

WAKEMED

**COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

**WAKEMED
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
COMBINED FINANCIAL STATEMENTS	
COMBINED STATEMENTS OF NET POSITION	11
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	12
COMBINED STATEMENTS OF CASH FLOWS	13
FIDUCIARY FUND	
STATEMENT OF NET POSITION - PENSION TRUST FUND – WAKEMED PENSION PLAN	15
STATEMENT OF CHANGES IN NET POSITION – PENSION TRUST FUND – WAKEMED PENSION PLAN	16
NOTES TO COMBINED FINANCIAL STATEMENTS	17
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS (UNAUDITED)	52
SCHEDULE OF INVESTMENT RETURNS (UNAUDITED)	53
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)	54
SUPPLEMENTARY INFORMATION	
COMBINING STATEMENT OF NET POSITION	55
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	57
OTHER INFORMATION	
COMBINING STATEMENT OF NET POSITION IN ACCORDANCE WITH THE AMENDED AND RESTATED MASTER TRUST INDENTURE (UNAUDITED)	58
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION IN ACCORDANCE WITH THE AMENDED AND RESTATED MASTER TRUST INDENTURE (UNAUDITED)	60

Independent Auditor's Report

To the Board of Directors
WakeMed

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements and aggregate remaining fund information of WakeMed, which comprise the combined statements of net position as of September 30, 2018 and 2017 and the related combined statements of revenues, expenses, and changes in net position and cash flows for the years ended, and the notes to the basic combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Capital City Surgery Center, LLC, a component unit, which represents 1 percent and 1 percent of total assets, 2 percent and 2 percent of net position, and 2 and 2 percent of revenues as of September 30, 2018 and 2017, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Capital City Surgery Center, LLC, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the combined financial position and the aggregate remaining fund information of WakeMed as of September 30, 2018 and 2017 and the changes in its combined financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
WakeMed

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension asset and related ratios, schedule of investment returns, and schedule of contributions, as identified in the table of contents, be presented to supplement the combined financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise WakeMed's combined financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018 on our consideration of WakeMed's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WakeMed's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 4, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

WAKEMED
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017

Overview

The Management's Discussion and Analysis section of WakeMed's combined financial statements is designed to provide a general overview of the financial operating results for the fiscal years ended September 30, 2018 and 2017. This analysis should be read in conjunction with the combined financial statements and related footnotes that follow this analysis.

WakeMed is a private, not-for-profit healthcare organization based in Wake County, North Carolina. WakeMed comprises a network of healthcare facilities throughout Wake and Johnston counties, including a 604-bed regional referral center with an adjoining 98-bed rehabilitation hospital in Raleigh; a 178-bed full-service community hospital in Cary; a 61-bed family health and women's hospital in North Raleigh; freestanding emergency departments and diagnostic centers in Apex, Brier Creek, and Garner; Raleigh Medical Park, a preadmission testing site adjacent to the Raleigh campus hospital; a medical office building with outpatient rehabilitation services in Clayton; a mobile critical care transport service including an air ambulance service; and home health and outpatient rehabilitation services in Raleigh, Cary, and Apex. WakeMed is the tertiary provider of trauma, cardiac, neonatal intensive care, neurosciences, high-risk maternal, pediatric emergency and intensive care, adult care services, and physical rehabilitation services.

In addition to the entities described above, the combined financial statements include WakeMed Property Services, Wake Specialty Physicians, LLC, CSAMS New Bern Avenue, LLC, WakeMed Foundation, Capital City Surgery Center, LLC, and Rockroom Insurance Group SPC (collectively, "WakeMed"). These component units are included in WakeMed's reporting entity because of their operational or financial relationships with WakeMed.

Mission

WakeMed's mission is to improve the health and well-being of our community by providing outstanding and compassionate care to all who seek our services. Our mission is the foundation of who we are and what we do. Guided by our vision and supported by strong values and goals, this mission drives the superior care that our patients, their families, and the communities we serve have come to expect. To achieve this mission, WakeMed focuses its efforts on achieving ten strategic goals: Value Leader, Quality, Culture of Safety, Extraordinary Team, Healthy Community, The Wake Way, Innovation, Preferred Partner, Financial Health, and Highest Ethics and Standards.

Financial Highlights

- WakeMed's net position increased in 2018 by \$48.1 million and increased in 2017 by \$67.6 million.
- WakeMed reported income from operations of \$51.2 million which is a decrease of \$12.8 million from 2017. WakeMed reported income from operations of \$64.1 million in 2017 which is an increase of \$34.6 million from 2016.
- Net patient service revenue in 2018 increased by approximately \$53.4 million, or 4.4%, as compared to 2017 and in 2017 increased by approximately \$107.0 million, or 9.6%, as compared to 2016.

**WAKEMED
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017**

Current Year Events

WakeMed continued to expand its community footprint of services offered in women's and children's services, orthopedics, rheumatology, vascular, neurosurgery, endoscopy, bariatrics, and pediatric health and wellness. The system continued to focus on managing behavioral health services, a growing population in health care. WakeMed continued to be a leader in cardiovascular care and celebrated the WakeMed Heart Center's twentieth year of providing testing and diagnostic services to heart patients in Wake County and surrounding counties. In addition, WakeMed celebrated its fiftieth year of offering open heart surgery.

As WakeMed continued to focus on the health and well-being of the community, a new mobile health program, Health Lives Here, was launched in May 2018. The customized vehicle houses two private exam rooms and space for customized services in order to bring medical services and screenings into more areas in the community. This program will offer on-site clinic services, educational programming, corporate wellness, and occupational health screenings. Donations to the WakeMed Foundation helped fund this program.

WakeMed became the first health system in the nation to receive a Projects for Assistance in Transitions from Homelessness (PATH) grant. This grant allows WakeMed to work with homeless individuals with chronic serious mental illness or co-occurring mental illness with a substance abuse disorder and connect them to resources for medical care, housing, mental health and substance abuse treatment, job training, and educational services.

WakeMed and Duke Health continued to build and enhance the services offered through the collaborations established in 2017 in the areas of heart care and oncology/cancer services. The WakeMed Heart & Vascular Advanced Heart Failure practice opened in the WakeMed Heart Center and offers advanced care in the treatment for congestive heart failure to Wake County patients. In addition, research trials not previously available in Wake County are now available in the area of cardiovascular surgery. Due in part to Heart Care Plus+ collaboration, WakeMed's Raleigh Campus became the first hospital in the country to achieve the designation of Heart Failure Version 3 Advanced Heart Failure Accreditation from the American College of Cardiology's Accreditation Services. As part of the Cancer Care Plus+ collaboration, WakeMed's first fully robotic esophagectomy surgery was performed. This surgery is a treatment for esophageal cancer.

Being a leader in innovation is one of WakeMed's values and aspirational goals. In support of that, WakeMed partnered with the North Carolina Department of Transportation (NCDOT) and Matternet, a drone delivery provider, to investigate how to use drones for medical package delivery. Initial test flights were completed between two WakeMed facilities. The next phase of the project is evaluating how to regulate commercial uses for lifesaving potential. This project is part of a three year Federal Aviation Administration grant with the state of North Carolina and NCDOT. Another innovative technology, RelyMD, has allowed WakeMed to offer a new telemedicine benefit to employees. This technology offers remote access to physicians as an alternative to urgent care or emergency room visits, having to wait for an appointment, or waiting until the next day for the physician office to open. This access to physicians is also useful when traveling within the state.

Provider-Led, Patient-Centered Care, LLC (PLPCC), of which WakeMed is one of twelve investors, and Presbyterian Health Systems of New Mexico formed a statewide health maintenance organization (HMO) called North Carolina Provider Owned Plans (NCPOP). NCPOP filed an application to become the State's HMO to manage Medicaid patients and provide third-party administrator services to self-insured health plans in North Carolina. A decision is expected in early 2019.

WAKEMED
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017

Using this Annual Report

The combined financial statements have been prepared on the accrual basis of accounting which accounts for all revenues and expenses regardless of when cash is received or paid. The annual report consists of the following components:

Combined Statements of Net Position - The combined statements of net position reflect the financial position of WakeMed at a specific point in time (i.e., all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of September 30, 2018 and 2017). These statements provide the basis for the evaluation of WakeMed's capital structure, liquidity, and financial flexibility.

Combined Statements of Revenues, Expenses, and Changes in Net Position - These combined statements reflect WakeMed's profitability (or change in net position) for each of the fiscal years presented.

Combined Statements of Cash Flows - The combined statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing, capital and related financing activities, and noncapital and related financing activities. They also provide answers to such questions as where cash came from, what cash was used for, and what the change in the cash balance was during the reporting periods presented.

Notes to Combined Financial Statements - These notes are designed to give the reader of the combined financial statements additional information concerning WakeMed and further supports the statements described above.

WAKEMED
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017

Condensed Combined Statements of Net Position - The condensed combined statements of net position are as follows at September 30 (in thousands):

	2018	2017	2016
Current Assets	\$ 755,508	\$ 752,491	\$ 714,525
Capital Assets, Net	733,362	743,128	680,052
Assets Whose Use is Limited, Net of Portion Required for Current Liabilities	39,894	52,850	47,269
Other Assets	232,027	171,285	147,815
Total Assets	<u>1,760,791</u>	<u>1,719,754</u>	<u>1,589,661</u>
Deferred Outflows of Resources	<u>18,580</u>	<u>22,540</u>	<u>24,648</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,779,371</u>	<u>\$ 1,742,294</u>	<u>\$ 1,614,309</u>
Current Liabilities	\$ 183,899	\$ 183,865	\$ 156,860
Long-Term Debt, Less Current Maturities	542,852	555,497	521,827
Other Noncurrent Liabilities	18,267	15,588	17,150
Total Liabilities	<u>745,018</u>	<u>754,950</u>	<u>695,837</u>
Deferred Inflows of Resources	2,574	3,618	2,297
Net Position			
Net Investment in Capital Assets	196,768	195,314	153,087
Restricted Non Expendable	7,327	9,824	8,891
Restricted by Donors	40,316	39,063	36,441
Restricted for Debt Service and Capital Purchases	13,284	13,113	12,956
Unrestricted	774,084	726,412	704,800
Total Net Position	<u>1,031,779</u>	<u>983,726</u>	<u>916,175</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 1,779,371</u>	<u>\$ 1,742,294</u>	<u>\$ 1,614,309</u>

Current Assets - In 2018, current assets increased \$3.0 million, or .4%, over 2017. Short-term investments increased \$44.2 million while cash and other receivables decreased by \$35.3 million and \$9.3 million, respectively. WakeMed's current ratio is strong at 4.11 to 1.0 at September 30, 2018 and 4.09 to 1.0 at September 30, 2017. In 2017, current assets increased \$38.0 million, or 5.3%, over 2016.

Capital Assets - Net – In 2018, capital assets - net decreased \$9.8 million, or 1.3%, from 2017 mainly due to less capital procured than during 2017. Significant capital expenditures for fiscal year 2018 consisted of the purchase of the Community Workforce Solutions property adjacent to the Raleigh Campus, Cary emergency generator infrastructure expansion, unified communications system, expansion of Raleigh labor and delivery triage and procedure rooms, addition of pediatric physician specialties in Apex, addition of orthopaedic urgent care at North, the addition of several other physician practices throughout Wake County, ongoing equipment replacement throughout WakeMed, various improvements to existing facilities, and information technology improvements and upgrades. In 2017, capital assets – net increased \$63.1 million, or 9.3%, over 2016 mainly due to the purchase of three medical office buildings that were previously leased.

WAKEMED
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017

Capital assets - net consisted of the following at September 30 (in thousands):

	2018	2017	2016
Land and Land Improvements	\$ 54,858	\$ 53,673	\$ 47,974
Buildings	882,573	868,045	773,804
Equipment	888,552	850,450	836,277
Construction-in-Progress	13,351	11,350	5,332
	1,839,334	1,783,518	1,663,387
Less Accumulated Depreciation	(1,105,972)	(1,040,390)	(983,335)
Capital Assets, Net	\$ 733,362	\$ 743,128	\$ 680,052

Other Assets - Other Assets increased \$60.7 million, or 35.5%, in 2018 due primarily to the increases in long-term investments. Other Assets increased \$23.5 million, or 15.9%, in 2017 due primarily to the increases in long-term investments, investment in affiliates, and the net pension asset.

Current Liabilities - In 2018, current liabilities increased \$34 thousand, or .02%, over 2017. The increases in accounts payable and accrued liabilities, current maturities of long-term debt, and unearned revenue were almost completely offset by the \$3.2 million reduction in due to third-party payors. In 2017, current liabilities increased \$27.0 million, or 17.2%, over 2016. The primary factor was a \$26.7 million increase in accounts payable and accrued liabilities.

Long-Term Debt - At September 30, 2018, WakeMed had \$538.8 million of debt under the terms of two outstanding bond offerings and two taxable term loans. The 2012A \$294.8 million issue was used to refund the 2001 and 2009A bond issues. The 2001 bonds were redeemed in July 2012 and the 2009A bonds were redeemed on October 1, 2014. The 2009C \$81.8 million issue was used to refund the 1997 bonds in advance of their maturity dates. The 2009B \$75.0 million issue was used for equipment purchases and to finance the construction and acquisition of certain property as defined in the bond orders. On September 24, 2015, WakeMed entered into a term loan credit agreement with a financial institution for a principal amount of \$100 million to finance costs associated with North Hospital and information technology implementation projects. On August 7, 2017, WakeMed entered into a term loan credit agreement with a financial institution for a principal amount of \$57 million to purchase two previously leased medical office buildings. Long-term debt, less current maturities, decreased \$12.6 million in 2018 as a result of making the scheduled principal payments during the year. See Note 8 to the combined financial statements for a detailed discussion on long-term debt.

Other Noncurrent Liabilities - In 2018, other noncurrent liabilities decreased \$2.7 million, or 17.2%, from 2017. In 2017, other noncurrent liabilities decreased \$1.6 million, or 9.1%, from 2016.

Total Net Position - Overall, total net position increased approximately \$48.1 million, or 4.9%, over 2017. In 2017, total net position increased \$67.6 million, or 7.4%, over 2016. The specific components of the change in net position are as follows:

Net Investment in Capital Assets - Net investment in capital assets increased \$1.5 million, or .7%, in 2018 driven by the \$9.8 million decrease in capital assets - net during 2018. In 2017, net investment in capital assets increased \$42.2 million, or 27.6%, over 2016.

WAKEMED
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017

Net Position Restricted Non Expendable – Net position restricted non expendable represents the equity interests of the minority participant which was the result of change in reporting entity for Capital City Surgery Center, LLC, which has been retrospectively adopted, as further noted in Note 1. In 2018, net position restricted non expendable decreased \$2.5 million, or 25.4%, from 2017. In 2017, net position restricted non expendable increased \$933 thousand, or 10.5%, over 2016.

Net Position Restricted by Donors - Net position restricted by donors, which represent funds held by WakeMed that are restricted as to their use by external donors, increased \$1.3 million in 2018, or 3.2%, over 2017. In 2017, net position restricted by donors increased \$2.6 million, or 7.2%, over 2016. These funds are restricted for such uses as the provision of indigent care and certain other services such as children's, educational, and patient care programs.

Net Position Restricted for Debt Service and Capital Purchases - Net assets restricted for debt service and capital purchases represent assets that are to be used to pay current debt obligations. They increased \$171 thousand, or 1.3%, in 2018 and increased \$157 thousand, or 1.2%, in 2017.

Unrestricted Net Position - Unrestricted net position represents assets available to fund the ongoing operations of WakeMed. The \$47.7 million increase in 2018 was primarily due to the current year income. In 2017, unrestricted net position increased \$21.6 million, or 3.1%, over 2016.

Condensed Combined Statements of Revenues, Expenses, and Changes in Net Position - The condensed combined statements of revenues, expenses, and changes in net position are as follows for the years ended September 30 (in thousands):

	2018	2017	2016
Patient Service Revenue, Net	\$ 1,278,092	\$ 1,224,679	\$ 1,117,655
Other Operating Revenue	43,035	35,642	34,170
Total Operating Revenue	1,321,127	1,260,321	1,151,825
OPERATING EXPENSES			
Labor Expenses	796,749	740,677	697,496
Supplies, Purchased Services and Other	368,966	350,053	318,770
Professional Fees	28,818	30,300	30,154
Depreciation and Amortization	75,744	74,822	75,331
Interest Expense	(391)	390	614
Total Operating Expenses	1,269,886	1,196,242	1,122,365
Income from Operations	51,241	64,079	29,460
Nonoperating Revenues, Net			
Investment Income	25,814	23,949	21,735
Debt Interest Expense	(17,514)	(15,244)	(14,306)
Other, Net	(4,430)	567	(5,735)
Total Nonoperating Revenue, Net	3,870	9,272	1,694
Excess of Revenue Over Expenses	55,111	73,351	31,154
Distributions	(7,441)	(7,090)	(8,193)
Capital Contributions and Transfers, Net	383	1,290	426
Increase in Net Position	48,053	67,551	23,387
NET POSITION - BEGINNING OF YEAR - As Restated*	983,726	916,175	892,788
NET POSITION - END OF YEAR	\$ 1,031,779	\$ 983,726	\$ 916,175

*The net position for October 1, 2015 has been restated for the change in reporting entity related to Capital City Surgery Center.

WAKEMED
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017

Income (Loss) from Operations - Income from operations in 2018 decreased by \$12.8 million from 2017. Income from operations in 2017 increased by \$34.6 million over 2016.

Patient Service Revenue - Net - Net patient service revenue increased \$53.4 million, or 4.4%, over 2017. This increase was driven by several factors which included a price increase for hospital services in 2018 and increases in inpatient and outpatient volumes in the majority of its service lines. In 2017, net patient service revenue increased \$107.0 million, or 9.6%, over 2016.

Labor Expenses - Total labor expenses increased \$56.1 million, or 7.6%, compared to 2017. The increase is primarily due to a 3.8% increase in FTEs, merit increases, and a \$5.4 million increase in gain share program expense. WakeMed recorded \$19.6 million for the gain share program in comparison to \$14.2 million in 2017. In 2017, labor expenses increased \$43.2 million, or 6.2%, over 2016.

Supplies, Purchased Services, and Other - Overall, these costs experienced an increase of \$18.9 million, or 5.4%, over 2017. Supplies expense increased over the prior year in the areas of patient chargeable drugs, implants, and surgical supplies due to increased volumes while the increase in purchased services over the prior year is related to costs associated with service line initiatives and higher expenses in the areas of application software maintenance, maintenance contracts, and advertising. Other expense decreased this year as compared to last year due to decreased assessment costs related to the Medicaid GAP Program. Other expense includes approximately \$27.6 million for assessment costs related to the Medicaid GAP Program compared to \$31.9 million in 2017. In 2017, supplies, purchased services, and other expenses increased \$31.3 million, or 9.8%, over 2016.

Professional Fees - Professional fees decreased \$1.5 million, or 4.9%, from 2017. The decrease is primarily due to a decrease in management and consulting expenses and legal fees. In 2017, professional fees increased \$146 thousand, or .5%, over 2016.

Depreciation and Amortization Expense - Depreciation and amortization expense increased \$922 thousand, or 1.2%, over 2017 due to current year capital asset additions. In 2017, depreciation and amortization expense decreased \$509 thousand, or .7%, from 2016.

Investment Income - Investment income increased \$1.9 million, or 7.8%, over 2017. Fiscal year 2018 presented increases in unrealized gains and interest and dividend income of \$1.7 million and \$2.0 million, respectively. The aforementioned favorable increases were partially offset by the increase in realized losses of \$1.8 million. In 2017, investment income increased \$2.2 million, or 10.2%, over 2016.

**WAKEMED
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017**

Community Benefit

WakeMed's involvement in the community goes far beyond the provision of medical care at one of our facilities. The system engages in a variety of activities that result in a direct benefit including outreach, donations, in-kind contributions, special initiatives for children, free pediatric asthma and diabetes programs, employee volunteer hours, and teaching and training the next generation of physicians and nurses. WakeMed is guided by a mission that requires us to constantly increase our capacity for care. That means a steady stream of new programs, services, technologies, and facilities for the community. It also means caring for all who seek our services, regardless of their ability to pay. WakeMed provides health care to citizens in the communities we serve regardless of their ability to pay. Based on WakeMed's established charge structure, total charges foregone for charity care provided amounted to \$382.3 million in 2018, representing a \$30.6 million increase over the prior year.

Transfer Agreement Compliance

The Transfer Agreement, signed in 1997 when Wake County conveyed the hospital to WakeMed, was amended in September 2008. The Transfer Agreement mandates a minimum of 4.8% of revenues from Wake County citizens be spent to provide services and resources to indigent patients and the community at large in Wake County. In fiscal years 2018 and 2017, WakeMed was in compliance with the Transfer Agreement.

Contacting WakeMed's Financial Management

The financial report is designed to provide the users of WakeMed's combined financial statements with a general overview of WakeMed's finances. If you have questions about this report or need additional financial information, please contact WakeMed, Attn: Chief Financial Officer, 3000 New Bern Avenue, Raleigh, North Carolina 27610.

WAKEMED
COMBINED STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 117,141	\$ 152,453
Short-Term Investments	431,327	387,169
Patient Accounts Receivable, Net of Allowance for Uncollectible Accounts of \$162,755 in 2018 and \$155,620 in 2017	142,129	140,549
Other Receivables	12,482	21,738
Inventories	21,764	20,541
Prepaid Expenses and Other Current Assets	12,609	11,671
Assets Whose Use is Limited, Required for Current Liabilities	18,056	18,370
Total Current Assets	755,508	752,491
CAPITAL ASSETS, NET	733,362	743,128
ASSETS WHOSE USE IS LIMITED, Net of Portion Required for Current Liabilities	39,894	52,850
OTHER ASSETS		
Long-Term Investments	185,424	126,365
Investment in Affiliates and Other Assets	32,737	32,752
Net Pension Asset	13,866	12,168
Total Other Assets	232,027	171,285
Total Assets	1,760,791	1,719,754
DEFERRED OUTFLOWS OF RESOURCES		
Pension Plan	472	3,402
Loss on Refunding of Long-Term Debt	18,108	19,138
Total Assets and Deferred Outflows of Resources	\$ 1,779,371	\$ 1,742,294
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 11,850	\$ 11,455
Accounts Payable and Accrued Liabilities	164,413	161,888
Due to Third-Party Payors	6,874	10,115
Unearned Revenue	762	407
Total Current Liabilities	183,899	183,865
LONG-TERM DEBT, LESS CURRENT MATURITIES	542,852	555,497
OTHER NONCURRENT LIABILITIES	18,267	15,588
Total Liabilities	745,018	754,950
DEFERRED INFLOWS OF RESOURCES		
Pension Plan	2,470	3,257
Advanced Receipts of Grant Proceeds	104	361
NET POSITION		
Net Investment in Capital Assets	196,768	195,314
Restricted Non Expendable	7,327	9,824
Restricted by Donors	40,316	39,063
Restricted for Debt Service and Capital Purchases	13,284	13,113
Unrestricted	774,084	726,412
Total Net Position	1,031,779	983,726
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 1,779,371	\$ 1,742,294

See accompanying Notes to Combined Financial Statements.

WAKEMED
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	<u>2018</u>	<u>2017</u>
PATIENT SERVICE REVENUE		
Net of Contractual Allowances of \$3,733,400 and \$3,424,838 and Provision for Uncollectible Accounts of \$98,501 and \$91,540 in 2018 and 2017, Respectively	\$ 1,278,092	\$ 1,224,679
OTHER OPERATING REVENUE	<u>43,035</u>	<u>35,642</u>
Total Operating Revenue	1,321,127	1,260,321
LABOR EXPENSES		
Salaries, Wages and Employee Benefits	766,161	711,873
Contract Nursing	4,346	4,672
Other Contract Labor	<u>26,242</u>	<u>24,132</u>
Total Labor Expenses	796,749	740,677
OTHER OPERATING EXPENSES		
Supplies, Purchased Services and Other	368,966	350,053
Professional Fees	28,818	30,300
Depreciation and Amortization	75,744	74,822
Interest Expense	<u>(391)</u>	<u>390</u>
Total Other Operating Expenses	473,137	455,565
Total Expenses	<u>1,269,886</u>	<u>1,196,242</u>
INCOME FROM OPERATIONS	51,241	64,079
NONOPERATING REVENUE, NET		
Investment Income	25,814	23,949
Debt Interest Expense	(17,514)	(15,244)
Other, Net	<u>(4,430)</u>	<u>567</u>
Total Nonoperating Revenue, Net	3,870	9,272
EXCESS OF REVENUE OVER EXPENSES	55,111	73,351
DISTRIBUTIONS	(7,441)	(7,090)
CAPITAL CONTRIBUTIONS AND TRANSFERS, NET & OTHER	<u>383</u>	<u>1,290</u>
INCREASE IN NET POSITION	48,053	67,551
NET POSITION - BEGINNING OF YEAR	<u>983,726</u>	<u>916,175</u>
NET POSITION - END OF YEAR	<u>\$ 1,031,779</u>	<u>\$ 983,726</u>

See accompanying Notes to Combined Financial Statements.

WAKEMED
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Third-Party Payors and Patients	\$ 1,273,272	\$ 1,234,348
Payments to Suppliers	(408,426)	(365,735)
Payments to Employees	(785,594)	(729,128)
Other Receipts	55,364	40,359
Net Cash Provided by Operating Activities	<u>134,616</u>	<u>179,844</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Bonds Payable, Net	(11,455)	(11,085)
Proceeds from Taxable Term Loan	-	57,000
Interest Payments on Bonds Payable	(16,178)	(15,244)
Principal Payments on Capital Lease Obligations and Other	-	(937)
Interest Payments on Capital Lease Obligations and Other	-	(444)
Purchases of Capital Assets	(66,688)	(147,502)
Gifts, Grants and Bequests	383	1,290
Net Cash Used in Capital and Related Financing Activities	<u>(93,938)</u>	<u>(116,922)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest, Dividends and Unrealized Gain on Investments	27,711	24,084
Realized Loss on Sale of Investments	(1,897)	(135)
Other Nonoperating Losses, Net	(4,431)	(1,145)
Increase in Short-Term and Long-Term Investments	(103,217)	(20,757)
Changes in Other Non-Operating Assets, Net	15	(3,120)
Increase (Decrease) in Assets Whose Use is Limited	16,090	(8,488)
Distribution to Members	(7,441)	(7,090)
Net Cash Used in Investing Activities	<u>(73,170)</u>	<u>(16,651)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(32,492)	46,271
Cash and Cash Equivalents - Beginning of Year	<u>169,906</u>	<u>123,635</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 137,414</u></u>	<u><u>\$ 169,906</u></u>
RECONCILIATION OF COMBINED CASH AND CASH EQUIVALENTS TO COMBINED STATEMENTS OF NET POSITION:		
Cash and Cash Equivalents	\$ 117,141	\$ 152,453
Cash and Cash Equivalents in Assets Whose Use is Limited	20,273	17,453
Total Cash and Cash Equivalents	<u><u>\$ 137,414</u></u>	<u><u>\$ 169,906</u></u>

See accompanying Notes to Combined Financial Statements.

WAKEMED
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from Operations	\$ 51,241	\$ 64,079
Interest Expense Considered Capital Financing Activity	(391)	390
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation and Amortization	75,744	74,822
Provision for Uncollectible Accounts	98,501	91,540
Increase in Patient and Other Receivables	(90,825)	(77,336)
Increase in Accounts Payable and Accrued Liabilities	2,525	26,683
Change in Other Operating Assets and Liabilities, Net	(2,179)	(334)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 134,616</u></u>	<u><u>\$ 179,844</u></u>

See accompanying Notes to Combined Financial Statements.

WAKEMED
STATEMENT OF NET POSITION – PENSION TRUST FUND – WAKEMED PENSION PLAN
YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Cash Equivalents	\$ 4,360	\$ 4,438
U.S. Government Securities	5,649	4,127
Corporate Debt Securities	4,657	5,786
Other Debt Securities	4,208	4,697
Common Stock	29,457	46,449
Mutual Funds	16,754	-
Common Collective and Pooled Funds	31,589	32,633
Other	<u>173</u>	<u>143</u>
NET POSITION - HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 96,847</u></u>	<u><u>\$ 98,273</u></u>

See accompanying Notes to Combined Financial Statements.

WAKEMED
STATEMENT OF CHANGES IN NET POSITION – PENSION TRUST FUND – WAKEMED PENSION
PLAN
YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	<u>2018</u>	<u>2017</u>
ADDITIONS		
Investment Income	\$ 6,952	\$ 7,807
Employer Contributions	<u>-</u>	<u>-</u>
Total Additions	6,952	7,807
DEDUCTIONS		
Benefit payments	7,519	6,989
Administrative expenses	<u>859</u>	<u>491</u>
Total Deductions	8,378	7,480
 (DECREASE) INCREASE IN NET POSITION	 (1,426)	 327
 NET POSITION HELD IN TRUST- BEGINNING OF YEAR	 <u>98,273</u>	 <u>97,946</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u>\$ 96,847</u>	<u>\$ 98,273</u>

See accompanying Notes to Combined Financial Statements.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 1 ORGANIZATION

Reporting Entity

WakeMed, a North Carolina not-for-profit corporation, was established in 1965 to provide access to quality hospital-based services to the citizens of Wake County, North Carolina and surrounding counties. To support these services, WakeMed delivers a broad range of services through a network of operating affiliates.

Effective April 1, 1997, the Wake County commissioners conveyed all real estate, personal property, fixtures, equipment, cash and accounts, and all rights, title, and interest in all such property and facilities to WakeMed, under the provisions of North Carolina General Statute 131E-8 (the "Statute"), in accordance with a transfer agreement between WakeMed and the County of Wake (the "Transfer Agreement"). The Transfer Agreement was amended in September 2008. While a majority of the members of the Board of Directors continue to be appointed by Wake County, as required by the Statute, WakeMed's facilities are no longer owned by Wake County as required by North Carolina General Statute 159-39(a). Furthermore, the Statute required that the outstanding general obligation revenue bonds be defeased at the time of conveyance.

As a condition to the conveyance, WakeMed has agreed to provide community general hospital services to citizens of Wake County without regard to the ability to pay. Moreover, WakeMed must meet minimum financial commitments for services and resources to indigent patients and the community at large as defined in the Transfer Agreement, as amended. For the years ended September 30, 2018 and 2017, WakeMed met the minimum financial commitments as defined in the Transfer Agreement, as amended. In the event the level of commitment is not provided through charity care, WakeMed may be required to designate an amount equal to such deficiency to be maintained by WakeMed for the purpose of covering the cost of future services to indigent patients. No amount has been designated at September 30, 2018 and 2017.

As required by accounting principles generally accepted in the United States of America (hereinafter referred to as "generally accepted accounting principles"), these combined financial statements present WakeMed and its blended component units. The combined component units discussed below are included in WakeMed's reporting entity because of their operational or financial relationships with WakeMed.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 1 ORGANIZATION (CONTINUED)

Reporting Entity (Continued)

- *WakeMed Property Services* - WakeMed Property Services (“Property Services”) is a not-for-profit corporation established to provide healthcare facilities and related services to WakeMed. Property Services owns and operates WakeMed Clayton Medical Park, WakeMed Apex Healthplex, WakeMed Brier Creek Healthplex, WakeMed Garner Healthplex, and other properties that are non-clinical sites. Additionally, Property Services leases space in these facilities to professional associations and WakeMed. Property Services leases multiple other properties for clinical practices. Property Services is reported as a blended component unit because the entities share the same Board of Directors.
- *Wake Specialty Physicians, LLC* - On January 30, 2009, WakeMed filed Articles of Organization to establish Wake Specialty Physicians, LLC (“Wake Specialty Physicians”), a wholly owned not-for-profit entity. Wake Specialty Physicians was formed to employ and contract with physicians for the provision of professional medical services. Wake Specialty Physicians is reported as a blended component unit.
- *WakeMed Foundation* - WakeMed Foundation (the “Foundation”) is a not-for-profit corporation established in 1994 for the purpose of receiving and managing donations for the benefit of WakeMed and its ancillary organizations. The Foundation is also dedicated to building support for WakeMed through leadership development, fundraising, and educational awareness. The Foundation is included as a blended component unit as it provides its services almost exclusively to WakeMed. Separate financial statements for the Foundation can be obtained by contacting WakeMed management.
- *CSA Medical Services New Bern Avenue, LLC* - On January 3, 2012, WakeMed filed Articles of Organization to establish CSA Medical Services New Bern Avenue, LLC (“CSAMS”), a member-managed entity acting under the statutory provisions of the North Carolina LLC act. CSAMS owns perfusion pumps and was acquired to ensure WakeMed has essential tools necessary to offer high-quality cardiovascular surgery services at any time. Prior to the acquisition, WakeMed purchased perfusion services from CSA Medical Services as a vendor relationship. CSAMS is reported as a blended component unit.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 1 ORGANIZATION (CONTINUED)

Reporting Entity (Continued)

- *Capital City Surgery Center, LLC* - WakeMed and physician investors formed a joint venture in April 2012, Capital City Surgery Center, LLC ("Capital City"), a North Carolina limited liability company, to operate a facility to provide ambulatory surgery services which may include, but are not limited to, gynecology, neurosurgery, otolaryngology, ophthalmology, orthopedic, and podiatry procedures at a freestanding ambulatory surgery center located at 23 Sunnybrook Road in Raleigh, North Carolina. The company is managed by an outside management group. In February 2017, WakeMed purchased an additional 1% interest in Capital City to bring the total ownership interest to 51%. In March 2017, the operating agreement of Capital City was amended and controlling interest was conveyed to WakeMed to include the assumption of current debt and leases, as well as any future debt and leases. As a result of the changes to the operating agreement, Capital City is recorded as a blended component unit in accordance with GASB 14 and GASB 61. Capital City made distributions to the other members of Capital City in the amount of approximately \$7.4 and \$7.1 during the years ended September 30, 2018 and 2017, respectively.
- *Rockroom Insurance Group SPC ("Rockroom")* - On October 1, 2016, WakeMed became the sole owner of Rockroom upon the dissolution of Dogwood Insurance Company. Rockroom is a captive insurance company domiciled in the Cayman Islands. Rockroom is treated as a blended component unit of WakeMed.

Basis of Presentation

WakeMed utilizes proprietary fund accounting whereby revenues and expenses are recognized on an accrual basis. WakeMed follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, in the presentation of its financial statements. Under GASB Statement No. 34, WakeMed is classified as a special purpose government and is required to present statements for enterprise funds.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 1 ORGANIZATION (CONTINUED)

Basis of Presentation (Continued)

The Fiduciary Fund is used to account for assets held by WakeMed in a trustee capacity. This fund includes the WakeMed Pension Plan (the "Plan"). The Plan is reported within the basic financial statements even though its resources cannot be used to fund WakeMed's operations because of the fiduciary responsibility that WakeMed retains relative to the operations of the pension plan.

Affiliation Agreements

Southern Atlantic Healthcare Alliance - In October 2004, WakeMed became a member of the Southern Atlantic Healthcare Alliance. This corporation is a nonprofit corporation organized to facilitate consulting, resource sharing, and education among participating hospitals to provide patients with quality medical care.

Harnett Health System, Inc. - In November 2005, WakeMed entered into a management agreement with Harnett Health System, Inc. to manage Betsy Johnson Regional Hospital and Harnett Health System, Inc. to include implementing hospital operating policies and procedures and standards for operations, services, and maintenance. As a part of this agreement, WakeMed provided a president, CEO, and a chief financial officer for Harnett Health System, Inc.

During fiscal year 2011, WakeMed entered into an initial five-year liquidity agreement with Harnett Health System, Inc. to assist it with retaining days cash on hand required by its bond documents. The agreement requires WakeMed, if necessary, to loan the difference in the required days cash on hand up to a maximum of \$5 million. WakeMed will receive interest of the prime rate plus 2% on any loan amount along with an annual availability fee on the unloaned portion of the aggregate loan capacity. During 2013, WakeMed executed a loan for \$5 million to Harnett Health System, Inc. in accordance with the liquidity agreement.

Effective November 17, 2014, Harnett Health System, Inc. and WakeMed ended the management agreement by entering into a Mutual Termination and Release Agreement which extended the loan through 2019.

University of North Carolina Health Care System - In August 2011, WakeMed entered into a Master Affiliation Agreement with the University of North Carolina Health Care System ("UNC HCS"), for and on behalf of its University of North Carolina Hospitals and its clinical patient care programs of the School of Medicine of the University of North Carolina at Chapel Hill. WakeMed provides physicians of UNC HCS with residency training and expanded learning environments in a clinical setting.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 1 ORGANIZATION (CONTINUED)

Affiliation Agreements (Continued)

Duke University Health System, Inc. - In April 2012, WakeMed entered into a Pediatric Services Collaborative Agreement with Private Diagnostic Clinic, PLLC, Duke University, through its School of Medicine ("Duke"), and Duke University Health System, Inc., collectively referred to as Duke Medicine. The collaboration promotes the educational mission of Duke and increases clinical efficiencies and improves clinical quality of pediatric medicine and surgery services in Wake County.

Duke University Health System, Inc. - In February 2017, WakeMed entered into an agreement with Duke Health to establish Heart Care Plus+, an innovative collaboration in the area of cardiovascular disease. In April 2017, WakeMed entered into an agreement with Duke Health to establish Cancer Care Plus+, an innovative collaboration in the area of oncology/cancer services. The primary goal of the collaboratives is to deliver highly coordinated care, a broader scope of services, and greater value and affordability to citizens of Wake County. Both organizations remain independent but are focused on working together to improve these healthcare services in Wake County.

Wayne Memorial Hospital - In November 2012, WakeMed entered into a Heart and Vascular Services Agreement with Wayne Memorial Hospital. The level of Cardiac Services available to the residents of Wayne County will be enhanced by this relationship and will closely align the WakeMed Heart Center and Wayne Memorial Hospital's Cardiopulmonary Services. The agreement ended in April 2017.

Granville Health System - In December 2012, WakeMed entered into a Telestroke Program Agreement with Granville Health System. The level of Telestroke Services available to the residents of Granville County will be enhanced by this relationship by improving the timeliness and availability of acute stroke patient treatment and transport.

Wake Forest Baptist Medical Center - In December 2012, WakeMed entered into a Telestroke Program Agreement with Wake Forest Baptist Medical Center to provide services to support WakeMed's Telestroke Services to client hospitals. The web-based acute stroke medical treatment improves availability and timeliness of acute stroke patient treatment.

Central Carolina Hospital - In September 2013, WakeMed announced a Pediatric Hospitalist Services Agreement with Central Carolina Hospital. WakeMed's board-certified pediatricians provide 24/7 service to Central Carolina Hospital's recently designated pediatric unit. The agreement ended in February 2017.

Learning Services, Inc. - On January 21, 2014, WakeMed entered into a Therapy Services Agreement with Learning Services, Inc. WakeMed provides the services of licensed physical therapists, occupational therapists, and speech language pathologists (collectively known as "therapy services") to Learning Services, Inc.

Campbell University, Inc. - On July 27, 2015, WakeMed entered into an Affiliation Agreement with the Campbell University, Inc., for and on behalf of its School of Osteopathic Medicine. WakeMed provides physicians of Campbell University School of Osteopathic Medicine with residency training and expanded learning environments in a clinical setting.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and all highly liquid investments with an original maturity of three months or less, and which are not limited as to their use, are considered to be cash equivalents, and are recorded at cost which approximates market.

Inventories

Inventories consist primarily of patient care supplies and are stated at the lower of average cost or market.

Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors. Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, WakeMed analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, WakeMed analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), WakeMed records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts in the period they are determined to be uncollectible.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Whose Use is Limited

Assets whose use is limited include assets held by a trustee by bond order, internally designated amounts to meet future bond and principal payments, estimated settlements with third-party payors, self-insurance trust arrangements, and other donor-restricted assets. Assets whose use is limited that are required for settlement of current liabilities are reported in current assets.

Investments and Investment Income

WakeMed follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which states that investments in marketable debt and equity securities with readily determinable fair values, including assets whose use is limited, be measured at fair value in the accompanying combined statements of net position. Additionally, investment income or loss (including realized and unrealized gains and losses on investments, interest, investment management fees, and dividends) is included in nonoperating revenue - net in the accompanying combined statements of revenues, expenses, and changes in net position.

Capital Assets

Property and equipment are recorded at cost or, if donated, at acquisition value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method for financial reporting purposes. Assets under capital lease obligations are depreciated using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset.

Depreciation is included in the accompanying combined financial statements using the following estimated useful lives:

<u>Property Classification</u>	<u>Estimated Lives (Years)</u>
Land Improvements	2-25
Building	5-40
Equipment	2-10

Expenditures for repairs and maintenance are charged to expense as incurred unless the betterments extend the useful lives of the assets, at which point these costs are capitalized. Interest costs incurred on borrowed funds, less any interest earned on temporary investment of those funds, during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets.

Legal title to the property and certain equipment (collectively referred to as the "facilities") of WakeMed was held by Wake County, and the facilities were managed and operated by WakeMed under an operating agreement with Wake County until April 1, 1997, when title was transferred to WakeMed as described in Note 1. The Wake County operating agreement contains several restrictive covenants that, among other things, require WakeMed to operate and maintain the facilities and pay the bond trustee amounts sufficient to satisfy the principal and interest requirements on the bonds.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the combined statements of net position include a separate section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. WakeMed has several items that meet this criterion - a loss on refunding of long-term debt and pension related deferrals.

In addition to liabilities, the combined statements of financial position also include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. WakeMed has several items that meet the criterion for this category - advanced receipts of grant proceeds and pension-related deferrals.

Accrued Paid Days Off

WakeMed has a paid days off ("PDO") plan covering all full-time, three-quarter time, and part-time employees. An employee is allowed to accrue up to a maximum of 520 hours of PDO, which includes earned vacation, holiday, and sick time. Employees hired prior to July 1, 2009 are 40% vested after three months, 50% vested after one year, 75% vested after three years, and 100% vested after five years. Employees hired on or after July 1, 2009 are 75% vested after three years and 100% vested after five years. As of September 30, 2018 and 2017, the accrued PDO balance was \$33,856 and \$32,100, respectively, and is included in accounts payable and accrued liabilities in the accompanying combined statements of net position.

Net Position

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, net position is categorized as net investment in capital assets, restricted and unrestricted. Net investment in capital assets is intended to reflect the portion of net assets that is associated with nonliquid capital assets net of accumulated depreciation less outstanding capital assets-related debt. Restricted net position is assets generated from revenues that have third-party limitations on their use. Unrestricted net position has no third-party restrictions on use.

Statements of Revenues, Expenses, and Changes in Net Position

All revenue and expenses directly related to the delivery of healthcare services are included in operating revenue and expenses in the statements of revenue, expenses, and changes in net position. Nonoperating revenue and expenses consist of those revenue and expenses that are related to financing and investing types of activities and result from nonexchange transactions or investment income.

Excess of Revenue Over Expenses

The combined statements of revenues, expenses, and changes in net position include excess of revenue over expenses. Changes in net position, which are excluded from excess of revenue over expenses, include distributions and capital contributions and transfers, net.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Service Revenue, Net

WakeMed has agreements with third-party payors that provide for payments to WakeMed at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

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

WakeMed has an established policy addressing the criteria by which ability to pay is determined, and the application of that policy resulted in the provision of services to patients unable to pay for those services in amounts approximating \$382,281 in fiscal year 2018 and \$351,660 in fiscal year 2017, based on WakeMed's established charge structure.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

Substantially all of the activities of WakeMed are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Upcoming Accounting Pronouncements

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. WakeMed is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for WakeMed's financial statements for the fiscal year ending September 30, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. WakeMed is currently evaluating the impact this standard will have on the basic financial statements when adopted. The provisions of this statement are effective for WakeMed's combined financial statements for the year ending September 30, 2020.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upcoming Accounting Pronouncements (Continued)

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. WakeMed is currently evaluating the impact this standard will have on the combined financial statements when adopted. The provisions of this statement are effective for WakeMed's combined financial statements for the year ending September 30, 2021.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. WakeMed is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for WakeMed's financial statements for the year ending September 30, 2019.

In September 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The statement is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for WakeMed's fiscal year ending September 30, 2020.

NOTE 3 PATIENT SERVICE REVENUE, NET

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered during the period. WakeMed has presented its provision for uncollectible accounts as a direct reduction of patient service revenue. Based on management's interpretation of the requirements of GASB Statement No. 34, governmental healthcare organizations are required to present uncollectible accounts as a component of net patient service revenue rather than within operating expenses.

WakeMed has agreements with third-party payors that provide for payments to WakeMed at amounts different from its established rates. A significant portion of WakeMed's net patient service revenue is received from Medicare and Medicaid programs. A summary of the basis of reimbursement with these third-party payors for Medicare, Medicaid, and commercial insurance are as follows:

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 3 PATIENT SERVICE REVENUE, NET (CONTINUED)

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge using a diagnosis-related group (Medicare Severity Adjusted or "MSDRG") system. These rates vary according to patient classification, clinical diagnosis, and other factors. Certain defined medical education costs related to Medicare beneficiaries are paid based on a cost-reimbursement methodology. Inpatient capital costs are paid at prospectively determined rates as a component of the MSDRG payment. Certain adjustments may impact the MSDRG rate based upon readmission and value-based factors which could affect reimbursement. Certain Medicare outpatient services are paid based on APCs ("Ambulatory Payment Classifications"), the outpatient equivalent of MSDRGs. Other outpatient Medicare services are paid under a Medicare fee schedule and certain therapy charges are exempt from this payment method. WakeMed is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by WakeMed and audits thereof by the Medicare administrative contractor. Medicare cost reports for WakeMed Raleigh Campus have been audited by the administrative contractor for cost report years through September 30, 2012. Medicare cost reports for WakeMed Cary Hospital have been audited by the administrative contractor for cost report years through September 30, 2014.

Medicaid - The North Carolina Department of Health and Human Services Division of Medical Assistance ("DMA") pays hospitals a prospectively determined rate per discharge using a MSDRG system similar to Medicare for inpatient services. Outpatient services are paid an interim rate at the time of service with settlement occurring when the hospital files its annual cost report with DMA. WakeMed's Medicaid cost reports are audited by the Medicaid audit section as part of the Medicaid audit program. Medicaid cost reports for WakeMed Raleigh Campus have been audited for cost report years through September 30, 2011 along with cost report years September 30, 2013, 2014, and 2015, and WakeMed Cary Hospital have been audited for cost report years through September 30, 2015.

WakeMed receives additional Medicaid payment through the North Carolina Medicaid Reimbursement Initiative Program. WakeMed recognized \$12,053 and \$13,466 of Medicaid Reimbursement Initiative funds as net patient service revenue during the years ended September 30, 2018 and 2017, respectively. At September 30, 2018 and 2017, WakeMed reserved Medicaid Reimbursement Initiative payments received of \$851 and \$780, respectively, which are included in due to third-party payors in the accompanying combined statements of net position.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 3 PATIENT SERVICE REVENUE, NET (CONTINUED)

In addition to the above, Medicaid began making supplemental equity payments for inpatient and outpatient services and Upper Payment Limit ("UPL") payments for inpatient services. The equity payment represents the difference in the projected cost of services to Medicaid-eligible patients and the amount of the payments received from the regular Medicaid Program and the Medicaid Reimbursement Initiative Program. The amount of the UPL payment is the calculated difference between what Medicare would pay for the inpatient services rendered to Medicaid patients and what Medicaid otherwise pays. The effective date for the start of the equity and UPL payments is January 1, 2011; however, the Federal Approval of the Medicaid State Plan Amendment did not occur until March 2012. WakeMed participated in an assessment process authorized by the North Carolina General Assembly to support the nonfederal share of the payments. The UPL payments are recorded in net patient service revenue and assessment expense is recorded in the other operating expense in the combined statements of revenues, expenses, and changes in net position.

The following table summarizes the benefit recognized by WakeMed related to these plans for the years ended September 30, 2018 and 2017:

	2018	2017
UPL Payment	\$ 89,104	\$ 87,012
Assessment Expense	27,636	29,137
Net Benefit	<u>61,468</u>	<u>57,875</u>
Reserve for Future Settlements	(179)	(174)
Total Benefit Recognized	<u>\$ 61,289</u>	<u>\$ 57,701</u>

Other - WakeMed has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations.

The basis for payment to WakeMed under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

For the years ended September 30, 2018 and 2017, net patient revenue increased by \$2,654 and \$3,635, respectively, as a result of changes in various third-party accruals and reserves.

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 participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management is proactively monitoring compliance with these matters through its Corporate Compliance Program to mitigate the inherent risks of operating in the healthcare industry. An annual assessment of the effectiveness of the Corporate Compliance Program is conducted and presented to the Board of Directors.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits

WakeMed's cash and cash equivalents and certain investments are placed in federally insured domestic banks which limit the amount of credit exposure. At September 30, 2018 and 2017, WakeMed's deposits had carrying values of \$117,141 and \$152,453, respectively, and bank balances of \$122,178 and \$157,404, respectively. Of the bank balances, \$2,238 was covered by federal depository insurance at September 30, 2018 and \$2,152 at September 30, 2017. WakeMed evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories and WakeMed believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Investments

At September 30, 2018, WakeMed's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>4 or More Years</u>
U.S. Government Securities	\$ 162,848	\$ 5,108	\$ 88,587	\$ 69,153
Equity Securities	41,900	41,900	-	-
Corporate and Other Debt Securities	259,816	55,166	121,458	83,192
Money Market Funds	3,143	3,143	-	-
Investments Measured at Net Asset Value Value (NAV)	156,201	155,951	-	250
Total	623,908	<u>\$ 261,268</u>	<u>\$ 210,045</u>	<u>\$ 152,595</u>
Less, Long-Term Investments	(185,424)			
Less, Internally Designated and Donor Designated for Assets Whose Use is Limited	<u>(7,157)</u>			
Short-Term Investments	<u>\$ 431,327</u>			

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

At September 30, 2017, WakeMed's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>4 or More Years</u>
U.S. Government Securities	\$ 144,112	\$ 8,058	\$ 93,037	\$ 43,017
Equity Securities	29,779	29,779	-	-
Corporate and Other Debt Securities	245,783	37,789	133,351	74,643
Money Market Funds	2,795	2,795	-	-
Investments Measured at Net Asset Value Value (NAV)	98,702	98,702	-	-
Total	521,171	<u>\$ 177,123</u>	<u>\$ 226,388</u>	<u>\$ 117,660</u>
Less, Long-Term Investments	(126,365)			
Less, Internally Designated and Donor Designated for Assets Whose Use is Limited	<u>(7,637)</u>			
Short-Term Investments	<u>\$ 387,169</u>			

Long-term investments are comprised of debt instruments with maturities in excess of one year that are intended to be held until maturity. All other investments are classified as short-term investments.

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 WakeMed Cash and Investment Policy provides for the impact of interest fluctuations by utilizing a diversified portfolio of cash and cash equivalents, fixed-income, and equity investments.

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 WakeMed Operating Assets Investment Policy requires corporate bonds and notes be at least Baa3 (or the equivalent rating) by at least two of the three major rating organizations (Moody's, Standard and Poor's, and Fitch) when purchased. CMOs must be rated AAA (or equivalent) by at least two of the three major rating organizations, unless issued and guaranteed directly by the U.S. Government or by a U.S. sponsored agency. The average quality of the portfolio must be A or higher. Domestic stocks are invested in a passive strategy utilizing a Standard and Poor's 500 replication fund while international stocks are benchmarked to the MSCI EAFE Index.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

The WakeMed Enhanced Cash Policy requires portfolio securities to have an investment grade rating by at least one Nationally Recognized Statistical Ratings Organization ("NRSRO") at the time of purchase. Securities with investment grades less BBB-, or equivalent, by any NRSRO will not be eligible investments. Securities with short term ratings of A-1, A-2, P-1, P-2 or equivalent, will be eligible for purchase. Corporate bonds and notes must be at least BBB- rated (or the equivalent rating) when purchased. CMOs must be rated at least A- (or equivalent) when purchased, unless issued and guaranteed directly by the U.S. Government or by a U.S. sponsored agency. Asset backed securities and municipal securities must be rated at least A- (or equivalent) when purchased.

Concentration of Credit Risk - Concentration of credit risk results from not adequately diversifying the investment portfolio. The WakeMed Operating Assets Investment Policy balances WakeMed's portfolio by distributing assets in the following manner: fixed income 65%, equity 30%, and alternatives and innovations 5%, thus limiting credit risk in any one portfolio. WakeMed policies also imposes allocation and weighting restrictions within its portfolio to further reduce exposure.

Custodial Credit Risk - Custodial credit risk is the risk that WakeMed will not be able to recover the value of its deposits, which would be exposed to credit risk if they are not insured and are uncollateralized. Fixed-income and equity securities may be exposed to custodial credit risk if the securities are uninsured, are not registered in the name of WakeMed and are held by either the counterparty or the counterparty's trust department or agent, but not in WakeMed's name. At September 30, 2018 and 2017, all of WakeMed's securities are held by WakeMed in WakeMed's name and are therefore not exposed to custodial credit risk.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect WakeMed's investment balance reported in the combined statements of net position.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Assets Whose Use is Limited

The composition of assets whose use is limited, stated at fair value at September 30, 2018 and 2017, is set forth in the following table:

	2018	2017
Series 2012A Bonds for Principal and Interest		
Payments:		
Cash and Cash Equivalents	\$ 13,281	\$ 13,112
Accrued Interest Receivable	3	2
Internally Designated	4,772	5,256
	<u>18,056</u>	<u>18,370</u>
Under Medical Malpractice and Workers' Compensation		
Self-Insurance Funding Arrangements - Held by Trustee:		
U.S. Government Securities	6,780	21,946
Corporate Bonds	12,260	10,241
Equities	9,225	13,525
Alternative Investments at Net Asset Value	1,787	-
Cash and Cash Equivalents	3,099	373
Accrued Interest Receivable	95	110
	<u>33,246</u>	<u>46,195</u>
Donor and Other Restricted:		
U.S. Government Securities	269	305
Cash and Cash Equivalents	3,993	3,968
Donor Designated	2,385	2,381
Accrued Interest Receivable	1	1
Total Restricted	<u>6,648</u>	<u>6,655</u>
Total Assets Whose Use is Limited	57,950	71,220
Less, Portion Required for Current Liabilities	(18,056)	(18,370)
	<u>\$ 39,894</u>	<u>\$ 52,850</u>

Investment income on investments and assets whose use is limited by the Board and under self-insurance arrangements for the years ended September 30, 2018 and 2017 consisted of the following:

	2018	2017
Interest and Dividend Income	\$ 11,939	\$ 9,987
Realized Losses on Sale of Investments, Net	(1,897)	(135)
Unrealized Gains on Investments, Net	15,772	14,097
	<u>\$ 25,814</u>	<u>\$ 23,949</u>

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 5 ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by WakeMed at September 30, 2018 and 2017 consisted of these amounts:

	2018	2017
<u>Patient Accounts Receivable</u>		
Receivable from Patients and their Insurance	\$ 244,298	\$ 225,951
Receivable from Medicare	51,206	49,868
Receivable from Medicaid	9,380	20,350
	<u>304,884</u>	<u>296,169</u>
Less Allowance for Uncollectible Accounts	(162,755)	(155,620)
Patient Accounts Receivable, Net	<u>\$ 142,129</u>	<u>\$ 140,549</u>
<u>Accounts Payable and Accrued Liabilities</u>		
Payable to Employees (Including Payroll Taxes)	\$ 96,081	\$ 84,926
Payable to Suppliers	50,634	60,053
Other	17,698	16,909
Total Accounts Payable and Accrued Liabilities	<u>\$ 164,413</u>	<u>\$ 161,888</u>

NOTE 6 CAPITAL ASSETS

A summary of changes in capital assets for the years ended September 30, 2018 and 2017 is as follows:

	Balance September 30, 2017	Additions	Retirements/ Transfers	Balance September 30, 2018
Capital Assets Not Being Depreciated				
Land	\$ 37,207	\$ 789	\$ (13)	\$ 37,983
Construction-in-Progress	11,350	36,261	(34,260)	13,351
Total Capital Assets Not Being Depreciated	48,557	37,050	(34,273)	51,334
Capital Assets Being Depreciated				
Land Improvements	16,466	441	(32)	16,875
Buildings	868,045	17,043	(2,515)	882,573
Equipment	850,450	46,406	(8,304)	888,552
Total Capital Assets Being Depreciated	1,734,961	63,890	(10,851)	1,788,000
Less Accumulated Depreciation				
Land Improvements	(11,717)	(4,120)	32	(15,805)
Buildings	(357,485)	(28,265)	2,345	(383,405)
Equipment	(671,188)	(43,295)	7,721	(706,762)
Total Accumulated Depreciation	(1,040,390)	(75,680)	10,098	(1,105,972)
Total Capital Assets Being Depreciated - Net	694,571	(11,790)	(753)	682,028
Total Capital Assets - Net	<u>\$ 743,128</u>	<u>\$ 25,260</u>	<u>\$ (35,026)</u>	<u>\$ 733,362</u>

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 6 CAPITAL ASSETS (CONTINUED)

	Balance September 30, 2016	Additions	Retirements/ Transfers	Balance September 30, 2017
Capital Assets Not Being Depreciated				
Land	\$ 31,472	\$ 5,748	\$ (13)	\$ 37,207
Construction-in-Progress	5,332	31,973	(25,955)	11,350
Total Capital Assets Not Being Depreciated	36,804	37,721	(25,968)	48,557
Capital Assets Being Depreciated				
Land Improvements	16,502	(11)	(25)	16,466
Buildings	773,804	96,215	(1,974)	868,045
Equipment	836,277	40,275	(26,102)	850,450
Total Capital Assets Being Depreciated	1,626,583	136,479	(28,101)	1,734,961
Less Accumulated Depreciation				
Land Improvements	(10,900)	(841)	24	(11,717)
Buildings	(329,899)	(29,331)	1,745	(357,485)
Equipment	(642,536)	(44,545)	15,893	(671,188)
Total Accumulated Depreciation	(983,335)	(74,717)	17,662	(1,040,390)
Total Capital Assets Being Depreciated - Net	643,248	61,762	(10,439)	694,571
Total Capital Assets - Net	<u>\$ 680,052</u>	<u>\$ 99,483</u>	<u>\$ (36,407)</u>	<u>\$ 743,128</u>

Depreciation expense on property and equipment recorded during the years ended September 30, 2018 and 2017 was \$75,680 and \$74,717, respectively.

NOTE 7 INVESTMENT IN AFFILIATES AND OTHER ASSETS

Property Services maintains a laundry facility joint venture, Quality Textile Services, Inc. ("QTS"), with Rex Enterprises, Inc. to increase efficiency and reduce costs for the participating hospitals. This investment is accounted for under the equity method. At September 30, 2018 and 2017, Property Services' investment balance in QTS was \$2,335 and \$2,428, respectively.

WakeMed maintains a joint venture, Wake PET Services, LLC ("Wake PET"), with Wake Radiology Services, LLC to acquire and lease a PET/CT scanner. This investment is accounted for under the equity method. At September 30, 2018 and 2017, WakeMed's investment balance in Wake PET was \$13 for both years.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 7 INVESTMENT IN AFFILIATES AND OTHER ASSETS (CONTINUED)

WakeMed became a contributing member of Advanced Home Care, Inc., a North Carolina nonprofit corporation, in June 2012 with an investment of \$1 million. Advanced Home Care, Inc. provides healthcare services to patients in their homes, including the provision of home health services, durable medical equipment, home infusion therapy, respiratory services and equipment, enteral feeding, and home sleep therapy. The acquired membership interest in Advanced Home Care, Inc. is being accounted for using the cost basis of accounting and results in distributions of earnings to its members as determined annually by the Advanced Home Care, Inc. Board of Directors. WakeMed received distributions of \$8 and \$27 during the years ended September 30, 2018 and 2017, respectively. WakeMed withdrew its membership interest from Advance Home Care inc. in 2018.

WakeMed filed the Articles of Incorporation on May 28, 2013 to establish WakeMed Key Community Care, LLC ("WakeMed Key Community Care"). WakeMed has a 50% membership interest in WakeMed Key Community Care. Key Physicians, P.A., a network of more than 220 independent primary care physicians, has the remaining 50% membership interest. The joint venture was created to establish an accountable care organization (ACO). This investment is accounted for under the equity method. At September 30, 2018 and 2017, WakeMed's investment balance in WakeMed Key Community Care was approximately \$17,622 and \$15,983, respectively. On December 15, 2015, WakeMed entered into a Contribution Agreement with WKCC and WakeMed purchased 15,000 Class A units of ownership interest of WKCC in exchange for \$15,000. Under the Contribution Agreement WKCC is required to issue 30,000 Class A units to WakeMed. The Contribution Agreement was amended in 2016 so that 8,000 units were issued on January 10, 2017, 4,000 units were issued on January 10, 2018 and final installment of 3,000 units are to be issued on January 10, 2019.

On September 4, 2014 WakeMed entered into a partnership with Baby+Company in order to form Baby+Company WakeMed JV LLC, ("Baby+Company WakeMed"). Baby+Company WakeMed was formed to develop a freestanding birthing center in Cary, North Carolina. WakeMed has invested \$501 in order to retain a 30% membership interest in the joint venture. This investment is accounted for under the equity method. At September 30, 2018 and 2017, WakeMed's investment balance in Baby+Company WakeMed was approximately (\$384) and \$125, respectively.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 7 INVESTMENT IN AFFILIATES AND OTHER ASSETS (CONTINUED)

During 2015, WakeMed formed a joint venture, Holly Springs Surgical Venture, LLC (“Holly Springs Surgical Venture”), a North Carolina limited liability company, to furnish high-quality surgical services through Holly Springs Surgery Center, LLC (“Holly Springs Surgery Center”). The center became operational for patients in February 2017. Specialties include, but are not limited to, urology, orthopedics, ophthalmology, and spine. The investment is accounted for under the equity method. WakeMed owns 42.5% of Holly Springs Surgical Venture. At September 30, 2018 and 2017, WakeMed’s investment balance in Holly Springs Surgical Venture was approximately \$1,498 and \$1,622, respectively.

WakeMed, Vidant Health, and Wake Forest Baptist Medical Center formed a joint venture on November 24, 2014, Socius Health Solutions, LLC (“Socius”), a North Carolina limited liability company, to create a new shared services company designed to improve healthcare quality and affordability for patients across the state. WakeMed made a \$500 capital contribution in order to attain a 33.33% membership interest in the joint venture. Vidant Health and Wake Forest Baptist Medical Center each also contributed \$500 for a 33.33% membership interest. This investment is accounted for under the equity method. At September 30, 2018 and 2017, WakeMed’s investment balance in Socius was approximately \$49 and \$251, respectively.

On May 15, 2015, WakeMed and 10 other North Carolina hospitals formed a joint venture, Provider-Led, Patient-Centered Care LLC (PLPCC), for the purpose of managing Medicaid reform. Each hospital owns a 9.09% membership interest in the joint venture. North Carolina legislation requires a shift away from a fee for service approach to a managed care model effective in 2019. The investment allows PLPCC to continue the established timeline toward the formation of a statewide health maintenance organization (HMO). If selected, the HMO will be authorized by the State to manage Medicaid patients and provide third-party administrator services to self-insured health plans in North Carolina. This investment is accounted for under the equity method. At September 30, 2018 and 2017, WakeMed’s investment balance in PLPCC was approximately \$2,793 and \$2,789, respectively.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 8 LONG-TERM DEBT

Long-term debt at September 30, 2018 and 2017 consisted of the following:

	2018	2017
2009B Variable Rate Bonds, Maturing from October 1, 2033 to October 1, 2038	\$ 75,000	\$ 75,000
2009C Variable Rate Refunding Bonds, Maturing from October 1, 2010 to October 1, 2026	49,390	53,955
2012A Serial Bonds, Maturing October 1, 2013 to October 1, 2023 with Interest Rates Ranging from 2.00% to 5.00%	48,595	55,485
2012A Term Bonds, Maturing October 1, 2024 to October 1, 2038 with Interest Rates Ranging from 4.00% to 5.00%	208,810	208,810
2015 Taxable Term Loan, Maturing October 1, 2020	100,000	100,000
2017 Taxable Term Loan, Maturing October 1, 2020	57,000	57,000
	538,795	550,250
Plus, Unamortized Premium	15,907	16,702
Less, Current Maturities	(11,850)	(11,455)
	<u>\$ 542,852</u>	<u>\$ 555,497</u>

Effective July 11, 2012, WakeMed, through the North Carolina Medical Care Commission (the "Commission"), issued \$294,840 of Health Care Facilities Revenue Refunding Bonds, Series 2012A ("Series 2012A Bonds"). The proceeds, together with other available funds, were used to refund the outstanding Series 2001 and 2009A Serial and Term Bonds. The 2001 Bonds were subsequently redeemed on July 25, 2012 and the 2009A Bonds were defeased by placing funds in an irrevocable escrow fund to provide for all future debt service payments. Accordingly, the escrow fund assets and the liability for the defeased bonds are not included in the accompanying combined financial statements.

Effective July 16, 2009, WakeMed, through the North Carolina Medical Care Commission (the "Commission"), issued \$81,780 of Health Care Facilities Revenue Refunding Bonds, Series 2009C ("Series 2009C Bonds"). The proceeds, together with other available funds, were used to refund the then-outstanding Series 1997 Serial and Term Bonds.

Effective February 20, 2009, WakeMed, through the North Carolina Medical Care Commission (the "Commission"), issued \$169,750 of Health Care Facilities Revenue Bonds, Series 2009A ("Series 2009A Bonds") and \$75,000 of Health Care Facilities Revenue Bonds, Series 2009B ("Series 2009B Bonds"). The proceeds were used to finance the construction of certain capital additions as defined in the Bond Orders. The Series 2009A Bonds were defeased by the Series 2012A Bonds in July 2012.

Effective April 5, 2001, WakeMed, through the North Carolina Medical Care Commission (the "Commission"), issued \$150,000 of Health Care Facilities Revenue Bonds, Series 2001 ("Series 2001 Bonds"). The proceeds have been used to finance the construction of certain fixed assets as defined in the Series 2001 Bond Order. The Series 2001 Bonds were refunded by the Series 2012A Bonds and redeemed in July 2012. The deferred loss of \$4,340 is being amortized over the remaining life of the Series 2001 Bonds at the refunding date.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

The Series 2009B, 2009C, and 2012A Bonds are collateralized solely by the accounts of WakeMed and Property Services (collectively, the "Obligated Group") and all proceeds thereof. The master trust indenture requires the Obligated Group to, among other things, set rates at a level that will provide a certain long-term debt service coverage ratio (as defined in the master trust indenture). The trust agreement provides for future mandatory sinking fund redemptions and the maintenance of certain fund accounts. As of September 30, 2018 and 2017, management believes the Obligated Group was in compliance with such covenants.

WakeMed incurred a loss of approximately \$1,711 on the Series 1997 Bonds refunding which is being deferred and amortized over the lives of the Series 2009C Revenue Refunding Bonds. WakeMed's Series 2012A Bonds were issued in part to defease its outstanding Series 2009A Bonds which resulted in a loss of \$18,788 that is being deferred and amortized over the remaining lives of the Series 2012A Bonds. The Series 2009A Bonds were redeemed on October 1, 2014.

WakeMed completed the Series 1997 Bond refunding to reduce total debt service payments for the 18 years following the refunding date. The estimate, provided by the underwriter prior to issue was based on an average interest rate of 3.17% and Letter of Credit and Remarketing fees of 1.06%, and provided an economic gain (the difference between the present value of the old and new debt service payments) of approximately \$5,634. The actual weighted average interest rates for 2018 and 2017 were 1.24% and 0.73%, respectively. On October 20, 2011, WakeMed and Wells Fargo signed new Letter of Credit and Marketing Letter Agreements, which reduced fees from 1.16% in 2011 to 1.06% and extended WakeMed's Letter of Credit until 2014. The letter of credit was subsequently extended on September 8, 2014, and again on August 7, 2017, with a current expiration date of October 20, 2020.

WakeMed completed the Series 2001 and 2009A Bond refundings to reduce total debt service payments for the 26 years following the refunding date. The estimate, provided by the underwriter prior to issue, was based on an average interest rate of 4.65% and provided an economic gain (the difference between the present value of the old and new debt service payments) of approximately \$18,811.

The Series 2009B and 2009C Bonds are variable rate demand bonds. The interest rates on these bonds are indexed to a current short-term market rate. In addition, a demand feature allows the bondholders to give seven days' notice to require the bonds be remarketed at par value plus accrued interest. In the unlikely event remarketing fails, WakeMed can draw upon an irrevocable Letter of Credit with a financial institution to repay the bondholders. The current Letter of Credit expires on October 20, 2020. If WakeMed draws on the Letter of Credit, it will be obligated under the Reimbursement and Security Agreement to repay each tender advance, including interest at the Tender Advance Rate, as defined (approximately 9% at September 30, 2018) in ten semi-annual payments, beginning 180 days after the date the tender advance is made. Any remaining unpaid balance will be due upon the earlier of the first anniversary of the Letter of Credit termination date, or, if applicable, the date the bonds are remarketed.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

Taxable Term Loans

On September 24, 2015, WakeMed entered into a term loan credit agreement with a financial institution for a principal amount of \$100,000 to finance costs associated with North Hospital and information technology implementation projects. The loan requires quarterly interest-only payments and is due in full on October 1, 2020.

On August 7, 2017, WakeMed entered into a term loan credit agreement with a financial institution for a principal amount of \$57,000 to purchase two previously leased medical office buildings. WakeMed purchased the Raleigh Medical Park and the Brier Creek Healthplex. The loan requires monthly interest-only payments and is due in full on October 1, 2020.

A summary of changes in long-term debt for the years ended September 30, 2018 and 2017 is below.

	Balance September 30, 2017	Additions	Payments	Adjustments	Balance September 30, 2018
Fixed Rate Revenue Refunding Bonds	\$ 264,295	\$ -	\$ (6,890)	\$ -	\$ 257,405
Variable Rate Revenue Bonds	75,000	-	-	-	75,000
Variable Rate Revenue Refunding Bonds	53,955	-	(4,565)	-	49,390
Taxable Term Loans	157,000	-	-	-	157,000
	<u>\$ 550,250</u>	<u>\$ -</u>	<u>\$ (11,455)</u>	<u>\$ -</u>	<u>\$ 538,795</u>
	Balance September 30, 2016	Additions	Payments	Adjustments	Balance September 30, 2017
Fixed Rate Revenue Refunding Bonds	\$ 270,865	\$ -	\$ (6,570)	\$ -	\$ 264,295
Variable Rate Revenue Bonds	75,000	-	-	-	75,000
Variable Rate Revenue Refunding Bonds	58,470	-	(4,515)	-	53,955
Taxable Term Loan	100,000	57,000	-	-	157,000
Other	12,540	-	(937)	(11,603)	-
	<u>\$ 516,875</u>	<u>\$ 57,000</u>	<u>\$ (12,022)</u>	<u>\$ (11,603)</u>	<u>\$ 550,250</u>

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

Scheduled future debt service requirements of long-term debt for years subsequent to September 30, 2018 are as follows:

	Series 2009B Bonds	Series 2009C Bonds	Series 2012A Bonds	2015 Taxable Term Loan	2017 Taxable Term Loan	Total Principal	Interest Payments	Total Debt Service
2019	\$ -	\$ 4,635	\$ 7,215	\$ -	\$ -	\$ 11,850	\$ 18,250	\$ 30,100
2020	-	4,910	7,545	-	-	12,455	17,850	30,305
2021	-	5,090	7,855	100,000	57,000	169,945	12,619	182,564
2022	-	5,280	8,245	-	-	13,525	12,157	25,682
2023	-	5,525	8,655	-	-	14,180	11,672	25,852
2024-2028	-	23,950	57,380	-	-	81,330	50,130	131,460
2029-2033	-	-	105,365	-	-	105,365	29,527	134,892
2034-2038	61,465	-	44,980	-	-	106,445	9,606	116,051
2039-2040	13,535	-	10,165	-	-	23,700	219	23,919
	<u>\$ 75,000</u>	<u>\$ 49,390</u>	<u>\$ 257,405</u>	<u>\$ 100,000</u>	<u>\$ 57,000</u>	<u>\$ 538,795</u>	<u>\$ 162,030</u>	<u>\$ 700,825</u>

NOTE 9 PENSION AND CONTRIBUTION PLANS

Retirement Pension Plan

WakeMed has a noncontributory, defined benefit pension plan (the "Plan") covering all employees who are 20.5 years of age and have completed six months of employment. WakeMed's funding policy is based upon actuarially calculated amounts to fund normal pension costs and any unfunded accrued liability. The Plan is considered a governmental entity under Section 401(a) of the Internal Revenue Code of 1954.

The Plan was frozen effective December 31, 2010. All active employed participants as of this date were vested immediately. No further compensation will be recognized after December 31, 2010.

Plan participants as of January 1, 2018, were as follows:

	Actives	Inactives with Deferred Benefits	Inactives in Payment Status	Total Participants
Plan Participants	3,170	231	1,276	4,677

Plan participants as of January 1, 2017, were as follows:

	Actives	Inactives with Deferred Benefits	Inactives in Payment Status	Total Participants
Plan Participants	3,441	231	1,243	4,915

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 9 PENSION AND CONTRIBUTION PLANS (CONTINUED)

Retirement Pension Plan (Continued)

Funding amounts for the Plan are based upon actuarial calculations. The method used to calculate the service cost and projected benefit obligation for determining pension expense is the Entry Age Normal Cost method. Under this method, benefits are estimated at each decrement age by crediting future accruals based on projected pay as applicable. The liability is determined as the present value of the projected benefit based on service at the valuation date. The service cost is the amount of the present value of projected benefits attributable to the valuation year. There are no employee contributions to the Plan.

Plan assets held in trust on behalf of the Plan participants consisted primarily of money market funds, mutual funds, and equity securities. The value of Plan assets is determined based on the fair market value of these assets as of the date of actuarial calculation.

The target allocation and best estimates of geometric real rates of return for each major asset class as of September 30, 2018 and 2017 are summarized in the following table:

	2018		2017	
	Asset Allocation	Expected Rate of Return	Asset Allocation	Expected Rate of Return
Core Bonds	42%	4.50%	42%	5.00%
Short Bonds	10%	2.75%	10%	2.75%
Large Cap Equity	40%	8.25%	40%	8.25%
Small Cap Equity	5%	9.00%	5%	9.25%
Cash	3%	2.10%	3%	2.10%

A summary of changes in the net pension asset for the years ended September 30, 2018 and 2017 is as follows:

	2018	2017
Beginning Net Pension Asset	\$ (12,168)	\$ (10,166)
Service Cost	859	491
Interest Cost	4,735	4,846
Difference Between Expected and Actual Experience	70	468
Change in Actuarial Assumption	(411)	-
Net Investment Income	(6,951)	(7,807)
Ending Net Pension Asset	<u>\$ (13,866)</u>	<u>\$ (12,168)</u>

Administrative expenses of \$859 and \$491 were incurred and were paid through the investment income on Plan assets for the years ended September 30, 2018 and 2017, respectively.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 9 PENSION AND CONTRIBUTION PLANS (CONTINUED)

Retirement Pension Plan (Continued)

At September 30, 2018 and 2017, WakeMed reported an asset of \$13,866 and \$12,168, respectively, for its net pension asset. The net pension asset was determined by actuarial valuations with measurement dates of September 30, 2018 and 2017. For the years ended September 30, 2018 and 2017, WakeMed recognized pension expense of \$445 and \$548, respectively. At September 30, 2018 and 2017, WakeMed reported deferred outflows of resources related to pensions from the following sources:

	2018	2017
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ 2,883
Net Difference Between Projected and Actual Earnings	472	519
Total	<u>\$ 472</u>	<u>\$ 3,402</u>

At September 30, 2018 and 2017, WakeMed reported deferred inflows of resources related to pensions from the following sources:

	2018	2017
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ 2,081	\$ 3,195
Change in Assumptions	340	-
Net Difference Between Projected and Actual Earnings	49	62
Total	<u>\$ 2,470</u>	<u>\$ 3,257</u>

As of September 30, 2018, deferred outflows of resources and deferred inflows of resources include amounts related to pensions and will be recognized in pension expense and amortized over future years as noted in the table below:

2019	\$ 262
2020	(1,180)
2021	(752)
2022	(295)
2023	(32)
Thereafter	-

Actuarial Assumptions - The following key assumptions were used in the September 30, 2018 and 2017 actuarial valuation:

	2018	2017
Interest Crediting Rate	2.00%	2.00%
Investment Rate of Return	5.75%	5.75%
Projected Salary Increases	0.00%	0.00%

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 9 PENSION AND CONTRIBUTION PLANS (CONTINUED)

Retirement Pension Plan (Continued)

The Plan currently uses the RP-2014 mortality table with fully generational mortality rates at scale MP-2017.

Discount Rate - The discount rate used to measure the total pension liability was 5.75%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of WakeMed's Net Pension Liability to Changes in the Discount Rate - The following presents WakeMed's net pension liability calculated using the discount rate of 5.75%, as well as what WakeMed's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.75%) or 1 percentage point higher (6.75%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net Pension Asset	\$ (9,308)	\$ (13,866)	\$ (17,913)

Retirement Savings Plan

WakeMed has a contributory, defined contribution retirement plan (the "Retirement Plan"), which covers all employees who have worked a minimum of 1,000 hours per year as defined in the Retirement Plan. WakeMed matched 50% of the participants' contributions up to 6% of the participants' salary.

WakeMed contributed approximately \$13,118 and \$12,109 to the Retirement Plan in fiscal years 2018 and 2017, respectively. WakeMed employees contributed approximately \$37,612 and \$35,259 in fiscal years 2018 and 2017, respectively. All costs are funded as accrued and participants are 100% vested in the contributions to the Retirement Plan from WakeMed after three calendar years of service with a minimum of 1,000 hours worked in each year.

During 2012, WakeMed added an automatic employer contribution of 3% of each employee's annual salary to the Retirement Savings Plan. WakeMed contributed \$17,322 and \$16,151 to the plan in fiscal years 2018 and 2017, respectively. The same vesting requirement must be met as for WakeMed match contribution.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 10 GAIN SHARE PROGRAM

WakeMed provides a gain share program ("WakeShare") when the organization and employees meet certain targets and metrics. WakeShare encourages process improvements and cost savings within the organization. Depending on the extent to which certain financial, customer satisfaction, and quality outcomes are met, qualifying employees may earn up to 6% of eligible wages. WakeMed recorded WakeShare expense of approximately \$19,645 and \$14,202 for the years ended September 30, 2018 and 2017, respectively, which is reflected in salaries, wages, and employee benefits in the accompanying combined statements of revenue, expenses, and changes in net position.

NOTE 11 RISK MANAGEMENT

WakeMed is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. WakeMed is self-insured for medical malpractice and workers' compensation up to the various limits discussed below. WakeMed has purchased commercial insurance to cover losses exceeding the self-insurance limits.

Estimated Malpractice Costs

WakeMed is self-insured for medical malpractice risks up to \$4,000 per claim, \$17,000 aggregate, and \$2,000/\$2,000 buffer on a claims-made basis. In addition, WakeMed has excess coverage policies, which are limited to annual costs of \$75,000. Effective October 1, 2007, the Wake Specialty Physicians were included in the self-insured coverage.

Losses from asserted claims and from unasserted claims identified under WakeMed's incident reporting system, and possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system, are accrued based on estimates that incorporate WakeMed's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Such estimates are prepared by an independent actuary. Accrued malpractice losses have been discounted at a rate of 2.1% for both fiscal years 2018 and 2017.

The following is a summary of the activity in the liability for medical malpractice claims. These amounts are included in other noncurrent liabilities in the accompanying combined statements of net position for the years ended September 30, 2018 and 2017:

	Beginning Balance	Increases	Decreases	Ending Balance
2018	\$ 14,543	\$ 2,569	\$ (2,372)	\$ 14,740
2017	\$ 16,033	\$ 158	\$ (1,648)	\$ 14,543

Undiscounted estimated malpractice losses were \$16,959 and \$16,277 at September 30, 2018 and 2017, respectively.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 11 RISK MANAGEMENT (CONTINUED)

Workers' Compensation

WakeMed is self-insured for workers' compensation claims with an excess coverage (stop-loss) policy that covers biennial workers' compensation claims in excess of retentions of \$500 per claim and \$2,000 for all aggregate claims, with excess coverage of \$1,000 per claim and \$2,000 aggregate. WakeMed has utilized independent actuaries to estimate the ultimate cost of the self-insurance portion of the settlement of such claims. WakeMed's workers' compensation liability recorded within accounts payable and accrued liabilities in the accompanying combined statements of net position was \$5,658 and \$5,214 at September 30, 2018 and 2017, respectively. Workers' compensation expense recorded within salaries, wages, and employee benefits in the accompanying combined statements of revenue, expenses, and changes in net position for the years ended September 30, 2018 and 2017 was \$1,685 and \$1,323, respectively.

The following is a summary of the activity in the liability for workers' compensation claims:

	Beginning Balance	Increases	Decreases	Ending Balance
2018	\$ 5,214	\$ 1,663	\$ (1,219)	\$ 5,658
2017	\$ 4,987	\$ 2,830	\$ (2,603)	\$ 5,214

NOTE 12 CONCENTRATIONS OF CREDIT RISK

WakeMed provides services primarily to the residents of Wake and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to the large number of patients served and the formalized agreements with third-party payors (see Note 3). WakeMed has significant gross patient accounts receivable (approximately 29% and 31%, respectively, in 2018 and 2017) whose collectability or realizability is dependent upon the performance of certain governmental programs, primarily Medicare and Medicaid. Management does not believe there are significant credit risks associated with these governmental programs. With respect to the self-pay portion of patient accounts receivable, an allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of the receivables.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 12 CONCENTRATIONS OF CREDIT RISK (CONTINUED)

The allowance is based on historical collection experience and a review of the current status of the existing receivables. As of September 30, 2018 and 2017, WakeMed's gross patient accounts receivable consisted of the following payors:

	2018	2017
Managed Care	28 %	27 %
Medicare	22	24
Medicaid	7	7
Patients	21	21
Commercial	3	2
Other	19	19
	<u>100 %</u>	<u>100 %</u>

NOTE 13 COMMITMENTS AND CONTINGENCIES

At September 30, 2018, WakeMed had contractual commitments of approximately \$3.9 million for the construction and renovation of various facilities, 70% of which is for a 20 bed behavioral health evaluation unit; subspecialties practice Apex, a second Cary nuclear medicine room; Cary boiler plant modifications; and North 4th floor on call sleep room,

WakeMed utilizes operating leases for various types of equipment and facilities. Rental expense relating to these leases was \$7,675 and \$6,584 in fiscal years 2018 and 2017, respectively. At September 30, 2018, future minimum lease payments due under operating leases with initial or remaining noncancelable lease terms in excess of one year are as follows:

<u>Year Ending September 30,</u>	
2019	5,317
2020	5,010
2021	4,686
2022	3,375
2023	2,543
2024-2028	9,032
2029-2031	3,839
	<u>\$ 33,802</u>

Self-Insured Health Insurance

WakeMed self-insures its employees' health and dental plan. It has contracted with administrative service companies to supervise and administer the programs and act as its representative. Provisions for expected future payments are accrued based on WakeMed's experience and include amounts for claims filed and claims incurred but not reported.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Self-Insured Health Insurance (Continued)

The following is a summary of the activity in the liability for health and dental claims:

	Beginning Balance	Increases	Decreases	Ending Balance
2018	\$ 4,784	\$ 76,775	\$ (76,577)	\$ 4,982
2017	\$ 4,895	\$ 74,742	\$ (74,853)	\$ 4,784

NOTE 14 RESTRICTED NET POSITION

Donor-restricted net position as of September 30, 2018 and 2017 is restricted for the following purposes:

	2018	2017
Indigent Care Programs	\$ 259	\$ 152
Children's Programs	5,798	6,210
Education Programs	778	722
Patient Care Programs	30,778	29,321
Endowment Funds	2,703	2,658
	\$ 40,316	\$ 39,063

NOTE 15 FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

WakeMed categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets and Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. WakeMed's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 15 FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

WakeMed has the following recurring fair value measurements as of September 30, 2018 and 2017:

	Balance September 30, 2018	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
U.S. Government Securities	\$ 169,897	\$ 82,196	\$ 87,701	\$ -
Corporate Debt Securities	272,076	111,508	160,568	-
Total Debt Securities	441,973	193,704	248,269	-
Equity Securities				
Mutual Funds	33,501	33,501	-	-
Exchange Traded Fund	8,399	8,399	-	-
Other Equity Securities	9,225	9,225	-	-
Total Equity Securities	51,125	51,125	-	-
Money Market Funds	18,443	18,443	-	-
Investments measured at Net Asset Value (NAV)	157,988			
Total Investments and Assets Whose Use is Limited by Fair Value Level	\$ 669,529	\$ 263,272	\$ 248,269	\$ -
	Balance September 30, 2017	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
U.S. Government Securities	\$ 166,363	\$ 97,198	\$ 69,165	\$ -
Corporate Debt Securities	173,773	58,095	115,678	-
Other Debt Securities	82,251	-	82,251	-
Total Debt Securities	422,387	155,293	267,094	-
Equity Securities				
Mutual Funds	22,089	22,089	-	-
Exchange Traded Fund	3,672	3,672	-	-
Other Equity Securities	16,767	16,767	-	-
Total Equity Securities	42,528	42,528	-	-
Money Market Funds	16,280	16,280	-	-
Investments measured at Net Asset Value (NAV)	99,478			
Total Investments and Assets Whose Use is Limited by Fair Value Level	\$ 580,673	\$ 214,101	\$ 267,094	\$ -

In 2018, management determined that certain equity securities are valued using NAV as a practical expedient. Previously, these investments were valued using other observable inputs and were classified as Level 1 and Level 2 investments within the fair value hierarchy. Accordingly, the 2017 fair value hierarchy was restated to reflect the change.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 15 FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments at cost basis of \$4,092 and \$4,080 at September 30, 2018 and 2017, respectively, were not included in the fair value tables above.

Money market funds, debt securities, and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of debt and equity securities at September 30, 2018 and 2017 was determined primarily based on Level 2 inputs. WakeMed estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

WakeMed does not have any Level 3 inputs at September 30, 2018 and 2017.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented on the following table.

WakeMed holds shares or interests in investment companies whereby the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At September 30, 2018, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
SSGA Investment Fund	\$ 155,951	\$ -	Daily	1 Day
Hatteras Venture Partners V, LP	1,787	2,950	n/a	n/a
Morgan Creek Blockchain Opportunities Fund, LP	100	400	n/a	n/a
Morgan Creek New China Fund, LP	150	358	n/a	n/a
Total Investments Measured at NAV	<u>\$ 157,988</u>	<u>\$ 3,708</u>		

At September 30, 2017, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
SSGA Investment Fund	\$ 98,702	\$ -	Daily	1 Day
Hatteras Venture Partners V, LP	776	4,025	n/a	n/a
Total Investments Measured at NAV	<u>\$ 99,478</u>	<u>\$ 4,025</u>		

The SSGA Investment Fund class includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 15 FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

The Hatteras Venture Partners V Fund, LP objective is to achieve superior returns on invested capital by making seed and early-stage investments in companies engaged in the fields of biotechnology, medical devices, diagnostics, health software, drug discovery, and other related sectors. The fund has an initial ten-year term with the potential of two additional one-year extensions.

The Morgan Creek New China Fund, LP, a registered Cayman Islands exempted limited partnership, was formed to provide investors an opportunity to access private funds sponsored by Chinese-based managers and direct investments in Chinese companies, with a focus on technology, media and telecommunications, healthcare, and consumer industries. The fund has an initial ten-year term with the potential of two additional one-year extensions.

The Morgan Creek Blockchain Opportunities Fund ("MCBO") intends to build a diversified portfolio of investments to benefit from the investment opportunities that come from blockchain technology. MCBO was formed to provide investors with diversified exposure to blockchain infrastructure, platforms, and select digital securities through pre-defined strategies. The fund has an initial ten-year term with the potential of extensions.

NOTE 16 BLENDED COMPONENT UNITS

The combined financial statements include the several entities that are organized to support the operations of WakeMed as blended component units (See Note 1). The following is a summary of the financial position and activities of those entities as of and for the years ended September 30, 2018 and 2017:

	2018	2017
Assets		
Current Assets	\$ (87,826)	\$ (64,925)
Capital Assets	253,718	251,269
Assets Limited as to Use	35,404	48,577
Other Assets	38,442	37,161
Total Assets	<u>\$ 239,738</u>	<u>\$ 272,082</u>
Liabilities		
Current Liabilities	\$ 39,870	\$ 41,007
Noncurrent Liabilities	33,937	46,918
Total Liabilities	<u>\$ 73,807</u>	<u>\$ 87,925</u>
Net Position		
Net Investment in Capital Assets	\$ 253,718	\$ 251,270
Restricted by Donors	39,403	38,211
Unrestricted	(127,190)	(105,324)
Total Net Position	<u>\$ 165,931</u>	<u>\$ 184,157</u>

WAKEMED
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

NOTE 16 BLENDED COMPONENT UNITS (CONTINUED)

	<u>2018</u>	<u>2017</u>
Operating Revenue	\$ 203,920	\$ 185,319
Operating Expenses	<u>269,851</u>	<u>236,138</u>
Loss from Operations	(65,931)	(50,819)
Nonoperating Revenue, Net	1,531	6,131
Distributions, Capital Contributions and Transfers, Net	<u>46,174</u>	<u>103,789</u>
Change in Net Position	<u><u>\$ (18,226)</u></u>	<u><u>\$ 59,101</u></u>
 Cash - Beginning of Year	 \$ 5,984	 \$ 7,857
Net Cash Used in Operating Activities	(31,204)	(2,130)
Net Cash Provided by Capital and Related Financing Activities	33,065	3,188
Net Cash Used in Investing Activities	<u>(3,378)</u>	<u>(2,931)</u>
Cash - End of year	<u><u>\$ 4,467</u></u>	<u><u>\$ 5,984</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

WAKEMED
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS (UNAUDITED)
SEPTEMBER 30
(IN THOUSANDS)

	Measurement Date of 2018	Measurement Date of 2017	Measurement Date of 2016	Measurement Date of 2015
Total Pension Liability				
Service Cost	\$ 859	\$ 491	\$ 1,135	\$ 1,345
Interest Cost	4,735	4,846	4,943	5,060
Differences Between Expected and Actual Experience	70	467	(88)	217
Change of Assumptions	(410)	-	-	-
Administrative Expense	(859)	(491)	(1,135)	(1,345)
Benefit Payments, Including Refunds of Member Contributions	(7,519)	(6,988)	(6,094)	(30,132)
Net Change in Total Pension Liability	(3,124)	(1,675)	(1,239)	(24,855)
Total Pension Liability - Beginning	86,105	87,780	89,019	113,874
Total Pension Liability - Ending	\$ 82,981	\$ 86,105	\$ 87,780	\$ 89,019
Plan Fiduciary Net Position				
Net Investment Income	\$ 6,952	\$ 7,807	\$ 7,451	\$ (1,234)
Benefit Payments, Including Refunds of Member Contributions	(7,519)	(6,989)	(6,094)	(30,132)
Administrative Expense	(859)	(491)	(1,135)	(1,345)
Net Change in Plan Fiduciary Net Position	(1,426)	327	222	(32,711)
Plan Fiduciary Net Position - Beginning	98,273	97,946	97,724	130,435
Plan Fiduciary Net Position - Ending	96,847	98,273	97,946	97,724
Net Pension Asset - Ending	\$ (13,866)	\$ (12,168)	\$ (10,166)	\$ (8,705)
Net Position as a % of Pension Liability	116.7%	114.1%	111.6%	109.8%
Covered Employee Payroll	N/A	N/A	N/A	N/A
Net Pension Asset as a % of Payroll	N/A	N/A	N/A	N/A

WAKEMED
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS (UNAUDITED)
SEPTEMBER 30
(IN THOUSANDS)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	6.24%	7.46%	6.46%	-2.26%

WAKEMED
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)
SEPTEMBER 30
(IN THOUSANDS)

	2018	2017	2016	2015
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-
Contribution Excess (Deficiency)	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	-	-	-	-
Contributions as a Percentage of Covered Employee Payroll	-	-	-	-

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation Date January 1, 2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry age normal

Amortization method Closed Amortization

Remaining amortization period Average future working lifetime for all participants

Asset valuation method Market value

Interest Crediting Rate 2.0%

Salary increases N/A

Investment rate of return 5.75%, net of pension plan investment expense, including inflation

Mortality Combined annuitant and non-annuitant RP-2014 table, projected using Scale MP-2017

SUPPLEMENTARY INFORMATION

WAKEMED
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2018
(IN THOUSANDS)

	WakeMed	WakeMed Property Services	Eliminations	Combined Obligated Group	WakeMed Foundation	Wake Specialty Physicians, LLC	CSAMS New Bern Avenue LLC	Capital City Surgery Center LLC	Rockroom Insurance Group SPC	Eliminations	2018 Combined	2017 Combined
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES												
CURRENT ASSETS												
Cash and Cash Equivalents	\$ 112,674	\$ (329)	\$ -	\$ 112,345	\$ 1,910	\$ 700	\$ -	\$ 2,186	\$ -	\$ -	\$ 117,141	\$ 152,453
Short-Term Investments	430,846	-	-	430,846	481	-	-	-	-	-	431,327	387,169
Patient Accounts Receivable, Net	126,835	-	-	126,835	-	13,450	-	1,844	-	-	142,129	140,549
Other Receivables	122,871	2,827	-	125,698	-	(113,361)	-	154	(7)	(2)	12,482	21,738
Inventories	20,751	-	-	20,751	-	212	-	801	-	-	21,764	20,541
Prepaid Expenses and Other												-
Current Assets	11,303	858	-	12,161	19	306	-	120	3	-	12,609	11,671
Assets Whose Use is Limited	18,056	-	-	18,056	-	-	-	-	-	-	18,056	18,370
Total Current Assets	843,336	3,356	-	846,692	2,410	(98,693)	-	5,105	(4)	(2)	755,508	752,491
CAPITAL ASSETS, NET	479,644	217,247	-	696,891	-	24,267	146	12,058	-	-	733,362	743,128
ASSETS WHOSE USE IS LIMITED, NET	37,508	-	-	37,508	2,385	-	-	-	33,019	(33,018)	39,894	52,850
OTHER ASSETS												
Long-Term Investments	156,201	-	-	156,201	29,223	-	-	-	-	-	185,424	126,365
Investment in Affiliates and Other Assets	(224,617)	3,106	-	(221,511)	5,547	367	199	-	-	248,135	32,737	32,752
Net Pension Asset	13,866	-	-	13,866	-	-	-	-	-	-	13,866	12,168
Total Other Assets	(54,550)	3,106	-	(51,444)	34,770	367	199	-	-	248,135	232,027	171,285
Total Assets	1,305,938	223,709	-	1,529,647	39,565	(74,059)	345	17,163	33,015	215,115	1,760,791	1,719,754
DEFERRED OUTFLOWS OF RESOURCES												
Pension Plan	472	-	-	472	-	-	-	-	-	-	472	3,402
Loss on Refunding of Long-Term Debt	18,108	-	-	18,108	-	-	-	-	-	-	18,108	19,138
Total Assets and Deferred Outflows of Resources	\$ 1,324,518	\$ 223,709	\$ -	\$ 1,548,227	\$ 39,565	\$ (74,059)	\$ 345	\$ 17,163	\$ 33,015	\$ 215,115	\$ 1,779,371	\$ 1,742,294

Note: Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

WAKEMED
COMBINING STATEMENT OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2018
(IN THOUSANDS)

	WakeMed	WakeMed Property Services	Eliminations	Combined Obligated Group	WakeMed Foundation	Wake Specialty Physicians, LLC	CSAMS New Bern Avenue LLC	Capital City Surgery Center LLC	Rockroom Insurance Group SPC	Eliminations	2018 Combined	2017 Combined
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION												
CURRENT LIABILITIES												
Current Maturities of Long-Term Debt	\$ 11,850	\$ -	\$ -	\$ 11,850	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,850	\$ 11,455
Accounts Payable and Accrued Liabilities	124,688	464	-	125,152	3	38,445	-	738	77	(2)	164,413	161,888
Due to Third-Party Payors	6,874	-	-	6,874	-	-	-	-	-	-	6,874	10,115
Unearned Revenue	619	19	-	638	124	-	-	-	-	-	762	407
Total Current Liabilities	144,031	483	-	144,514	127	38,445	-	738	77	(2)	183,899	183,865
LONG-TERM DEBT, LESS CURRENT MATURITIES	542,852	-	-	542,852	-	-	-	-	-	-	542,852	555,497
OTHER NONCURRENT LIABILITIES	17,168	720	-	17,888	35	344	-	-	32,838	(32,838)	18,267	15,588
Total Liabilities	704,051	1,203	-	705,254	162	38,789	-	738	32,915	(32,840)	745,018	754,950
DEFERRED INFLOWS OF RESOURCES												
Pension Plan	2,470	-	-	2,470	-	-	-	-	-	-	2,470	3,257
Advanced Receipts of Grant Proceeds	104	-	-	104	-	-	-	-	-	-	104	361
NET POSITION												
Net Investment in Capital Assets	(56,950)	217,247	-	160,297	-	24,267	146	12,058	-	-	196,768	195,314
Restricted Non Expendable	7,327	-	-	7,327	-	-	-	-	-	-	7,327	9,824
Restricted by Donors	913	-	-	913	39,403	-	-	-	-	-	40,316	39,063
Restricted for Debt Service and Capital Purchases	13,284	-	-	13,284	-	-	-	-	-	-	13,284	13,113
Unrestricted	653,319	5,259	-	658,578	-	(137,115)	199	4,367	100	247,955	774,084	726,412
Total Net Position	617,893	222,506	-	840,399	39,403	(112,848)	345	16,425	100	247,955	1,031,779	983,726
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 1,324,518	\$ 223,709	\$ -	\$ 1,548,227	\$ 39,565	\$ (74,059)	\$ 345	\$ 17,163	\$ 33,015	\$ 215,115	\$ 1,779,371	\$ 1,742,294

Note: Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

WAKEMED
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2018
(IN THOUSANDS)

	WakeMed	WakeMed Property Services	Eliminations	Combined Obligated Group	WakeMed Foundation	Wake Specialty Physicians, LLC	CSAMS New Bern Avenue LLC	Capital City Surgery Center LLC	Rockroom Insurance Group SPC	Eliminations	2018 Combined	2017 Combined
PATIENT SERVICE REVENUE, NET	\$ 1,105,177	\$ -	\$ (1,190)	\$ 1,103,987	\$ -	\$ 143,518	\$ -	\$ 30,587	\$ -	\$ -	\$ 1,278,092	\$ 1,224,679
OTHER OPERATING REVENUE	44,661	16,592	(7,163)	54,090	2,098	3,456	-	-	7,669	(24,278)	43,035	35,642
Total Operating Revenue	1,149,838	16,592	(8,353)	1,158,077	2,098	146,974	-	30,587	7,669	(24,278)	1,321,127	1,260,321
LABOR EXPENSES												
Salaries, Wages and Employee Benefits	577,311	567	(1,190)	576,688	908	183,202	-	5,363	-	-	766,161	711,873
Contract Nursing	4,301	-	-	4,301	-	45	-	-	-	-	4,346	4,672
Other Contract Labor	15,751	-	-	15,751	-	10,373	-	118	-	-	26,242	24,132
Total Labor Expenses	597,363	567	(1,190)	596,740	908	193,620	-	5,481	-	-	796,749	740,677
OTHER OPERATING EXPENSES												
Supplies, Purchased Services and Other	338,870	12,369	(7,163)	344,076	2,607	22,545	2	10,001	9,125	(19,390)	368,966	350,053
Professional Fees	27,216	19	-	27,235	26	651	-	1,132	179	(405)	28,818	30,300
Depreciation and Amortization	65,210	4,887	-	70,097	-	4,616	108	923	-	-	75,744	74,822
Interest Expense	(476)	-	-	(476)	-	-	-	85	-	-	(391)	390
Total Other Operating Expenses	430,820	17,275	(7,163)	440,932	2,633	27,812	110	12,141	9,304	(19,795)	473,137	455,565
Total Expenses	1,028,183	17,842	(8,353)	1,037,672	3,541	221,432	110	17,622	9,304	(19,795)	1,269,886	1,196,242
INCOME (LOSS) FROM OPERATIONS	121,655	(1,250)	-	120,405	(1,443)	(74,458)	(110)	12,965	(1,635)	(4,483)	51,241	64,079
NONOPERATING REVENUE, NET												
Investment Income	24,199	48	-	24,247	1,553	7	-	7	1,635	(1,635)	25,814	23,949
Debt Interest Expense	(17,514)	-	-	(17,514)	-	-	-	-	-	-	(17,514)	(15,244)
Other, Net	(77,310)	(1,668)	-	(78,978)	-	(37)	-	(14)	-	74,599	(4,430)	567
Total Nonoperating Revenue, Net	(70,625)	(1,620)	-	(72,245)	1,553	(30)	-	(7)	1,635	72,964	3,870	9,272
EXCESS OF REVENUE OVER (UNDER) EXPENSES	51,030	(2,870)	-	48,160	110	(74,488)	(110)	12,958	-	68,481	55,111	73,351
DISTRIBUTIONS	-	-	-	-	-	-	-	(15,178)	-	7,737	(7,441)	(7,090)
CAPITAL CONTRIBUTIONS AND TRANSFERS, NET	(60,130)	2,705	-	(57,425)	1,082	56,836	2	727	-	(839)	383	1,290
CHANGE IN NET POSITION	<u>\$ (9,100)</u>	<u>\$ (165)</u>	<u>\$ -</u>	<u>\$ (9,265)</u>	<u>\$ 1,192</u>	<u>\$ (17,652)</u>	<u>\$ (108)</u>	<u>\$ (1,493)</u>	<u>\$ -</u>	<u>\$ 75,379</u>	<u>\$ 48,053</u>	<u>\$ 67,551</u>

Note: Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

OTHER INFORMATION

WAKEMED
COMBINING STATEMENT OF NET POSITION (UNAUDITED)
IN ACCORDANCE WITH THE AMENDED AND RESTATED MASTER TRUST INDENTURE
YEAR ENDED SEPTEMBER 30, 2018
(IN THOUSANDS)

	WakeMed	WakeMed Property Services	Eliminations	Combined Obligated Group	WakeMed Foundation	Wake Specialty Physicians, LLC	CSAMS New Bern Avenue LLC	Capital City Surgery Center LLC	Rockroom Insurance Group SPC	Eliminations	2018 Combined	2017 Combined
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES												
CURRENT ASSETS												
Cash and Cash Equivalents	\$ 112,674	\$ (329)	\$ -	\$ 112,345	\$ 1,910	\$ 700	\$ -	\$ 2,186	\$ -	\$ -	\$ 117,141	\$ 152,453
Short-Term Investments	430,846	-	-	430,846	481	-	-	-	-	-	431,327	387,169
Patient Accounts Receivable, Net	126,835	-	-	126,835	-	13,450	-	1,844	-	-	142,129	140,549
Other Receivables	122,871	2,827	(114,135)	11,563	-	(113,361)	-	154	(7)	114,133	12,482	21,738
Inventories	20,751	-	-	20,751	-	212	-	801	-	-	21,764	20,541
Prepaid Expenses and Other												
Current Assets	11,303	858	-	12,161	19	306	-	120	3	-	12,609	11,671
Assets Whose Use is Limited	18,056	-	-	18,056	-	-	-	-	-	-	18,056	18,370
Total Current Assets	843,336	3,356	(114,135)	732,557	2,410	(98,693)	-	5,105	(4)	114,133	755,508	752,491
CAPITAL ASSETS, NET	479,644	217,247	-	696,891	-	24,267	146	12,058	-	-	733,362	743,128
ASSETS WHOSE USE IS LIMITED, NET	37,508	-	-	37,508	2,385	-	-	-	33,019	(33,018)	39,894	52,850
OTHER ASSETS												
Long-Term Investments	156,201	-	-	156,201	29,223	-	-	-	-	-	185,424	126,365
Investment in Affiliates and Other Assets	(224,617)	3,106	261,903	40,392	5,547	367	199	-	-	(13,768)	32,737	32,752
Net Pension Asset	13,866	-	-	13,866	-	-	-	-	-	-	13,866	12,168
Total Other Assets	(54,550)	3,106	261,903	210,459	34,770	367	199	-	-	(13,768)	232,027	171,285
Total Assets	1,305,938	223,709	147,768	1,677,415	39,565	(74,059)	345	17,163	33,015	67,347	1,760,791	1,719,754
DEFERRED OUTFLOWS OF RESOURCES												
Pension Plan	472	-	-	472	-	-	-	-	-	-	472	3,402
Loss on Refunding of Long-Term Debt	18,108	-	-	18,108	-	-	-	-	-	-	18,108	19,138
Total Assets and Deferred Outflows of Resources	<u>\$ 1,324,518</u>	<u>\$ 223,709</u>	<u>\$ 147,768</u>	<u>\$ 1,695,995</u>	<u>\$ 39,565</u>	<u>\$ (74,059)</u>	<u>\$ 345</u>	<u>\$ 17,163</u>	<u>\$ 33,015</u>	<u>\$ 67,347</u>	<u>\$ 1,779,371</u>	<u>\$ 1,742,294</u>

Note: Additional schedules are not GAAP basis under GASB, but are included in order to satisfy certain requirements in the Master Trust Indenture.

WAKEMED
COMBINING STATEMENT OF NET POSITION (UNAUDITED) (CONTINUED)
IN ACCORDANCE WITH THE AMENDED AND RESTATED MASTER TRUST INDENTURE
YEAR ENDED SEPTEMBER 30, 2018
(IN THOUSANDS)

	WakeMed	WakeMed Property Services	Eliminations	Combined Obligated Group	WakeMed Foundation	Wake Specialty Physicians, LLC	CSAMS New Bern Avenue LLC	Capital City Surgery Center LLC	Rockroom Insurance Group SPC	Eliminations	2018 Combined	2017 Combined
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION												
CURRENT LIABILITIES												
Current Maturities of Long-Term Debt	\$ 11,850	\$ -	\$ -	\$ 11,850	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,850	\$ 11,455
Accounts Payable and Accrued Liabilities	124,688	464	-	125,152	3	38,445	-	738	77	(2)	164,413	161,888
Due to Third-Party Payors	6,874	-	-	6,874	-	-	-	-	-	-	6,874	10,115
Unearned Revenue	619	19	-	638	124	-	-	-	-	-	762	407
Total Current Liabilities	144,031	483	-	144,514	127	38,445	-	738	77	(2)	183,899	183,865
LONG-TERM DEBT, LESS CURRENT MATURITIES												
	542,852	-	-	542,852	-	-	-	-	-	-	542,852	555,497
OTHER NONCURRENT LIABILITIES												
	17,168	720	-	17,888	35	344	-	-	32,838	(32,838)	18,267	15,588
Total Liabilities	704,051	1,203	-	705,254	162	38,789	-	738	32,915	(32,840)	745,018	754,950
DEFERRED INFLOWS OF RESOURCES												
Pension Plan	2,470	-	-	2,470	-	-	-	-	-	-	2,470	3,257
Advanced Receipts of Grant Proceeds	104	-	-	104	-	-	-	-	-	-	104	361
NET POSITION												
Net Investment in Capital Assets	(56,950)	217,247	-	160,297	-	24,267	146	12,058	-	-	196,768	195,314
Restricted Non Expendable	7,327	-	-	7,327	-	-	-	-	-	-	7,327	9,824
Restricted by Donors	913	-	-	913	39,403	-	-	-	-	-	40,316	39,063
Restricted for Debt Service and Capital Purchases	13,284	-	-	13,284	-	-	-	-	-	-	13,284	13,113
Unrestricted	653,319	5,259	147,768	806,346	-	(137,115)	199	4,367	100	100,187	774,084	726,412
Total Net Position	617,893	222,506	147,768	988,167	39,403	(112,848)	345	16,425	100	100,187	1,031,779	983,726
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 1,324,518	\$ 223,709	\$ 147,768	\$ 1,695,995	\$ 39,565	\$ (74,059)	\$ 345	\$ 17,163	\$ 33,015	\$ 67,347	\$ 1,779,371	\$ 1,742,294

Note: Additional schedules are not GAAP basis under GASB, but are included in order to satisfy certain requirements in the Master Trust Indenture.

WAKEMED
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (UNAUDITED)
IN ACCORDANCE WITH THE AMENDED AND RESTATED MASTER TRUST INDENTURE
YEAR ENDED SEPTEMBER 30, 2018
(IN THOUSANDS)

	WakeMed	WakeMed Property Services	Eliminations	Combined Obligated Group	WakeMed Foundation	Wake Specialty Physicians, LLC	CSAMS New Bern Avenue LLC	Capital City Surgery Center LLC	Rockroom Insurance Group SPC	Eliminations	2018 Combined	2017 Combined
PATIENT SERVICE REVENUE, NET	\$ 1,105,177	\$ -	\$ (1,190)	\$ 1,103,987	\$ -	\$ 143,518	\$ -	\$ 30,587	\$ -	\$ -	\$ 1,278,092	\$ 1,224,679
OTHER OPERATING REVENUE	44,661	16,592	(7,163)	54,090	2,098	3,456	-	-	7,669	(24,278)	43,035	35,642
Total Operating Revenue	1,149,838	16,592	(8,353)	1,158,077	2,098	146,974	-	30,587	7,669	(24,278)	1,321,127	1,260,321
LABOR EXPENSES												
Salaries, Wages and Employee Benefits	577,311	567	(1,190)	576,688	908	183,202	-	5,363	-	-	766,161	711,873
Contract Nursing	4,301	-	-	4,301	-	45	-	-	-	-	4,346	4,672
Other Contract Labor	15,751	-	-	15,751	-	10,373	-	118	-	-	26,242	24,132
Total Labor Expenses	597,363	567	(1,190)	596,740	908	193,620	-	5,481	-	-	796,749	740,677
OTHER OPERATING EXPENSES												
Supplies, Purchased Services and Other	338,870	12,369	(7,163)	344,076	2,607	22,545	2	10,001	9,125	(19,390)	368,966	350,053
Professional Fees	27,216	19	-	27,235	26	651	-	1,132	179	(405)	28,818	30,300
Depreciation and Amortization	65,210	4,887	-	70,097	-	4,616	108	923	-	-	75,744	74,822
Interest Expense	(476)	-	-	(476)	-	-	-	85	-	-	(391)	390
Total Other Operating Expenses	430,820	17,275	(7,163)	440,932	2,633	27,812	110	12,141	9,304	(19,795)	473,137	455,565
Total Expenses	1,028,183	17,842	(8,353)	1,037,672	3,541	221,432	110	17,622	9,304	(19,795)	1,269,886	1,196,242
INCOME (LOSS) FROM OPERATIONS	121,655	(1,250)	-	120,405	(1,443)	(74,458)	(110)	12,965	(1,635)	(4,483)	51,241	64,079
NONOPERATING REVENUE, NET												
Investment Income	24,199	48	-	24,247	1,553	7	-	7	1,635	(1,635)	25,814	23,949
Debt Interest Expense	(17,514)	-	-	(17,514)	-	-	-	-	-	-	(17,514)	(15,244)
Other, Net	(77,310)	(1,668)	74,599	(4,379)	-	(37)	-	(14)	-	-	(4,430)	567
Total Nonoperating Revenue, Net	(70,625)	(1,620)	74,599	2,354	1,553	(30)	-	(7)	1,635	(1,635)	3,870	9,272
EXCESS OF REVENUE OVER (UNDER) EXPENSES	51,030	(2,870)	74,599	122,759	110	(74,488)	(110)	12,958	-	(6,118)	55,111	73,351
DISTRIBUTIONS	-	-	-	-	-	-	-	(15,178)	-	7,737	(7,441)	(7,090)
CAPITAL CONTRIBUTIONS AND TRANSFERS, NET & OTHER	(60,130)	2,705	(19,370)	(76,795)	1,082	56,836	2	727	-	18,531	383	1,290
CHANGE IN NET POSITION	<u>\$ (9,100)</u>	<u>\$ (165)</u>	<u>\$ 55,229</u>	<u>\$ 45,964</u>	<u>\$ 1,192</u>	<u>\$ (17,652)</u>	<u>\$ (108)</u>	<u>\$ (1,493)</u>	<u>\$ -</u>	<u>\$ 20,150</u>	<u>\$ 48,053</u>	<u>\$ 67,551</u>

Note: Additional schedules are not GAAP basis under GASB, but are included in order to satisfy certain requirements in the Master Trust Indenture.