients	$ 4,494,676	$ 0	$ 4,494,676	$ 0	$ 4,494,676	$ 4,172,348	$ 0	$ 4,172,348	$ 0	$ 4,172,348
Payments to suppliers	(1,450,923)	(14,430)	(1,465,353)	(2,500)	(1,467,853)	(1,350,522)	(17,837)	(1,368,359)	0	(1,368,359)
Payments to employees	(2,846,795)	0	(2,846,795)	0	(2,846,795)	(2,750,649)	0	(2,750,649)	0	(2,750,649)
Other receipts (payments) – net	410,291	697	410,988	0	410,988	413,079	1,135	414,214	0	414,214
Net cash provided by (used in) operating activities	607,249	(13,733)	593,516	(2,500)	591,016	484,256	(16,702)	467,554	0	467,554
Noncapital financing activities	(3,759)	0	(3,759)	2,500	(1,259)	(441)	0	(441)	0	(441)
Cash flows from capital and related financing activities:										
Purchase of capital assets	(358,062)	(3,100)	(361,162)	0	(361,162)	(432,034)	(40)	(432,074)	0	(432,074)
Donated funds designated for building and equipment purchases	7,012	(1,138)	5,874	0	5,874	5,649	(283)	5,366	0	5,366
Acquisition of health related businesses, net of cash acquired	0	0	0	0	0	(315)	0	(315)	0	(315)
Principal payments, refunding and retirements on short and long-term debt	(27,065)	0	(27,065)	0	(27,065)	(426,816)	0	(426,816)	0	(426,816)
Interest payments on short and long-term debt	(95,760)	0	(95,760)	0	(95,760)	(91,609)	0	(91,609)	0	(91,609)
Decrease in bond proceeds held by trustee	0	0	0	0	0	593	0	593	0	593
Proceeds from issuance of long-term debt	0	0	0	0	0	455,557	0	455,557	0	455,557
(Increase) decrease in other assets affecting capital and related financing activities	1,356	(1,003)	353	0	353	(7,364)	1,067	(6,297)	0	(6,297)
Other contributions	0	1,417	1,417	0	1,417	(1,824)	1,505	(319)	0	(319)
Net cash (used in) provided by capital and related financing activities	(472,519)	(3,824)	(476,343)	0	(476,343)	(498,163)	2,249	(495,914)	0	(495,914)
Cash flows from investing activities:										
Withdrawal from investments designated for capital improvements	341,000	18,160	359,160	0	359,160	293,250	14,900	308,150	0	308,150
Contribution to investments designated for capital improvements	(480,500)	0	(480,500)	0	(480,500)	(296,000)	0	(296,000)	0	(296,000)
Investment earnings	241	(24)	217	0	217	649	35	684	0	684
Decrease in other trusteed assets	14,491	0	14,491	0	14,491	19,289	0	19,289	0	19,289
Increase in loans to affiliates	7,473	0	7,473	0	7,473	(777)	0	(777)	0	(777)
Purchase of investments	(4,948)	0	(4,948)	0	(4,948)	(293)	0	(293)	0	(293)
Net cash provided by (used in) investing activities	(122,243)	18,136	(104,107)	0	(104,107)	16,118	14,935	31,053	0	31,053
Net increase (decrease) in cash and cash equivalents	8,728	579	9,307	0	9,307	1,770	482	2,252	0	2,252
Cash and cash equivalents:										
Beginning of year	87,373	2,577	89,950	0	89,950	85,603	2,095	87,698	0	87,698
End of year	$ 96,101	$ 3,156	$ 99,257	$ 0	$ 99,257	$ 87,373	$ 2,577	$ 89,950	$ 0	$ 89,950
Reconciliation of operating income (loss) to net cash provided by operating activities:										
Operating income (loss)	$ 185,868	$ (10,591)	$ 175,277	$ (2,500)	$ 172,777	$ 116,065	$ (19,903)	$ 96,162	$ 0	$ 96,162
Interest expense considered capital financing activity	84,971	0	84,971	0	84,971	87,625	0	87,625	0	87,625
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:										
Depreciation and amortization	251,847	490	252,337	0	252,337	234,908	446	235,354	0	235,354
Increase in patient accounts receivable – net	(15,627)	0	(15,627)	0	(15,627)	(19,764)	0	(19,764)	0	(19,764)
Decrease (increase) in inventories and other current assets	(29,208)	(3,242)	(32,450)	0	(32,450)	8,383	933	9,316	0	9,316
(Increase) decrease in other assets affecting operating activities	(720)	(46)	(766)	0	(766)	(1,542)	98	(1,444)	0	(1,444)
Increase (decrease) in accounts payable and other current liabilities	142,844	(344)	142,500	0	142,500	91,948	1,724	93,672	0	93,672
Decrease in other liabilities affecting operating activities	(30,432)	0	(30,432)	0	(30,432)	(58,902)	0	(58,902)	0	(58,902)
Increase in estimated third-party payer settlements	17,706	0	17,706	0	17,706	25,535	0	25,535	0	25,535
Net cash provided by (used in) operating activities	$ 607,249	$ (13,733)	$ 593,516	$ (2,500)	$ 591,016	$ 484,256	$ (16,702)	$ 467,554	$ 0	$ 467,554

The Total column presented above represents the Combined Group, which consists of the Obligated Group and its Designated Affiliates (including non-Obligated Group affiliates that at December 31, 2014 represent less than 3% of the total revenue and less than 1% of the total assets of the Combined Group; these same non-Obligated Group affiliates represent less than 3% of the total revenue and less than 1% of the total assets of the Primary Enterprise column), as such terms are defined in Section 101 of the Charlotte-Mecklenburg Hospital Authority's Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended. Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

See accompanying independent auditors' report.