



THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Basic Financial Statements and
Other Financial Information

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Management's Discussion and Analysis – Unaudited	3–17
Basic Financial Statements as of and for the years ended December 31, 2018 and 2017:	
Balance Sheets	18
Statements of Revenues, Expenses and Changes in Net Position	19
Statements of Cash Flows	20
Notes to Basic Financial Statements	21–74
Required Supplementary Information	
Schedule of Changes in Net Pension Liability and Related Ratios (unaudited)	75
Schedule of Pension Contributions (unaudited)	76
Schedule of Pension Plan Investment Returns (unaudited)	77
Other Financial Information as of and for the years ended December 31, 2018 and 2017	
Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position – Combined Group	78
Combining Schedule of Revenues, Expenses and Changes in Net Position – Combined Group	79
Combining Schedule of Cash Flows – Combined Group	80



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

Independent Auditors' Report

The Board of Commissioners
The Charlotte-Mecklenburg Hospital Authority:

We have audited the accompanying financial statements of The Charlotte-Mecklenburg Hospital Authority (d/b/a Atrium Health) and its discretely presented component unit, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Atrium Health's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of The Charlotte-Mecklenburg Hospital Authority (d/b/a Atrium Health) and its discretely presented component unit as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 17, the schedule of changes in the net pension liability and related ratios on page 75, the schedule of



pension contributions on page 76, and the schedule of pension plan investment returns on page 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Atrium Health's basic financial statements. The combining schedule of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position – combined group, the combining schedule of revenues, expenses and changes in net position – combined group and the combining schedule of cash flows – combined group, for the years ended December 31, 2018 and 2017 (collectively the Combining Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Information is the responsibility of management and derives from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Charlotte, North Carolina
April 26, 2019

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

This Management's Discussion and Analysis provides an overview of the financial position and results of activities of Atrium Health, previously Carolinas HealthCare System (CHS), for the years ended December 31, 2018, 2017, and 2016. It has been prepared by management and is required supplemental information to the basic financial statements and the notes that follow this section. Except as otherwise noted, the financial highlights in this analysis refer exclusively to the Primary Enterprise as described in note 1 of the notes to basic financial statements.

Certain information set forth in the following discussion contains "forward-looking statements" regarding the future oriented financial information, business plans and the future performance of Atrium Health and the health care industry that are based on the beliefs and assumptions of the management of Atrium Health and the information available to management at the time that these disclosures were prepared. Words such as "expects," "plans," "believes," "will" and other similar expressions are intended to identify these forward-looking statements. Such statements are subject to factors that could cause actual results to differ materially from anticipated results. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Actual results may differ materially from those expressed in or implied by any forward-looking statements. Atrium Health undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

Atrium Health Overview

- In February 2018, Carolinas HealthCare System became Atrium Health, representing our commitment to improve health, elevate hope and advance healing – for all, beyond geographical borders. For more information on the organization, see note 1 of the notes to basic financial statements.
- In December 2018, Atrium Health and Navicent Health, Inc. (Navicent) signed a member substitution agreement, entering into a strategic combination, effective January 1, 2019 to enhance access, affordability, and equity of care for individuals and families in central and South Georgia. For more information on the arrangement, see note 1 of the notes to basic financial statements.

Atrium Health Financial Highlights

- For the year ended December 31, 2018, inpatient volumes, measured in discharges and observation stays (bedded discharges), were 183,368 or 2.1% over 2017 at the acute and tertiary care hospitals. Additionally, outpatient procedures, including surgeries, radiology, and endoscopies experienced growth from 2017.
- For the year ended December 31, 2017, bedded discharges, were 179,638 or 0.2% over 2016 at the acute and tertiary care hospitals. Additionally, outpatient procedures, including surgeries, radiology, and endoscopies experienced growth from 2016.
- For the year ended December 31, 2018, Medical Group patient visits were 5,278,014 or 1.0% less than 2017.
- For the year ended December 31, 2017, Medical Group patient visits were 5,331,134 or 4.1% greater than 2016 due in large part to an increase in providers.
- For the year ended December 31, 2018, net patient service revenue of \$5,600,035 increased from 2017 by \$197,294 or 3.7%. Total operating revenue in 2018 was \$6,228,211. Total operating revenue consists of net patient revenue, grant revenue, pharmacy sales revenue, reimbursed services to affiliates and other revenue.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

- For the year ended December 31, 2017, net patient service revenue of \$5,402,741 increased from 2016 by \$265,911 or 5.2%. Total operating revenue in 2017 was \$5,965,573.
- For the year ended December 31, 2018, operating income was \$247,846, a 4.1% increase over 2017 operating income of \$238,018.
- For the year ended December 31, 2017, operating income was \$238,018, a 10.4% increase over 2016 operating income of \$215,520.
- For the year ended December 31, 2018, nonoperating loss, net was \$325,479, a \$874,219 decrease over 2017. This decrease was primarily due to unfavorable changes in the market value of investments in 2018.
- For the year ended December 31, 2017, nonoperating income, net was \$548,740, a \$300,685 increase over 2016. This increase was primarily due to favorable changes in the market value of investments in 2017.
- In September 2018, Atrium Health approved the project to prepare the Carolinas Medical Center (CMC) campus with necessary infrastructure and enabling upgrades to construct a new 12-story inpatient, surgical services and emergency services facility and to develop both a new Children's ambulatory destination center and pediatric ED/OR components of the bed tower. This project has a total budgeted cost of \$756,900 and is expected to be complete in the years 2021 and 2025. \$800 was incurred on this project during the year ended December 31, 2018.
- In September 2018, Atrium Health approved the project to construct a new Carolinas Rehabilitation-Charlotte facility, which includes a 78-bed inpatient hospital and outpatient rehabilitation clinics, to align rehabilitation with our world class service line approach as well as accommodate greater expected demand as acute care inpatient severity of illness rises with an aging population. This project has a total budgeted cost of \$81,600 and is expected to be complete in year 2021. \$477 was incurred on this project during the year ended December 31, 2018.
- In September 2018 and September 2017, Atrium Health approved components of a project to lease two new Medical Office Buildings located at the intersection of Kenilworth Avenue and Harding Place just north of Morehead St. in Charlotte, NC. The office buildings consolidate 13 medical groups, will create a flagship location for Sanger Heart and Vascular Institute's cardiovascular programs and will decompress CMC's campus. The project also supports the provider growth in central Charlotte. The project has a total budgeted cost of \$75,000 and is expected to be completed in year 2020. \$5,640 was incurred on this project during the year ended December 31, 2018.
- In September 2018, Atrium Health approved the project to construct a new 8-story inpatient and surgical facility on Atrium Health Pineville's campus. The new acute care tower will include 108 inpatient beds and expand surgical services to accommodate current and future need for inpatient services. The project has a total budgeted cost of \$160,100 and is expected to be complete in year 2022. \$1,099 was incurred on this project during the year ended December 31, 2018.
- In September 2018, Atrium Health approved the project to acquire multiple land tracts in several sub-markets that are of significant strategic value. This project has a total budgeted cost of \$40,000 and is expected to be complete by year 2020. \$4,085 was incurred on this project during the year ended December 31, 2018.
- In June 2017, Atrium Health approved the project to construct a new Medical Office Building on the campus of Atrium Health Pineville. This project was approved to support market growth for key service lines. The

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

project has a total budgeted cost of \$100,000 and is expected to be completed in year 2020. \$33,673 was incurred on this project during the year ended December 31, 2018.

- In June 2017, Atrium Health approved the project to either construct or lease a new Medical Office Building in Fort Mill located at the intersection of Highway 160 and Fort Mill Parkway in Fort Mill, South Carolina. This project was approved to support routine provider growth, decompress volume at other Atrium Health sites and add new specialty care services for the area. The project has a total budgeted cost of \$55,000 if self-constructed or \$22,000 if a Third Party develops and Atrium Health leases, but the total cost may be less, depending on the final size of the project, which is expected to be determined in the first half of 2019. The project is expected to be completed in year 2020. \$80 was incurred on this project during the year ended December 31, 2018.
- In June 2017, Atrium Health approved the project to expand Foot and Ankle Operating Rooms (ORs) at Carolinas Medical Center (CMC) – Mercy, add a fourth OR and renovations to improve throughput in the OR. This project was approved to alleviate occupancy and OR utilization at CMC, improve utilization of the ORs and beds at CMC-Mercy, and expand OR capacity in the Central Division. The project has a total budgeted cost of \$18,800 and is expected to be complete in year 2019. \$1,890 was incurred on this project during the year ended December 31, 2018.
- In March 2016, Atrium Health approved the project to construct a second outpatient center for oncology services on the CMC campus. This project was approved to enhance Levine Cancer Institute's existing outpatient operations and develop a new 32 bed inpatient hematologic unit at CMC. The project has a total budgeted cost of \$150,000 and is expected to be complete in year 2019. \$68,754 was incurred on this project during the year ended December 31, 2018.
- In September 2014, Atrium Health approved the project to provide upgrades, renovations to existing areas within CHS NorthEast and new construction surrounding the cardiovascular service line. This project was divided into two phases. Phase I included renovation of Women's Service and was completed in year 2016. Phase II includes new construction of the tower for cardiology and the modernization of G, H and J wings. This project has a total budgeted cost of \$141,400 and is expected to be complete in year 2021. \$35,036 was incurred on this project during the year ended December 31, 2018.
- In December 2013, Atrium Health approved the project to replace Revenue Cycle technology to consolidate to one common system for both the Acute and Ambulatory environments. The project has a total budgeted cost of \$92,600 and is expected to be complete in year 2019. \$3,008 was incurred on this project during the year ended December 31, 2018.
- Atrium Health utilizes interest rate swaps to manage interest rate risk exposure on certain series of bonds. Interest rate swaps necessarily involve counterparty credit risk and Atrium Health seeks to control this risk by entering into transactions with high quality counterparties and through the monitoring of exposure to each counterparty. Atrium Health is a party to 14 floating-to-fixed rate payer swap agreements tied to the Series 2005 B, C and D Refunding Revenue Bonds, Series 2007 B and C Refunding Revenue Bonds and Series 2007 D, E, F, G and H Revenue Bonds. These agreements are used to create synthetic fixed rate bonds by converting the variable rates on those series to fixed rates. Therefore, cash flows on these agreements are recorded as interest expense. In January 2019, Atrium Health entered into a forward starting interest rate swap in connection with the planned synthetic fixed rate refunding of its Series 2011A Refunding Revenue

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

Bonds that are callable on January 15, 2021. These agreements are discussed in greater detail in note 5 of the notes to basic financial statements.

- In September and October 2018, Atrium Health completed updates with Moody's Investors Service (Moody's) and S&P Global Ratings (S&P), respectively. Moody's assigned a rating of Aa3 Stable on newly issued Series 2018 Revenue and Refunding Bonds and also affirmed its Aa3 Stable rating on previously issued Atrium Health bonds. S&P assigned a rating of AA- on newly issued Series 2018 Revenue and Refunding Revenue Bonds and also affirmed its AA- Stable rating on previously issued Atrium Health bonds.

Overview of the Basic Financial Statements

- This discussion and analysis is intended to serve as an introduction to Atrium Health's basic financial statements and the notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements.
- The Governmental Accounting Standards Board (GASB) requires three financial statements: the statement of net position (balance sheet); the statement of revenues, expenses and changes in net position; and the statement of cash flows.
- The balance sheets; statements of revenue, expenses and changes in net position; and statements of cash flows are presented on an accrual basis, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). This information provides an indication of Atrium Health's financial health. The balance sheets include all of Atrium Health's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants or other agreements. The statements of revenue, expenses, and changes in net position report all of the revenue and expenses during the periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income, and other cash uses, such as repayment of debt and purchase of capital.
- Notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements. Required supplementary information relates to Atrium Health's progress in funding its obligation to provide pension benefits to its employees.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

Financial Analysis and Results of Operations

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at December 31 are summarized in Table 1 and are discussed below:

Table 1 – Summary Balance Sheets

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,095,131	\$ 1,124,103	\$ 1,160,543
Capital assets – net	3,166,312	3,049,626	3,047,086
Other noncurrent assets	<u>4,876,740</u>	<u>4,513,888</u>	<u>3,790,268</u>
Total assets	9,138,183	8,687,617	7,997,897
Deferred outflows of resources	<u>225,132</u>	<u>277,277</u>	<u>371,246</u>
Total assets and deferred outflows of resources	<u>\$ 9,363,315</u>	<u>\$ 8,964,894</u>	<u>\$ 8,369,143</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current liabilities	\$ 1,339,110	\$ 1,024,356	\$ 1,063,729
Long-term liabilities	<u>2,874,989</u>	<u>2,728,365</u>	<u>2,906,362</u>
Total liabilities	<u>4,214,099</u>	<u>3,752,721</u>	<u>3,970,091</u>
Deferred inflows of resources	65,086	58,330	39,530
Net investment in capital assets	1,231,053	1,185,504	1,147,721
Restricted – by donor	28,218	28,002	28,379
Unrestricted	<u>3,824,859</u>	<u>3,940,337</u>	<u>3,183,422</u>
Total net position	<u>5,084,130</u>	<u>5,153,843</u>	<u>4,359,522</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 9,363,315</u>	<u>\$ 8,964,894</u>	<u>\$ 8,369,143</u>

Atrium Health classifies net position as net investment in capital assets, restricted – by donor, and unrestricted. The changes in net investment in capital assets over the three year period were driven by the issuance of the Series 2018 Revenue bonds, net of refunding the outstanding Series 2009 A Revenue bonds, debt principal payments and additional capital expenditures. The unrestricted net position decrease for the year ended December 31, 2018 was driven primarily by unfavorable investment returns offset by strong operating performance for the year.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

The net position of Atrium Health at December 31, 2018 decreased \$69,713 from December 31, 2017. The decrease in net position was due to nonoperating loss of \$325,479, offset by positive results of operations of \$247,846 and capital and other contributions of \$7,920.

The net position of Atrium Health at December 31, 2017 increased \$794,321 from December 31, 2016. The increase in net position was due to positive results of operations of \$238,018, investment and other nonoperating income of \$548,740, and capital and other contributions of \$7,563.

Atrium Health's cash and investment position at December 31, 2018, 2017 and 2016 was \$4,372,693, \$4,338,138 and \$3,645,910, respectively. Days cash on hand for the Combined Group, which consists of all entities that have either a direct obligation (Obligated Group) or indirect obligation (Designated Affiliates, of which there are currently none) to pay amounts due on Atrium Health's bonds, was 300, 312, and 278 at December 31, 2018, 2017 and 2016, respectively.

More detailed information about Atrium Health's cash, investments and other financial instruments is presented in notes 2 and 3 of the notes to basic financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

Revenue and Expenses

Revenue, expenses and changes in net position are summarized in Table 2 and are discussed below:

Table 2 – Statements of Revenues, Expenses, and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues:			
Net patient service revenue	\$ 5,600,035	\$ 5,402,741	\$ 5,136,830
Other revenue	628,176	562,832	520,571
Total operating revenue	<u>6,228,211</u>	<u>5,965,573</u>	<u>5,657,401</u>
Operating expenses:			
Personnel costs	3,505,673	3,461,411	3,305,457
Supplies	1,102,356	1,036,409	975,673
Purchased services	449,888	410,286	377,429
Other expenses	519,066	431,209	394,175
Depreciation and amortization	325,928	310,286	299,487
Interest expense	77,454	77,954	89,660
Total operating expenses	<u>5,980,365</u>	<u>5,727,555</u>	<u>5,441,881</u>
Operating income	<u>247,846</u>	<u>238,018</u>	<u>215,520</u>
Nonoperating (loss) income – net:			
Interest and dividend income	84,109	55,849	46,957
Net change in the fair value of investments	(404,748)	498,792	202,375
Other, net	(4,840)	(5,901)	(1,277)
Total nonoperating (loss) income – net	<u>(325,479)</u>	<u>548,740</u>	<u>248,055</u>
Revenue (under) over expenses before contributions	<u>(77,633)</u>	<u>786,758</u>	<u>463,575</u>
Capital contributions	8,282	7,651	5,945
Other contributions	(362)	(88)	124
(Decrease) increase in net position	<u>(69,713)</u>	<u>794,321</u>	<u>469,644</u>
Beginning net position	<u>5,153,843</u>	<u>4,359,522</u>	<u>3,889,878</u>
Ending net position	<u>\$ 5,084,130</u>	<u>\$ 5,153,843</u>	<u>\$ 4,359,522</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

Operating Revenue

Operating revenues in 2018 increased 4.4% from 2017 and in 2017 increased 5.4% from 2016, largely due to increases in hospital patient volumes and, in 2017, growth of the Medical Group. More detail of operating revenue can be found in notes 6 and 7 of the notes to basic financial statements.

Operating Expenses

Operating expenses in 2018 increased 4.4% from the prior year. Personnel costs, comprising 58.6% of the total Atrium Health operating expenses in 2018, increased due to 1.3% volume growth at the acute facilities, increases in Medical Group providers and staffing support, and annual market adjustments across Atrium Health. Other operating expenses, consisting primarily of pharmaceutical and supply costs, professional fees, rent and purchased services, increased 10.3%, primarily due to growth in patient volumes and inflationary cost increases, including the cost of new technologies, and increased legal and marketing fees.

Operating expenses in 2017 increased 5.2% from the prior year. Personnel costs, comprising 60.4% of the total Atrium Health operating expenses in 2017, increased 4.7% due to additional staffing to accommodate growth in the acute facilities, increases in Medical Group providers and volume growth, increased staffing to support the new providers and annual market adjustments across Atrium Health. Other operating expenses, consisting primarily of pharmaceutical and supply costs, professional fees, rent and purchased services, increased 7.5%, primarily due to growth in patient volumes and inflationary cost increases, including the cost of new technologies.

Nonoperating Income and Losses

Nonoperating income and losses, which consists primarily of realized and unrealized investment results, was impacted unfavorably in 2018 by the market value decline of Atrium Health's investments. As a governmental entity, Atrium Health is required to record all investment market value changes as a component of nonoperating income (loss).

Nonoperating activity from Atrium Health's equity, fixed income, and cash investments was a \$320,639 loss in 2018 and a \$554,641 gain in 2017. Nonoperating losses from Atrium Health's equity, fixed income and cash investments was \$249,332 in 2016.

Interest and dividend income on Atrium Health's investment portfolio in 2018 was \$84,109 and net realized and unrealized losses on the portfolio were \$404,748. The net realized / unrealized losses were due to unfavorable performance in the fourth quarter, most notably in the decline in equities, which erased the positive year to date performance through the third quarter.

Interest and dividend income on the portfolio in 2017 was \$55,849 and net realized and unrealized gains on the portfolio were \$498,792. The net realized / unrealized gains were due to strong performance in the investment markets throughout the year, led by the equity portfolio, with 2017 total investment returns nearly double the investment returns of 2016.

Management presents portfolio performance to the Investment Oversight Committee of Atrium Health as well as the Board of Commissioners, on a quarterly basis. Management meets regularly with Atrium Health's investment consultant to review portfolio and investment manager performance and to identify and recommend changes to

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

the investment strategy for consideration by the Investment Oversight Committee. Investment expenses consist of fees paid to Atrium Health's investment managers, investment consultant, and custodian.

Other net nonoperating expenses were \$4,840, \$5,901 and \$1,277 for the years ended December 31, 2018, 2017 and 2016, respectively, due to capital disposals and donations.

Capital Assets and Debt Administration

Capital Assets

Capital assets, net of depreciation and impairment at December 31, 2018, 2017 and 2016 are summarized in Table 3 and are discussed below.

Table 3 – Capital Assets, Net of Depreciation and Impairment

	<u>2018</u>		<u>2017</u>		<u>2016</u>
Land	\$ 219,986	\$	212,652	\$	197,514
Buildings and land improvements	3,429,518		3,341,291		3,226,186
Equipment	2,161,188		2,059,812		1,915,321
Construction in progress	<u>409,162</u>		<u>211,774</u>		<u>217,626</u>
Subtotal	6,219,854		5,825,529		5,556,647
Accumulated depreciation	<u>(3,053,542)</u>		<u>(2,775,903)</u>		<u>(2,509,561)</u>
Total	<u>\$ 3,166,312</u>	\$	<u>3,049,626</u>	\$	<u>3,047,086</u>

During the current fiscal year, significant additions to capital assets in excess of \$10,000 included the following:

Levine Cancer Institute	\$ 68,754
CHS NorthEast Modernization	35,036
Atrium Health Pineville Medical Office Building	33,673

Ongoing capital requirements are funded from a combination of operating cash, debt proceeds, and contributions. Atrium Health's annual capital budget for 2018, 2017 and 2016 was \$640,000, \$527,500 and \$470,184, respectively. Cash outflows related to capital additions, net of retirements, for 2018, 2017 and 2016 totaled \$440,273, \$300,869 and \$300,859, respectively. Total depreciation expense on capital assets was \$323,093, \$308,171 and \$297,892 for 2018, 2017 and 2016, respectively. At December 31, 2018, Atrium Health had planned future capital spending of approximately \$3,099,210 for 2019-2023 for ongoing routine and significant strategic IT and facility expansion projects. More detailed information about Atrium Health's capital assets is presented in note 4 of the notes to the basic financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

Long-Term Debt

Atrium Health can issue debt on behalf of Combined Group members as established under its Second Amended and Restated Bond Order, as further amended (the Bond Order).

- Atrium Health's debt service (scheduled principal and interest payments and net interest rate swap payments, excluding refinancing activity) for 2018, 2017 and 2016 totaled \$126,070, \$114,431 and \$134,747, respectively.
- The actual annual debt service coverage ratio, as defined in the Bond Order, for 2018, 2017 and 2016 was 9.10, 8.56 and 6.18, respectively. The Bond Order requires an actual annual debt service coverage ratio of not less than 1.1.
- In November and December of 2018, Atrium Health issued \$564,030 of Revenue and Refunding Revenue Bonds, a portion of which currently refunded \$178,425 of the outstanding Series 2009A Revenue Bonds. The remainder of the funds will be used to pay certain expenses of issuing the bonds and to fund future capital investments.

More detailed information about Atrium Health's outstanding debt is presented in note 5 of the notes to the basic financial statements.

Events and Factors Expected to Impact Future Periods

Healthcare has historically been a capital-intensive industry that requires significant reinvestment to keep pace with patient care advancements and technology evolution in markets with growing populations. An entity's ability to re-invest to meet its long-term capital and program needs hinges largely on its ability to perform well financially. We believe that Atrium Health, with its geographic dispersion, world-class providers and specialty service lines, extensive primary care network and focus on growth, value and affordability, is well positioned to meet the demands of the fast-changing, capital-intensive industry in which we operate.

Recent years have seen growth in alternative payment models across substantially all payers as the industry is moving from traditional fee for service to models that emphasize value and quality of services. This transition is not without financial risk as these alternative payment models typically attribute a large percentage of potential reimbursement increases to the achievement of value-based targets or they will establish a fixed payment for an episode of care encompassing multiple different providers. We believe Atrium Health is well poised to provide value to its payers and consumers by excelling at delivering high-value patient care in financially sustainable models.

External pressures on revenue streams are not new to the industry as governmental payers have long tried to bend the growth curve in healthcare spending. North Carolina lawmakers approved a Medicaid reform plan in which provider-led entities and commercial insurers will co-exist in a fully capitated system expected to be operational in 2019. We believe healthcare providers, like Atrium Health, who are currently completing large scale data analytics, transforming care delivery and reducing the total cost of care will be more apt to withstand the future revenue pressures in a fully capitated Medicaid environment.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

Employers have implemented high-deductible health plans and other plan design changes in an attempt to lower their health plan costs which, in turn, has led to greater consumerism. In a consumer-driven market, we believe that transparency, convenience and cost will ultimately drive consumers' decisions about their care, which means that becoming more accessible and affordable is critical to financial viability. Truly integrated systems, like Atrium Health, are best positioned to achieve sustainable efficiencies and reduce the cost of care for consumers.

From a Federal perspective, between CMS's proposed Medicare and Medicaid policy changes and the President's budget proposals for the upcoming year, there is heightened uncertainty on the future of Medicare and Medicaid reimbursement. At the state level, health policy discussions in North Carolina are ongoing and are related to critical issues such as Certificate of Need and Medicaid Expansion. Further, there is a transition in 2019 to Medicaid Managed Care and a proposal for significant reimbursement reductions in hospital payments from the State Health Plan for Teachers and State Employees. For the time being, we believe that the industry will remain in a period of great legislative uncertainty at the state and federal levels.

Atrium Health remains a financially viable entity with a strong governing board; an experienced management team; a broad, growing and connected continuum of highly specialized world-class clinical services, and a commitment to high levels of quality, safety, patient experience, cost efficiency and teammate engagement, which we believe, along with other attributes, will enable us to respond to future challenges and to be the first and best choice for care in the communities we serve.

Community Benefit

The mission of Atrium Health is to improve Health, elevate Hope and advance Healing – for all. Our commitment to this mission requires both “investments in” and “partnerships with” the community spanning the entire geographic region within which Atrium Health operates.

Atrium Health defines and measures Community Benefit consistent with the North Carolina Healthcare Association guidelines and includes costs associated with:

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

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

The community's uninsured and underinsured care constitutes both a challenge and an opportunity for Atrium Health. It is a challenge to ensure that the necessary clinical programs and facility infrastructures are in place to meet the demand for all patients. It is also an opportunity to provide access to needed healthcare services for the large uninsured and underinsured population. The cornerstone of Atrium Health's overall Community Benefit is its commitment to provide hospital and other healthcare services to all patients regardless of their ability to pay. North and South Carolina's Medicaid programs, while providing healthcare coverage for many of the poor, disabled, and elderly residents, do not cover all who are unable to pay for healthcare. Also, Medicaid, which reimburses healthcare providers at substantially less than actual cost and has not kept pace in recent years with the industry's rapidly rising cost of technology and enrollment. Within Mecklenburg, Cabarrus, Cleveland, Union, Lincoln, Stanly, and Anson counties, Atrium Health provides approximately 86% of the hospital services to the Medicaid and uninsured patient populations. In many cases, Atrium Health provides the only access to certain outpatient and physician specialty care for those in the community in need of financial assistance, as well as serving uninsured patients who are not eligible for financial assistance discounts, Medicaid, or other governmental funding. More detailed information about Atrium Health's net patient service revenue is presented in notes 1 and 6 of the notes to the basic financial statements.

Atrium Health operates often at a deficit, due to high levels of uninsured and underinsured patients, certain health services that are essential to the community. In 1993, the federal government, in conjunction with pharmaceutical companies, began a program to provide lower cost pricing for pharmaceutical purchases by healthcare facilities with large numbers of Medicaid patients. Identified as the 340B program, Congress' objective with the program was to stretch scarce Federal resources as far as possible, reaching more eligible patients and providing more comprehensive services. Carolinas Medical Center was an original safety-net hospital in the program and since then, six other Atrium Health hospitals have qualified for participation in the program. Those seven hospitals received a combined estimated value of \$211 million in cost savings during 2018 thereby allowing opportunities for Atrium Health to enhance services for uninsured, underinsured, and Medicaid patients in the community such as: operating Atrium Health community clinics, which staff interpreters, dieticians, social workers, nurses and physicians, that provide free or nominally priced care for the most vulnerable in our community; providing dedicated pharmacists within these community clinics who offer medication assistance with education and treatment plans and operate clinic pharmacies where prescriptions can be filled for free or at a nominal price; operating in partnership with Cabarrus Health Alliance an obstetrics clinic for pregnant women without insurance; providing behavioral health services through multiple outlets including outreach and educational programs to the community, a call line available 24 hours a day at no charge to the client, and quality services to patients across Atrium Health's multiple healthcare treatment locations; operating the Carolinas Poison Center, one of 55 such centers in the United States certified by the American Association of Poison Control Centers, for the entire state of North Carolina whose mission is to serve the people and healthcare professionals of North Carolina by providing information and assistance in the prevention, treatment and surveillance of poisonings and overdoses; and operating numerous other community health improvement programs and community building activities as discussed below.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

Atrium Health supports and subsidizes medical education and research, which benefits not only Atrium Health and the patients it serves, but the entire healthcare provider community. Carolinas Medical Center is the sponsoring institution for 40 training programs with 339 residents and fellows. In 2018, approximately 51% of the 122 residents and fellows that completed the program stayed in the Carolinas. Atrium Health continues to expand medical school access at the Charlotte campus of the University of North Carolina (UNC) School of Medicine by providing clinical education for medical students and growing the number of students that will be completing their third and fourth years of medical school. During the 2018-2019 academic year, the Charlotte campus of the UNC School of Medicine will have 26 full-time third year students and 287 fourth year students who will take advantage of CMC's medical student rotation options. The Family Medicine Residency program, Union Track, trains physicians to provide full-scope primary care to the underserved in small towns or rural settings. The program, which currently trains nine residents, is embedded in a local physician practice, and is designed as an "apprenticeship model" in which the residents learn by practicing side-by-side with private practitioners. CHS NorthEast sponsors the Cabarrus Family Medicine Residency Program and a primary care sports medicine fellowship. These two programs, accredited by the Accreditation Council for Graduate Medical Education, train 24 family medicine residents, and one sports medicine fellow each year. Since its inception in 1996, the Cabarrus Family Medicine Residency Program has graduated 152 family medicine residents, with 72% staying in the Carolinas to practice.

Through two of its hospitals, Atrium Health owns, operates and subsidizes two colleges that offer nursing and allied health programs culminating in certificates, diplomas and degrees at the associate, baccalaureate and master's degree levels. Carolinas College of Health Sciences, a part of Carolinas Medical Center, is located in Mecklenburg County, while Cabarrus College of Health Sciences, a part of CHS NorthEast, is located in Cabarrus County. In 2018, over 1,300 students were collectively enrolled in programs such as Nursing, Nurse Anesthetist, Surgical Technology, Pharmacy Technology, Clinical Laboratory Sciences, Interdisciplinary Health Studies, Radiation Therapy, Radiologic Sciences, Medical Assistant, and Occupational Therapy. With 385 graduates in 2018 alone, Atrium Health is one of the top producing nursing and allied health entities in North Carolina. Equally important, 88% of graduates accept positions in the Carolinas in their field of training providing a valuable workforce resource to alleviate projected clinical personnel shortages. In 2018, Carolinas College of Health Science was again ranked 14th nationally among trade schools by *Forbes*. Additionally, the Charlotte Area Health Education Center, operated and subsidized by Atrium Health, is the only organization providing continuing education to all area healthcare professionals from all settings, including hospitals, post-acute care and physician practices.

The ability to develop and advance medical discovery is a critical component to Atrium Health's giving back to the community locally, nationally and globally. As scientific technologies and medical breakthroughs advance, more patients experience enriched, longer lasting quality of life standards. The Division of Therapeutic Research and Development cultivates patient-centered projects that are clinically relevant and fundamentally important to improving healthcare quality and effectiveness. Research and other sponsored programs throughout Atrium Health, encompassing more than 250 investigators, almost 960 active research studies and programs and more than 3,100 patients participating in clinical trials, are focused on the development of new treatments, therapies, diagnostics, or devices as well as conducting population-based research, developing innovative care delivery models and analyzing healthcare economics. Atrium Health's research programs and initiatives leverage the scope and scale of the organization to provide patients with leading-edge treatments and therapies, as well as attract nationally respected physicians to the community.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

Atrium Health and its team members together are “improving Health, elevating Hope and advancing Healing – for all” by becoming actively involved with, or contributing to, various organizations that seek to improve the overall health and well-being of the community. In 2018, Atrium Health teammates supported over 300 nonprofit organizations by volunteering nearly 45,000 work-hours in service projects including, but not limited to: distributing gifts across nine counties to more than 3,500 individuals and families as part of the *Holiday Cheer* project; providing 5,484 backpacks of nutritious food to low income children and families across the region; assembling non-perishable meal kits for disaster victims; sponsoring and delivering holiday meal kits to low income families and elderly citizens; engaging local schools in an educational and mentoring program designed to partner teammates with students through Big Brothers Big Sisters “Beyond School Walls” program and Tutor Charlotte reading programs; and contributing over 10,000 items during our Share the Warmth drive to Crisis Assistance Ministry and other non-profit organizations directly impacting over 300 individuals in our communities. Most of this volunteerism in 2018 was directed to organizations that support and promote community health priorities and other social determinants of health. In addition to teammate hours, Atrium Health also donated over \$2 million in medical equipment, computer equipment and materials to international nonprofit organizations to help people in need as well as numerous other monetary and in-kind donations to local community partners such as The Spokes Group, MedAssist, Second Harvest Food Bank of Metrolina, and Crisis Assistance Ministry.

To further improve the physical, mental, and spiritual health of our community in 2018, Atrium Health:

- screened 2,935 athletes in Mecklenburg, Stanly, Union and Lincoln counties in North Carolina and York County in South Carolina during the annual Heart of a Champion Day and other sports screening events with 69 student athletes referred for additional medical evaluation,
- held 221 classes and trained 3,514 community members and Atrium Health teammates in the Mental Health First Aid program, a groundbreaking public education program that helps identify, understand, and respond to signs of mental illnesses and substance abuse disorders,
- added 17 new Faith Communities for a total of 142 in 10 counties within the Atrium Health Faith Community Health Ministry, a partnership program between Atrium Health and faith communities designed to promote better health through education, access to healthcare and encouragement toward wellness and wholeness,
- provided access to primary and specialty medical care to 8,287 eligible uninsured residents through Physician Reach Out in partnership with Care Ring,
- implemented and expanded the Healthy Together program to 26 schools where school leaders and staff committed to developing action plans to create policy, systems, and environmental changes. Atrium Health's efforts resulted in 13,105 students joining the 5-2-1-0 League and committing to the Healthy Together program focused on childhood obesity,
- and continued the One Charlotte Health Alliance partnership with Novant Health and Mecklenburg County Public Health to improve the health in Mecklenburg County's most vulnerable populations.

In addition to their time, Atrium Health teammates continue to donate millions of their own dollars to charitable organizations and other community based entities. In the 2018 Community Giving Campaign, Atrium Health teammates contributed over \$3.59 million (not included in costs in note 1 of the notes to basic financial statements) to United Way and Arts Councils in Anson, Cabarrus, Cleveland, Gaston, Lincoln, Mecklenburg, Stanly, Union and York Counties and to Children's Miracle Network.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Management's Discussion and Analysis - Unaudited

December 31, 2018 and 2017

(Dollars in thousands)

Additional detail regarding Atrium Health's financial commitment to the community (20.6% of the Primary Enterprise's operating expenses in 2018) is presented in note 1 of the notes to basic financial statements.

Finance Contact

Atrium Health's basic financial statements are designed to present users with a general overview of Atrium Health's finances and to demonstrate Atrium Health's accountability. If you have any questions about the report or need additional financial information, please contact the Group Vice President of Finance, Atrium Health, 1000 Blythe Boulevard, Charlotte, NC 28203.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Balance Sheets

December 31, 2018 and 2017

(Dollars in thousands)

	2018		2017	
	Primary Enterprise	Component Unit	Primary Enterprise	Component Unit
Assets and Deferred Outflows of Resources				
Current assets:				
Cash and cash equivalents	\$ 82,900	\$ 3,628	\$ 131,540	\$ 4,659
Short-term investments	—	9,180	198	10,329
Patient accounts receivable – net	720,375	—	729,164	—
Other accounts receivable	109,416	11,277	94,331	11,659
Assets limited as to use – investments	34,991	—	32,820	—
Inventories	71,863	—	67,405	—
Prepaid expenses	75,586	484	68,645	488
Total current assets	<u>1,095,131</u>	<u>24,569</u>	<u>1,124,103</u>	<u>27,135</u>
Capital assets	6,219,854	11,705	5,825,529	11,572
Accumulated depreciation	(3,053,542)	(7,064)	(2,775,903)	(6,445)
Total capital assets – net	<u>3,166,312</u>	<u>4,641</u>	<u>3,049,626</u>	<u>5,127</u>
Other noncurrent assets:				
Assets limited as to use:				
Bond proceeds held by trustee	304,424	—	—	—
Investments designated for capital improvements	4,245,909	—	4,175,386	—
Other long-term investments	43,884	265,333	31,014	285,768
Other assets limited as to use – investments	101,840	—	109,954	—
Other assets	180,683	36,966	197,534	37,236
Total other noncurrent assets	<u>4,876,740</u>	<u>302,299</u>	<u>4,513,888</u>	<u>323,004</u>
Total assets	<u>9,138,183</u>	<u>331,509</u>	<u>8,687,617</u>	<u>355,266</u>
Deferred outflows of resources	225,132	—	277,277	—
Total assets and deferred outflows of resources	<u>\$ 9,363,315</u>	<u>\$ 331,509</u>	<u>\$ 8,964,894</u>	<u>\$ 355,266</u>
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Accounts payable	\$ 349,043	\$ 201	\$ 261,025	\$ 183
Salaries and benefits payable	391,554	—	323,837	—
Other liabilities and accruals	207,496	2,512	194,382	1,804
Estimated third-party payer settlements	220,035	—	176,647	—
Current portion of long-term debt	170,982	—	68,465	—
Total current liabilities	<u>1,339,110</u>	<u>2,713</u>	<u>1,024,356</u>	<u>1,987</u>
Long-term debt – less current portion	2,070,845	—	1,799,149	—
Interest rate swap liability	189,250	—	219,841	—
Pension liability	295,162	—	379,685	—
Other liabilities	319,732	3,114	329,690	3,310
Total liabilities	<u>4,214,099</u>	<u>5,827</u>	<u>3,752,721</u>	<u>5,297</u>
Commitments and contingencies (notes 1, 2, 5 and 9)				
Deferred inflows of resources	65,086	—	58,330	—
Net position:				
Net investment in capital assets	1,231,053	—	1,185,504	—
Restricted – by donor	28,218	303,100	28,002	317,524
Unrestricted	3,824,859	22,582	3,940,337	32,445
Total net position	<u>5,084,130</u>	<u>325,682</u>	<u>5,153,843</u>	<u>349,969</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 9,363,315</u>	<u>\$ 331,509</u>	<u>\$ 8,964,894</u>	<u>\$ 355,266</u>

See accompanying notes to basic financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2018 and 2017

(Dollars in thousands)

	2018		2017	
	Primary Enterprise	Component Unit	Primary Enterprise	Component Unit
Net patient service revenue	\$ 5,600,035	\$ —	\$ 5,402,741	\$ —
Other revenue	628,176	23,545	562,832	25,861
Total revenue	<u>6,228,211</u>	<u>23,545</u>	<u>5,965,573</u>	<u>25,861</u>
Operating expenses:				
Personnel costs	3,505,673	3,631	3,461,411	2,986
Supplies	1,102,356	—	1,036,409	—
Purchased services	449,888	—	410,286	—
Other expenses	519,066	31,244	431,209	31,254
Depreciation and amortization	325,928	637	310,286	637
Interest expense	77,454	—	77,954	—
Total operating expenses	<u>5,980,365</u>	<u>35,512</u>	<u>5,727,555</u>	<u>34,877</u>
Operating income (loss)	<u>247,846</u>	<u>(11,967)</u>	<u>238,018</u>	<u>(9,016)</u>
Nonoperating (loss) income:				
Interest and dividend income	84,109	4,538	55,849	2,517
Net change in the fair value of investments	(404,748)	(22,869)	498,792	37,891
Other – net	(4,840)	—	(5,901)	—
Total nonoperating (loss) income – net	<u>(325,479)</u>	<u>(18,331)</u>	<u>548,740</u>	<u>40,408</u>
Revenue (under) over expenses before contributions	<u>(77,633)</u>	<u>(30,298)</u>	<u>786,758</u>	<u>31,392</u>
Capital contributions	8,282	(981)	7,651	2,204
Other contributions	(362)	6,992	(88)	1,998
(Decrease) increase in net position	<u>(69,713)</u>	<u>(24,287)</u>	<u>794,321</u>	<u>35,594</u>
Net position:				
Beginning of year	<u>5,153,843</u>	<u>349,969</u>	<u>4,359,522</u>	<u>314,375</u>
End of year	<u>\$ 5,084,130</u>	<u>\$ 325,682</u>	<u>\$ 5,153,843</u>	<u>\$ 349,969</u>

See accompanying notes to basic financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Statements of Cash Flows

Years ended December 31, 2018 and 2017

(Dollars in thousands)

	2018		2017	
	Primary Enterprise	Component Unit	Primary Enterprise	Component Unit
Cash flows from operating activities:				
Receipts from third-party payers and patients	\$ 5,653,467	\$ —	\$ 5,351,787	\$ —
Payments to suppliers	(1,930,226)	(4,192)	(1,881,420)	(13,650)
Payments to employees	(3,474,959)	—	(3,503,421)	—
Other receipts – net	575,059	(16,941)	586,321	729
Net cash provided by (used in) operating activities	<u>823,341</u>	<u>(21,133)</u>	<u>553,267</u>	<u>(12,921)</u>
Noncapital financing activities				
Proceeds from the issuance of commercial paper	210,000	—	(135,000)	—
Retirements of commercial paper	(210,000)	—	135,000	—
Other activities	(6,683)	—	(3,052)	—
Net cash used in noncapital financing activities	<u>(6,683)</u>	<u>—</u>	<u>(3,052)</u>	<u>—</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(440,273)	(151)	(300,869)	(70)
Donated funds designated for building and equipment purchases	8,812	1,052	5,652	1,275
Acquisition of health related businesses	—	—	(1,710)	—
Principal payments, refunding and retirements on short- and long-term debt	(217,044)	—	(198,385)	—
Interest payments on short- and long-term debt	(91,125)	—	(80,901)	—
Proceeds from issuance of long-term debt	590,251	—	164,855	—
Decrease in other assets affecting capital and related financing activities	—	9,024	23	648
Other contributions	—	6,991	(88)	1,998
Net cash (used in) provided by capital and related financing activities	<u>(149,379)</u>	<u>16,916</u>	<u>(411,423)</u>	<u>3,851</u>
Cash flows from investing activities:				
Withdrawal from investments limited as to use	—	—	—	9,000
Contributions to investments limited as to use	(401,614)	—	(152,500)	—
Investment earnings	(3,249)	3,186	4,676	43
Decrease in other trustee assets	145	—	802	—
Purchase of investments	(6,777)	—	(2,955)	—
Net cash (used in) provided by investing activities	<u>(411,495)</u>	<u>3,186</u>	<u>(149,977)</u>	<u>9,043</u>
Net increase (decrease) in cash and cash equivalents	255,784	(1,031)	(11,185)	(27)
Cash and cash equivalents:				
Beginning of year	131,540	4,659	142,725	4,686
End of year	<u>\$ 387,324</u>	<u>\$ 3,628</u>	<u>\$ 131,540</u>	<u>\$ 4,659</u>
Reconciliation of cash and cash equivalents to the balance sheets:				
Cash and cash equivalents in current assets	\$ 82,900	\$ 3,628	\$ 131,540	\$ 4,659
Bond proceeds held by trustee	304,424	—	—	—
Total cash and cash equivalents	<u>\$ 387,324</u>	<u>\$ 3,628</u>	<u>\$ 131,540</u>	<u>\$ 4,659</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 247,846	\$ (11,967)	\$ 238,018	\$ (9,016)
Interest expense considered capital financing activity	77,454	—	77,954	—
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	325,928	637	310,286	637
Decrease in patient accounts receivable – net	8,789	—	3,362	—
(Increase) decrease in inventories and other current assets	(25,096)	(10,504)	20,192	(4,257)
(Increase) decrease in other assets affecting operating activities	(2,065)	103	3,608	(173)
Increase (decrease) in accounts payable and other current liabilities	142,263	—	(37,089)	—
Increase (decrease) in other liabilities affecting operating activities	4,834	598	(45,571)	(112)
Increase (decrease) in estimated third party payer settlements	43,388	—	(17,493)	—
Net cash provided by (used in) operating activities	<u>\$ 823,341</u>	<u>\$ (21,133)</u>	<u>\$ 553,267</u>	<u>\$ (12,921)</u>

See accompanying notes to basic financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(1) Significant Accounting Policies

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

Atrium Health is one of the nation's leading and most innovative healthcare organizations, providing a full spectrum of healthcare and wellness programs throughout the Southeast region. Its diverse network of care locations includes academic medical centers, hospitals, freestanding emergency departments, physician practices, surgical and rehabilitation centers, home health agencies, nursing homes and behavioral health centers, as well as hospice and palliative care services. Atrium Health works to enhance the overall health and wellbeing of its communities through high quality patient care, education and research programs, and numerous collaborative partnerships. Atrium Health was organized in 1943 under the North Carolina Hospital Authorities Act. It is a public body and a body corporate and politic and, therefore, has been determined by the Internal Revenue Service to be exempt from federal and state income taxes. Atrium Health is headquartered in Charlotte, North Carolina.

For financial reporting purposes, Atrium Health is divided into the "Primary Enterprise" and "Component Unit." The Primary Enterprise consists of The Charlotte - Mecklenburg Hospital Authority (d/b/a Atrium Health) and all affiliates whose assets and income Atrium Health controls without limitation. The Atrium Health Foundation, Inc. (the Foundation), previously The Carolinas HealthCare System Foundation, Inc., Atrium Health's sole Component Unit, raises and holds economic resources for the direct benefit of Atrium Health. The Foundation operates to raise funds to enhance, promote and support medical services, scientific education and research. It solicits contributions for Atrium Health entities and, in the absence of donor restrictions, its Board of Directors has discretionary control over the amounts to be distributed. The Foundation is reported on a basis consistent with Atrium Health's calendar year and is discretely presented. Transactions between Atrium Health and the Foundation resulting in intercompany receivables, payables, revenues and expenses are not eliminated. Net capital and operating contributions to Atrium Health from the Foundation included in the statements of revenues, expenses and changes in net position were \$32,563 and \$29,646 for the years ended December 31, 2018 and 2017, respectively.

In February 2018, Atrium Health signed a Letter of Intent with Navicent Health, Inc. (Navicent), a nonprofit corporation headquartered in Macon, Georgia, to enter a strategic combination to enhance access, affordability, and equity of care for individuals and families in central and South Georgia. In December 2018, Atrium Health and Navicent signed an Agreement and Member Substitution (Agreement), effective January 1, 2019, pursuant to which AHNH Georgia, Inc., a newly-formed controlled affiliate of Atrium Health, became the sole corporate member of Navicent. Through this Agreement, Navicent will become a regional hub in, and an integral part of, the Atrium Health system. Under terms of the Agreement, Navicent retains and appoints a majority of its Board of Directors, but Atrium Health holds customary approval rights, including approving Navicent budgets and any borrowings or discharge of Navicent debt. In addition, Atrium Health agrees to ensure that Navicent does not default under any indebtedness agreements, notes or bonds, or other debt-related liabilities. On the effective date of the Agreement, Navicent became a component unit of Atrium Health and, because a controlled subsidiary of Atrium Health is the sole member of Navicent, its financial information will be blended with the Primary Enterprise for reporting periods beginning on or after January 1, 2019. Navicent reported net position of \$1,131,222 and net patient service revenue of \$628,327 as of and for its fiscal year ended September 30, 2017, in

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

accordance with accounting standards set by the Financial Accounting Standards Board. Atrium Health has committed to make certain capital expenditures at Navicent Health facilities that will equal at least \$1,000,000 over the first 10 years following the combination. The source of the funds for these expenditures will include Navicent Health's existing cash and cash flows from the operations of Navicent Health following the closing of the transaction, but Atrium Health has committed to fund \$425,000 of the total capital commitment.

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

(b) The Combined Group

Atrium Health's Second Amended and Restated Bond Order authorizes the creation of a Combined Group, which consists of the Obligated Group and Designated Affiliates (there are no Designated Affiliates at this time). Only the Combined Group has a direct or indirect obligation to pay amounts due on Atrium Health's bonds. As of December 31, 2018 and 2017, the members of the Combined Group were substantially all of the members of the Primary Enterprise and the Foundation. There are some affiliates of the Primary Enterprise which are not part of the Combined Group. The affiliates that are part of the Primary Enterprise, but not part of the Combined Group, made up less than 1% of the total revenue and less than 1% of the total assets of the Primary Enterprise for each of the years ended December 31, 2018 and 2017. Supplemental financial information for the Combined Group as of and for the years ended December 31, 2018 and 2017 is presented as Other Financial Information following the notes to basic financial statements. In January 2018, Atrium Health admitted an entity into the Combined Group that is currently part of the Primary Enterprise but whose revenues and assets of less than 1% and 1% of the Primary Enterprise, respectively, are not material to Atrium Health.

(c) Recently Adopted Governmental Accounting Standards

In 2018, Atrium Health adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 requires measurement and reporting of other postemployment benefits in a manner similar to pensions. The adoption of this Statement had no material impact on the basic financial statements of Atrium Health.

In 2018, Atrium Health adopted GASB Statement No. 85, *Omnibus 2017*, which addresses a variety of practice issues that relate to the application of certain GASB Statements. Those issues include blending component units, goodwill, fair value measurement and application, and postemployment benefits. The adoption of this Statement had no material impact on the basic financial statements of Atrium Health.

In 2018, Atrium Health adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which provides guidance for transactions in which cash and other monetary assets are placed in irrevocable trust for the sole purpose of extinguishing debt and for prepaid insurance on debt that is extinguished. The adoption of this Statement had no material impact on the basic financial statements of Atrium Health.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(d) Basis of Accounting

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

(e) Cash Equivalents

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

(f) Patient Accounts Receivable – Net

Patient accounts receivable is recorded net of allowances for uncollectible accounts of approximately \$607,000 and \$521,000 at December 31, 2018 and 2017, respectively. Net patient revenue is shown net of provision for uncollectible accounts of \$679,321 and \$678,860 for the years ended December 31, 2018 and 2017, respectively.

(g) Other Accounts Receivable

Other accounts receivable consists primarily of amounts due from Regional Enterprise Facilities, other affiliates, federal and state governments and other nonpatient receivables from external parties.

(h) Capital Assets

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

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

Atrium Health evaluates long-lived assets regularly for impairment. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. No material impairment charges to long-lived assets were recorded for the fiscal years ended December 31, 2018 and 2017.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(i) Cost of Borrowing

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

(j) Other Assets Limited as to Use – Investments

Other assets limited as to use include bond proceeds held by trustee until expended for capital additions in accordance with the requirements of the applicable bond agreements, amounts intended for future expenditures of Atrium Health, amounts Atrium Health holds as custodian and investments held in a revocable trust for the payment of contingencies not covered by insurance.

(k) Other Assets

Other assets consist of teammate benefit plan assets not subject to GASB Statement No. 68 and investments in certain healthcare-related businesses accounted for using the cost or equity method.

(l) Deferred Outflows of Resources

Deferred outflows of resources consist of the unamortized amounts related to long-term debt refunding transactions, the aggregate negative fair value of interest rate swaps that are effective hedges, benefit plan differences between expected and actual investment earnings, benefit plan differences between expected and actual experience related to demographic factors, benefit plan assumption changes and the excess cost of net position related to the acquisition of health-related businesses. The balance of the deferred outflows of resources at December 31, 2018 and 2017 is composed of the following:

	<u>2018</u>	<u>2017</u>
Refunding of debt	\$ 205,172	\$ 211,269
Aggregate (positive) negative fair value of interest rate swaps	(13,778)	7,597
Deferred outflows of resources related to Atrium Health DB		
Plan (note 8)	20,876	47,258
Deferred outflows of resources related to other plans (note 8)	1,864	4,263
Excess cost of net position acquired	<u>10,998</u>	<u>6,890</u>
	\$ <u>225,132</u>	\$ <u>277,277</u>

(m) Other Liabilities and Accruals

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

(n) Other Liabilities (Long-Term)

Other liabilities consist primarily of the long-term portions of self-insurance and benefit plan and incentive plan liabilities, a long-term liability payable to Union County (see note 9) and unearned rent. The provision for self-insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred, but not reported.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(o) Deferred Inflows of Resources

Deferred inflows of resources consist of the gain related to a 2008 sale-leaseback transaction, which is being amortized over the terms of the related leases, benefit plan differences between expected and actual experience related to demographic factors, and benefit plan assumption changes.

	2018	2017
Sale-leaseback gain	\$ 21,736	\$ 28,155
Deferred inflows of resources related to Atrium Health DB Plan (note 8)	36,877	27,132
Deferred inflows of resources related to other plans (note 8)	6,473	3,043
	\$ 65,086	\$ 58,330

(p) Net Position

The financial statements present net position at December 31, 2018 and 2017. Net position is categorized as net investment in capital assets, restricted – by donor, and unrestricted.

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

(q) Operating Revenues and Expenses

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

(r) Financial Assistance and Community Benefit Costs

Atrium Health, under its coverage and financial assistance programs, provides care without charge or at discounted rates to certain uninsured patients as well as any patient, regardless of insurance coverage, who experiences financial hardship. Key elements used to determine eligibility for financial assistance include a patient's demonstrated inability to pay based on family size and household income relative to federal income poverty guidelines. Patients potentially eligible for other governmental programs, such as Medicaid, must pursue those options by fully cooperating in the eligibility process before receiving financial assistance from Atrium Health. Atrium Health's cost of care (estimated using applicable cost to charge ratios) extended to uninsured patients qualifying for financial assistance was \$160,375 and \$141,675 for the years ended December 31, 2018 and 2017, respectively.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

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

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

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

	<u>2018</u>		<u>2017</u>
Cost of financial assistance to uninsured patients	\$ 160,375	\$	141,675
Unpaid cost of Medicare and Medicaid services	712,124		715,394
Community benefit programs	<u>101,010</u>		<u>102,820</u>
Community benefit subtotal	973,509		959,889
Cost of care extended to uninsured and underinsured patients who do not qualify for financial assistance	<u>260,863</u>		<u>239,324</u>
Community benefit including cost of care for patients not qualifying for financial assistance	<u>\$ 1,234,372</u>	\$	<u>1,199,213</u>
Percentage of the Primary Enterprise's operating expenses	20.6 %		20.9 %

(s) Capital Contributions and Grants

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

(t) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

period. Atrium Health considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenues; valuation of accounts receivable, including contractual allowances and provisions for bad debts; reserves for losses and expenses related to teammate healthcare, professional liabilities, workers' compensation and general liabilities; valuation of pension and other retirement obligations; and estimated third-party payer settlements. Actual results could differ from those estimates.

(u) Future Accounting and Reporting Requirements

In 2017, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes the definition of asset retirement obligations and guidelines for the recognition and disclosure of liabilities associated with the retirement of a tangible capital asset. The requirements of this Statement are required to be adopted no later than the year ending December 31, 2019. The adoption of this Statement is not expected to have a material impact on the basic financial statements of Atrium Health.

In 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and how those activities should be reported. The requirements of this Statement are required to be adopted no later than the year ending December 31, 2019. Atrium Health has not yet determined the impact of this Statement on the basic financial statements.

In 2017, the GASB issued Statement No. 87, *Leases*, which requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. 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. The requirements of this Statement are required to be adopted no later than the year ended December 31, 2020. Atrium Health has not yet determined the impact of this Statement on the basic financial statements.

In 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which provides guidance for additional disclosures in notes to government financial statements. The primary objective of this statement is to improve the information that is disclosed related to debt. The provisions of this Statement are required to be adopted no later than the year ended December 31, 2019. The adoption of this Statement is not expected to have a material impact on the basic financial statements of Atrium Health.

In 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which provides updated accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost was incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of the related capital asset. The provisions of this Statement are required to be adopted no later than the year ended December 31, 2020. The adoption of this Statement will cause interest expense that is currently capitalized as part of the constructed cost of capital assets to be expensed in the period incurred (see note 4).

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

In 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, which provides updated guidance related to a government's majority equity interest in a legally separate organization. This Statement requires that a majority equity interest in a legally separate organization should be reported as an investment if the equity holding meets the definition of an investment; otherwise, the government should report the legally separate organization as a component unit. The provisions of this Statement are required to be adopted no later than the year ended December 31, 2019. Atrium Health has not yet determined the impact of this Statement on the basic financial statements.

(v) Business Combinations and Certain Other Affiliations

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

(2) Cash, Investments and Other Financial Instruments

(a) Cash and Cash Equivalents

As of December 31, 2018, Atrium Health had cash and cash equivalents of \$82,900 and \$304,424 of bond proceeds. All of the bond proceeds and a portion of the cash and cash equivalents were invested with the North Carolina Capital Management Trust's Government Portfolio, which has a rating of AAAM from S&P Global Ratings, and a portion of the cash and cash equivalents was invested with the North Carolina Capital Management Trust's Term Portfolio, which is not rated but has maintained a stable net asset value since 2011. As of December 31, 2017, Atrium Health had cash and cash equivalents of \$131,540 of which a portion was invested with the North Carolina Capital Management Trust's Government Portfolio and a portion was invested with the North Carolina Capital Management Trust's Term Portfolio.

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

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

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

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

Atrium Health operates a regional integrated healthcare system, which has significant capital needs arising from both changes in medical technology and a growing demand for healthcare services. At December 31, 2018, the fair value of investments designated for capital improvements of \$4,245,909 is substantially less than the historical cost of property, plant and equipment of \$6,219,854.

Atrium Health's investments designated for capital improvements and other assets limited as to use (Bond proceeds held by trustee, Other long-term investments and Assets limited as to use – current and noncurrent), based on fair value as of December 31, 2018, and organized by investment type to provide an indication of the level of investment and deposit risks assumed, are as follows:

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

	<u>Ratings by nationally recognized agency</u>	<u>Effective duration in years</u>	<u>Designated for capital improvements</u>	<u>Other assets limited as to use</u>
Cash equivalents			\$ 158,080	\$ 320,423
Fixed income:				
U.S. government treasuries and agencies	AA	8.26	219,953	9,925
	BBB	10.82	167	—
Mortgage pass-throughs	AAA	4.15	38,487	3,124
	AA	5.36	69,101	3,912
	A	3.19	1,683	242
Collateralized mortgage obligations	AAA	3.31	6,377	506
Corporate bonds	AAA	15.27	1,855	34
	AA	4.62	28,878	781
	A	3.42	143,400	5,036
	BBB	5.48	113,941	8,628
	BB	13.51	299	24
Municipal bonds	AAA	5.62	5,406	273
	AA	7.67	12,400	977
	A	7.18	4,054	93
	BBB	2.10	1,413	40
Asset-backed securities	AAA	1.86	42,425	3,382
	AA	4.01	17,470	927
	BBB	5.08	1,191	169

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

	<u>Ratings by nationally recognized agency</u>	<u>Effective duration in years</u>	<u>Designated for capital improvements</u>	<u>Other assets limited as to use</u>
Fixed income – other	N/A	3.61	\$ 382,731	\$ 3,902
Long/short fixed income	N/A	N/A	<u>280,992</u>	<u>8,919</u>
Total fixed income (weighted average duration)		4.91	<u>1,372,223</u>	<u>50,894</u>
Equity:				
Domestic equities			1,192,437	34,538
International equities			620,817	20,039
Global equities			<u>670,368</u>	<u>16,225</u>
Total equity			2,483,622	70,802
Real asset funds			123,519	3,932
Multi-strategy hedge funds			306	2,391
Commodity funds			88,221	3,529
Private equity funds			<u>19,938</u>	<u>33,168</u>
Total reported value			<u>\$ 4,245,909</u>	<u>\$ 485,139</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Atrium Health's investments designated for capital improvements and other assets limited as to use (Other long-term investments and Assets limited as to use – current and noncurrent), based on fair value as of December 31, 2017, and organized by investment type to provide an indication of the level of investment and deposit risks assumed, are as follows:

	<u>Ratings by nationally recognized agency</u>	<u>Effective duration in years</u>	<u>Designated for capital improvements</u>	<u>Other assets limited as to use</u>
Cash equivalents			\$ 170,780	\$ 17,248
Fixed income:				
U.S. government treasuries and agencies	AA	7.46	128,119	9,518
	A	9.82	54	72
	BBB	6.57	1,429	—
Mortgage pass-throughs	AAA	4.44	31,115	2,664
	AA	3.83	83,702	1,947
	A	3.99	918	—
	BBB	4.74	539	—
	B	3.19	1,242	—
	CCC	4.79	156	—
Collateralized mortgage obligations	AAA	2.49	4,310	416
	AA	3.25	6,567	417
	A	3.69	317	—
	BBB	6.31	2,552	127
Corporate bonds	AAA	13.15	4,022	181
	AA	7.66	13,230	834
	A	6.38	62,996	3,822
	BBB	5.97	118,699	7,477
	BB	5.47	8,467	—
	B	7.44	481	—
Municipal bonds	AAA	5.68	5,525	281
	AA	8.83	12,810	680
	A	4.93	3,363	122
	BBB	1.35	1,120	60
Asset-backed securities	AAA	1.81	42,469	3,026
	AA	3.66	20,196	1,043
	A	3.97	9,446	736
	BBB	5.84	999	137

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

	Ratings by nationally recognized agency	Effective duration in years	Designated for capital improvements	Other assets limited as to use
Fixed income – other	N/A	3.62	\$ 327,140	\$ 3,167
Long/short fixed income	N/A	N/A	<u>255,981</u>	<u>9,244</u>
Total fixed income (weighted average duration)		5.26	<u>1,147,964</u>	<u>45,971</u>
Equity:				
Domestic equities			1,268,733	39,291
International equities			685,209	23,246
Global equities			645,427	18,391
Long/short equity			<u>4,023</u>	<u>246</u>
Total equity			2,603,392	81,174
Real asset funds			103,697	3,581
Multi-strategy hedge funds			21,420	2,402
Commodity funds			103,603	4,144
Private equity funds			<u>24,530</u>	<u>19,268</u>
Total reported value			<u>\$ 4,175,386</u>	<u>\$ 173,788</u>

(c) Custodial Credit Risk

Custodial credit risk is the risk that Atrium Health will not be able to recover the value of its bank deposits, which are exposed to custodial credit risk if they are uninsured and uncollateralized. As of December 31, 2018 and 2017, all of Atrium Health's bank deposits were either insured by federal depository insurance or collateralized by the Pooling Method.

Fixed income investments and equity securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of Atrium Health, and are held by either the counterparty or the counterparty's trust department or agent, but not in Atrium Health's name. As of December 31, 2018 and 2017, all of Atrium Health's fixed income investments and equity securities are held by Atrium Health's custodial bank in Atrium Health's name and are, therefore, not exposed to custodial credit risk.

(d) Credit Risk

With respect to fixed income investments, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations as required by the fixed income security. Atrium Health's investment policy requires that the overall average credit quality of the core fixed income portfolios must be maintained at AA or higher, and the overall average credit quality of the core plus fixed income portfolios must be maintained at A or higher. As of December 31, 2018 and 2017, Atrium Health's fixed

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

income portfolio met these overall average requirements. The quality ratings of Atrium Health's investments in fixed income securities (excluding long/short fixed income), as determined by nationally recognized statistical rating organizations, are disclosed in the preceding tables.

(e) Concentration of Credit Risk

Credit concentration risk results from not adequately diversifying investments. Per Atrium Health's investment policy, equity and fixed income restrictions include, (1) no more than 7% of any investment manager's equity portfolio may be invested in securities of any one issuing corporation, and (2) fixed income investments in any single issuer (excluding obligations of the U.S. government and its agencies) may not exceed 5% of any investment manager's portfolio market value at the time of purchase. Although exceptions to these policy restrictions are at times granted to investment managers, at no time may an investment in any one corporation exceed 5% of that corporation's outstanding shares while fixed income investments in any single issuer (excluding obligations of the U.S. government and its agencies) may not exceed 5% of the total issue at the time of purchase. At December 31, 2018 and 2017, no investment in any one corporation or single issuer exceeded allowable thresholds.

(f) Interest Rate Risk

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

As a means of limiting interest rate risk, Atrium Health's investment policy (excluding long/short fixed income) limits the effective duration in years of the core fixed income portfolio to a range of 75% to 125% of the duration of its benchmark (Barclay's Capital Aggregate Bond Index) and limits the effective duration in years of the core plus fixed income portfolio to a range of 0% to 150% of the duration of its benchmark (blend of Barclay's Capital Aggregate Bond Index, Barclays Capital Government/Credit Bond Index and Citi World Government Bond Index (WGBI)) at all times.

As noted in the December 31, 2018 table above, the effective duration in years of Atrium Health's total core and core plus fixed income portfolios was 4.91 years while the Barclays Capital Aggregate Bond Index's effective duration was 5.9 years and the blend of the Barclay's Capital Aggregate Bond Index, Barclay's Capital Government/Credit Bond Index and the Citi WGBI was 7.8 years.

As noted in the December 31, 2017 table above, the effective duration in years of Atrium Health's total core and core plus fixed income portfolios was 5.26 years while the Barclays Capital Aggregate Bond Index's effective duration was 6.00 years and the blend of the Barclay's Capital Government/Credit Bond Index and the Citi WGBI was 7.91 years.

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

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(g) Foreign Currency Risk

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

At December 31, 2018, Atrium Health had \$198,023 of exposure to foreign currency risk in the form of cash and cash equivalents of \$1,074, mutual funds of \$58,767 (including approximately 98% in the British Pound and approximately 2% in the Canadian Dollar) and common stock in foreign currencies of \$138,182 (including approximately 18% in the Euro, approximately 14% in the Japanese Yen, approximately 31% in the British Pound, and the remaining 37% spread over other common stock in foreign currencies, none of which exceed 10%).

At December 31, 2017, Atrium Health had \$199,560 of exposure to foreign currency risk in the form of cash and cash equivalents of \$525, mutual funds of \$98,953 (including approximately 99% in the British Pound and approximately 1% in the Canadian Dollar) and common stock in foreign currencies of \$100,082 (including approximately 22% in the Euro, approximately 19% in the Japanese Yen, approximately 14% in the British Pound, approximately 12% in the South African Rand, and the remaining 33% spread over other common stock in foreign currencies, none of which exceed 10%).

(3) Fair Value Measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy that requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the three levels of inputs used to measure fair value on a recurring basis:

Level 1 – Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that are available as of the measurement date.

Level 2 – Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Level 3 inputs are unobservable inputs that reflect Atrium Health management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Level 3 assets include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, or for which the determination of fair value requires significant management judgment or estimation.

Investments that do not have a readily determinable fair value are reported using net asset value (NAV) as a "practical expedient" as outlined in GASB 72.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Although Atrium Health management believes the fair value accounting estimates reflected in its financial statements are reasonable, there can be no assurances that Atrium Health could ultimately realize these values.

The fair value hierarchy classification of Atrium Health's assets measured at fair value as of December 31, 2018 is summarized in the table below:

	Designated for capital improvements	Other assets limited as to use	Fair value at reporting date using		
			Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:					
Cash equivalents	\$ 158,080	\$ 320,423	\$ 478,503	\$ —	\$ —
Fixed income:					
U.S. government treasuries and agencies	220,120	9,925	—	230,045	—
Mortgage pass-throughs	109,271	7,278	—	116,549	—
Collateralized mortgage obligations	6,377	506	—	6,883	—
Corporate bonds	288,373	14,503	—	302,876	—
Municipal bonds	23,273	1,383	—	24,656	—
Asset-backed securities	61,086	4,478	—	65,564	—
Fixed income – other	382,731	3,902	386,633	—	—
Total fixed income	<u>1,091,231</u>	<u>41,975</u>	<u>386,633</u>	<u>746,573</u>	<u>—</u>
Equity:					
Domestic equities	1,192,437	34,538	1,226,975	—	—
International equities	620,817	20,039	640,856	—	—
Global equities	482,888	11,121	494,009	—	—
Total equity	<u>2,296,142</u>	<u>65,698</u>	<u>2,361,840</u>	<u>—</u>	<u>—</u>
Real asset funds	<u>123,519</u>	<u>3,932</u>	<u>127,451</u>	<u>—</u>	<u>—</u>
Total investments by fair value level	<u>3,668,972</u>	<u>432,028</u>	<u>\$ 3,354,427</u>	<u>\$ 746,573</u>	<u>\$ —</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

	<u>Fair value at reporting date using</u>				
	<u>Designated for capital improvements</u>	<u>Other assets limited as to use</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments measured at the NAV:					
Global equities	187,480	5,104			
Long/short fixed income	280,992	8,919			
Multi-strategy hedge funds	306	2,391			
Commodity funds	88,221	3,529			
Private equity funds	<u>19,938</u>	<u>33,168</u>			
 Total investments measured at the NAV	 <u>576,937</u>	 <u>53,111</u>			
 Total investments measured at fair value	 <u>\$ 4,245,909</u>	 <u>\$ 485,139</u>			

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

The fair value hierarchy classification of Atrium Health's assets measured at fair value as of December 31, 2017 is summarized in the table below:

	<u>Fair value at reporting date using</u>				
	<u>Designated for capital improvements</u>	<u>Other assets limited as to use</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:					
Cash equivalents	\$ 170,780	\$ 17,248	\$ 188,028	\$ —	\$ —
Fixed income:					
U.S. government treasuries and agencies	129,602	9,590	—	139,192	—
Mortgage pass-throughs	117,672	4,611	—	122,283	—
Collateralized mortgage obligations	13,746	960	—	14,706	—
Corporate bonds	207,895	12,314	—	220,209	—
Municipal bonds	22,818	1,143	—	23,961	—
Asset-backed securities	73,110	4,942	—	78,052	—
Fixed income – other	327,140	3,167	330,307	—	—
Total fixed income	<u>891,983</u>	<u>36,727</u>	<u>330,307</u>	<u>598,403</u>	<u>—</u>
Equity:					
Domestic equities	1,268,733	39,291	1,308,024	—	—
International equities	685,209	23,246	708,455	—	—
Global equities	421,509	12,272	433,781	—	—
Total equity	<u>2,375,451</u>	<u>74,809</u>	<u>2,450,260</u>	<u>—</u>	<u>—</u>
Real asset funds	<u>103,697</u>	<u>3,581</u>	<u>107,278</u>	<u>—</u>	<u>—</u>
Total investments by fair value level	<u>3,541,911</u>	<u>132,365</u>	<u>\$ 3,075,873</u>	<u>\$ 598,403</u>	<u>\$ —</u>
Investments measured at the NAV:					
Global equities	223,918	6,119			
Long/short fixed income	255,981	9,244			
Long/short equity	4,023	246			
Multi-strategy hedge funds	21,420	2,402			
Commodity funds	103,603	4,144			
Private equity funds	24,530	19,268			
Total investments measured at the NAV	<u>633,475</u>	<u>41,423</u>			
Total investments measured at fair value	<u>\$ 4,175,386</u>	<u>\$ 173,788</u>			

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Fixed income and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Atrium Health accounts for these investments through the use of quoted market prices for those investments with readily determinable fair values. Fixed income and equity securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique provided by the external investment managers and Atrium Health's investment custodian. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices, benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others. Atrium Health management reviews the valuations received from third parties.

The table below discloses the unfunded commitments, redemption frequency and redemption notice period for investments measured at net asset value as of December 31, 2018 and 2017:

Designated for Capital Improvements and Other Assets Limited as to Use Combined

	<u>2018</u>	<u>2017</u>	Unfunded commitments as of December 31 2018	Redemption frequency	Redemption notice period
Global equities	\$ 192,584	\$ 230,037	\$ —	Monthly	6 days
Long/short fixed income limited partnerships	289,911	265,225	—	Quarterly	45–90 days
Long/short equity limited partnerships	—	4,269	—	Quarterly	60 days
Multi-strategy hedge fund limited partnerships	2,697	23,822	—	Annually	90 days
Commodities fund of funds limited partnerships	91,750	107,747	—	Daily	1 day
Private equity fund of funds partnerships	<u>53,106</u>	<u>43,798</u>	<u>4,308</u>	N/A	N/A
Total	<u>\$ 630,048</u>	<u>\$ 674,898</u>	<u>\$ 4,308</u>		

Global equities are strategies that invest primarily in domestic and international public companies. Fund managers of each strategy have the ability to shift investments among geographies, sectors, and industries. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Long/short fixed income limited partnership investments are hedge fund strategies that invest both long and short primarily in fixed income. Fund managers of each hedge fund strategy have the ability to shift investments among sectors, duration, yield, and from a net long position to a net short position. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Long/short equity limited partnership investments are hedge fund strategies that invest both long and short primarily in equities. Fund managers of each hedge fund have the ability to shift investments among sectors,

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

styles, market capitalization, and from a net long position to a net short position. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Multi-strategy hedge fund limited partnership investments are hedge fund strategies that invest both long and short primarily in relative value opportunities and special situations across equity, fixed income, and real estate. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Commodities fund of funds limited partnerships are strategies that invest both long and short primarily in exchange traded commodities. Fund managers of each strategy have the ability to shift investments among commodities, sectors, timeframe, and from a net long position to a net neutral position. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Private equity fund of funds partnerships are strategies that invest primarily in domestic and international public and private companies. Fund managers of each strategy have the ability to shift investments among geographies, sectors, industries, and the stage in the company's life cycle. The fair values of the investments in this type have been determined using the NAV per share of Atrium Health's ownership interest in partners' capital. Investments of this type do not allow for redemptions. Instead, investments in the strategies are returned through partnership distributions that generally coincide with liquidations of the underlying assets of the funds. It is estimated that the current liquidation period for these investments was five to ten years at December 31, 2018.

The fair values of Atrium Health's interest rate swaps (see note 5) were estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps. The spot rates used for discounting are further adjusted for the credit (nonpayment) risk associated with the party that is a net debtor as of the measurement date. The swap valuations are considered Level 2 liabilities and were valued at \$189,250 and \$219,841 at December 31, 2018 and 2017, respectively.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

The Atrium Health Foundation's Investments

The Foundation's investments at December 31, 2018 are as follows:

	<u>2018</u>	<u>Fair value at reporting date using</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Cash equivalents	\$ 14,549	\$ 14,549	\$ —	\$ —
Fixed income	47,648	26,399	21,249	—
Domestic equities	67,193	67,193	—	—
International equities	40,000	40,000	—	—
Global equities	27,230	27,230	—	—
Real asset funds	8,309	8,309	—	—
	<u>204,929</u>	<u>\$ 183,680</u>	<u>\$ 21,249</u>	<u>\$ —</u>
Total by fair value level				
Investments measured at the NAV:				
Global equities	13,274			
Long/short fixed income	29,368			
Multi-strategy hedge funds	47			
Commodity funds	7,057			
Private equity funds	19,838			
	<u>69,584</u>			
Total assets measured at the NAV				
Total assets measured at fair value	<u>\$ 274,513</u>			

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

The Foundation's investments at December 31, 2017 are as follows:

	<u>2017</u>	<u>Fair value at reporting date using</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Cash equivalents	\$ 18,291	\$ 18,291	\$ —	\$ —
Fixed income	43,545	22,777	20,768	—
Domestic equities	71,042	71,042	—	—
International equities	48,716	48,716	—	—
Global equities	32,741	32,741	—	—
Real asset funds	7,904	7,904	—	—
		<hr/>	<hr/>	<hr/>
Total by fair value level	222,239	\$ 201,471	\$ 20,768	\$ —
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Investments measured at the NAV:				
Global equities	15,911			
Long/short fixed income	29,777			
Long/short equity	457			
Multi-strategy hedge funds	225			
Commodity funds	8,288			
Private equity funds	19,200			
Total assets measured at the NAV	<hr/> 73,858			
Total assets measured at fair value	\$ <hr/> 296,097			

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(4) Capital Assets

Capital assets activity for the year ended December 31, 2018, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Depreciable capital assets:					
Land improvements	\$ 119,573	\$ —	\$ 524	\$ (2,777)	\$ 117,320
Buildings	3,221,718	10,130	92,421	(12,071)	3,312,198
Equipment	<u>2,059,812</u>	<u>19,443</u>	<u>112,744</u>	<u>(30,811)</u>	<u>2,161,188</u>
Depreciable capital assets – gross	5,401,103	29,573	205,689	(45,659)	5,590,706
Accumulated depreciation	<u>(2,775,903)</u>	<u>(323,093)</u>	<u>—</u>	<u>45,454</u>	<u>(3,053,542)</u>
Depreciable capital assets – net	2,625,200	(293,520)	205,689	(205)	2,537,164
Nondepreciable capital assets:					
Land	212,652	—	7,334	—	219,986
Construction in progress	<u>211,774</u>	<u>410,411</u>	<u>(213,023)</u>	<u>—</u>	<u>409,162</u>
Net capital assets	<u>\$ 3,049,626</u>	<u>\$ 116,891</u>	<u>\$ —</u>	<u>\$ (205)</u>	<u>\$ 3,166,312</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Capital assets activity for the year ended December 31, 2017, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Depreciable capital assets:					
Land improvements	\$ 118,378	\$ —	\$ 2,018	\$ (823)	\$ 119,573
Buildings	3,107,808	7,767	116,696	(10,553)	3,221,718
Equipment	1,915,321	25,602	154,084	(35,195)	2,059,812
Depreciable capital assets – gross	5,141,507	33,369	272,798	(46,571)	5,401,103
Accumulated depreciation	(2,509,561)	(308,171)	—	41,829	(2,775,903)
Depreciable capital assets – net	2,631,946	(274,802)	272,798	(4,742)	2,625,200
Nondepreciable capital assets:					
Land	197,514	—	15,138	—	212,652
Construction in progress	217,626	282,084	(287,936)	—	211,774
Net capital assets	<u>\$ 3,047,086</u>	<u>\$ 7,282</u>	<u>\$ —</u>	<u>\$ (4,742)</u>	<u>\$ 3,049,626</u>

Net capitalized interest expense of \$10,329 and \$7,616 for the years ended December 31, 2018 and 2017, respectively, was included in the cost of projects. The cost of capital expenditures included in accounts payable was \$42,249 and \$30,890 as of December 31, 2018 and 2017, respectively.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(5) Long-Term Debt

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

	2018	2017
Series 2005 B, C, and D Variable Rate Refunding Revenue Bonds, maturing 2019 through 2026, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2018 was 2.03%)	\$ 50,750	\$ 56,300
Series 2007 B Variable Rate Refunding Revenue Bonds, maturing 2019 through 2038, bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2018 was 1.36%)	80,910	81,760
Series 2007 C Variable Rate Refunding Revenue Bonds, maturing 2027 through 2037, bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2018 was 1.36%)	87,635	87,635
Series 2007 D Variable Rate Revenue Bonds, maturing 2041 through 2043, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2018 was 2.14%)	67,140	67,140
Series 2007 E Variable Rate Revenue Bonds, maturing 2041 through 2044, bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2018 was 1.34%)	77,220	77,220
Series 2007 F Variable Rate Revenue Bonds, maturing 2030 through 2042, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2018 was 2.14%)	57,055	57,055

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

	<u>2018</u>		<u>2017</u>
Series 2007 G Variable Rate Revenue Bonds, maturing 2031 through 2041, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2018 was 2.03%)	\$ 113,825	\$	113,825
Series 2007 H Variable Rate Revenue Bonds, maturing 2027 through 2045, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2018 was 1.80%)	166,050		166,050
Series 2008 A Refunding Revenue Bonds, maturing 2018, bearing interest at 4.25%	—		1,530
Series 2009 A Refunding Revenue Bonds, maturing 2019, bearing interest at 4.125%	3,650		185,605
Series 2011 A Revenue Bonds, maturing 2019 through 2042 bearing interest at 4.0% to 5.25%	132,145		134,170
Series 2012 A Revenue and Refunding Revenue Bonds, maturing 2019 through 2043 bearing interest at 3.0% to 5.0%	148,350		149,875
Series 2013 A Revenue and Refunding Revenue Bonds, maturing 2019 through 2039 bearing interest at 3.0% to 5.0%	117,225		119,640
Series 2015 A Taxable Refunding Revenue Bonds, maturing 2019 through 2024 bearing interest at 2.64%	9,090		10,470
Series 2015 B Taxable Commercial Paper Revenue Bonds (weighted average interest rate for the year ended December 31, 2018 was 2.10%)	30,000		30,000
Series 2016 A Refunding Revenue Bonds, maturing 2019 through 2047 bearing interest at 3.0% to 5.0%	376,960		390,560
Series 2018 A Refunding Revenue Bonds, maturing 2020 through 2039 bearing interest at 4.0% to 5.0%	164,030		—
Series 2018 B Variable Rate Revenue Bonds, maturing 2040 through 2048 currently bearing interest at 5.0% through the initial long-term rate period ending February 28, 2022	50,000		—

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

	<u>2018</u>	<u>2017</u>
Series 2018 C Variable Rate Revenue Bonds, maturing 2040 through 2048 currently bearing interest at 5.0% through the initial long-term rate period ending February 28, 2023	\$ 50,000	\$ —
Series 2018 D Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates plus 0.60% through the initial index floating rate period ending November 30, 2023, which are adjusted weekly (weighted average rate for the year ended December 31, 2018 was 2.27%)	50,000	—
Series 2018 E Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates plus 0.45% through the initial index floating rate period ending November 30, 2021, which are adjusted weekly (weighted average rate for the year ended December 31, 2018 was 2.12%)	50,000	—
Series 2018 F Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2018 was 1.67%)	100,000	—
Series 2018 G Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2018 was 1.67%)	50,000	—
Series 2018 H Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2018 was 1.67%)	50,000	—
Other long-term debt	<u>66,364</u>	<u>68,563</u>
	2,148,399	1,797,398
Commercial paper, variable rate bonds with self liquidity program, and current portion	<u>(170,982)</u>	<u>(68,465)</u>
	1,977,417	1,728,933
Net unamortized premiums	90,687	67,084
Unamortized gains on debt-related derivative agreements	<u>2,741</u>	<u>3,132</u>
	\$ <u><u>2,070,845</u></u>	\$ <u><u>1,799,149</u></u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

A summary of changes in long-term debt during 2018 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Fixed rate revenue bonds	\$ 991,850	\$ 164,030	\$ (204,430)	\$ 951,450
Variable rate revenue bonds	706,985	400,000	(6,400)	1,100,585
Commercial paper revenue bonds	30,000	210,000	(210,000)	30,000
Other long-term debt	68,563	—	(2,199)	66,364
	<u>\$ 1,797,398</u>	<u>\$ 774,030</u>	<u>\$ (423,029)</u>	<u>\$ 2,148,399</u>

A summary of changes in long-term debt during 2017 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Fixed rate revenue bonds	\$ 1,017,145	\$ —	\$ (25,295)	\$ 991,850
Variable rate revenue bonds	713,105	164,855	(170,975)	706,985
Commercial paper revenue bonds	30,000	135,000	(135,000)	30,000
Other long-term debt	70,678	—	(2,115)	68,563
	<u>\$ 1,830,928</u>	<u>\$ 299,855</u>	<u>\$ (333,385)</u>	<u>\$ 1,797,398</u>

Debt service requirements for long-term debt in future years, excluding commercial paper but including the impact of other long-term debt (a note payable to a financial services company and a note payable to Cleveland County) and interest rate swap transactions discussed later in this note, are shown in the table below. Debt service requirements, as reflected in the table, assume current interest rates on unhedged variable rate debt while net swap payments, are projected using the December 31, 2018 relationship between the Securities Information and Financial Markets Association (SIFMA) Municipal Swap Index and the one-month London InterBank Offered Rate (LIBOR) of approximately 68%, which is lower than interest projected using the 69% average relationship between SIFMA and LIBOR over the past 10 years.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 36,006	\$ 81,843	\$ 117,849
2020	37,261	84,455	121,716
2021	38,910	82,777	121,687
2022	40,468	80,586	121,054
2023	54,322	84,425	138,747
2024–2028	247,838	341,157	588,995
2029–2033	308,954	278,965	587,919
2034–2038	371,825	199,275	571,100
2039–2043	455,500	107,587	563,087
2044–2048	527,315	23,530	550,845
	<u>\$ 2,118,399</u>	<u>\$ 1,364,600</u>	<u>\$ 3,482,999</u>

Atrium Health's Revenue Bonds (other than the Series 2015 A and Series 2015 B Revenue Bonds which are taxable) are tax-exempt and are secured by and payable from Atrium Health's revenues, the money and securities held in certain funds and accounts created by the applicable bond agreements and held by the bond trustee, and in the case of the Combined Group, amounts payable by the other members of the Combined Group under their respective Member Guaranty Agreement or Member Security Agreement. The tax-exempt fixed rate revenue bonds are redeemable at the option of Atrium Health at par value upon the expiration of the 10-year no call period subsequent to their respective issuance date. The Series 2018 D and Series 2018 E index floating rate bonds are redeemable at the option of Atrium Health at par value one year prior to their index floating rate purchase dates of December 1, 2023 and December 1, 2021, respectively.

In December 2005, Atrium Health issued Series 2005 B, C and D Variable Rate Refunding Revenue Bonds which, together with \$2,855 of Atrium Health funds, currently refunded \$96,760 of Series 1996 A Revenue Bonds. Interest on the Series 2005 B, C and D Variable Rate Refunding Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year. In February 2011, Atrium Health utilized a mandatory tender process to substitute new direct pay letters of credit on these bonds. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance. In December 2016, Atrium Health utilized a mandatory tender process to convert Series 2005 B, C and D to direct purchase bonds. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance.

In August 2007, Atrium Health issued Series 2007 B and C Variable Rate Refunding Revenue Bonds, which advance refunded all \$71,015 of the outstanding Series 2003 A Revenue Bonds and all \$100,000 of the outstanding Series 2005 A Revenue Bonds. Interest on the Series 2007 B and C Variable Rate Refunding Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year. In May 2017, Atrium Health utilized a mandatory tender process to convert Series 2007 C from the weekly interest rate mode to the daily interest rate mode. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

In September 2007, Atrium Health issued Series 2007 D, E and F Variable Rate Revenue Bonds insured by Financial Security Assurance, Inc., now known as Assured Guaranty Municipal Corp. (AGMC). Interest on the Series 2007 D, E and F Variable Rate Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year. In May 2013, Atrium Health utilized a mandatory tender process to convert Series 2007 D and F to direct purchase bonds and to substitute a new direct pay letter of credit on Series 2007 E. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance. In November 2016, Atrium Health utilized a mandatory tender process to change the holder of the Series 2007 D direct purchase bonds. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance. In May 2017, Atrium Health utilized a mandatory tender process to convert Series 2007 E from the weekly interest rate mode to the daily interest rate mode. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance.

Also in September 2007, Atrium Health issued Series 2007 G Variable Rate Revenue Bonds insured by AGMC and Series 2007 H Variable Rate Revenue Bonds. The proceeds of the Series 2007 H Variable Rate Revenue Bonds were used to repay \$159,930 of outstanding revenue bonds issued by the North Carolina Medical Care Commission (NCMCC) for the benefit of CHS NorthEast. Interest on the Series 2007 G Variable Rate Revenue Bonds and the Series 2007 H Variable Rate Revenue Bonds is payable monthly in arrears. Principal is payable on January 15 of each year. In May 2013, Atrium Health utilized a mandatory tender process to convert Series 2007 G to direct purchase bonds. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance. In November 2016, Atrium Health utilized a mandatory tender process to convert Series 2007 H to direct purchase bonds. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance.

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

In August 2009, Atrium Health issued Series 2009 A Refunding Revenue Bonds which currently refunded all \$7,810 of the outstanding Series 1997 A Revenue Bonds, all \$76,075 of the outstanding Series 2007 J Variable Rate Revenue Bonds, all \$78,225 of the outstanding Series 2007 K Variable Rate Revenue Bonds and all \$50,365 of the outstanding Series 2007 L Variable Rate Revenue Bonds. Interest on the Series 2009 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

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

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

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

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

In January 2015, Atrium Health issued Series 2015 A Taxable Refunding Revenue Bonds which, together with funds held by CHS Stanly in Debt Service Reserve Funds, currently refunded all \$16,030 of outstanding Series 1996 and Series 1999 Revenue Bonds issued by the NCMCC for the benefit of CHS Stanly. The Series 2015 A Revenue Bonds were purchased by a financial institution and will be held through their maturity on January 15, 2024 but Atrium Health may prepay the bonds at any time without penalty or premium except for any cost of prepayment (based upon U.S. Treasury obligations) that applies. Interest on the Series 2015 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

In October 2015, Atrium Health established a taxable commercial paper program providing for the issuance of up to \$200,000 in aggregate taxable commercial paper revenue bonds. In November 2018, the issuance limit was increased to \$400,000. The bonds issued under the commercial paper program currently carry short-term credit ratings of A-1+ from S&P Global Ratings and P-1 from Moody's Investors Service. Proceeds from the sale of commercial paper are used to pay for additional healthcare facilities or the costs of operating healthcare facilities, including general operating costs, routine capital expenditures and the acquisition and installation of healthcare equipment. Atrium Health has established a self-liquidity program that will be used to repurchase any commercial paper that is not remarketed. Commercial paper may be issued with maturity dates from one to 270 days from the date of issuance. While management may elect to continuously roll over all or portions of the commercial paper, the principal amount of all commercial paper must be repaid by October 2055. At December 31, 2018, commercial paper totaling \$30,000, with a weighted average maturity and interest rate of 28 days and 2.45%, respectively, was outstanding and included within current portion of debt. In addition, in early 2019, Atrium Health sold \$ 300,000 of new commercial paper under the program (\$130,000 which has since been repaid) with various maturities through 2019.

In November 2016, Atrium Health issued Series 2016 A Refunding Revenue Bonds which currently refunded \$121,240 of the outstanding Series 2007 A Revenue and Refunding Revenue Bonds and advance refunded \$300,255 of the outstanding Series 2008 A Refunding Revenue Bonds. Interest on the Series 2016 A Refunding Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

In November 2018, Atrium Health issued Series 2018 A Refunding Revenue Bonds which currently refunded \$178,425 of the outstanding Series 2009 A Refunding Revenue Bonds. Interest on the Series 2018 A Refunding Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

Also in November 2018, Atrium Health issued Series 2018 B and 2018 C Variable Rate Revenue Bonds. Interest on the Series 2018 B and 2018 C Variable Rate Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year. These bonds are subject to mandatory tender for purchase on March 1, 2022 and March 1, 2023, respectively, following the end of their initial long-term rate periods.

Also in November 2018, Atrium Health issued Series 2018 D and 2018 E Variable Rate Revenue Bonds. Interest on the Series 2018 D and 2018 E Variable Rate Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year. These bonds are subject to mandatory tender for purchase on December 1, 2023 and December 1, 2021, respectively, following the end of their initial index floating rate periods.

Also in November 2018, Atrium Health issued Series 2018 F Variable Rate Revenue Bonds. Interest on the Series 2018 F Variable Rate Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year. Atrium Health has established a self-liquidity program that will be used to repurchase any Series 2018 F Variable Rate Bonds that are not remarketed.

In December 2018, Atrium Health issued Series 2018 G and 2018 H Variable Rate Revenue Bonds. Interest on the Series 2018 G and 2018 H Variable Rate Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year.

In the event bondholders elect to tender any or all of the Series 2007 B, C, and E Revenue Bonds or Series 2018 G and H Revenue Bonds for purchase and the bonds cannot be remarketed, liquidity facilities and a direct pay letter of credit provided by two financial institutions are utilized to purchase the unremarketed bonds. Bonds held by the liquidity facility and letter of credit providers generally require payment of a higher rate of interest. The terms of these liquidity facilities and direct pay letter of credit are described in the table below.

Series	Facility type	Expiration year	Repayment period
2007 B	Liquidity facility	2021	7 year
2007 C	Liquidity facility	2021	7 year
2007 E	Direct pay letter of credit	2020	5 year
2018 G	Liquidity Facility	2024	3 year
2018 H	Liquidity Facility	2024	3 year

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Atrium Health's Series 2005 B, C and D Variable Rate Refunding Revenue Bonds and Series 2007 D, F, G and H Revenue Bonds have been purchased by three financial institutions with holding periods noted in the table below that expire prior to the maturity of the respective bonds.

<u>Series</u>	<u>Facility type</u>	<u>Expiration year</u>
2005 BCD	Direct purchase bonds	2026
2007 D	Direct purchase bonds	2023
2007 F	Direct purchase bonds	2023
2007 G	Direct purchase bonds	2026
2007 H	Direct purchase bonds	2022

Atrium Health's Series 2018 B, C, D and E Variable Rate Revenue Bonds are subject to mandatory tender for purchase at the end of the initial holding periods noted in the table below that expire prior to the maturity of the respective bonds.

<u>Series</u>	<u>Facility type</u>	<u>Expiration year</u>
2018 B	Long-term rate period bonds	2022
2018 C	Long-term rate period bonds	2023
2018 D	Index floating rate period bonds	2023
2018 E	Index floating rate period bonds	2021

Interest expense, exclusive of amounts capitalized, was \$77,454 and \$77,954 for the years ended December 31, 2018 and 2017, respectively. Interest paid to bond holders and other lenders totaled \$91,125 and \$80,901 for the years ended December 31, 2018 and 2017, respectively.

There are various financial covenants and restrictions contained in Atrium Health's Bond Order, liquidity facilities, direct pay letter of credit and continuing covenant agreements for direct purchase bonds, including maintenance of a defined minimum level of annual long-term debt service coverage. As of December 31, 2018, Atrium Health was in compliance with these financial covenants.

In October 2014, Atrium Health became the sole member of Pineville LTACH/Rehab Hospital, LLC (the LLC), which owns and leases a facility to Atrium Health. Previously, the LLC was a joint venture between Atrium Health and an unaffiliated entity. The facility was constructed with the proceeds from a \$30,101 loan to the LLC from a financial services company that is payable beginning September 2013 through August 2038 at an interest rate of 3.84%. The loan, which was not issued under Atrium Health's Bond Order, is secured by a leasehold deed of trust and assignment of facility leases and rents. The balance of \$25,851 and \$26,715 at December 31, 2018 and 2017, respectively is included in other long-term debt.

In March 2013, Atrium Health entered into an Amended and Restated Interlocal Agreement with Cleveland County, North Carolina for the purpose of more fully integrating CHS Cleveland with Atrium Health and enhancing Atrium Health's ability to provide services to the residents of Cleveland County. Atrium Health's

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

payment to Cleveland County included an unsecured, noninterest bearing note in the original amount of \$77,000 payable through 2038 which is recorded as long-term debt at its net present value of \$40,513 and \$41,848 at December 31, 2018 and 2017, respectively.

Interest Rate Swaps

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

On January 15, 2006, Atrium Health entered into an uninsured floating-to-fixed interest rate swap agreement on its Series 2005 B, C and D Variable Rate Refunding Revenue Bonds.

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

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

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

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

The significant terms and features of the above transactions as of and for the years ended December 31, 2018 and 2017, are summarized in the below table. The notional amounts of the swaps effectively match the principal amounts of the associated debt. The swaps contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds.

<u>Associated bonds</u>	<u>2005 BCD</u>		<u>2007 B</u>		<u>2007 C</u>		<u>2007 D</u>	
Notional amount	\$	50,750	\$	80,910	\$	87,635	\$	67,140
Swap type		Floating-to-fixed		Floating-to-fixed		Floating-to-fixed		Floating-to-fixed
Origination date		January 15, 2006		August 28, 2007		August 28, 2007		September 19, 2007
Final bond maturity		January 15, 2026		January 15, 2038		January 15, 2037		January 15, 2043
Atrium Health pays		5.52 %		4.36 %		4.36 %		3.88 %
Atrium Health receives		75% of LIBOR		SIFMA		SIFMA		62.97% of LIBOR plus 0.29%
Fair value at								
December 31, 2018	\$	(6,816)	\$	(20,856)	\$	(22,412)	\$	(21,318)
Change in fair value during the year		2,331		3,618		3,672		3,064
Fair value at								
December 31, 2017		(9,147)		(24,474)		(26,084)		(24,382)
Change in fair value during the year		2,505		(440)		(259)		59

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

<u>Associated bonds</u>	<u>2007 E</u>	<u>2007 F</u>	<u>2007 G</u>	<u>2007 H</u>
Notional amount	\$ 77,220	\$ 57,055	\$ 113,825	\$ 166,050
Swap type	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed
Origination date	September 19, 2007	September 19, 2007	September 19, 2007	September 19, 2007
Final bond maturity	January 15, 2044	January 15, 2042	January 15, 2041	January 15, 2045
Atrium Health pays	3.89 %	3.89 %	3.90 %	3.88 %
Atrium Health receives	62.97% of LIBOR plus 0.29%	62.97% of LIBOR plus 0.29%	62.97% of LIBOR plus 0.29%	62.97% of LIBOR if LIBOR is equal to or greater than 3.5%; 77.5% of LIBOR if LIBOR is less than 3.5%
Fair value at				
December 31, 2018	\$ (24,993)	\$ (17,636)	\$ (32,666)	\$ (42,553)
Change in fair value during the year	3,586	2,556	4,897	6,867
Fair value at				
December 31, 2017	(28,579)	(20,192)	(37,563)	(49,420)
Change in fair value during the year	17	120	498	2,194

The swaps' aggregate negative fair value of \$189,250 and \$219,841, as of December 31, 2018 and 2017, respectively, is reported as a long-term liability on the balance sheets. Certain of the mandatory tender processes discussed above resulted in the termination of the related hedging relationships. Although hedging relationships have been subsequently re-established, the swaps are considered off-market swaps because the fixed rates of the swaps differed from the market rates for similar swaps at the time the hedging relationship was re-established. The negative fair value of the off-market swaps are being amortized using straight-line amortization. As of December 31, 2018, Atrium Health has determined that its 14 interest rate swaps are effective hedging derivatives. Because the swaps are effective hedges, aggregate changes in their fair value, including \$30,591 and \$4,694 for the years ended December 31, 2018 and 2017, respectively, are deferred and are reported on the balance sheets as a deferred outflow of resources. See note 3 for further discussion of the measurement techniques and inputs utilized in the measurement of the swaps' fair value. For the years ended December 31, 2018 and 2017, the swaps produced annual net cash outflows of approximately \$18,368 and \$22,961, respectively. Cash flows associated with the swaps are treated as interest expense.

As of December 31, 2018 and 2017, all swaps had a negative fair value. The negative fair value may be countered by a reduction in total interest payments required under Atrium Health's associated variable rate revenue bonds, creating a lower synthetic interest rate. Because the coupons on the variable rate revenue bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

As of December 31, 2018 and 2017, Atrium Health was not exposed to credit risk because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Atrium Health would be exposed to credit risk in the amount of the swaps' fair value.

Atrium Health's 14 interest rate swaps are executed under six swap agreements with various counterparties. Seven swaps, approximating 49% of the notional amount of swaps outstanding, are provided by one counterparty that was rated A+ and Aa3 by S&P Global Ratings and Moody's Investors Service, respectively, as of December 31, 2018. Five additional swaps, approximating 39% of the outstanding notional value, are provided by another counterparty rated A+ and Aa2. The remaining two swaps are provided by a third counterparty rated A+ and A1 as of December 31, 2018.

In the event Atrium Health's credit ratings, as determined by S&P Global Ratings and Moody's Investors Service, fall below a level of A+ or A1, respectively, and the three uninsured swap agreements associated with Series 2005 B, C and D bonds and Series 2007 B, C and H bonds (with one counterparty) and with Series 2007 B and C bonds (with a different counterparty) each has a negative fair value of \$25,000 or more, then Atrium Health must post collateral on these swap agreements equal to the amount of fair value in excess of \$25,000. As of December 31, 2018, the fair values of these swap agreements were (\$6,816), (\$42,911) and (\$21,634), respectively. As of December 31, 2017, the fair values of these swap agreements were (\$9,147), (\$49,989) and (\$25,279), respectively. No collateral was required to be posted by Atrium Health for these swap agreements.

In the event Atrium Health's credit ratings, as determined by S&P Global Ratings and Moody's Investors Service, fall below a level of A+ or A1, respectively, and the uninsured swap agreement associated with Series 2007 H bonds has a negative fair value of \$50,000 or more, then Atrium Health must post collateral on this swap agreement equal to the amount of fair value in excess of \$50,000. As of December 31, 2018, the fair value of this swap agreement was (\$21,277). As of December 31, 2017, the fair value of this swap agreement was (\$24,710). No collateral was required to be posted by Atrium Health for this swap agreement.

With respect to the AGMC-insured swap agreement associated with Series 2007 E, F and G bonds, should the financial strength ratings of AGMC, as determined by S&P Global Ratings and Moody's Investors Service, fall below A- or A3, respectively, upon the request of the counterparty, Atrium Health, at its option, must either procure replacement swap insurance policies from counterparties rated at least AAA by S&P Global Ratings and Aaa by Moody's Investors Service, respectively, or agree to post collateral on those swap agreements equal to the amount of negative fair value in excess of \$25,000 if Atrium Health's credit ratings, as determined by S&P Global Ratings and Moody's Investors Services, fall below a level of A+ or A1, respectively. As of December 31, 2018, the fair value of this swap agreement was (\$37,645). As of December 31, 2017, the fair value of this swap agreement was (\$43,165). No collateral was required to be posted by Atrium Health for this swap agreement given AGMC's ratings of AA and A2.

With respect to the AGMC-insured swap agreement associated with Series 2007 D, E, F and G bonds, should the financial strength ratings of AGMC, as determined by S&P Global Ratings and Moody's Investors Service, fall below A- or A3, respectively, upon the request of the counterparty Atrium Health, at its option, must either procure replacement swap insurance policies from counterparties rated at least AAA by S&P Global Ratings and Aaa by Moody's Investors Service, respectively, or agree to post collateral on this swap agreement equal

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

to the amount of negative fair value in excess of \$50,000 if Atrium Health's credit ratings, as determined by S&P Global Ratings and Moody's Investors Service, fall below a level of A+ or A1, respectively. As of December 31, 2018, the fair value of this insured swap agreement was (\$58,967). As of December 31, 2017, the fair value of this insured swap agreement was (\$67,551). No collateral was required to be posted by Atrium Health for this swap agreement given AGMC's ratings of AA and A2.

Atrium Health's Series 2007 B, C and E bonds bear interest at a rate that is equivalent to the SIFMA rate while the Series 2005 B, C and D bonds and Series 2007 D, F, G and H bonds bear interest at LIBOR plus a spread. For those swaps on the SIFMA-based variable rate revenue bonds for which it receives a variable rate based on LIBOR, Atrium Health is exposed to basis risk depending upon the relationship between SIFMA and LIBOR. If that relationship changes, the effective synthetic rate on the SIFMA-based variable rate revenue bonds may be higher than the intended synthetic rate. As of December 31, 2018, the SIFMA rate was 1.71% and LIBOR was 2.50%, resulting in a SIFMA to LIBOR relationship of approximately 68%.

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

Debt service requirements of Atrium Health's outstanding hedged variable rate revenue bonds and related net swap payments, assuming current SIFMA and LIBOR interest rates and the SIFMA to LIBOR relationship remain the same, as of December 31, 2018, were as follows:

	Variable rate bonds		Interest rate swap – net	Total
	Principal	Interest		
2019	\$ 6,820	\$ 13,837	\$ 15,448	\$ 36,105
2020	7,255	13,672	15,197	36,124
2021	10,710	13,448	14,859	39,017
2022	625	13,428	14,830	28,883
2023	9,155	13,231	14,530	36,916
2024–2028	50,555	63,027	68,157	181,739
2029–2033	86,805	56,553	60,643	204,001
2034–2038	168,095	44,052	44,980	257,127
2039–2043	285,800	21,693	20,708	328,201
2044–2048	74,765	202	194	75,161
	<u>\$ 700,585</u>	<u>\$ 253,143</u>	<u>\$ 269,546</u>	<u>\$ 1,223,274</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

In January 2019, Atrium Health entered into a forward starting interest rate swap with a notional value of \$126,010 in connection with the planned synthetic fixed rate refunding of its Series 2011A Bonds that are callable on January 15, 2021.

(6) Net Patient Service Revenue

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

Under the Medicare and Medicaid programs, Atrium Health is entitled to reimbursements for certain patient charges at rates determined by federal and state governments. Differences between established billing rates and reimbursements from these programs are recorded as contractual adjustments to arrive at net patient service revenue. Final determination of amounts due from Medicare and Medicaid programs is subject to review by these programs. Changes resulting from final determination are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for adjustments, if any, that may result from such reviews. Net patient service revenue increased approximately \$5,600 and \$21,000 for the years ended December 31, 2018 and 2017, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits and reviews.

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

	<u>2018</u>	<u>2017</u>
Gross patient charges at established rates, net of contractual adjustments – including charges forgone for patients qualifying for financial assistance	\$ 7,287,364	\$ 6,936,064
Adjustments for uninsured and underinsured patients both qualifying and not qualifying for financial assistance	<u>(1,687,329)</u>	<u>(1,533,323)</u>
Net patient service revenue	<u>\$ 5,600,035</u>	<u>\$ 5,402,741</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

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

	<u>2018</u>	<u>2017</u>
Medicare	39.9 %	39.2 %
Commercial	33.9	34.6
Medicaid	16.1	16.7
Direct from patient/other	<u>10.1</u>	<u>9.5</u>
	<u>100.0 %</u>	<u>100.0 %</u>

Atrium Health participates in the North Carolina Medicaid Supplemental Payment Program whereby, through intergovernmental transfers, certified public expenditures and assessments to the State, the State is able to increase payments to hospitals reducing the gap between Medicaid and uninsured costs and payments. Atrium Health reports assessments and receipts within other expenses and net patient service revenue, respectively, in the accompanying statements of revenues, expenses, and changes in net position. The following is a summary of the funds received and assessments paid under these programs for the years ended December 31:

	<u>2018</u>		<u>2017</u>
Net funds received	\$ 263,617	\$	234,266
Less assessments paid	<u>(38,843)</u>		<u>(46,033)</u>
Net amounts recognized	<u>\$ 224,774</u>	\$	<u>188,233</u>

(7) Other Revenue

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

	<u>2018</u>		<u>2017</u>
Medical education and research grants and contracts	\$ 65,582	\$	63,797
Reimbursed services provided to affiliates	138,199		136,937
Pharmacy sales	215,017		171,449
Rental and other revenue	<u>209,378</u>		<u>190,649</u>
	<u>\$ 628,176</u>	\$	<u>562,832</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(8) Benefit Plans

Retirement benefits are provided to teammates using both defined contribution plans and defined benefit plans. Atrium Health offers several defined contribution plans with the largest plan being a Section 401(k) defined contribution plan (the DC Plan) which covers all full-time teammates of Atrium Health and is funded by voluntary teammate contributions and certain matching contributions by Atrium Health. Defined contribution plan assets are not recorded in Atrium Health's balance sheet but are held in participant-directed individual accounts and were \$2,647,200 and \$2,852,999 at December 31, 2018 and 2017, respectively. Total matching contribution expense for the DC Plan was \$159,281 and \$94,104 for the years ended December 31, 2018 and 2017, respectively. In connection with changes to Atrium Health's defined benefit plans as described below, the DC Plan has been enhanced for teammates hired after January 1, 2014 and was further enhanced for all others effective January 1, 2018 with an increase in Atrium Health's matching contribution.

Atrium Health also maintains three single employer defined benefit plans (the Atrium Health DB Plan, which is the largest plan, the CHS Cleveland DB Plan and the CHS Stanly DB Plan). Late in 2013, Atrium Health undertook certain steps to modernize its retirement benefits by closing the Atrium Health DB Plan to teammates hired after January 1, 2014. The Atrium Health DB Plan was frozen for all teammates effective January 1, 2018, after which no additional benefits accrue under the Atrium Health DB Plan. Similarly, the CHS Cleveland DB Plan and the CHS Stanly DB Plan have also been closed to teammates hired after January 1, 2015 and January 1, 2016, respectively, and were also frozen for all teammates effective January 1, 2018, after which no additional benefits accrue under either Plan.

The following information pertains to the Atrium Health DB Plan. Separate financial statements for the Atrium Health DB Plan are not required to be issued.

Atrium Health DB Plan Description and Benefits Provided – The Atrium Health DB Plan provides pension benefits to all Atrium Health teammates hired before January 1, 2014 and who have attained five or more years of service. These benefits are based on years of service and the teammates' compensation. Effective January 1, 2009, the Atrium Health DB Plan became a cash balance plan and a small group of teammates meeting specified employment, age, and service criteria were grandfathered and accrued benefits under the Atrium Health pre-cash balance formula. The Board of Commissioners of Atrium Health (the Board) or an authorized committee of the Board has the authority to amend benefit provisions.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

The actuarial valuation establishing the net pension liability for the purposes of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was based on the Atrium Health DB Plan membership data as of January 1, 2018 and 2017, respectively, and rolled forward to the measurement date of July 1, 2018 and 2017, respectively. The Atrium Health DB Plan participant data as of July 1, 2018 and 2017, respectively, is as follows:

	<u>2018</u>	<u>2017</u>
Retirees and beneficiaries receiving benefits	1,703	1,594
Previously employed plan members entitled to but not yet receiving benefits	5,630	6,136
Employed plan members	<u>20,039</u>	<u>21,232</u>
Total	<u>27,372</u>	<u>28,962</u>

Contributions to the Atrium Health DB Plan – Annual contributions to the Atrium Health DB Plan are based upon actuarial calculations. Beginning in 2015, the Atrium Health DB Plan utilizes the entry age normal method to determine annual contributions. There are no teammate contributions to the Atrium Health DB Plan.

Atrium Health’s funding policy is to contribute such actuarially determined amounts as are necessary to provide assets sufficient to meet the benefits to be paid to Atrium Health DB Plan participants. In addition, with the freezing of the Atrium Health DB Plan, Atrium Health has made contributions to the Atrium Health DB Plan in addition to the annual actuarially determined amounts in an effort to reduce the unfunded actuarially accrued liability in a systematic manner. During both 2018 and 2017, Atrium Health elected to contribute an additional \$42,200 above the actuarially determined contributions. Atrium Health’s contribution rates for the years ended December 31, 2018 and 2017 equaled 4.4% and 6.9% of covered payroll, respectively. These contribution rates are determined based on a measurement date of January 1, 2018 and 2017, respectively.

Atrium Health DB Plan Actuarial Assumptions – The total Atrium Health DB Plan pension liability on the July 1, 2018 and 2017, respectively, measurement date was determined using the following actuarial assumptions:

	<u>2018</u>	<u>2017</u>
Inflation rate	2.1 %	2.1 %
Investment rate of return (net of investment expenses, including inflation)	7.5	7.5
Lump sum interest rate	5.0	5.0
Projected salary increases	3.0	3.0

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study that is conducted every four years, most recently in 2017. Mortality rates were based on the RP-2014 table with MP-2017 Generational Projections. The long-term investment rate of return on pension assets was determined using a combination of benchmark return information and a building-block method in which best-estimated expected real rates of return are developed for each major asset class. These expected real rates of return are weighted by the target asset allocation percentage to produce an overall expected real rate of return which is then increased by expected inflation to produce a long-term investment rate of return on pension assets of 7.5%.

The target allocation, expected nominal return (which includes inflation) and the best estimates of geometric or compounded real rates of return (which are net of inflation) for each major asset class were established as of July 1, 2017, the beginning of the measurement period, and are summarized in the following table:

Asset class	Target allocation	Expected nominal return	Expected real rate of return
Fixed income	17.0 %	3.3%	0.5%
Long/short fixed income	10.0	5.7	2.9
Domestic equities	25.5	6.9–7.3	4.0–4.4
International equities	17.0	7.3	4.4
Global equities	17.0	7.3	4.4
Commodity funds	3.0	5.5	2.7
Private equity funds	7.5	8.3	5.3
Real asset funds	3.0	7.3	4.4
Total target allocation	<u>100.0 %</u>		

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

The target allocation, expected nominal return (which includes inflation) and the best estimates of geometric or compounded real rates of return (which are net of inflation) for each major asset class as of July 1, 2016, the beginning of the measurement period, and are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Expected nominal return</u>	<u>Expected real rate of return</u>
Fixed income	15.0 %	3.8%	1.7%
Long/short fixed income	10.0	6.6	4.4
Domestic equities	22.5	6.5–7.0	4.3–4.8
International equities	15.0	7.4	5.2
Global equities	15.0	7.3	5.1
Long/short equity	10.0	6.6	4.4
Commodity funds	2.5	4.7	2.6
Private equity funds	7.5	8.8	6.6
Real asset funds	2.5	7.0	4.8
Total target allocation	<u>100.0 %</u>		

Rate of return – For the Atrium Health Plan fiscal year ended June 30, 2018 and June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 8.0% and 15.0%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Atrium Health DB Plan Discount rate – The discount rate used to measure the total Atrium Health DB Plan pension liability as of July 1, 2018 and 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on those assumptions, the Atrium Health DB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive teammates. Therefore, the long-term expected rate of return on pension assets of 7.5% was applied to all periods of projected benefit payments to determine the total pension liability.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Changes in the Atrium Health DB Plan Net Pension Liability

Changes in the Atrium Health DB Plan net pension liability for the year ended December 31, 2018, are as follows:

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at December 31, 2017 (based on July 1, 2017 measurement date)	\$ 1,358,962	\$ 983,306	\$ 375,656
Changes for the fiscal year:			
Service cost	—	—	—
Interest cost	96,417	—	96,417
Differences between expected and actual experience	(14,720)	—	(14,720)
Changes of assumptions	(2,402)	—	(2,402)
Contributions – employer	—	78,526	(78,526)
Investment gains and other, net	—	76,644	(76,644)
Benefit payments	(146,796)	(146,796)	—
Administrative expense	—	(312)	312
Net changes	<u>(67,501)</u>	<u>8,062</u>	<u>(75,563)</u>
Balances at December 31, 2018 (based on July 1, 2018 measurement date)	1,291,461	991,368	300,093
CHS Cleveland DB Plan and CHS Stanly DB Plan combined	<u>126,446</u>	<u>131,377</u>	<u>(4,931)</u>
Combined balances at December 31, 2018 (based on July 1, 2018 measurement date)	\$ <u>1,417,907</u>	\$ <u>1,122,745</u>	\$ <u>295,162</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Changes in the Atrium Health DB Plan net pension liability for the year ended December 31, 2017, are as follows:

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at December 31, 2016 (based on July 1, 2016 measurement date)	\$ 1,349,108	\$ 848,709	\$ 500,399
Changes for the fiscal year:			
Service cost	46,519	—	46,519
Interest cost	100,609	—	100,609
Differences between expected and actual experience	(23,718)	—	(23,718)
Changes of assumptions	(5,217)	—	(5,217)
Contributions – employer	—	124,181	(124,181)
Investment gains and other, net	—	118,972	(118,972)
Benefit payments	(108,339)	(108,339)	—
Administrative expense	—	(217)	217
Net changes	<u>9,854</u>	<u>134,597</u>	<u>(124,743)</u>
Balances at December 31, 2017 (based on July 1, 2017 measurement date)	1,358,962	983,306	375,656
CHS Cleveland DB Plan and CHS Stanly DB Plan combined	<u>129,642</u>	<u>125,613</u>	<u>4,029</u>
Combined balances at December 31, 2017 (based on July 1, 2017 measurement date)	<u>\$ 1,488,604</u>	<u>\$ 1,108,919</u>	<u>\$ 379,685</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Sensitivity of the Atrium Health DB Plan net pension liability to changes in the discount rate – The following table presents the net Atrium Health DB Plan pension liability as of July 1, 2018 and 2017, respectively, calculated using the discount rate of 7.5% and alternatively, as required by GASB 68, what the net pension liability would be under different scenarios assuming it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%):

	1% Decrease	Current rate	1% Increase
	6.50%	7.50%	8.50%
Net pension liability at July 1, 2018	\$ 404,905	\$ 300,093	\$ 209,386
Net pension liability at July 1, 2017	479,179	375,656	286,405

Atrium Health DB Plan Investments – Policies pertaining to the allocation of investments within the Atrium Health DB Plan are established and may be amended by the Investment Oversight Committee (IOC) of Atrium Health’s Board. It is the policy of the IOC to invest pension assets in a wide range of permitted securities that maintain a balance between current income needs and the growth of principal for the future.

Atrium Health, as plan sponsor, has fiduciary responsibility for the Atrium Health DB Plan assets on behalf of the plan participants and beneficiaries.

The Plan categorizes its fair value measurements within the fair value hierarchy established by GAAP. The methods for determining fair value are consistent with Atrium Health’s valuation techniques and presentation as detailed in note 3 above.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Atrium Health DB Plan assets were invested as follows as of July 1, 2018:

	Defined benefit plan assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 108,680	\$ 108,680	\$ —	\$ —
Fixed income:				
U.S. government treasuries and agencies	17,226	—	17,226	—
Corporate bonds	23,290	—	23,290	—
Municipal bonds	1,452	—	1,452	—
Asset-backed securities	11,510	—	11,510	—
Fixed income – other	<u>72,684</u>	<u>72,684</u>	<u>—</u>	<u>—</u>
Total fixed income	<u>126,162</u>	<u>72,684</u>	<u>53,478</u>	<u>—</u>
Equity:				
Domestic equities	301,302	301,302	—	—
International equities	159,932	159,932	—	—
Global equities	<u>55,810</u>	<u>55,810</u>	<u>—</u>	<u>—</u>
Total equity	<u>517,044</u>	<u>517,044</u>	<u>—</u>	<u>—</u>
Real asset funds	<u>31,184</u>	<u>31,184</u>	<u>—</u>	<u>—</u>
Total investments by fair value level	<u>783,070</u>	<u>\$ 729,592</u>	<u>\$ 53,478</u>	<u>\$ —</u>
Investments measured at the NAV:				
Global equities	45,917			
Long/short fixed income	88,681			
Multi-strategy hedge funds	264			
Commodity funds	27,112			
Private equity funds	<u>46,324</u>			
Total investments measured at the NAV	<u>208,298</u>			
Total investments measured at fair value	<u>\$ 991,368</u>			

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Atrium Health DB Plan assets were invested as follows as of July 1, 2017:

	Defined benefit plan assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 94,320	\$ 94,320	\$ —	\$ —
Fixed income:				
U.S. government treasuries and agencies	28,391	—	28,391	—
Corporate bonds	33,101	—	33,101	—
Municipal bonds	1,435	—	1,435	—
Asset-backed securities	28,285	—	28,285	—
Fixed income – other	63,212	63,212	—	—
Total fixed income	<u>154,424</u>	<u>63,212</u>	<u>91,212</u>	<u>—</u>
Equity:				
Domestic equities	271,020	271,020	—	—
International equities	160,489	160,489	—	—
Global equities	52,802	52,802	—	—
Total equity	<u>484,311</u>	<u>484,311</u>	<u>—</u>	<u>—</u>
Real asset funds	<u>29,835</u>	<u>29,835</u>	<u>—</u>	<u>—</u>
Total investments by fair value level	<u>762,890</u>	<u>\$ 671,678</u>	<u>\$ 91,212</u>	<u>\$ —</u>
Investments measured at the NAV:				
Global equities	44,886			
Long/short fixed income	82,824			
Long/short equity	18,641			
Multi-strategy hedge funds	667			
Commodity funds	25,255			
Private equity funds	48,143			
Total investments measured at the NAV	<u>220,416</u>			
Total investments measured at fair value	<u>\$ 983,306</u>			

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

The table below discloses the unfunded commitments, redemption frequency and redemption notice period for investments measured at net asset value as July 1, 2018 and 2017:

	Defined benefit plan assets				Redemption notice period
	2018	2017	Unfunded commitments as of July 1 2018		
Global equities	\$ 45,917	\$ 44,886	\$ —	Monthly	6 days
Long/short fixed income limited partnerships	88,681	82,824	—	Quarterly	45–90 days
Long/short equity limited partnerships	—	18,641	—	N/A	N/A
Multi-strategy hedge fund limited partnerships	264	667	—	Annually	90 days
Commodities fund of funds limited partnerships	27,112	25,255	—	Daily	1 day
Private equity fund of funds limited partnerships	46,324	48,143	17,484	N/A	N/A
Total	<u>\$ 208,298</u>	<u>\$ 220,416</u>	<u>\$ 17,484</u>		

The Plan's presentation of asset segments is consistent with Atrium Health's presentation as detailed in note 3.

Pension expense and deferred outflows of resources and deferred inflows of resources related to the Atrium Health DB Plan – For the year ended December 31, 2018, Atrium Health recognized pension expense of \$39,090 for the Atrium Health DB Plan. At December 31, 2018, Atrium Health reported net deferred outflows of resources as follows based on July 1, 2018 measurement date:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience related to demographic factors	\$ 4,285	\$ (31,161)
Assumption changes	12,237	(5,716)
Difference between expected and actual investment earnings	4,354	—
Total	<u>\$ 20,876</u>	<u>\$ (36,877)</u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

For the year ended December 31, 2017, Atrium Health recognized pension expense of \$102,315 for the Atrium Health DB Plan and, at December 31, 2017 reported net deferred outflows of resources as follows based on July 1, 2017 measurement date:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Difference between expected and actual experience related to demographic factors	\$ 5,220	\$ (22,687)
Assumption changes	14,909	(4,445)
Difference between expected and actual investment earnings	<u>27,129</u>	<u>—</u>
Total	\$ <u>47,258</u>	\$ <u>(27,132)</u>

Amounts reported above as deferred outflows of resources and deferred inflows of resources related to the Atrium Health DB Plan at December 31, 2018 will be recognized in pension expense for the years ended December 31, as follows:

	<u>Amount</u>
2019	\$ 10,115
2020	2,154
2021	(17,446)
2022	(5,338)
2023	(3,720)
Thereafter	<u>(1,766)</u>
	\$ <u>(16,001)</u>

CHS Cleveland DB Plan and CHS Stanly DB Plan Actuarial Assumptions and Reporting – The actuarial assumptions used for the CHS Cleveland DB Plan and the CHS Stanly DB Plan are similar to assumptions used for the Atrium Health DB Plan described above. The CHS Cleveland DB Plan had a net pension liability of \$8,471 and \$11,709 and reported net deferred (inflows) outflows of \$(2,508) and \$1,089 at December 31, 2018 and 2017, respectively. The CHS Cleveland DB Plan had actuarially valued assets of \$75,032 and \$73,651 at December 31, 2018 and 2017, respectively. The CHS Stanly DB Plan had a net pension (asset) of \$(13,402) and \$(7,680) and reported net deferred (inflows) outflows of \$(2,101) and \$131 at December 31, 2018 and 2017, respectively. The CHS Stanly DB Plan had actuarially valued assets of \$56,345 and \$51,962 at December 31, 2018 and 2017, respectively.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(9) Commitments and Contingencies

Atrium Health is subject to legal proceedings and claims that arise in the course of providing healthcare services. Atrium Health has instituted a limited self insurance program for professional liability and general liability claims. Self-insurance is limited to \$10 million and \$5 million per occurrence, with no aggregate limit for the years end December 31, 2018 and 2017, respectively. General liability and professional liability are also covered by umbrella liability insurance policies. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for asserted and unasserted claims not covered by the policy and any other uninsured liability.

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

In June 2016, the federal government and the State of North Carolina filed a civil antitrust lawsuit against Atrium Health alleging that Atrium Health has violated Section 1 of the Sherman Act by imposing steering restrictions in negotiated agreements with four insurance companies in the Charlotte, North Carolina area (the "2016 lawsuit"). In November 2018, Atrium Health reached a settlement with the government plaintiffs that includes no financial penalty or fine and does not include any admission of wrongdoing. The settlement enjoins Atrium Health from seeking or enforcing certain limited managed care contract terms and is subject to court approval, which is expected in the second quarter of 2019. In September 2016, an individual filed a proposed class action lawsuit in state court making similar allegations against Atrium Health. This lawsuit seeks treble damages for an unspecified amount, but no class has been certified. In March 2019, the court granted Atrium Health's motion to dismiss the state anti-trust claim. The entire matter is currently stayed pending appeal to the North Carolina Supreme Court. In February 2018, another individual filed a separate federal lawsuit on behalf of an additional proposed class of plaintiffs. This second lawsuit makes similar allegations and seeks treble damages for an unspecified amount. In March 2019, the court dismissed all claims for monetary relief in this federal lawsuit and stayed the claims for injunctive relief pending resolution of the 2016 lawsuit. The ultimate resolution of these lawsuits could have a material adverse effect on Atrium Health's condition (financial or otherwise) or operations. It is impossible to estimate the likelihood of an unfavorable outcome or the risk of exposure facing Atrium Health.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

On November 19, 2018, a group of five individuals filed a proposed class action lawsuit against Atrium Health and certain related entities alleging that the retirement and health benefit plans do not satisfy the “governmental plan” exemption under the Employment Retirement Income Security Act (“ERISA”) and that Atrium Health, therefore, has violated various aspects of ERISA, such as minimum funding requirements, certain fiduciary duties to plan participants, minimum years of service requirements for vesting of benefits, reporting and disclosure requirements and engaging in prohibited transactions. The lawsuit seeks (i) to have the retirement and health benefit plans declared subject to ERISA, (ii) for Atrium Health to bring all the plans into compliance with ERISA, and (iii) monetary payments to certain benefit plans, participants and beneficiaries harmed by the failure to comply with ERISA. Atrium Health filed a motion to dismiss this lawsuit in February 2019 on the grounds that Atrium Health is a governmental entity under ERISA. The briefing on this matter is complete but the court has not issued a ruling or scheduled a hearing. Atrium Health intends to vigorously defend this lawsuit; however, the ultimate resolution of this lawsuit could have a material adverse effect on Atrium Health’s condition (financial or otherwise).

On February 4, 2019, a plaintiff filed a proposed class action lawsuit against Atrium Health regarding the facility fees charged to all patients following their treatment in any Atrium or Atrium-affiliated facility’s emergency department. The lawsuit alleges that Atrium Health does not disclose the existence of the facility fee or its amount or calculation in its standard treatment and financial authorization agreement (the “treatment agreement”) or by any other means. The lawsuit contends that the facility fee therefore (i) is not authorized under the treatment agreement and (ii) is unconscionable. The lawsuit seeks a declaratory judgment to that effect, as well as an injunction prohibiting Atrium Health from continuing to impose facility fees on emergency department patients in the manner in which those fees are currently imposed. Although at present the plaintiff does not seek monetary damages, the complaint indicates that the proposed class may later seek supplemental relief in the form of restitution of the facility fees charged to members of the proposed class. This lawsuit is in its early stages. Atrium Health intends to vigorously defend this lawsuit; however, an adverse resolution of this lawsuit could have a material adverse effect on Atrium Health’s condition (financial or otherwise).

Obligations under noncancelable operating leases with remaining terms of more than one year, principally real estate leases for medical office space, as of December 31, 2018, were as follows:

2019	\$	70,856
2020		61,059
2021		51,236
2022		43,560
2023		39,325
2024–2028		71,736
2029–2033		45,430
2034–2038		19,301
2039 - Thereafter		<u>7,535</u>
	\$	<u><u>410,038</u></u>

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Notes to Basic Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Atrium Health has entered into contracts for various construction and capital projects, for which remaining commitments totaled approximately \$163,292 at December 31, 2018.

In connection with the merger with Cabarrus Memorial Hospital d/b/a NorthEast Medical Center in 2007, Atrium Health has committed to invest \$600,000 in healthcare facilities and services in Cabarrus County, North Carolina. With expenditures exceeding \$607,000 as of December 31, 2018, Management believes Atrium Health has fulfilled its commitment. Additional dollars have been approved to allow Atrium Health to continue to make significant capital contributions in the county.

Effective January 1, 2012, under the terms of a Lease Agreement between Atrium Health and Union County, Atrium Health leases hospital real estate from, and makes annual lease payments to, Union County. The initial term of the Lease Agreement remains in effect until December 31, 2061, unless earlier terminated, extended or renewed in accordance with the provisions of the Lease Agreement. Upon the expiration of the initial term, unless certain events of default exist, Atrium Health has the option to extend and renew the Lease Agreement for an initial renewal term of 25 years. During the term of the Lease Agreement, Union County has the right to require Atrium Health to purchase the hospital real estate at a stated price determined in accordance with the Lease Agreement. If Union County elects to require Atrium Health to purchase the hospital real estate, Atrium Health will have no further obligations under the Lease Agreement. As of December 31, 2018, the purchase price as stated in the Lease Agreement was \$128,018. The present value of Atrium Health's obligation for the annual lease payments, discounted using an effective interest rate of 4.34%, was \$122,774 and \$123,577 as of December 31, 2018 and 2017, respectively, and is recorded on the balance sheet as a long-term liability. The liability and related interest are payable in annual installments of approximately \$6,000 per year through 2061.

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

Atrium Health committed to invest \$70,000 in CHS Stanly and its subsidiaries over a period of 12 years, which includes a five-year commitment of \$48,830 before the end of 2018. Of those totals, Atrium Health committed to \$36,680 of specifically identified projects by the end of 2018. As of December 31, 2018, Atrium Health has spent and/or approved \$45,170 towards the full \$70,000 commitment.

(10) Subsequent Events

In April 2019, Atrium Health, Wake Forest Baptist Health and Wake Forest University signed a Memorandum of Understanding to create a next-generation academic healthcare system with a goal of entering into a final agreement later in the year. As of the date of issuance, an agreement has not been signed.

REQUIRED SUPPLEMENTARY INFORMATION

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios (in thousands)

(Unaudited)

	December 31				
	2018	2017	2016	2015	2014
Total pension liability:					
Service cost	\$ —	\$ 46,519	\$ 53,214	\$ 55,197	\$ NA
Interest cost	96,417	100,609	95,929	93,442	NA
Differences between expected and actual experiences	(14,720)	(23,718)	7,092	(4,091)	NA
Changes of assumptions	(2,402)	(5,217)	20,252	—	NA
Benefit payments	(146,796)	(108,339)	(106,420)	(112,417)	NA
Net change in total pension liability	(67,501)	9,854	70,067	32,131	NA
Total pension liability – beginning	1,358,962	1,349,108	1,279,041	1,246,910	NA
Total pension liability – ending (a)	1,291,461	1,358,962	1,349,108	1,279,041	1,246,910
Plan fiduciary net position:					
Contributions – employer	78,526	124,181	132,884	92,405	NA
Investment gains and other, net	76,644	118,972	(36,909)	20,481	NA
Benefit payments	(146,796)	(108,339)	(106,420)	(112,417)	NA
Administrative expense	(312)	(217)	(364)	(696)	NA
Net change in plan fiduciary net position	8,062	134,597	(10,809)	(227)	NA
Plan fiduciary net position – beginning	983,306	848,709	859,518	859,745	NA
Plan fiduciary net position – ending (b)	991,368	983,306	848,709	859,518	859,745
Net pension liability – ending (a) – (b)	\$ 300,093	\$ 375,656	\$ 500,399	\$ 419,523	\$ 387,165
Plan fiduciary net position as a percentage of the total pension liability	76.8 %	72.4 %	62.9 %	67.2 %	69.0 %
Covered-employee payroll	\$ 1,804,814	\$ 1,796,876	\$ 1,959,073	\$ 1,995,117	\$ 1,909,014
Net pension liability as a percentage of covered-employee payroll	16.6 %	20.9 %	25.5 %	21.0 %	20.3 %

Note to schedule:

Measurement date is July 1 of prior fiscal year.

The schedules are intended to show information for 10 years. Additional years will be presented as the information becomes available.

See accompanying independent auditors' report.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Required Supplementary Information
Schedule of Pension Plan Investment Returns
(Unaudited)

CHS Plan measurement date	Annual money-weighted rate of return net of investment expenses
July 1, 2018	8.0 %
July 1, 2017	15.0 %
July 1, 2016	(4.8)%
July 1, 2015	2.4 %
July 1, 2014	15.8 %

Notes to schedule:

The schedules are intended to show information for 10 years. Additional years will be presented as the information becomes available.

See accompanying independent auditors' report.

OTHER FINANCIAL INFORMATION

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

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

December 31, 2018 and 2017

(Dollars in thousands)

	2018				2017			
	Primary Enterprise	Atrium Health Foundation	Eliminations	Total	Primary Enterprise	Atrium Health Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources								
Current assets:								
Cash and cash equivalents	\$ 82,900	\$ 3,628	\$ —	\$ 86,528	\$ 131,540	\$ 4,659	\$ —	\$ 136,199
Short-term investments	—	9,180	—	9,180	198	10,329	—	10,527
Patient accounts receivable – net	720,375	—	—	720,375	729,164	—	—	729,164
Other accounts receivable	109,416	11,277	(2,374)	118,319	94,331	11,659	(728)	105,262
Assets limited as to use – investments	34,991	—	—	34,991	32,820	—	—	32,820
Inventories	71,863	—	—	71,863	67,405	—	—	67,405
Prepaid expenses	75,586	484	—	76,070	68,645	488	—	69,133
Total current assets	1,095,131	24,569	(2,374)	1,117,326	1,124,103	27,135	(728)	1,150,510
Capital assets	6,219,854	11,705	—	6,231,559	5,825,529	11,572	—	5,837,101
Accumulated depreciation	(3,053,542)	(7,064)	—	(3,060,606)	(2,775,903)	(6,445)	—	(2,782,348)
Total capital assets – net	3,166,312	4,641	—	3,170,953	3,049,626	5,127	—	3,054,753
Other noncurrent assets:								
Assets limited as to use:								
Bond proceeds held by trustee	304,424	—	—	304,424	—	—	—	—
Investments designated for capital improvements	4,245,909	—	—	4,245,909	4,175,386	—	—	4,175,386
Other long-term investments	43,884	265,333	—	309,217	31,014	285,768	—	316,782
Other assets limited as to use – investments	101,840	—	—	101,840	109,954	—	—	109,954
Other assets	180,683	36,966	(4,332)	213,317	197,534	37,236	(1,899)	232,871
Total other noncurrent assets	4,876,740	302,299	(4,332)	5,174,707	4,513,888	323,004	(1,899)	4,834,993
Total assets	9,138,183	331,509	(6,706)	9,462,986	8,687,617	355,266	(2,627)	9,040,256
Deferred outflows of resources	225,132	—	—	225,132	277,277	—	—	277,277
Total assets and deferred outflows of resources	\$ 9,363,315	\$ 331,509	\$ (6,706)	\$ 9,688,118	\$ 8,964,894	\$ 355,266	\$ (2,627)	\$ 9,317,533
Liabilities, Deferred Inflows of Resources and Net Position								
Current liabilities:								
Accounts payable	\$ 349,043	\$ 201	\$ (2,500)	\$ 346,744	\$ 261,025	\$ 183	\$ —	\$ 261,208
Salaries and benefits payable	391,554	—	—	391,554	323,837	—	—	323,837
Other liabilities and accruals	207,496	2,512	(2,374)	207,634	194,382	1,804	(728)	195,458
Estimated third-party payer settlements	220,035	—	—	220,035	176,647	—	—	176,647
Current portion of long-term debt	170,982	—	—	170,982	68,465	—	—	68,465
Total current liabilities	1,339,110	2,713	(4,874)	1,336,949	1,024,356	1,987	(728)	1,025,615
Long-term debt – less current portion	2,070,845	—	—	2,070,845	1,799,149	—	—	1,799,149
Interest rate swap liability	189,250	—	—	189,250	219,841	—	—	219,841
Pension liability	295,162	—	—	295,162	379,685	—	—	379,685
Other liabilities	319,732	3,114	(1,832)	321,014	329,690	3,310	(1,899)	331,101
Total liabilities	4,214,099	5,827	(6,706)	4,213,220	3,752,721	5,297	(2,627)	3,755,391
Commitments and contingencies								
Deferred inflows of resources	65,086	—	—	65,086	58,330	—	—	58,330
Net position:								
Net investment in capital assets	1,231,053	—	—	1,231,053	1,185,504	—	—	1,185,504
Restricted – by donor	28,218	303,100	—	331,318	28,002	317,524	—	345,526
Unrestricted	3,824,859	22,582	—	3,847,441	3,940,337	32,445	—	3,972,782
Total net position	5,084,130	325,682	—	5,409,812	5,153,843	349,969	—	5,503,812
Total liabilities, deferred inflows of resources and net position	\$ 9,363,315	\$ 331,509	\$ (6,706)	\$ 9,688,118	\$ 8,964,894	\$ 355,266	\$ (2,627)	\$ 9,317,533

The Total column presented above represents the Combined Group, which consists of the Obligated Group and its Designated Affiliates (including non-Obligated Group affiliates that at December 31, 2018 represent less than 1% of the total revenue and less than 1% of the total assets of the Combined Group; these same non-Obligated Group affiliates represent less than 1% of the total revenue and less than 1% of the total assets of the Primary Enterprise column), as such terms are defined in Section 101 of the Charlotte-Mecklenburg Hospital Authority's Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended. Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

See accompanying independent auditors' report.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

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

Years ended December 31, 2018 and 2017

(Dollars in thousands)

	2018				2017			
	Primary Enterprise	Atrium Health Foundation	Eliminations	Total	Primary Enterprise	Atrium Health Foundation	Eliminations	Total
Net patient service revenue	\$ 5,600,035	\$ —	\$ —	\$ 5,600,035	\$ 5,402,741	\$ —	\$ —	\$ 5,402,741
Other revenue	628,176	23,545	(33,268)	618,453	562,832	25,861	(31,355)	557,338
Total revenue	6,228,211	23,545	(33,268)	6,218,488	5,965,573	25,861	(31,355)	5,960,079
Operating expenses:								
Personnel costs	3,505,673	3,631	—	3,509,304	3,461,411	2,986	—	3,464,397
Supplies	1,102,356	—	—	1,102,356	1,036,409	—	—	1,036,409
Purchased services	449,888	—	—	449,888	410,286	—	—	410,286
Other expenses	519,066	31,244	(28,288)	522,022	431,209	31,254	(29,555)	432,908
Depreciation and amortization	325,928	637	—	326,565	310,286	637	—	310,923
Interest expense	77,454	—	—	77,454	77,954	—	—	77,954
Total operating expenses	5,980,365	35,512	(28,288)	5,987,589	5,727,555	34,877	(29,555)	5,732,877
Operating income (loss)	247,846	(11,967)	(4,980)	230,899	238,018	(9,016)	(1,800)	227,202
Nonoperating (loss) income								
Interest and dividend income	84,109	4,538	—	88,647	55,849	2,517	—	58,366
Net change in the fair value of investments	(404,748)	(22,869)	—	(427,617)	498,792	37,891	—	536,683
Other – net	(4,840)	—	4,980	140	(5,901)	—	1,800	(4,101)
Total nonoperating (loss) income – net	(325,479)	(18,331)	4,980	(338,830)	548,740	40,408	1,800	590,948
Revenue (under) over expenses before contributions	(77,633)	(30,298)	—	(107,931)	786,758	31,392	—	818,150
Capital contributions	8,282	(981)	—	7,301	7,651	2,204	—	9,855
Other contributions	(362)	6,992	—	6,630	(88)	1,998	—	1,910
(Decrease) increase in net position	(69,713)	(24,287)	—	(94,000)	794,321	35,594	—	829,915
Net position:								
Beginning of year	5,153,843	349,969	—	5,503,812	4,359,522	314,375	—	4,673,897
End of year	\$ 5,084,130	\$ 325,682	\$ —	\$ 5,409,812	\$ 5,153,843	\$ 349,969	\$ —	\$ 5,503,812

The Total column presented above represents the Combined Group, which consists of the Obligated Group and its Designated Affiliates (including non-Obligated Group affiliates that at December 31, 2018 represent less than 1% of the total revenue and less than 1% of the total assets of the Combined Group; these same non-Obligated Group affiliates represent less than 1% of the total revenue and less than 1% of the total assets of the Primary Enterprise column), as such terms are defined in Section 101 of the Charlotte-Mecklenburg Hospital Authority's Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended. Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

See accompanying independent auditors' report.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Atrium Health)

Combining Schedule of Cash Flows – Combined Group

Years ended December 31, 2018 and 2017

(Dollars in thousands)

	2018				2017			
	Primary Enterprise	Atrium Health Foundation	Eliminations	Total	Primary Enterprise	Atrium Health Foundation	Eliminations	Total
Cash flows from operating activities:								
Receipts from third-party payers and patients	\$ 5,653,467	\$ —	\$ —	\$ 5,653,467	\$ 5,351,787	\$ —	\$ —	\$ 5,351,787
Payments to suppliers	(1,930,226)	(4,192)	—	(1,934,418)	(1,881,420)	(13,650)	(1,800)	(1,896,870)
Payments to employees	(3,474,959)	—	—	(3,474,959)	(3,503,421)	—	—	(3,503,421)
Other receipts – net	575,059	(16,941)	(4,980)	553,138	586,321	729	—	587,050
Net cash provided by (used in) operating activities	823,341	(21,133)	(4,980)	797,228	553,267	(12,921)	(1,800)	538,546
Noncapital financing activities:								
Proceeds from the issuance of commercial paper	210,000	—	—	210,000	(135,000)	—	—	(135,000)
Retirements of commercial paper	(210,000)	—	—	(210,000)	135,000	—	—	135,000
Other activities	(6,683)	—	4,980	(1,703)	(3,052)	—	1,800	(1,252)
Net cash used in noncapital financing activities	(6,683)	—	4,980	(1,703)	(3,052)	—	1,800	(1,252)
Cash flows from capital and related financing activities:								
Purchase of capital assets	(440,273)	(151)	—	(440,424)	(300,869)	(70)	—	(300,939)
Donated funds designated for building and equipment purchases	8,812	1,052	—	9,864	5,652	1,275	—	6,927
Acquisition of health related businesses	—	—	—	—	(1,710)	—	—	(1,710)
Principal payments, refunding and retirements on short- and long-term debt	(217,044)	—	—	(217,044)	(198,385)	—	—	(198,385)
Interest payments on short- and long-term debt	(91,125)	—	—	(91,125)	(80,901)	—	—	(80,901)
Proceeds from issuance of long-term debt	590,251	—	—	590,251	164,855	—	—	164,855
Decrease in other assets affecting capital and related financing activities	—	9,024	—	9,024	23	648	—	671
Other contributions	—	6,991	—	6,991	(88)	1,998	—	1,910
Net cash (used in) provided by capital and related financing activities	(149,379)	16,916	—	(132,463)	(411,423)	3,851	—	(407,572)
Cash flows from investing activities:								
Withdrawal from investments limited as to use	—	—	—	—	—	9,000	—	9,000
Contribution to investments limited as to use	(401,614)	—	—	(401,614)	(152,500)	—	—	(152,500)
Investment earnings	(3,249)	3,186	—	(63)	4,676	43	—	4,719
Decrease in other trustee assets	145	—	—	145	802	—	—	802
Purchase of investments	(6,777)	—	—	(6,777)	(2,955)	—	—	(2,955)
Net cash (used in) provided by investing activities	(411,495)	3,186	—	(408,309)	(149,977)	9,043	—	(140,934)
Net increase (decrease) in cash and cash equivalents	255,784	(1,031)	—	254,753	(11,185)	(27)	—	(11,212)
Cash and cash equivalents:								
Beginning of year	131,540	4,659	—	136,199	142,725	4,686	—	147,411
End of year	\$ 387,324	\$ 3,628	\$ —	\$ 390,952	\$ 131,540	\$ 4,659	\$ —	\$ 136,199
Reconciliation of cash and cash equivalents to the balance sheets:								
Cash and cash equivalents in current assets	\$ 82,900	\$ 3,628	\$ —	\$ 86,528	\$ 131,540	\$ 4,659	\$ —	\$ 136,199
Bond proceeds held by trustee	304,424	—	—	304,424	—	—	—	—
Total cash and cash equivalents	\$ 387,324	\$ 3,628	\$ —	\$ 390,952	\$ 131,540	\$ 4,659	\$ —	\$ 136,199
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	\$ 247,846	\$ (11,967)	\$ (4,980)	\$ 230,899	\$ 238,018	\$ (9,016)	\$ (1,800)	\$ 227,202
Interest expense considered capital financing activity	77,454	—	—	77,454	77,954	—	—	77,954
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	325,928	637	—	326,565	310,286	637	—	310,923
Decrease in patient accounts receivable – net	8,789	—	—	8,789	3,362	—	—	3,362
(Increase) decrease in inventories and other current assets	(25,096)	(10,504)	4,146	(31,454)	20,192	(4,257)	(1,249)	14,686
(Increase) decrease in other assets affecting operating activities	(2,065)	103	—	(1,962)	3,608	(173)	—	3,435
Increase (decrease) in accounts payable and other current liabilities	142,263	—	(4,146)	138,117	(37,089)	—	1,249	(35,840)
Increase (decrease) in other liabilities affecting operating activities	4,834	598	—	5,432	(45,571)	(112)	—	(45,683)
Increase (decrease) in estimated third party payer settlements	43,388	—	—	43,388	(17,493)	—	—	(17,493)
Net cash provided by (used in) operating activities	\$ 823,341	\$ (21,133)	\$ (4,980)	\$ 797,228	\$ 553,267	\$ (12,921)	\$ (1,800)	\$ 538,546

The Total column presented above represents the Combined Group, which consists of the Obligated Group and its Designated Affiliates (including non-Obligated Group affiliates that at December 31, 2018 represent less than 1% of the total revenue and less than 1% of the total assets of the Combined Group; these same non-Obligated Group affiliates represent less than 1% of the total revenue and less than 1% of the total assets of the Primary Enterprise column), as such terms are defined in Section 101 of the Charlotte-Mecklenburg Hospital Authority's Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended. Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

See accompanying independent auditors' report.