



CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

Financial Statements and Other Financial Information

September 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

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KPMG LLP
4242 Six Forks Road
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Independent Auditors' Report

The Board of Trustees
Cumberland County Hospital System, Inc.
(d/b/a Cape Fear Valley Health System):

We have audited the accompanying financial statements of Cumberland County Hospital System, Inc. (d/b/a Cape Fear Valley Health System) (the Health System) and its aggregate discretely presented component units as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Health System's financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of Cumberland County Hospital System, Inc. (d/b/a Cape Fear Valley Health System) and its aggregate discretely presented component units as of September 30, 2017 and 2016, and the respective changes in net 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 7, and the Required Supplementary Information under Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, on pages 56 and 57 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 audits were conducted for the purpose of forming opinions on the financial statements as a whole. The combining schedules of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position, as of September 30, 2017 and 2016 and combining schedules of revenues, expenses, and changes in net position, for the years ended September 30, 2017 and 2016 (the Combining Information) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

KPMG LLP

January 26, 2018

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

Management's Discussion and Analysis (Unaudited)

September 30, 2017 and 2016

(Dollar amounts in thousands)

This section of Cumberland County Hospital System, Inc.'s (d/b/a Cape Fear Valley Health System) (the Health System) annual financial report presents management's analysis of the Health System's financial performance during the years ended September 30, 2017, 2016, and 2015. Please read this analysis in conjunction with the financial statements, which follow this section. Except as otherwise noted, the financial highlights in this analysis refer exclusively to the Primary Enterprise as described in note 1 to the financial statements.

Overview of the Financial Statements

This annual financial report includes the independent auditors' report, managements' discussion and analysis, the financial statements of the Health System and required supplementary and combining information. The financial statements also include notes that explain in more detail some of the information in the financial statements. As required by U.S. generally accepted accounting principles (GAAP), the financial statements also include the Health System's discretely presented component units, the Cape Fear Valley Medical Foundation, Inc. (the Foundation), Bladen Healthcare, LLC (d/b/a Cape Fear Valley – Bladen County Hospital) (Bladen County Hospital or Bladen), Hoke Healthcare, LLC (HHC), and its blended component unit, Cape Fear Insurance, Ltd. SPC.

Required Financial Statements

The Health System's financial statements report information of the Health System using accounting methods similar to those used by private sector healthcare organizations. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Health System's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Health System's creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of the Health System and assessing the liquidity and financial flexibility of the Health System.

Revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the results of the Health System's operations and can be used to determine whether the Health System has successfully recovered all of its costs through its fees and other sources of revenue.

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It also provides information on where the cash came from, what the cash was used for, and the change in the cash balance during the reporting period.

Financial Analysis of the Health System

The balance sheet and the statement of revenues, expenses, and changes in net position report the net position of the Health System and the changes in them. The Health System's net position, the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, is a way to measure financial health or financial position. Over time, increases, or decreases in the Health System's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population growth, and new or changed governmental legislation.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

Management's Discussion and Analysis (Unaudited)

September 30, 2017 and 2016

(Dollar amounts in thousands)

Net Position

A summary of the Health System's balance sheets as of September 30, 2017, 2016, and 2015 is presented in Table A-1:

TABLE A-1**CAPE FEAR VALLEY HEALTH SYSTEM**

Condensed Balance Sheets

September 30, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 226,364	221,330	239,238
Capital assets – net	296,585	290,239	287,409
Other noncurrent assets and deferred outflows of resources	<u>489,748</u>	<u>463,018</u>	<u>421,995</u>
Total assets and deferred outflows of resources	<u>\$ 1,012,697</u>	<u>974,587</u>	<u>948,642</u>
Current liabilities	\$ 139,851	132,955	131,253
Long-term debt – including current maturities	244,435	253,236	261,903
Other noncurrent liabilities and deferred inflows of resources	<u>131,983</u>	<u>142,995</u>	<u>150,115</u>
Total liabilities and deferred inflows of resources	<u>516,269</u>	<u>529,186</u>	<u>543,271</u>
Net investment in capital assets	53,158	37,003	25,486
Unrestricted	<u>443,270</u>	<u>408,398</u>	<u>379,885</u>
Total net position	<u>496,428</u>	<u>445,401</u>	<u>405,371</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,012,697</u>	<u>974,587</u>	<u>948,642</u>

The net position of the Health System increased \$51,027 and \$40,030 during 2017 and 2016, respectively. The increase in net position for 2017 and 2016 was due to favorable results of operations and favorable returns on the Health System's investments.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

Management's Discussion and Analysis (Unaudited)

September 30, 2017 and 2016

(Dollar amounts in thousands)

Revenues, Expenses, and Changes in Net Position

While the balance sheet shows the net position, the statement of revenues, expenses, and changes in net position provides information about the nature and source of changes to net position.

Table A-2

CAPE FEAR VALLEY HEALTH SYSTEM

Condensed Statement of Revenues,
Expenses, and Changes in Net Position

Years ended September 30, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 754,545	695,378	691,130
Operating expenses	<u>730,510</u>	<u>679,712</u>	<u>667,108</u>
Operating income	24,035	15,666	24,022
Nonoperating income (loss)	<u>26,992</u>	<u>24,364</u>	<u>(130)</u>
Excess of revenues over expenses	51,027	40,030	23,892
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>(65,378)</u>
Increase (decrease) in net position	<u>\$ 51,027</u>	<u>40,030</u>	<u>(41,486)</u>

The Health System's operating revenues increased \$59,167, or 8.5%, in 2017 compared to 2016 and increased \$4,248 or 0.6%, in 2016 compared to 2015. The increase in 2017 operating revenue was due to an increase in discharges, outpatient volumes, surgeries, and improved revenue cycle processes resulting in increased cash collections.

Operating expenses increased \$50,798, or 7.5%, in 2017 compared to 2016. The increase is due to increases in salaries and wages and employee benefits. Nonoperating income increased \$2,628 in 2017 compared to 2016. This change is attributed to unrealized gains.

Operating expenses increased \$12,604, or 1.9%, in 2016 compared to 2015. The increase is due to increases in medical supplies of \$13,681. Nonoperating income increased \$24,494 in 2016 compared to 2015. This change is attributed to unrealized gains of \$4,095 and \$18,032 of interest and dividends recognized during 2016 as compared to an unrealized loss of \$14,598 and \$13,028 of interest and dividends recognized during 2015.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

Management's Discussion and Analysis (Unaudited)

September 30, 2017 and 2016

(Dollar amounts in thousands)

Capital Assets and Debt Administration

Capital Assets

The Health System has invested \$296,585, \$290,239, and \$287,409 in net capital assets as shown in Table A-3, as of September 30, 2017, 2016, and 2015, respectively. Construction in progress related to improvement projects increased \$1,628 during both 2017 and 2016. The increase in 2017 is attributed to short stay, lung nodule, and MRI renovations. The increase in 2016 is attributed to first-floor observation renovations.

Table A-3

CAPE FEAR VALLEY HEALTH SYSTEM

Capital Assets

September 30, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 31,650	31,241	30,648
Buildings	429,050	413,837	402,127
Equipment	316,084	302,596	289,841
Construction in progress	<u>12,476</u>	<u>10,848</u>	<u>9,220</u>
Subtotal	789,260	758,522	731,836
Accumulated depreciation	<u>(492,675)</u>	<u>(468,283)</u>	<u>(444,427)</u>
Net capital assets	<u>\$ 296,585</u>	<u>290,239</u>	<u>287,409</u>

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

Management's Discussion and Analysis (Unaudited)

September 30, 2017 and 2016

(Dollar amounts in thousands)

Debt

Table A-4

CAPE FEAR VALLEY HEALTH SYSTEM

Debt

September 30, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Hospital Facility Revenue Bonds:			
Series 2008A	\$ 152,000	152,000	152,000
Series 2012A	85,315	92,390	99,180
	<u>237,315</u>	<u>244,390</u>	<u>251,180</u>
Unamortized bond premium	7,120	8,846	10,723
Less current maturities	<u>(7,325)</u>	<u>(7,075)</u>	<u>(6,790)</u>
Long-term debt – less current maturities	<u>\$ 237,110</u>	<u>246,161</u>	<u>255,113</u>

At September 30, the Health System had \$237,315, \$244,390, and \$251,180 of long-term bond principal outstanding in 2017, 2016, and 2015, respectively. The Health System made principal payments of \$7,075 and \$6,790 during 2017 and 2016, respectively. The Health System has a letter of credit in conjunction with its 2008A Series bonds in the amount of \$153,700. More detailed information about the Health System's long-term debt is presented in note 5 to the financial statements.

HHC, a North Carolina limited liability company, owns a 60-acre medical campus in Raeford, Hoke County, North Carolina. The sole member of HHC is Cumberland County Hospital System, Inc. d/b/a Cape Fear Valley Health System, a North Carolina nonprofit corporation. HHC has engaged in a multiyear effort to bring healthcare services to the residents of Hoke County. HHC requested that the United States Department of Agriculture – Rural Development (the USDA) provide permanent financing for Hoke Community Medical Center through its Community Facilities Direct Loan and Guaranteed Loan Programs. HHC obtained permanent financing from the USDA in the form of two fixed-rate, 40-year loans that totaled \$68,448. In addition, the USDA provided a guaranteed loan of \$27,311. The guaranteed loan was made in the form of taxable bonds issued by HHC. More detailed information is presented in note 5 to the financial statements.

Finance Contact

The Health System's financial statements are designed to present users with a general overview of the Health System's finances and to demonstrate the Health System's accountability. If you have any questions about the report or need additional financial information, please contact the Chief Financial Officer, Cape Fear Valley Health System, Post Office Box 2000, Fayetteville, North Carolina 28302.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

Balance Sheets

September 30, 2017 and 2016

(In thousands)

Assets and Deferred Outflows of Resources	2017		2016	
	Primary enterprise	Component units	Primary enterprise	Component units
Current assets:				
Cash and cash equivalents	\$ 65,832	7,944	49,175	6,419
Short-term investments	10,123	6,628	8,973	6,024
Patient accounts receivable – net	87,608	13,869	92,299	15,685
Estimated third-party payor settlements	—	1,308	—	927
Other accounts receivable	40,212	773	45,827	621
Assets limited as to use – cash and investments – current portion:				
Designated for self-insurance	6,000	—	8,600	—
Inventories	9,599	680	9,768	654
Prepaid expenses	4,567	153	6,688	134
Total current assets	223,941	31,355	221,330	30,464
Capital assets – net	296,585	106,969	290,239	111,597
Other noncurrent assets:				
Assets limited as to use – cash and investments:				
Designated for capital improvements	104,412	—	106,728	—
Designated for self-insurance	50,555	—	39,809	—
Bond proceeds held by Trustee	—	6,024	—	5,828
Total assets limited as to use	154,967	6,024	146,537	5,828
Investments	253,631	—	223,770	—
Other assets	6,645	81	3,769	81
Total other noncurrent assets	415,243	6,105	374,076	5,909
Total assets	935,769	144,429	885,645	147,970
Deferred outflows of resources	76,928	619	88,942	774
Total assets and deferred outflows of resources	\$ 1,012,697	145,048	974,587	148,744
Liabilities, Deferred Inflows of Resources, and Net Position				
Current liabilities:				
Accounts payable	\$ 34,733	2,636	31,821	3,340
Salaries and benefits payable	31,412	1,758	27,922	1,751
Other liabilities and accruals	17,385	32,700	18,368	36,626
Estimated third-party payor settlements	56,321	4,942	54,844	2,613
Current maturities of long-term debt	7,325	1,524	7,075	1,471
Total current liabilities	147,176	43,560	140,030	45,801
Long-term debt – less current maturities	237,110	91,089	246,161	92,614
Interest rate swap liability	35,869	—	49,825	—
Net pension liability	61,366	431	63,917	1,772
Other liabilities	29,669	—	25,907	—
Total liabilities	511,190	135,080	525,840	140,187
Deferred inflows of resources	5,079	118	3,346	14
Net position:				
Net investment in capital assets	53,158	14,355	37,003	17,512
Restricted for debt service	—	6,024	—	5,828
Unrestricted	443,270	(14,119)	408,398	(18,435)
Restricted – by donor	—	3,590	—	3,638
Total net position	496,428	9,850	445,401	8,543
Total liabilities, deferred inflows of resources and net position	\$ 1,012,697	145,048	974,587	148,744

See accompanying notes to financial statements.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2017 and 2016

(In thousands)

	2017		2016	
	Primary enterprise	Component units	Primary enterprise	Component units
Revenues:				
Net patient service revenue	\$ 711,520	66,266	661,305	62,505
Other revenue	43,025	4,368	34,073	4,672
Total revenues	<u>754,545</u>	<u>70,634</u>	<u>695,378</u>	<u>67,177</u>
Operating expenses:				
Salaries	349,256	32,870	337,447	32,790
Fringe benefits	77,258	7,903	55,568	8,753
Medical supplies	117,978	6,028	118,356	5,786
Professional fees	37,333	3,954	37,425	3,348
Purchased services	43,063	2,137	41,375	2,748
Other expenses	68,241	7,736	57,826	7,372
Depreciation and amortization	27,976	5,806	26,856	5,457
Interest expense	9,405	3,562	4,859	3,585
Total operating expenses	<u>730,510</u>	<u>69,996</u>	<u>679,712</u>	<u>69,839</u>
Operating income (loss)	<u>24,035</u>	<u>638</u>	<u>15,666</u>	<u>(2,662)</u>
Nonoperating income:				
Net investment income	26,469	667	24,077	507
Other nonoperating income	523	2	287	9
Total nonoperating income	<u>26,992</u>	<u>669</u>	<u>24,364</u>	<u>516</u>
Excess (deficit) of revenues over (under) expenses and change in net position	51,027	1,307	40,030	(2,146)
Net position:				
Beginning of year	445,401	8,543	405,371	10,689
End of year	<u>\$ 496,428</u>	<u>9,850</u>	<u>445,401</u>	<u>8,543</u>

See accompanying notes to financial statements.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

Statements of Cash Flows

Years ended September 30, 2017 and 2016

(In thousands)

	2017		2016	
	Primary enterprise	Component units	Primary enterprise	Component units
Cash flows from operating activities:				
Receipts from patients and insurers	\$ 717,688	70,030	669,207	59,813
Payments to employees	(416,922)	(41,872)	(398,699)	(41,932)
Payments to vendors	(254,664)	(24,879)	(262,112)	(15,936)
Payments to pension plan	(9,712)	—	(9,565)	(410)
Other	43,101	4,387	34,533	4,837
Net cash provided by operating activities	<u>79,491</u>	<u>7,666</u>	<u>33,364</u>	<u>6,372</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(31,202)	(1,197)	(28,196)	(3,498)
Proceeds from the sale of capital assets	54	—	—	—
Principal and interest payments on debt	(27,075)	(8,609)	(17,554)	(8,128)
Funds received from (provided to) component units	3,796	3,796	(4,644)	4,644
Other long-term assets	(2,966)	(196)	(632)	(169)
Net cash used in capital and related financing activities	<u>(57,393)</u>	<u>(6,206)</u>	<u>(51,026)</u>	<u>(7,151)</u>
Cash flows from investing activities:				
Interest and dividends on investments	10,968	204	18,032	10
Proceeds from the sale and maturity of investments	187,717	654	324,426	3,097
Purchases of investments	(204,254)	(793)	(320,780)	(2,971)
Funds received from Harnett Health System, Inc.	2,492	—	349	—
Other investing cash flows	523	—	287	9
Net cash (used in) provided by investing activities	<u>(2,554)</u>	<u>65</u>	<u>22,314</u>	<u>145</u>
Net increase (decrease) in cash and cash equivalents	19,544	1,525	4,652	(634)
Cash and cash equivalents:				
Beginning of year	56,092	6,419	51,440	7,053
End of year	<u>\$ 75,636</u>	<u>7,944</u>	<u>56,092</u>	<u>6,419</u>
Reconciliation of cash and cash equivalents to the balance sheet:				
Cash and cash equivalents	\$ 65,832	7,944	49,175	6,419
Investments	9,804	—	6,917	—
Total cash and cash equivalents	<u>\$ 75,636</u>	<u>7,944</u>	<u>56,092</u>	<u>6,419</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 24,035	638	15,666	(2,662)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Interest expense considered capital financing activity	9,405	3,562	4,859	3,585
Provision for bad debts	145,853	34,910	127,990	31,386
Depreciation and amortization	27,976	5,806	26,856	5,457
Loss on the disposal of capital assets	76	19	460	165
Vesting of Premier, Inc. stock options	(1,861)	—	(2,036)	—
Changes in operating assets and liabilities:				
Patient and other accounts receivable	(141,162)	(33,094)	(122,695)	(32,878)
Inventory, prepaid expenses and other assets	1,617	(197)	1,370	848
Accounts payable	(303)	(704)	(2,072)	(870)
Salaries and benefits payable	(120)	(1,075)	(15,249)	(799)
Other liabilities and accruals	12,498	(4,147)	(4,392)	3,340
Estimated third-party payor settlements	1,477	1,948	2,607	(1,200)
Net cash provided by operating activities	<u>\$ 79,491</u>	<u>7,666</u>	<u>33,364</u>	<u>6,372</u>
Noncash investing, capital, and financing activity:				
Property and equipment acquired through accounts payable	\$ 3,215	—	1,938	—

See accompanying notes to financial statements.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

Notes to Financial Statements

September 30, 2017 and 2016

(Dollar amounts in thousands)

(1) Reporting Entity

Cumberland County Hospital System, Inc. (d/b/a Cape Fear Valley Health System) (the Health System) was incorporated under the laws of North Carolina on July 7, 1964, by the board of Commissioners of Cumberland County (the County) for the primary purpose of operating and maintaining certain hospital facilities, owned by the County, under the terms and conditions of a management lease agreement with the County. On May 4, 2006, a transfer agreement (the Transfer Agreement) was entered into with the County converting the Health System, as permitted under North Carolina General Statute (NCGS) § 131E-8, from a public hospital to a private, nonprofit hospital system. The articles of incorporation provide for the Health System to be governed by a board of trustees (the Board of Trustees), the majority of which are to be appointed by the County.

The Transfer Agreement also contains certain covenants that give the County a reversionary interest in the facilities and related property. Such covenants relate to the Health System's operation as a community general hospital, including the provision of services to indigent patients and adhering to certain requirements covering additional liens, additional debt, and disposition of assets, maintaining certain financial strength ratios, and maintaining tax-exempt status among other criteria. In addition, the Transfer Agreement provides for an annual payment in lieu of taxes by the Health System to the County (note 10).

The Health System includes the following described facilities, all located in Fayetteville, North Carolina;

- Cape Fear Valley Medical Center, a 568-bed regional referral, acute care hospital (which includes 49 beds temporarily licensed since March 2011 to May 2017 and 52 beds temporarily licensed since May 2017 to date due to high census)
- Cape Fear Valley Rehabilitation Center, a 78-bed rehabilitation facility
- Behavioral Health Care of Cape Fear Valley Health System, a 32-bed psychiatric facility
- Highsmith-Rainey Specialty Hospital, a 66-bed long-term acute care hospital
- Health Pavilion North, a multispecialty outpatient facility
- Cumberland County Emergency Medical Services, the HealthPlex of Cape Fear Valley Health System (a medically oriented wellness center), and primary care and specialty care practices are also members of the obligated group.

These facilities are owned and operated by the Health System and are members of the Health System's obligated group under its Master Trust Indenture executed in connection with the issuance of certain long-term debt obligations. Each member of the obligated group is jointly and severally liable for the repayment of principal and interest of the Health System's long-term debt obligations under the Hospital Facility Revenue Bonds.

The assets, liabilities, revenue, and expenses of all these facilities are included in the primary enterprise accompanying financial statements.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

Notes to Financial Statements

September 30, 2017 and 2016

(Dollar amounts in thousands)

Cape Fear Insurance, Ltd., SPC (Cape Fear Insurance) is not a member of the obligated group. Cape Fear Insurance is a wholly owned, captive insurance company domiciled in the Cayman Islands. Although legally separate, the principal activity of Cape Fear Insurance is to provide professional and general liability insurance coverage to the Health System and to purchase reinsurance policies from external markets. The Health System appoints the voting majority of Cape Fear Insurance's Board of Directors. Since Cape Fear Insurance provides services entirely to the primary enterprise, the blending method has been used to incorporate its financial statements into the Health System's financial statements. Under the blending method, transactions between Cape Fear Insurance and the Health System that generate intercompany receivables, payables, revenues, and expenses are eliminated. After eliminations, the remaining balances and transactions of Cape Fear Insurance are included in the Health System's assets, liabilities, revenues, and expenses.

The following is a summary of Cape Fear Insurance's condensed financial information as of and for the years ended September 30, 2017 and 2016:

CAPE FEAR INSURANCE

Condensed Summary of Net Position

September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets	\$ 6,454	8,715
Noncurrent assets	<u>39,129</u>	<u>28,767</u>
Total assets	<u>\$ 45,583</u>	<u>37,482</u>
Liabilities and net position:		
Current liabilities	\$ 8,674	6,730
Noncurrent liabilities	15,678	12,738
Net position – unrestricted	<u>21,231</u>	<u>18,014</u>
Total liabilities and net position	<u>\$ 45,583</u>	<u>37,482</u>

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

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CAPE FEAR INSURANCE

Condensed Summary of Revenues,
Expenses, and Changes in Net Position

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Total operating revenues	\$ 2,962	1,092
Total operating expenses	<u>1,856</u>	<u>(1,124)</u>
Operating income	1,106	2,216
Total nonoperating gains, net	<u>2,111</u>	<u>1,052</u>
Excess of revenues over expenses and increase in net position	3,217	3,268
Net position:		
Beginning of year	<u>18,014</u>	<u>14,746</u>
End of year	<u>\$ 21,231</u>	<u>18,014</u>

CAPE FEAR INSURANCE

Condensed Summary of Cash Flows

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities	\$ 6,772	(4,403)
Cash flows from investing activities	(6,594)	4,490
Net increase in cash and cash equivalents	178	87
Cash and cash equivalents at beginning of year	<u>115</u>	<u>28</u>
Cash and cash equivalents at end of year	<u>\$ 293</u>	<u>115</u>

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Discretely Presented Component Units

As required by U.S. generally accepted accounting principles (GAAP), these financial statements reflect the activities of the Health System and its discretely presented component units. The discretely presented component units of the Health System, all of which are nonmajor, include the following:

- Bladen Healthcare, LLC. (d/b/a Cape Fear Valley – Bladen County Hospital) (Bladen County Hospital); a critical access hospital
- Hoke Healthcare, LLC (HHC), which operates a medical office building, opened in the first quarter of 2013, and Cape Fear Valley Hoke Hospital opened in March 2015
- Cape Fear Valley Medical Foundation, Inc. (d/b/a Cape Fear Valley Health Foundation) (the Foundation); a nonstock charitable corporation

Under the discrete presentation method, intercompany receivables, payables, revenues, and expenses are not eliminated. The discretely presented component units' financial statements are included in a separate column apart from the Health System's (primary enterprise) financial statements.

In June 2008, the Health System, through its 100% owned affiliate Bladen Healthcare, LLC, began operating Bladen Hospital and related enterprises pursuant to a five-year lease agreement, with an option to purchase and related agreements with the County of Bladen. Bladen Hospital is a critical access hospital located in Elizabethtown, North Carolina, which operates 25 general acute care beds. The Health System exercised the purchase option and, on March 19, 2012, acquired Bladen Hospital and related enterprises, which is now owned and operated through Bladen Healthcare, LLC.

In June 2009, the Health System established Hoke Healthcare, LLC, a 100% owned subsidiary of the Health System, to conduct healthcare activities in Hoke County, NC. HHC is operated by a Board of Managers, which are appointed by the Health System's Board of Trustees.

The Foundation is a legally separate, nonstock charitable corporation. Its purpose is to solicit and receive contributions to assist with and further the mission of the Health System. The Foundation has been included as a component unit because almost all of the resources it holds are available to benefit the Health System and its patients.

Bladen County Hospital, HHC, Hoke Imaging, and the Foundation are not members of the obligated group as defined in the Health System's Master Trust Indenture. Combined, they account for approximately 9.0% and 8.8% of the total reporting entity revenues for the years ended September 30, 2017 and 2016, respectively.

(2) Summary of Significant Accounting and Reporting Policies

(a) Basis of Accounting

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

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(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make 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 revenues and expenses during the reporting period. The Health System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenues; valuation of accounts receivable, including contractual allowances and provisions for bad debt; reserves for losses and expenses related to employee healthcare, professional liabilities, workers' compensation, general liabilities; valuation of pension and other retirement obligations; and estimated third-party payor settlements. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

For purposes of the statements of cash flows, all highly liquid investments with an original maturity of three months or less at the time of purchase, and which are not limited as to their use or have not been designated as short- or long-term investments, are considered to be cash equivalents and are recorded at cost, which approximates fair value.

(d) Patient Accounts Receivable – Net

The Health System's patient accounts receivable is recorded net of allowances for uncollectible accounts of \$95,072 and \$86,359 at September 30, 2017 and 2016, respectively. The Health System's net patient revenue is presented net of provision for uncollectible accounts of \$145,853 and \$127,990 for the years ended September 30, 2017 and 2016, respectively.

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

(f) Investments

Investments in marketable debt and equity securities with readily determinable fair values, including assets whose use is limited, are reported at fair value in the accompanying balance sheets. An investment net gain of \$26,469 and \$24,077 for the years ended September 30, 2017 and 2016, respectively, is included in nonoperating income in the accompanying financial statements.

(g) Assets Limited as to Use

Assets limited as to use consist of cash and investments set aside by the Health System's Board of Trustees for future capital improvements over which the Board of Trustees maintains control and may, at its discretion, subsequently use for other purposes. In addition, assets limited as to use consist of restricted cash held by trustee for debt service assets designated for capital improvements and investments designated to cover self-insurance claims.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

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(h) Other Assets

Other assets consist of goodwill, deposits, and investments in certain healthcare-related businesses.

(i) Capital Assets

Capital assets are recorded at cost or, if donated, at fair value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Such depreciation is included in depreciation and amortization in the accompanying financial statements.

<u>Property classification</u>	<u>Estimated lives (years)</u>
Land improvements	12–20
Buildings	10–90
Equipment	3–10

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

(j) Deferred Outflows of Resources

Deferred outflows of resources consist of the unamortized amounts related to long-term debt refunding transactions, the accumulated valuation loss of the interest rate swap that is an effective hedge, the differences between expected and actual experience of pension plan participants, the net difference between expected and actual earnings on pension plan investments, pension plan assumption changes and contributions made to the pension plan subsequent to the measurement date.

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The balance of the deferred outflows of resources at September 30, 2017 and 2016 is composed of the following:

	<u>2017</u>	<u>2016</u>
Loss on refunding of debt	\$ 15,328	16,178
Accumulated valuation loss of the interest rate swap	35,869	49,825
Differences between expected and actual experience of pension plan participants	6,575	1,548
Net difference between expected and actual earnings on pension plan investments	6,737	8,237
Pension plan assumption changes	2,707	3,429
Contributions made to the pension plan after the measurement date	<u>9,712</u>	<u>9,725</u>
	<u>\$ 76,928</u>	<u>88,942</u>

(k) Interest Rate Swap

The fair value of the Health System's interest rate swap agreement, which is developed based on a mark-to-market pricing service using the zero-coupon method, is reported on the accompanying balance sheets as a liability and related accumulated losses are reported as a deferred outflow of resources because Health System management has determined that the interest rate swap is an effective hedging instrument. Net cash settlement amounts are included in interest expense in the accompanying statements of revenues, expenses and changes in net position.

(l) Deferred Inflows of Resources

Deferred inflows of resources consist of the net difference between the expected and actual earnings on pension plan investments and pension plan assumption changes. More detailed information regarding deferred inflows of resources is presented in note 11(g) to the financial statements.

(m) Net Pension Liability

Net pension liability represents the portion of the present value of projected benefit payments attributed to past periods of service to be provided through the Health System's pension plan to current active and inactive employees less the fiduciary net position of the pension plan. It represents the Health System's total pension liability minus the fiduciary net position available to pay that liability. Investments that comprise the fiduciary net position are reported at fair value or at the net asset value (NAV) per share as a practical expedient to fair value.

(n) Net Position

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

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

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(Dollar amounts in thousands)

Net investment in capital assets is intended to reflect the portion of net position that is associated with nonliquid capital assets, less outstanding debt associated with the capital assets. Net position restricted for debt service consists of assets that are restricted, committed, or assigned to expenditure for principal and interest based on third-party mandate. Net position restricted by donor consists of assets that are restricted through external constraints imposed by contributors and donors. Unrestricted net position has no third-party restrictions on use. When both restricted and unrestricted resources are available for use, generally it is the Health System's policy to use restricted resources first and then unrestricted resources when they are needed.

(o) Revenues, Expenses, and Changes in Net Position

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

(p) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The effect of these settlement adjustments to net patient service revenue was an increase of \$7,460 and a decrease of \$4,000 in 2017 and 2016, respectively.

(q) Charity Care

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

(r) Estimated Malpractice Costs

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

(s) Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices in active markets of identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

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(t) Income Taxes Disclosure

The Health System and the Foundation are exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). The unrelated business income generated by the Health System and the income generated by the Health System's taxable component are not material to the financial statements. Accordingly, no provision for income taxes is required in the accompanying financial statements.

Cape Fear Insurance is incorporated in the Cayman Islands and is generally not subject to income or capital gains taxes in the United States of America or the Cayman Islands. Accordingly, no provision for income taxes was made in the accompanying financial statements for this entity.

(u) Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. The reclassifications had no effect on net position or excess (deficit) of revenues over expenses for the year ended September 30, 2016.

(3) Cash, Investments, and Assets Limited as to Use

(a) Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Health System's deposits may not be returned. As of September 30, 2017 and 2016, the Health System's deposits had a carrying amount of \$65,832 and \$49,175, respectively, and a bank balance of \$74,502 and \$52,934, respectively. Of the bank balance, \$607 and \$615, respectively, is covered by federal depository insurance. The remaining balance of \$73,887 and \$52,319, respectively, is subject to custodial risk as it was neither insured nor collateralized.

(b) Investments and Assets Limited as to Use

The Health System holds a combination of money market and fixed-income securities, including securities issued by government-sponsored enterprises, such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Government National Mortgage Association. Effective with the execution of the Transfer Agreement, the Health System is no longer subject to NCGS §159-30; as such, the Health System holds certain nongovernmental equity investments.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
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The Health System's investments and assets limited as to use are categorized by investment type and mature as follows as of September 30, 2017 and 2016:

2017					
Investment maturities (in years)					
Investment type	Fair value	Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 9,804	9,804	—	—	—
U.S. Treasury and agency obligations	36,515	5,602	30,599	—	314
Mortgage-backed securities	43,170	493	1,896	3,824	36,957
Corporate obligations	61,887	—	2,610	18,862	40,415
Mutual funds—fixed income	78,832	—	78,832	—	—
Other	6,668	224	323	446	5,675
	<u>236,876</u>	<u>\$ 16,123</u>	<u>114,260</u>	<u>23,132</u>	<u>83,361</u>
Equity securities	<u>187,845</u>				
Total investments and assets limited as to use	<u>\$ 424,721</u>				
2016					
Investment maturities (in years)					
Investment type	Fair value	Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 6,917	6,917	—	—	—
U.S. Treasury and agency obligations	32,598	7,689	22,327	—	2,582
Mortgage-backed securities	49,940	108	2,376	2,846	44,610
Corporate obligations	54,579	2,293	19,541	10,703	22,042
Mutual fund—fixed income	77,055	—	—	77,055	—
Other	8,064	566	—	704	6,794
	<u>229,153</u>	<u>\$ 17,573</u>	<u>44,244</u>	<u>91,308</u>	<u>76,028</u>
Equity securities	<u>158,727</u>				
Total investments and assets limited as to use	<u>\$ 387,880</u>				

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

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Notes to Financial Statements

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(c) Fair Value Hierarchy

Fair value measurements reflected in the financial statements provide a framework for measuring fair value. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP provides a hierarchy that prioritizes the inputs to fair value measurement based on the extent to which inputs to valuation techniques are observable in the market place.

The fair value hierarchy presented below categorizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1 – Inputs are quoted prices for identical assets or liabilities in active markets that the Health System can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Inputs are unobservable for an asset or liability.

The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect the Health System's assumptions about how market participants would value an asset or liability based on the best information available.

For marketable securities, fair value is determined by quoted prices in active markets. Market quotations include the last reporting price or, if such prices are unavailable, bid-ask price. Market securities utilizing Level 1 inputs include cash and cash equivalents, exchange traded equity securities, fixed-income mutual funds, and most U.S. government debt securities.

Marketable securities utilizing Level 2 inputs include mortgage-backed securities and corporate obligations. These securities are valued using market corroborated pricing, matrix pricing, or other pricing models that utilize observable inputs such as yield curves. Pricing models are based on accepted industry modeling techniques that attempt to maximize the use of inputs from market-based (third party) sources. Differences may exist between the fair values of assets and liabilities using indicative quotations or a pricing models and their realizable value.

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Fair value measurements for which the measurement was based on NAV are reported using NAV as a “practical expedient”, as outlined in GASB Statement No. 72. The following tables present the Health System’s investments and assets whose use is limited measured at estimated fair value aggregated by the level in the fair value hierarchy at September 30, 2017 and 2016, respectively:

		Fair value measurements at September 30, 2017 using			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment by fair value level:					
Cash and cash equivalents	\$	9,804	9,804	—	—
U.S. Treasury and agency obligations		36,515	36,515	—	—
Equity securities		171,155	171,155	—	—
Mortgage-backed securities		43,170	—	43,170	—
Corporate obligations		61,887	—	61,887	—
Mutual funds—fixed income		78,832	78,832	—	—
Other		6,668	—	6,668	—
		<u>408,031</u>	<u>\$ 296,306</u>	<u>111,725</u>	<u>—</u>
Total investments measured at NAV		<u>16,690</u>			
Total investments and assets whose use is limited	\$	<u>424,721</u>			

		Fair value measurements at September 30, 2016 using			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment by fair value level:					
Cash and cash equivalents	\$	6,917	6,917	—	—
U.S. Treasury and agency obligations		32,598	32,598	—	—
Equity securities		144,489	144,489	—	—
Mortgage-backed securities		49,940	—	49,940	—
Corporate obligations		54,579	—	54,579	—
Mutual funds—fixed income		77,055	77,055	—	—
Other		8,064	—	8,064	—
		<u>373,642</u>	<u>\$ 261,059</u>	<u>112,583</u>	<u>—</u>
Total investments measured at NAV		<u>14,238</u>			
Total investments and assets whose use is limited	\$	<u>387,880</u>			

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The Health System holds one investment in its portfolio, a commingled large-cap equity fund, which is measured at NAV per share as a practical expedient to fair value at September 30, 2017 and 2016. This fund invests in a variety of domestic common stock or similar equity securities of high-quality, financially secure companies listed on principal exchanges. The value of the Health System's interest in the fund is determined on a daily basis based on its pro-rata share of the fund's net assets. The Health System does not have any unfunded capital commitments outstanding at September 30, 2017 or 2016. The fund has no limits on redemption frequency and the redemption notice period is three days or less.

(d) Credit Risk

Credit risk is the risk that the Health System will not recover its investments due to the failure of the counterparty to fulfill its obligation. At September 30, 2017 and 2016, the investments in fixed-income securities subject to credit risk, as a percentage of the Health System's total investment portfolio, were rated by Moody's as follows:

	2017				
	AAA	AA	A	BBB	Not rated
Cash and cash equivalents	2.3%	—%	—%	—%	—%
U.S. Treasury and agency obligations	7.6	—	—	—	1.0
Mortgage-backed securities	0.3	—	0.1	0.6	9.1
Corporate obligations	0.5	1.3	7.6	1.7	3.5
Mutual funds—fixed income	—	—	—	—	18.6
Other	0.2	0.6	0.4	—	0.4
	<u>10.9%</u>	<u>1.9%</u>	<u>8.1%</u>	<u>2.3%</u>	<u>32.6%</u>

	2016				
	AAA	AA	A	BBB	Not Rated
Cash and cash equivalents	1.8%	—%	—%	—%	—%
U.S. Treasury and agency obligations	7.5	—	—	—	0.9
Mortgage-backed securities	0.5	—	0.3	0.5	11.6
Corporate obligations	0.5	1.1	6.3	2.0	4.2
Mutual funds—fixed income	—	—	—	—	19.9
Other	0.1	0.8	0.4	0.1	0.7
	<u>10.4%</u>	<u>1.9%</u>	<u>7.0%</u>	<u>2.6%</u>	<u>37.3%</u>

The Health System's investment policy requires that fixed-income securities rated below "BBB" by at least one major rating agency not exceed 5% of the Health System's portfolio. At September 30, 2017 and 2016, the Health System met this requirement.

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The Health System held a fixed-income mutual fund, the PIMCO Total Return Fund, totaling \$78,832 and \$77,055 as of September 30, 2017 and 2016, respectively, that was not rated.

(e) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Health System will not be able to recover the value of its investments or collateral securities that are in the possession of a third party.

Fixed-income investments and equity securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Health System, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Health System's name. As of September 30, 2017 and 2016, all of the Health System's fixed-income investments and equity securities are held by the Health System's custodial bank in the Health System's name and are, therefore, not exposed to custodial credit risk.

(f) Interest Rate Risk

Interest rate risk is the risk that fair value of the Health System's investments will decrease as a result of an increase in interest rates. The Health System maintains a formal investment policy to manage its exposure to fair value losses arising from increasing interest rates by holding equity investments in addition to fixed-income investments and by allocating its fixed-income investments between both short- and long-term investments. Short-term funds, which are investments with a time horizon of one year or less, amount to \$16,123 and \$17,573 as of September 30, 2017 and 2016, respectively. The remaining portfolio is allocated to long-term investments. Within the long-term section of the portfolio, the Health System's targeted allocations are approximately 55% fixed-income investments, 35% equity investments, 5% global tactical investments, and 5% global real estate investments.

The Health System invests in mortgage-backed securities. The fair values of these securities are based on cash flows from principal and interest payments on the underlying mortgages. Prepayments reduce the future cash flows of these investments and consequently their fair values. Therefore, these securities are sensitive to decreases in interest rates, which may result in an increase in prepayments by mortgagees. As of September 30, 2017 and 2016, the Health System had \$43,170 and \$49,940, respectively, invested in this type of asset-backed security.

Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements. Refer to the distribution of maturities for the reporting entity's debt-related investments as of September 30, 2017 and 2016 in the preceding investment composition tables.

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(4) Capital Assets

A summary of the Health System's changes in capital assets during the year ended September 30, 2017 is as follows:

	<u>Balance beginning</u>	<u>Additions</u>	<u>Transfers/ disposals</u>	<u>Balance ending</u>
Depreciable capital assets:				
Land improvements	\$ 11,153	—	(39)	11,114
Buildings	413,837	16,853	(1,640)	429,050
Equipment	302,596	15,768	(2,280)	316,084
Depreciable capital assets – gross	727,586	32,621	(3,959)	756,248
Accumulated depreciation	(468,283)	(27,941)	3,549	(492,675)
Depreciable capital assets – net	259,303	4,680	(410)	263,573
Nondepreciable capital assets:				
Land	20,088	576	(128)	20,536
Construction in progress	10,848	35,060	(33,432)	12,476
Nondepreciable capital assets	30,936	35,636	(33,560)	33,012
Net capital assets	\$ 290,239	40,316	(33,970)	296,585

A summary of the Health System's changes in capital assets during the year ended September 30, 2016 is as follows:

	<u>Balance beginning</u>	<u>Additions</u>	<u>Transfers/ disposals</u>	<u>Balance ending</u>
Depreciable capital assets:				
Land improvements	\$ 10,544	609	—	11,153
Buildings	402,127	12,157	(447)	413,837
Equipment	289,841	15,877	(3,122)	302,596
Depreciable capital assets – gross	702,512	28,643	(3,569)	727,586
Accumulated depreciation	(444,427)	(26,844)	2,988	(468,283)
Depreciable capital assets – net	258,085	1,799	(581)	259,303

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	<u>Balance beginning</u>	<u>Additions</u>	<u>Transfers/ disposals</u>	<u>Balance ending</u>
Nondepreciable capital assets:				
Land	\$ 20,104	100	(116)	20,088
Construction in progress	9,220	33,728	(32,100)	10,848
Nondepreciable capital assets	<u>29,324</u>	<u>33,828</u>	<u>(32,216)</u>	<u>30,936</u>
Net capital assets	\$ <u>287,409</u>	<u>35,627</u>	<u>(32,797)</u>	<u>290,239</u>

Depreciation expense for the Health System was \$27,941 and \$26,844 for the years ended September 30, 2017 and 2016, respectively.

A summary of HHC's changes in capital assets during the years ended September 30, 2017 and 2016 is as follows:

	<u>2017</u>			
	<u>Balance beginning</u>	<u>Additions</u>	<u>Transfers/ disposals</u>	<u>Balance ending</u>
Depreciable capital assets:				
Land improvements	\$ 266	—	—	266
Buildings	89,587	148	—	89,735
Equipment	15,091	696	(26)	15,761
Depreciable capital assets – gross	104,944	844	(26)	105,762
Accumulated depreciation	<u>(8,467)</u>	<u>(4,670)</u>	1	<u>(13,136)</u>
Depreciable capital assets – net	<u>96,477</u>	<u>(3,826)</u>	<u>(25)</u>	<u>92,626</u>
Nondepreciable capital assets:				
Land	2,612	—	—	2,612
Construction in progress	351	546	(897)	—
Nondepreciable capital assets	<u>2,963</u>	<u>546</u>	<u>(897)</u>	<u>2,612</u>
Net capital assets	\$ <u>99,440</u>	<u>(3,280)</u>	<u>(922)</u>	<u>95,238</u>

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	2016			
	<u>Balance beginning</u>	<u>Additions</u>	<u>Transfers/ disposals</u>	<u>Balance ending</u>
Depreciable capital assets:				
Land improvements	\$ 266	—	—	266
Buildings	88,218	1,369	—	89,587
Equipment	12,908	2,183	—	15,091
Depreciable capital assets – gross	101,392	3,552	—	104,944
Accumulated depreciation	(4,191)	(4,345)	69	(8,467)
Depreciable capital assets – net	97,201	(793)	69	96,477
Nondepreciable capital assets:				
Land	2,612	—	—	2,612
Construction in progress	1,498	2,576	(3,723)	351
Nondepreciable capital assets	4,110	2,576	(3,723)	2,963
Net capital assets	\$ <u>101,311</u>	<u>1,783</u>	<u>(3,654)</u>	<u>99,440</u>

Depreciation expense for HHC was \$4,670 and \$4,345 for the years ended September 30, 2017 and 2016, respectively.

(5) Long-Term Debt

In September 2008, the Health System issued \$152,000 in Health Care Facilities Revenue Bonds, Series 2008A (the Series 2008A Bonds) and \$133,335 in Health Care Facilities Revenue Bonds, Series 2008C (the Series 2008C Bonds) through the North Carolina Medical Care Commission. The Series 2008A Bonds have interest payable at a weekly rate as determined by the remarketing agent and are backed by a letter of credit from Branch Banking and Trust Company (BB&T) in the amount of \$153,700. The Series 2008C Bonds were fully registered, whereby interest was payable at fixed rates ranging from 3.10% to 4.75% for 2010 to 2019 and 5.25% to 5.63% for 2020 to 2033. The Series 2008C Bonds were refinanced in December 2012 in connection with the issuance of the Series 2012A Bonds.

In December 2012, the Health System issued \$108,195 in Health Care Facilities Revenue Refunding Bonds, Series 2012A (the Series 2012A Bonds) through the North Carolina Medical Care Commission. The proceeds of the Series 2012A Bonds were used to (1) refund in advance the Series 2008C Bonds and (2) pay certain expenses incurred with the issuance of the 2012A Bonds. The Series 2012A Bonds are fully registered, whereby interest is payable at fixed rates ranging from 2.00% to 5.00% for 2013 to 2022 and 3.5% to 5.00% for 2023 to 2034.

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Under the terms of the advance refunding related to the issuance of the Series 2012A Bonds, the bond indenture permits the 2008C bonds to be defeased in whole or in part with no security requirement by the bond indenture or any obligation of the Health System if the bond trustee holds cash or defeasance obligations sufficient to provide for the payment of such 2008C bonds. At the issuance of the respective Series 2012A bonds, the Health System secured a sufficient amount of cash to meet all scheduled principal and interest payments associated with outstanding balances on the Health System's Series 2008C Bonds.

The difference between the reacquisition price and the net carrying amount of the previously existing Series 2008C Bonds is being deferred and amortized as a component of interest expense over the remaining scheduled life of the old debt, which represents the shorter of the original amortization period remaining from the prior refunding or the life of the latest refunding debt. At September 30, 2017 and 2016, the unamortized deferred loss of \$15,328 and \$16,178, respectively, is included in deferred outflows of resources in the Health Systems' accompanying balance sheets.

The bonds are governed by multiple bond documents that include the bond indenture, the Master Trust Indenture, and the supplemental master trust indenture that will be referred to collectively herein as the "Bond Indenture." The Bond Indentures include covenants that require the Health System to maintain specified financial ratios, levels of working capital, and equity and other nonfinancial covenants.

As discussed above, the Health System has entered into an irrevocable letter of credit related to the Series 2008A Bonds. The letter of credit, as amended, expires on October 23, 2018. In the event of a failed remarketing of the bonds, the bank is required to make a letter-of-credit payment to tendering bondholders. The Health System is required to pay the bank the aggregate amount of the tender advances on the earliest of (i) the subsequent remarketing of such bonds or (ii) the date 180 days following such liquidity draw; provided that if any liquidity draw is outstanding 180 days following such liquidity draw (term out commencement date), then the amount outstanding shall be repaid in equal monthly principal payments sufficient to fully amortize the principal balance of the amount outstanding over the period (not to exceed 60 months) from the term out commencement date to the expiration of the term of the letter of credit. Drawings under the letter of credit will bear interest, payable monthly, at a fluctuating interest rate equal to (i) for the first 90 days the 30-day London InterBank Offered Rate (LIBOR), plus 2.75% and (ii) beginning on the ninety-first day the 30-day LIBOR, plus 3.25%. The letter-of-credit agreement includes certain covenants, including financial ratio covenants related to debt to capitalization, long-term debt service coverage ratio, and days of unrestricted cash on hand.

In addition, the Health System had previously entered into an interest rate swap agreement with Citibank, N.A., New York, with respect to the Health Care Facilities Revenue Bonds, Series 2006B (the Series 2006B Bonds) in a notional amount of \$202,275 (the Swap Agreement) (note 6). In conjunction with the refunding of the Series 2006B Bonds and the issuance of the Series 2008A and 2008C Bonds, the Health System terminated approximately 30% of the Swap Agreement, and therefore, the outstanding notional amount of the Swap Agreement is \$137,000 after the refunding.

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The debt service requirements of the 2008A Bonds and 2012A Bonds, as of September 30, 2017 (over the next five years and in five-year increments thereafter), are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swap – net</u>	<u>Total</u>
Years ending				
September 30:				
2018	\$ 7,325	5,792	4,008	17,125
2019	7,635	5,455	4,008	17,098
2020	8,030	5,076	4,008	17,114
2021	8,435	4,684	4,008	17,127
2022	8,860	4,266	4,008	17,134
2023–2027	51,130	15,914	18,599	85,643
2028–2032	63,145	10,473	12,084	85,702
2033–2037	<u>82,755</u>	<u>4,468</u>	<u>3,764</u>	<u>90,987</u>
Total	\$ <u>237,315</u>	<u>56,128</u>	<u>54,487</u>	<u>347,930</u>

The variable interest included in the schedule above is based on the rate in effect at the financial statement date, which was 0.98% per annum at September 30, 2017.

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A summary of long-term debt as of September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Hospital Facility Revenue Bonds, Series 2008A serial and term bonds, payable annually from 2025 to 2037 in amounts ranging from \$7,850 to \$18,780, plus interest at variable rates, which are adjusted weekly (weighted average rate for the years ended September 30, 2017 and 2016 was 0.79% and 0.27% per annum, respectively.)	\$ 152,000	152,000
Hospital Facility Revenue Bonds, Series 2012A serial and term bonds, payable annually through 2034 in installments ranging from \$2,200 to \$9,785, plus interest at rates ranging from 2.00% to 5.00% per annum.	<u>85,315</u>	<u>92,390</u>
	237,315	244,390
Unamortized premium	7,120	8,846
Less current maturities	<u>(7,325)</u>	<u>(7,075)</u>
Total	\$ <u>237,110</u>	<u>246,161</u>

A summary of the Health System's changes in long-term debt during the years ended September 30, 2017 and 2016 is as follows:

	<u>September 30, 2017</u>				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Series 2008A serial and term bonds	\$ 152,000	—	—	152,000	—
Series 2012A serial and term bonds	<u>92,390</u>	—	<u>(7,075)</u>	<u>85,315</u>	<u>7,325</u>
Total	\$ <u>244,390</u>	<u>—</u>	<u>(7,075)</u>	<u>237,315</u>	<u>7,325</u>

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September 30, 2016					
	<u>Beginning balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Series 2008A serial and term bonds	\$ 152,000	—	—	152,000	—
Series 2012A serial and term bonds	99,180	—	(6,790)	92,390	7,075
Total	<u>\$ 251,180</u>	<u>—</u>	<u>(6,790)</u>	<u>244,390</u>	<u>7,075</u>

A summary of HHC's changes in long-term debt during the years ended September 30, 2017 and 2016 is as follows:

September 30, 2017					
	<u>Beginning balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Series 2013A taxable bond	\$ 24,579	—	(457)	24,122	479
Series 2013B taxable bond	2,732	—	(52)	2,680	53
USDA Direct Loan	66,560	—	(911)	65,649	941
Total	<u>\$ 93,871</u>	<u>—</u>	<u>(1,420)</u>	<u>92,451</u>	<u>1,473</u>

September 30, 2016					
	<u>Beginning balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Series 2013A taxable bond	\$ 24,579	—	—	24,579	457
Series 2013B taxable bond	2,732	—	—	2,732	52
USDA Direct Loan	67,442	—	(882)	66,560	911
Total	<u>\$ 94,753</u>	<u>—</u>	<u>(882)</u>	<u>93,871</u>	<u>1,420</u>

HHC owns a 60-acre medical campus in Raeford, Hoke County, North Carolina, that was developed in two phases. HHC obtained permanent financing for Health Pavilion Hoke from the United States Department of Agriculture (USDA) in March 2013 in the form of a \$38,448, fixed-rate, 40-year direct loan (the Phase 1 Direct Loan) that bears interest at 3.125%.

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HHC requested that the USDA provide permanent financing for Phase 2 through its Community Facilities Direct Loan and Guaranteed Loan Program. Under the USDA Community Facilities Guaranteed Loan Program, the USDA guarantees a portion of the loan (e.g., 90%) with the full faith and credit of the United States of America and partners with a private lender who agrees to service the loan and hold the nonguaranteed portion of the loan (e.g., 10%). The USDA agreed to provide permanent financing for this phase through a fixed-rate, 40-year, \$30,000 direct loan bearing interest at 3.50% (the Phase 2 Direct Loan) and a fixed-rate, 30-year, \$27,311 guaranteed loan (the Guaranteed Loan) bearing interest at 4.75%. The Guaranteed Loan was made in the form of taxable bonds issued by HHC (Hoke Community Medical Center Project), Series 2013A in the principal amount of \$24,579 (the Series 2013A Bonds) to Farm Credit Services of America, Cobank, and Agstart Financial Services, each held an equal share. HHC also issued Taxable Bonds (Hoke Community Medical Center Project), Series 2013B in the principal amount of \$2,732 (the Series 2013B Bonds) to BB&T.

The Series 2013A Bonds, which are 90% of the principal amount of the Guaranteed Loan, represent the guaranteed portion of the Guaranteed Loan. The Series 2013B Bonds, which are 10% of the Guaranteed Loan, represent the nonguaranteed portion of the Guaranteed Loan and bear interest at 8%. Both loans have a final maturity date of October 1, 2043.

The debt service requirements of the Phase 1 Direct Loan, the Series 2013A Bonds, the Series 2013B Bonds, and the Phase 2 Direct loan as of September 30, 2017 (over the next five years and in five-year increments thereafter) are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending September 30:			
2018	\$ 1,474	3,513	4,987
2019	1,530	3,454	4,984
2020	1,589	3,394	4,983
2021	1,650	3,330	4,980
2022	1,714	3,264	4,978
2023–2027	9,619	15,235	24,854
2028–2032	11,647	13,137	24,784
2033–2037	14,123	10,572	24,695
2038–2042	17,149	7,432	24,581
2043–2047	13,148	4,311	17,459
2048–2052	13,233	2,279	15,512
2053–2055	5,575	330	5,905
Total	\$ <u>92,451</u>	<u>70,251</u>	<u>162,702</u>

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(6) Interest Rate Swap

On April 1, 2006, the Health System entered into the Swap Agreement (note 5) as a means to lower its borrowing costs on the Series 2006B Bonds when compared against fixed-rate bonds at the time of issuance. The agreement was effective May 4, 2006, with a notional amount of \$202,275.

Under the Swap Agreement, the Health System pays the swap provider fixed amounts based on a fixed rate of 3.91%, and the swap provider pays to the Health System floating amounts based on 63.50% of the British Bankers' Association 30-day LIBOR, plus 0.20%. Each such amount is based on the outstanding notional amount of the Swap Agreement.

On September 18, 2008, in conjunction with the issuance of the Series 2008A Bonds and the refunding of the Series 2006B Bonds, the Health System terminated \$65,275 of the notional amount of the swap, reducing the associated notional amount to \$137,000. The significant terms of the swap remain unchanged as of September 30, 2017.

The significant terms and features of the Swap Agreement are as follows:

Corresponding bond series		2008A
Swap type		Floating to fixed
Notional amount	\$	137,000
Effective date		September 18, 2008
Termination date		October 1, 2036
Final bond maturity		October 1, 2036
Health System pays		3.91%
Health System receives		63.50% of 30 day LIBOR + 0.20%
Net cash payments remitted by Health System for the year ended September 30, 2017	\$	4,318
Swap fair value – September 30, 2017		(35,869)
Swap fair value – September 30, 2016		(49,825)
Classification		Deferred outflow of resources

(a) Fair Value

As of September 30, 2017 and 2016, the swap has a negative fair value of \$35,869 and \$49,825, respectively, developed by a mark-to-market pricing service 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 of the swap and is, therefore, categorized as a Level 2 security.

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The Health System has determined that its interest rate swap is an effective hedging derivative. Because the swap is an effective hedge, the changes in its fair value of \$(13,956) and \$7,062 for the years ended September 30, 2017 and 2016, respectively, are deferred and are reported on the accompanying balance sheets as deferred outflows of resources.

(b) Credit Risk

The Health System seeks to limit its counterparty risk by contracting only with highly rated entities. As of September 30, 2017 and 2016, the credit rating for the counterparty of the interest rate swap was rated A1 by Moody's Investors Service (Moody's), A+ by Standard & Poor's (S&P), and A+ by Fitch Investors Services (Fitch). To mitigate the potential for credit risk, under the terms of the Swap Agreement if the counterparty's credit quality falls below AA – for Fitch or S&P or Aa3 for Moody's and the swap has a fair value that is positive in favor of the Health System, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted by the counterparty with a third-party custodian.

(c) Basis Risk

The Health System is exposed to basis risk on its interest rate swap agreement because the variable rate payments received by the Health System on these hedging derivative instruments are based on a rate or index (30-day LIBOR) other than the interest rates that the Health System pays on its hedged variable rate debt (SIFMA).

(d) Termination Risk

The swap uses the International Swap Dealers Association Master Agreement (the Master Agreement), which includes standard termination events, such as failure to pay and bankruptcy. The Master Agreement also includes an "additional termination event." The Master Agreement can be terminated if, at any time, a relevant rating with respect to a party declines below the termination level or is withdrawn, or if any party has no relevant rating but was previously rated by such rating agency. The termination levels are, with respect to Moody's, Baa3; S&P, BBB-; and Fitch, BBB-.

The negative swap fair value is the termination payment that would be owed by the Health System to the swap counterparty if the swap were terminated. The payments from the Health System to the swap counterparty are insured by Ambac Financial Group, Inc. (Ambac). This insurance provides protection to the swap counterparty in the event the Health System fails to make payments due under the swap.

When the Health System entered into the swap in 2006, Ambac was rated AAA by each of three rating agencies. Under the terms of the Swap Agreement, an "insurer event" will occur if both Moody's and S&P's ratings for Ambac fall below the A category. If an insurer event happens, and the Health System were downgraded below the A category, the Health System would be required to post collateral in an amount equal to the market value of the swap minus a threshold of up to \$5 million, as defined in the Swap Agreement.

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In 2011, Ambac's rating had been withdrawn by Moody's, by S&P, and by Fitch. Accordingly, an insurer event had occurred as a result. As of September 30, 2017 and 2016, the Health System was rated A3 by Moody's Investors Service and A- by S&P; however, the Health System is not required to post collateral based on its current rating.

(e) Rollover Risk

Rollover risk is the risk that occurs when the term of the swap does not match the term or maturity of the debt associated with the hedge. The Health System does not have rollover risk.

(7) Net Patient Service Revenue

Net patient service revenue for the years ended September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Gross patient charges at established rates	\$ 2,714,365	2,642,344
Deductions:		
Contractual adjustments	1,856,992	1,853,049
Provision for bad debts	<u>145,853</u>	<u>127,990</u>
Net patient service revenue	<u>\$ 711,520</u>	<u>661,305</u>

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. A summary of the payment arrangements with third-party payors is as follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors and cover both operating and capital costs. As of August 1, 2000, outpatient services are reimbursed at prospectively determined rates. The Health System is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Health System, and audits thereof, by the Medicare fiscal intermediary. The Health System's and Bladen's Medicare cost reports have been audited by the Medicare fiscal intermediary for cost report periods through September 30, 2012, respectively. The cost reports for Highsmith-Rainey have been audited through 2015; however, audits are incomplete for fiscal years 2006 and 2007. HHC's cost reports have not been audited to date.

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Medicaid – The North Carolina Department of Health and Human Services Division of Medical Assistance reimburses costs for “inpatient” Medicaid services using a payment per discharge system with case-mix adjustments based on diagnostic-related groups, similar to those used by the Medicare program. The Health System is reimbursed for “outpatient” costs at a tentative rate, with final settlement determined after submission of annual Medicaid cost reports by the Health System, and audits thereof, by the Medicaid fiscal intermediary. The Health System recognizes the impact of new information obtained from audits or reviews as it is obtained. The Health System’s Medicaid cost reports have been audited by the Medicaid program through September 30, 2012. Bladen County Hospital and Highsmith-Rainey’s cost reports have been audited through 2013 and 2015, respectively. HHC’s cost reports have not been audited to date.

Laws governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the future.

The Health System receives supplemental Medicaid funds under the North Carolina Medicaid Reimbursement Initiative (the MRI Program) based on the costs related to the treatment of a disproportionate share of indigent patients. This program was amended in 2012 to provide additional funds to cover a portion of the unreimbursed costs of treating uninsured patients. The amended funding plan is referred to as the GAP Plan. The GAP Plan requires hospitals to pay assessments into a state fund as a condition to receive the additional funds. The state submitted the GAP Plan to Centers for Medicare and Medicaid Services for approval in January 2010. It was approved in April 2012, retroactive to the submission date of January 2010.

The funds received under the MRI Program and the GAP Plan are included in net patient service revenue, and the assessments paid are included in other operating expenses in the accompanying statements of revenues, expenses, and changes in net position. A summary of the funds received and assessments paid under these programs during fiscal years 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
MRI funds received	\$ 41,420	36,190
GAP Plan funds received	15,574	10,874
Less assessments paid	<u>(8,170)</u>	<u>(5,708)</u>
Net amounts recognized	\$ <u><u>48,824</u></u>	<u><u>41,356</u></u>

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

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The Health System's payor mix as a percent of gross revenue was as follows for the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Medicare	48.2%	48.6%
Medicaid	20.0	19.9
Tricare	6.9	7.3
Self-pay	6.2	6.1
Commercial, managed care, and other	<u>18.7</u>	<u>18.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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/or allegations concerning possible violations of fraud and/or 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. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Management is proactively monitoring compliance with these matters through its corporate compliance program to mitigate the inherent risks of operating in the healthcare industry.

(8) Charity Care

The Health System maintains records to identify and monitor the level of care it provides without charge or at discounted rates to those patients who are unable to meet their financial obligation, including low-income, uninsured, underinsured or medically indigent patients. 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. All other avenues to obtain financial assistance, including applying for other governmental programs such as Medicaid, must be exhausted prior to receiving financial assistance from the Health System. The estimated cost of services provided under the Health System's charity care policy, based on applying an estimated cost to charge ratio to the amount of applicable charges foregone, was approximately \$14,000 and \$11,000 for the years ended September 30, 2017 and 2016, respectively.

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(9) Risk Management

The Health System is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Health System is self-insured for medical malpractice through an offshore captive (Cape Fear Insurance) and self-insured for workers' compensation up to the various limits discussed below. The Health System has purchased commercial insurance to cover losses exceeding the self-insurance limits.

(a) Estimated Malpractice Costs

The Health System is self-insured for medical malpractice risks up to \$5,000 per claim and an annual aggregate of \$25,000, on a claims-made basis. In addition, the Health System has an excess coverage policy, which is limited to annual costs of \$50,000.

Losses from asserted and unasserted claims identified under the Health System's incident reporting system, and possible losses attributable to incidents that may have occurred, but that have not been identified under the incident reporting system, are accrued based on estimates that incorporate the Health System's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. The Health System has retained an independent actuary to assist management in preparing such estimates. Accrued malpractice losses have not been discounted.

The following is a summary of the activity in the liability for medical malpractice claims for the years ended September 30, 2017 and 2016. The summary includes the activities and liabilities of Cape Fear Insurance.

<u>Year ended September 30</u>	<u>Beginning balance</u>	<u>Incurred claims</u>	<u>Paid claims</u>	<u>Ending balance</u>
2017	\$ 28,070	1,984	(433)	29,621
2016	35,176	(4,795)	(2,311)	28,070

The current portion of the above liability was approximately \$4,400 and \$6,700 as of September 30, 2017 and 2016, respectively, and is included in the accompanying balance sheets within other liabilities and accruals. The remaining noncurrent portion is included in other liabilities in the accompanying balance sheets. The Health System transfers funds to Cape Fear Insurance for the payment of medical malpractice claim settlements. Independent actuaries have been retained to assist the Health System with the annual determination of funds to be transferred.

(b) Workers' Compensation

The Health System is self-insured for workers' compensation claims up to \$750 per incident. The Health System has an excess coverage policy with statutory limits. The Health System has utilized independent actuaries to assist management in estimating the ultimate cost of the self-insurance portion of the settlement of such claims.

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The following is a summary of the activity in the liability for workers' compensation claims for the years ended September 30, 2017 and 2016.

<u>Year ended September 30</u>		<u>Beginning balance</u>	<u>Incurred claims</u>	<u>Paid claims</u>	<u>Ending balance</u>
2017	\$	6,437	1,050	(1,439)	6,048
2016		7,118	761	(1,442)	6,437

The current portion of the above liability was \$1,600 and \$1,900 as of September 30, 2017 and 2016, respectively, and is reflected in the accompanying balance sheets within other current liabilities and accruals. Workers' compensation expense for the years ended September 30, 2017 and 2016 was \$415 and \$779, respectively.

(c) Employee Health Benefit

The Health System self-insures employee health and dental claims. The Health System's accrued employee health and dental costs totaled \$2,791 and \$2,561, respectively, at September 30, 2017 and 2016, and are included in other liabilities and accruals in the accompanying balance sheets.

<u>Year ended September 30</u>		<u>Beginning balance</u>	<u>Incurred claims</u>	<u>Paid claims</u>	<u>Ending balance</u>
2017	\$	2,561	41,261	(41,031)	2,791
2016		4,585	32,670	(34,694)	2,561

(10) Commitments and Contingencies

(a) Leases

The Health System leases various types of equipment and outpatient clinic locations. These leases are classified as operating leases with various expiration dates through 2026. Management expects that in the normal course of events leases will be renewed or replaced by other leases. Minimum lease payments projected below also include servicing and licensing agreements.

Total expenses for all operating leases and related agreements, including the payment in lieu of taxes (note 10(b)), were \$10,119 and \$10,997 for the years ended September 30, 2017 and 2016, respectively.

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Future minimum payments that have noncancelable lease terms in excess of one year as of September 30, 2017 are as follows:

	Minimum lease payments
Years ending September 30:	
2018	\$ 1,700
2019	1,513
2020	1,515
2021	1,515
2022	254
2023–2026	<u>1,015</u>
Total	<u>\$ 7,512</u>

(b) Transfer Agreement

The Transfer Agreement specifies that a payment in lieu of taxes will be paid by the Health System to the County on each July 1, beginning on July 1, 2006. The annual payment in lieu of taxes includes a base payment, as specified in the Transfer Agreement. The annual payment also includes an additional payment that shall be an amount equal to the ad valorem taxes that would have been received by the County on any real property acquired by or for the use of the Health System after January 1, 1998.

Effective with the year ended September 30, 2010, the base payment shall be the previous agreement year's base payment amount adjusted by the most recently published consumer price index for South Urban Size C Communities. Future estimated payments disclosed in the table below do not include a consumer price index adjustment or the additional payment in lieu of taxes specified under the Transfer Agreement. The Health System made payments including these adjustments totaling \$3,474 and \$3,715 for 2017 and 2016, respectively. These payments are reflected in other expenses in the accompanying statements of revenues, expenses, and changes in net position.

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Future estimated minimum payments in lieu of taxes required under the Transfer Agreement as of September 30, 2017 are as follows:

	<u>Minimum payments</u>
Years ending September 30:	
2018	\$ 4,025
2019	3,715
2020	3,715
2021	3,715
2022	3,715
2023–2027	18,575
Each five-year period thereafter	18,575

(c) Healthcare Industry Matters

The healthcare industry continues to attract legislative interest and public attention. In recent years, an increasing number of legislative proposals have been introduced or proposed in Congress and in some state legislatures that, like the Medicare Modernization Act, would affect major changes in the healthcare system. The Patient Protection and Affordable Care Act, enacted in 2010, resulted in significant changes to the healthcare payment and delivery system. The legislation resulted in changes in Medicare, Medicaid, and other state and federal programs, cost controls on hospitals, and mandatory health insurance coverage for individuals. While the Health System is planning and preparing for the certain changes called for in the legislation, it cannot predict the ultimate impact of future healthcare legislation at the state or national level. Changes in the administration at both the state and national level will impact the interpretation of governmental healthcare programs and the effect that any legislation, interpretation, or change may have on the Health System is unknown. Such effects may include material adverse changes to the amounts of reimbursement received by the Health System.

(d) Legal and Regulatory Matters

The Health System is involved in litigation, administrative proceedings, and regulatory examinations arising in the normal course of business. The Health System's management believes that the ultimate outcome of these matters will not have a material impact on the Health System's net position, operations, or cash flows.

(11) Pension Plan

The Health System has a single-employer defined benefit pension plan (the Plan) administered by the Pension Committee of the Health System. The Plan provides retirement benefits to plan members and beneficiaries. Employees of the Health System and Bladen County Hospital, a discretely presented

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component unit, are eligible to become participants in the Plan on the first day of the Plan year in which the employee has completed five years of credited service and attained the age of 25.

The Plan provides pension benefits to vested participants and their beneficiaries who have attained at least five years of service. Retirement benefits are calculated as follows:

- For participants whose sum of age and service as of January 1, 2009 is at least 85: The amount of annual benefit is a product of (a) 1.15% of average compensation times the years of credited service (not to exceed 25 years) and (b) 0.65% of average compensation which is in excess of 1/6 of the current taxable wage base times the years of credited service (not to exceed 25 years).
- For participants whose sum of age and service as of January 1, 2009 is less than 85: The amount of annual benefit is a product of (a) 0.82% of the participant's average compensation times the years of credit service (not to exceed 35 years) and (b) 0.46% of the participant's average compensation which is in excess of 1/6 of the current taxable wage base times the years of credited service (not to exceed 35 years).

If a vested participant dies prior to their annuity starting date, the participant's beneficiary will receive a life annuity equal to the actuarial equivalent of the participant's vested accrued benefit as of the date of the participant's death. If a participant dies after the annuity starting date, payments shall be made in accordance with the method of payment elected by the participant.

The Health System reserves the right to amend or terminate the Plan at any time. Accordingly, the amounts disclosed herein relate to the Plan as a whole. Separate financial statements for the Plan have not been issued. The Plan is not subject to the requirements of the Employee Retirement Income Security Act of 1974. The Plan was closed to new employees hired on or after July 1, 2011, through an amendment to the Plan effective July 1, 2011.

Effective January 1, 2015 the Plan was amended to limit compensation to include regular hours worked, paid time off used, administrative time, education time, funeral leave, jury duty and at-risk compensation as reported on the employees' W-2 for federal income tax purposes. The defined benefit dollar limitation at normal retirement was also updated to \$35. The limit is indexed each year at 2%. As a result of these plan changes, a favorable adjustment of \$20,289 was recorded in pension expense for the year ended September 30, 2016.

Effective September 30, 2016, the Plan was amended to eliminate future accruals for participants with less than 10 years of credited service as of December 31, 2016. As a result of this Plan change, a favorable adjustment of \$6,943 was recorded in pension expense for the year ended September 30, 2017.

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(a) Employees covered by benefit terms

The total pension liability at September 30, 2017 and 2016 was based on plan membership data as of January 1, 2015 and 2014 and rolled forward to the measurement date, or September 30, 2016 and 2015, respectively, as follows:

	<u>2017*</u>	<u>2016**</u>
Active plan members	2,450	2,427
Retired	571	496
Terminated vested	<u>1,401</u>	<u>1,369</u>
Total members	<u><u>4,422</u></u>	<u><u>4,292</u></u>

* Based on a September 30, 2016 measurement date

** Based on a September 30, 2015 measurement date

(b) Contributions

Contribution requirements are established and may be amended by the Health System. Administrative costs of the Plan are paid by the Health System. Currently, employee contributions are not permitted. The Health system'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 plan members and to meet the minimum actuarially determined funding requirements. The Health System's contribution rates for the years ended September 30, 2017 and 2016 equaled 6.89% and 7.89% of covered payroll, respectively. These contribution rates are determined based on a measurement date of September 30, 2016 and 2015, respectively.

(c) Investments

Policies pertaining to the allocation of investments within the Plan are established and may be amended by the Compensation and Investment Committee of the Board of Trustees (the Committee). The Committee's responsibilities include, but are not limited to: (1) ensure that the Plan's assets are managed in compliance with applicable laws and regulations; (2) periodically review expected levels of benefit payments for the next 12 months and ensure that the Plan's assets are invested such that the Plan can meet its benefit obligations when due; (3) undertake, on a periodic basis, a review of the Plan's financial status to determine the optimum strategic asset allocation guidelines for the Plan; (4) retain, at its discretion, investment managers, trustees and other professionals to facilitate and assist with the management of the Plan; and (5) review the performance of the Plan's investment managers. It is the goal of the Health System to maintain an adequate but not excessive funding level. As such, a portion of the Plan's assets will, therefore, be invested in a manner consistent with the Plan's liabilities, cash flow requirements, and risk tolerance. The remainder of the assets in the Plan will have a long-term investment objective to outperform an appropriate composite benchmark based on the underlying asset class allocations over rolling three-year periods.

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The following table illustrates the approved asset allocation policy:

Investment type	% Range of allocation		
	Minimum	Target	Maximum
Liability matching assets	25 %	30 %	35 %
Fixed-income investments	5	10	20
Equity investments	45	55	65
Real estate investments	—	5	10

Asset allocations falling outside the minimum and maximum ranges may be rebalanced back to target levels using normal Plan cash flows (contributions, benefit distributions, etc.). Asset allocations below minimum and above maximum ranges by more than 5% will be re-balanced to target levels, or levels within the prescribed ranges by the reallocation of assets by the Plan's investment managers.

Permitted securities in which assets of the Plan may be invested include any of the following:

Liability matching assets:

- Treasury bills
- Money market funds
- Commercial paper
- Certificates of deposit
- Banker's acceptances
- Certificates of deposit or other cash equivalents
- High-quality credit issues
- Fixed-income derivative contracts
- Commingled funds that invest in securities in accordance with the investment policy

Fixed-income securities:

- U.S. government and agency obligations
- Nonderivative mortgage-backed and asset-backed securities
- Corporate and utility bonds
- Commercial paper
- Certificates of deposit or other cash equivalents
- Yankee issues
- Closed-end bond funds
- Commingled funds that invest in securities in accordance with the investment policy

Equity securities:

- American Depository Receipts (ADRs) of non-U.S. companies
- Issues convertible into common stock
- Large cap domestic equity securities
- Mid cap domestic equity securities
- Small cap domestic equity securities
- International equity securities
- Emerging market equity securities
- Mutual funds
- Commingled funds that invest in securities in accordance with the investment policy

Real estate:

- Real estate investment trusts
- Global real estate securities
- Commingled funds that invest in securities in accordance with the investment policy

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Investments are reported at fair value or an amount determined by external investment managers if quoted market prices are not available. Management reviews and evaluates the fair value provided by the external investment managers, as well as the valuation methods and assumptions used in determining the fair value of such investments. Although management believes the fair value estimated for interests in its real estate and commingled funds that do not have readily determinable market values to be reasonable, such estimated fair values (amounting to \$43,968 and \$47,108 at September 30, 2016 and 2015, respectively) may differ from the ultimate realizable value of the investments. In addition, these investments are generally less liquid than investments with a readily determinable market value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The following investments represented 5% or more of the Plan's fiduciary net position:

	September 30	
	2017*	2016**
Westwood Treasury Large Cap Equity Fund	\$ 28,521	25,467
Causeway International Value Fund	25,464	24,447
JP Morgan High Yield Pension Trust Fund	15,447	14,275
Brookfield Global Listed Real Estate Fund	8,387	—
Vanguard Mid Capitalization Index Signal Fund	8,222	7,219
ING Clarion Global Real Estate Fund	—	7,366
	<u>\$ 86,041</u>	<u>78,774</u>

* Based on a September 30, 2016 measurement date

** Based on a September 30, 2015 measurement date

The fiduciary net position of the Plan was invested as follows:

	September 30	
	2017*	2016**
Liability matching assets	\$ 24,285	27,878
Equity securities	89,232	73,671
Fixed-income securities	40,159	32,994
Real estate	—	7,366
Total	<u>\$ 153,676</u>	<u>141,909</u>

* Based on a September 30, 2016 measurement date

** Based on a September 30, 2015 measurement date

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The following tables present the Plan's assets measured at estimated fair value aggregated by the level in the fair value hierarchy at September 30, 2017 and 2016, respectively:

Fair value measurements at September 30, 2017* using				
	Total	Level 1	Level 2	Level 3
Plan assets by fair value level:				
Liability matching assets:				
Cash equivalents	\$ 3,120	3,120	—	—
U.S. Treasury and agency obligations	5,718	5,718	—	—
Equity securities	60,711	60,711	—	—
Fixed income:				
Corporate obligations	20,806	—	20,806	—
Mortgage-backed securities	18,288	—	18,288	—
Other obligations	1,065	—	1,065	—
	<u>109,708</u>	<u>\$ 69,549</u>	<u>40,159</u>	<u>—</u>
Plan assets measured at the NAV:				
Liability matching assets	15,447			
Equity securities	<u>28,521</u>			
Total pension plan assets	<u>\$ 153,676</u>			

* Based on a September 30, 2016 measurement date

Investment measured at NAV at September 30, 2017*				
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Multistrategy hedge fund (1)	\$ 15,447	—	No limit	3 days or less
Commingled large-cap equity fund (2)	<u>28,521</u>	—	No limit	Daily
Total pension plan assets	<u>\$ 43,968</u>			

(1) This fund invests in a diversified portfolio of debt securities as well as in one other collective investment trust fund. The value of the Plan's interest in the fund is determined on a daily basis based on its undivided interest of the fund's earnings and assets. Income and expenses are allocated based on relative net assets.

(2) This fund invests in a variety of domestic common stocks or similar equity securities of high-quality, financially secure companies listed on principal exchanges. The value of the Plan's interest in the fund is determined on a daily basis based on its pro rata share of the fund's net assets.

* Based on a September 30, 2016 measurement date

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Fair value measurements at September 30, 2016* using				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Plan assets by fair value level:				
Liability matching assets:				
Cash equivalents	\$ 3,438	3,438	—	—
U.S. Treasury and agency obligations	10,165	10,165	—	—
Equity securities	48,204	48,204	—	—
Fixed income:				
Corporate obligations	14,478	—	14,478	—
Mortgage-backed securities	17,930	—	17,930	—
Other obligations	586	—	586	—
	<u>94,801</u>	<u>\$ 61,807</u>	<u>32,994</u>	<u>—</u>
Plan assets measured at the NAV:				
Liability matching assets	14,275			
Equity securities	25,467			
Real estate	7,366			
Total pension plan assets	<u>\$ 141,909</u>			

* Based on a September 30, 2015 measurement date

Investment measured at NAV at September 30, 2016*				
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Multistrategy hedge fund (1)	\$ 14,275	—	No limit	3 days or less
Commingled large-cap equity fund (2)	25,467	—	No limit	Daily
Real estate fund (3)	7,366	—	No limit	Daily
Total pension plan assets	<u>\$ 47,108</u>			

(1) This fund invests in a diversified portfolio of debt securities as well as in one other collective investment trust fund. The value of the Plan's interest in the fund is determined on a daily basis based on its undivided interest of the fund's earnings and assets. Income and expenses are allocated based on relative net assets.

(2) This fund invests in a variety of domestic common stocks or similar equity securities of high-quality, financially secure companies listed on principal exchanges. The value of the Plan's interest in the fund is determined on a daily basis based on its pro rata share of the fund's net assets.

(3) This fund invests in various real estate investment trusts located primarily in the United States. The value of the Plan's interest in the fund is determined on a daily basis based on its prorata share of the fund's net assets. The pro rata share changes as participants make contributions to, or redemptions from, the fund. All income, expenses, gains and losses are allocated daily to the Plan based on its pro rata interest of the net assets of the fund.

* Based on a September 30, 2015 measurement date

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(d) Actuarial Assumptions

The total pension liability at September 30, 2017 and 2016 was determined using the following actuarial assumptions:

	<u>2017*</u>	<u>2016*</u>
General inflation	2.50 %	2.50 %
Salary increases	3.10	3.00
Investment rate of return (net of pension plan investment expense, including inflation)	7.50	7.50

* Based on a September 30, 2016 measurement date

** Based on a September 30, 2015 measurement date

The actuarial assumptions used in the September 30, 2015 and 2016 valuations were based on the results of an actuarial experience study that is conducted every few years. Mortality rates used in the September 30, 2016 and 2015 valuations were based on the RP-2014 Healthy Annuitant/Non Annuitant Mortality Table for Males and Females, as appropriate (adjusted to remove scale MP-2014 mortality improvements), with generational projections for mortality improvements based on Scale MP-2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected real rates of return, which are net of related investment expenses, by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>2017 Long-term expected rate of return*</u>	<u>2016 Long-term expected rate of return**</u>
Liability matching assets	30 %	2.90 %	3.50 %
Equity securities	55	6.20%–7.40%	6.60%–8.50%
Fixed-income securities	10	5.10 %	6.30 %
Real estate	5	5.90	6.70

* Based on a September 30, 2016 measurement date

** Based on a September 30, 2015 measurement date

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The discount rate used to measure the total pension liability for the years ended September 30, 2017 and 2016 (based on a September 30, 2016 and 2015 measurement date) was 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that Health System contributions will be made based on rates determined by the actuary and retiree benefits are paid out according to the plans' formulae and assumptions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(e) Changes in the Net Pension Liability

The following table presents the Plans' changes in the net pension liability:

	<u>Increase (decrease)</u>		
	<u>Total pension liability</u>	<u>Plan fiduciary net position</u>	<u>Net pension liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance recognized at October 1, 2016*	\$ 207,598	141,909	65,689
Changes recognized for the fiscal year:			
Service cost	3,705	—	3,705
Interest	15,562	—	15,562
Plan changes	(6,943)	—	(6,943)
Differences between expected and actual experience	6,908	—	6,908
Changes in assumptions	(3,609)	—	(3,609)
Contributions from the employer	—	10,089	(10,089)
Net investment income	—	9,426	(9,426)
Benefit payments	(7,748)	(7,748)	—
Net changes	<u>7,875</u>	<u>11,767</u>	<u>(3,892)</u>
Balance recognized at September 30, 2017**	\$ <u>215,473</u>	<u>153,676</u>	<u>61,797</u>

* Based on September 30, 2015 measurement date

** Based on September 30, 2016 measurement date

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	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balance recognized at October 1, 2015*	\$ 211,349	138,034	73,315
Changes recognized for the fiscal year:			
Service cost	3,441	—	3,441
Interest	16,329	—	16,329
Plan changes	(20,289)	—	(20,289)
Differences between expected and actual experience	824	—	824
Changes in assumptions	4,270	—	4,270
Contributions from the employer	—	12,405	(12,405)
Net investment income	—	(204)	204
Benefit payments	(8,326)	(8,326)	—
Net changes	(3,751)	3,875	(7,626)
Balance recognized at September 30, 2016**	\$ 207,598	141,909	65,689

* Based on September 30, 2014 measurement date

** Based on September 30, 2015 measurement date

(f) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the Health System at September 30, 2017 and 2016, calculated using the discount rate of 7.50% at September 30, 2016 and 2016, as well as what the Health System's net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

	1% Decrease (6.50%)	Current rate (7.50%)	1% Increase (8.50%)
Total pension liability*	\$ 247,158	215,473	192,716
Plan fiduciary net position*	153,676	153,676	153,676
Net pension liability*	\$ 93,482	61,797	39,040

* Based on September 30, 2016 measurement date

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	<u>1% Decrease (6.50%)</u>	<u>Current rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Total pension liability*	\$ 235,418	207,598	184,490
Plan fiduciary net position*	<u>141,909</u>	<u>141,909</u>	<u>141,909</u>
Net pension liability*	\$ <u>93,509</u>	<u>65,689</u>	<u>42,581</u>

* Based on September 30, 2015 measurement date

(g) Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

For the years ended September 30, 2017 and 2016, the Health System recognized pension expense of \$5,060 and \$(8,670), respectively. At September 30, 2017, the Health System reported deferred outflows of resources and deferred inflows or resources related to pension from the following sources:

	<u>Deferred outflows of resources *</u>	<u>Deferred inflows of resources *</u>	<u>Net deferred outflows (inflows) *</u>
Differences between expected and actual experience	\$ 6,987	—	6,987
Net difference between expected and actual earnings on pension plan investments	6,866	(2,240)	4,626
Assumption changes	2,785	(2,957)	(172)
Contributions made after the measurement date	<u>9,712</u>	<u>—</u>	<u>9,712</u>
Total	\$ <u>26,350</u>	<u>(5,197)</u>	<u>21,153</u>

* Based on a September 30, 2016 measurement date

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At September 30, 2016, the Health System reported deferred outflows of resources and deferred inflows or resources related to pension from the following sources:

	<u>Deferred outflows of resources *</u>	<u>Deferred inflows of resources *</u>	<u>Net deferred outflows (inflows) *</u>
Differences between expected and actual experience	\$ 1,741	—	1,741
Net difference between expected and actual earnings on pension plan investments	8,393	(3,360)	5,033
Assumption changes	3,528	—	3,528
Contributions made after the measurement date	<u>10,050</u>	<u>—</u>	<u>10,050</u>
Total	\$ <u><u>23,712</u></u>	<u><u>(3,360)</u></u>	<u><u>20,352</u></u>

* Based on a September 30, 2015 measurement date

Deferred outflows of resources resulting from employer contributions made after the measurement date in the amount of \$9,712 as of September 30, 2017 will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Amounts reported as deferred outflows of resources and deferred inflows of resources related to the accumulated net differences between expected and actual experience, projected and actual earnings on pension plan investments and assumption changes as of September 30, 2017 will be recognized in pension expense for each of the years ended September 30 as follows:

	<u>Amount</u>
2018	\$ 2,875
2019	2,875
2020	3,967
2021	1,403
2022	<u>321</u>
	\$ <u><u>11,441</u></u>

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(12) Investments in Joint Ventures

The Health System purchased a 22% limited partnership interest in Fayetteville Ambulatory Surgery Center Limited Partnership in October 1995. The investment is accounted for using the equity method. The Health System's investment in Fayetteville Ambulatory Surgery Center Limited Partnership as of September 30, 2017 and 2016 is \$1,064 and \$1,261, respectively, and is reflected within other assets in the accompanying balance sheets.

The Health System has a 49% equity interest in Valley Regional Imaging. The investment is accounted for using the equity method. The Health System's investment in Valley Regional Imaging as of September 30, 2017 and 2016 is \$380 and \$1,043, respectively, and is reflected within other assets in the accompanying balance sheets.

The Health System is an investor in other medical-related organizations that are accounted for using the cost method and had a carrying amount of \$228 and \$283 as of September 30, 2017 and 2016, respectively, and is reflected within other assets in the accompanying balance sheets. Information about the availability of separate financial statements of the above-mentioned organizations may be obtained from the Health System's office of financial services.

(13) Management Services Agreement

On November 3, 2014, the Health System entered into a management services agreement with Harnett Health System, Inc. (Harnett), effective as of that date. Under the management services agreement, the Health System is supervising and managing the day-to-day operations of Harnett and its various affiliates, including Betsy Johnston Memorial Hospital in Dunn, North Carolina and its provider-based location, Central Harnett Hospital, in Lillington, North Carolina (collectively, Harnett Health System). In conjunction with the management services agreement, the Health System also extended a Line of Credit to Harnett and was granted certain rights to assume an ownership interest in Harnett Health System in the future. As of September 30, 2017, Harnett has no outstanding balance against the extended line of credit.

(14) Affiliation with Campbell University School of Medicine

The Health System and the Campbell University School of Medicine (Campbell) entered into an Affiliation agreement in 2014 related to medical education and training and the creation of an academic medical center at Cape Fear Valley Medical Center. Since that time, Campbell and the Health System have worked to develop and gain approval of the residencies necessary to begin the residency program at Cape Fear Valley Medical Center, and the program received state legislative support in 2017. There are five approved residency programs that began in 2017 (internal medicine, general surgery, emergency medicine, OB/GYN and transitional). The Health System and Campbell are in the final stages of negotiating a master affiliation agreement specific to the residency programs.

(15) Subsequent Events

Effective September 30, 2017, the Plan was amended to eliminate future accruals for participants with less than 15 years of credited service as of December 31, 2017. The impact of this plan change is a reduction of approximately \$4,900 in the net pension liability and will be recognized in 2018.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

Notes to Financial Statements

September 30, 2017 and 2016

(Dollar amounts in thousands)

In November 2017, the Health System issued \$152,000 in Health Care Facilities Revenue Refunding Bonds, Series 2017 (the Series 2017 Bonds) through the Public Finance Authority. The issuance of the Series 2017 Bonds refunded and replaced the \$152,000 Health Care Facilities Revenue Bonds, Series 2008A issued through the North Carolina Medical Care Commission and removed the letter of credit backing those bonds. The Series 2017 Bonds were purchased by BB&T Community Holdings Co. and bears interest payable monthly based on 68% of one-month LIBOR plus 0.63%. The Series 2017 Bonds are repayable in varying annual installments ranging from \$7,850 due October 1, 2024 to \$18,780 due October 1, 2036.

The Health System has evaluated subsequent events for potential recognition and/or disclosure through January 26, 2018, the date of issuance of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

Required Supplementary Information under GASB Statement No. 68

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

September 30, 2017, 2016 and 2015

(In thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:			
Service cost	\$ 3,705	3,441	4,004
Interest cost	15,562	16,329	15,409
Changes in benefit terms	(6,943)	(20,289)	—
Differences between expected and actual experiences	6,908	824	1,605
Changes in assumptions	(3,609)	4,270	—
Benefit payments, including refunds of employee contributions	<u>(7,748)</u>	<u>(8,326)</u>	<u>(8,830)</u>
Net change in total pension liability	7,875	(3,751)	12,188
Total pension liability – beginning	<u>207,598</u>	<u>211,349</u>	<u>199,161</u>
Total pension liability – ending (a)	<u>215,473</u>	<u>207,598</u>	<u>211,349</u>
Plan fiduciary net position:			
Contributions – employer	10,089	12,405	10,337
Net investment income	9,995	340	15,089
Benefit payments, including refunds of employee contributions	(7,748)	(8,326)	(8,830)
Administrative expense	<u>(569)</u>	<u>(544)</u>	<u>(504)</u>
Net change in plan fiduciary net position	11,767	3,875	16,092
Plan fiduciary net position – beginning	<u>141,909</u>	<u>138,034</u>	<u>121,942</u>
Plan fiduciary net position – ending (b)	<u>153,676</u>	<u>141,909</u>	<u>138,034</u>
Net pension liability – ending (a) – (b)	<u>\$ 61,797</u>	<u>65,689</u>	<u>73,315</u>
Plan fiduciary net position as a percentage of the total pension liability	71.32 %	68.36 %	65.31 %
Covered – employee payroll	\$ 146,329	157,305	150,236
Net pension liability as a percentage of covered-employee payroll	42.23 %	41.76 %	48.80 %

Note to schedule:

Measurement date is September 30 of prior fiscal year.

See accompanying independent auditors' report.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

Required Supplementary Information under GASB Statement No. 68

Schedule of Contributions (Unaudited)

Last 10 Fiscal years

(In thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 10,050	12,405	10,337	10,337	10,131	9,684	7,963	6,252	4,240	7,814
Contributions made in relation to the actuarially determined contribution	<u>10,089</u>	<u>12,405</u>	<u>10,337</u>	<u>10,337</u>	<u>10,131</u>	<u>9,684</u>	<u>7,963</u>	<u>6,252</u>	<u>4,240</u>	<u>7,814</u>
Contribution deficiency (excess)	\$ <u>(39)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Covered – employee payroll	\$ 146,329	157,305	150,236	145,472	145,472	145,384	144,737	144,164	136,620	122,921
Contributions as a percentage of covered – employee payroll	6.89%	7.89%	6.88%	7.11%	6.96%	6.66%	5.50%	4.34%	3.10%	6.36%

Notes to schedule:

Valuation date: Actuarially determined contribution rates are calculated as of October 1, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Attained age normal
Asset valuation method:	Three-year smoothing
IRS Limit increases:	2.50%
Salary increases:	3.10%
Investment rate of return:	7.50%, net of pension plan investment expense, including inflation
Retirement age:	Varies by age and service
Mortality age:	Based on the RP-2014 Healthy Annuitant/Non Annuitant Mortality Table for Males or Females, as appropriate, (adjusted to remove Scale MP-2014 mortality improvements), with generational projections for mortality improvements based on Scale MP-2015.

See accompanying independent auditors' report.

COMBINING INFORMATION

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

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

September 30, 2017

(In thousands)

	Obligated group	Nonobligated group					Nonobligated group	
	Cape Fear Valley Medical Center	Cape Fear Insurance, Ltd. SPC	Hoke Health Services, LLC	Bladen Healthcare, LLC			Cape Fear Valley Health Foundation	
Assets and Deferred Outflows of Resources					Eliminations	Subtotal		
Current assets:								
Cash and cash equivalents	\$ 65,539	293	4,529	2,960	—	73,321	455	73,776
Short-term investments	10,123	—	—	—	—	10,123	6,628	16,751
Patient accounts receivable – net	87,608	—	6,788	7,081	—	101,477	—	101,477
Estimated third-party payor settlements	—	—	—	1,308	—	1,308	—	1,308
Other accounts receivable	43,998	157	396	257	(38,115)	6,693	120	6,813
Assets limited as to use – cash and investments – current portion:								
Designated for self-insurance	—	6,000	—	—	—	6,000	—	6,000
Inventories	9,599	—	320	360	—	10,279	—	10,279
Prepaid expenses	4,563	4	83	70	—	4,720	—	4,720
Total current assets	221,430	6,454	12,116	12,036	(38,115)	213,921	7,203	221,124
Capital assets – net	296,585	—	95,238	11,731	—	403,554	—	403,554
Other noncurrent assets:								
Assets limited as to use – cash and investments:								
Designated for capital improvements	104,412	—	—	—	—	104,412	—	104,412
Designated for self-insurance	11,426	39,129	—	—	—	50,555	—	50,555
Bond proceeds held by trustee	—	—	6,024	—	—	6,024	—	6,024
Total assets limited as to use	115,838	39,129	6,024	—	—	160,991	—	160,991
Investments	253,631	—	—	—	—	253,631	—	253,631
Other assets	6,645	—	—	81	—	6,726	—	6,726
Total other noncurrent assets	376,114	39,129	6,024	81	—	421,348	—	421,348
Total assets	894,129	45,583	113,378	23,848	(38,115)	1,038,823	7,203	1,046,026
Deferred outflows of resources	76,928	—	—	619	—	77,547	—	77,547
Total assets and deferred outflows of resources	\$ 971,057	45,583	113,378	24,467	(38,115)	1,116,370	7,203	1,123,573

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

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

September 30, 2017

(In thousands)

Liabilities, Deferred Inflows of Resources and Net Position	Obligated group	Nonobligated group			Eliminations	Subtotal	Nonobligated group	Total reporting entity
	Cape Fear Valley Medical Center	Cape Fear Insurance, Ltd. SPC	Hoke Health Services, LLC	Bladen Healthcare, LLC			Cape Fear Valley Health Foundation	
Current liabilities:								
Accounts payable	\$ 34,403	330	534	2,014	—	37,281	88	37,369
Salaries and benefits payable	31,412	—	644	1,114	—	33,170	—	33,170
Other liabilities and accruals	12,984	8,344	27,074	5,626	(38,115)	15,913	—	15,913
Estimated third-party payor settlements	56,321	—	2,506	2,436	—	61,263	—	61,263
Current maturities of long-term debt	7,325	—	1,473	51	—	8,849	—	8,849
Total current liabilities	142,445	8,674	32,231	11,241	(38,115)	156,476	88	156,564
Long-term debt – less current maturities	237,110	—	90,978	111	—	328,199	—	328,199
Interest rate swap liability	35,869	—	—	—	—	35,869	—	35,869
Pension liability	61,366	—	—	431	—	61,797	—	61,797
Other liabilities	13,991	15,678	—	—	—	29,669	—	29,669
Total liabilities	490,781	24,352	123,209	11,783	(38,115)	612,010	88	612,098
Deferred inflows of resources	5,079	—	—	118	—	5,197	—	5,197
Net position:								
Net investment in capital assets	53,158	—	2,787	11,568	—	67,513	—	67,513
Restricted for debt service	—	—	6,024	—	—	6,024	—	6,024
Unrestricted	422,039	21,231	(18,642)	998	—	425,626	3,525	429,151
Restricted – by donor	—	—	—	—	—	—	3,590	3,590
Total net position	475,197	21,231	(9,831)	12,566	—	499,163	7,115	506,278
Total liabilities, deferred inflows of resources, and net position	\$ 971,057	45,583	113,378	24,467	(38,115)	1,116,370	7,203	1,123,573

See accompanying independent auditors' report.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

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

September 30, 2016

(In thousands)

Assets and Deferred Outflows of Resources	Obligated group	Nonobligated group			Eliminations	Subtotal	Nonobligated group	Total reporting entity
	Cape Fear Valley Medical Center	Cape Fear Insurance, Ltd. SPC	Hoke Health Services, LLC	Bladen Healthcare, LLC			Cape Fear Valley Health Foundation	
Current assets:								
Cash and cash equivalents	\$ 49,060	115	4,011	2,107	—	55,293	301	55,594
Short-term investments	8,973	—	—	—	—	8,973	6,024	14,997
Patient accounts receivable – net	92,299	—	8,309	7,376	—	107,984	—	107,984
Estimated third-party payor settlements	—	—	—	927	—	927	—	927
Other accounts receivable	45,827	—	258	228	(37,603)	8,710	135	8,845
Assets limited as to use – cash and investments – current portion:								
Designated for self-insurance	—	8,600	—	—	—	8,600	—	8,600
Inventories	9,768	—	341	313	—	10,422	—	10,422
Prepaid expenses	6,688	—	57	77	—	6,822	—	6,822
Total current assets	<u>212,615</u>	<u>8,715</u>	<u>12,976</u>	<u>11,028</u>	<u>(37,603)</u>	<u>207,731</u>	<u>6,460</u>	<u>214,191</u>
Capital assets – net	290,239	—	99,440	12,157	—	401,836	—	401,836
Other noncurrent assets:								
Assets limited as to use – cash and investments:								
Designated for capital improvements	106,728	—	—	—	—	106,728	—	106,728
Designated for self-insurance	11,042	28,767	—	—	—	39,809	—	39,809
Bond proceeds held by trustee	—	—	5,828	—	—	5,828	—	5,828
Total assets limited as to use	<u>117,770</u>	<u>28,767</u>	<u>5,828</u>	<u>—</u>	<u>—</u>	<u>152,365</u>	<u>—</u>	<u>152,365</u>
Investments	223,770	—	—	—	—	223,770	—	223,770
Other assets	3,769	—	—	81	—	3,850	—	3,850
Total other noncurrent assets	<u>345,309</u>	<u>28,767</u>	<u>5,828</u>	<u>81</u>	<u>—</u>	<u>379,985</u>	<u>—</u>	<u>379,985</u>
Total assets	<u>848,163</u>	<u>37,482</u>	<u>118,244</u>	<u>23,266</u>	<u>(37,603)</u>	<u>989,552</u>	<u>6,460</u>	<u>996,012</u>
Deferred outflows of resources	88,942	—	—	774	—	89,716	—	89,716
Total assets and deferred outflows of resources	<u>\$ 937,105</u>	<u>37,482</u>	<u>118,244</u>	<u>24,040</u>	<u>(37,603)</u>	<u>1,079,268</u>	<u>6,460</u>	<u>1,085,728</u>

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.

(d/b/a Cape Fear Valley Health System)

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

September 30, 2016

(In thousands)

Liabilities, Deferred Inflows of Resources and Net Position	Obligated group	Nonobligated group			Eliminations	Subtotal	Nonobligated group	Total reporting entity
	Cape Fear Valley Medical Center	Cape Fear Insurance, Ltd. SPC	Hoke Health Services, LLC	Bladen Healthcare, LLC			Cape Fear Valley Health Foundation	
Current liabilities:								
Accounts payable	\$ 31,791	30	963	2,331	—	35,115	46	35,161
Salaries and benefits payable	27,922	—	548	1,203	—	29,673	—	29,673
Other liabilities and accruals	11,668	6,700	32,062	4,564	(37,603)	17,391	—	17,391
Estimated third-party payor settlements	54,844	—	932	1,681	—	57,457	—	57,457
Current maturities of long-term debt	7,075	—	1,420	51	—	8,546	—	8,546
Total current liabilities	133,300	6,730	35,925	9,830	(37,603)	148,182	46	148,228
Long-term debt – less current maturities	246,161	—	92,451	163	—	338,775	—	338,775
Interest rate swap liability	49,825	—	—	—	—	49,825	—	49,825
Pension liability	63,917	—	—	1,772	—	65,689	—	65,689
Other liabilities	13,169	12,738	—	—	—	25,907	—	25,907
Total liabilities	506,372	19,468	128,376	11,765	(37,603)	628,378	46	628,424
Deferred inflows of resources	3,346	—	—	14	—	3,360	—	3,360
Net position:								
Net investment in capital assets	37,003	—	5,569	11,943	—	54,515	—	54,515
Restricted for debt service	—	—	5,828	—	—	5,828	—	5,828
Unrestricted	390,384	18,014	(21,529)	318	—	387,187	2,776	389,963
Restricted – by donor	—	—	—	—	—	—	3,638	3,638
Total net position	427,387	18,014	(10,132)	12,261	—	447,530	6,414	453,944
Total liabilities, deferred inflows of resources, and net position	\$ 937,105	37,482	118,244	24,040	(37,603)	1,079,268	6,460	1,085,728

See accompanying independent auditors' report.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

Combining Schedule of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2017

(In thousands)

	<u>Obligated group</u>	<u>Nonobligated group</u>			<u>Eliminations</u>	<u>Subtotal</u>	<u>Nonobligated group</u>	<u>Total reporting entity</u>
	<u>Cape Fear Valley Medical Center</u>	<u>Cape Fear Insurance, Ltd. SPC</u>	<u>Hoke Health Services, LLC</u>	<u>Bladen Healthcare, LLC</u>			<u>Cape Fear Valley Health Foundation</u>	
Revenues:								
Net patient service revenue	\$ 711,520	—	34,846	31,420	—	777,786	—	777,786
Other revenues	43,025	2,962	2,112	640	(2,962)	45,777	1,616	47,393
Total revenues	<u>754,545</u>	<u>2,962</u>	<u>36,958</u>	<u>32,060</u>	<u>(2,962)</u>	<u>823,563</u>	<u>1,616</u>	<u>825,179</u>
Operating expenses:								
Salaries	349,256	—	15,379	17,491	—	382,126	—	382,126
Fringe benefits	77,258	—	3,308	4,595	—	85,161	—	85,161
Medical supplies	117,978	—	3,732	2,296	—	124,006	—	124,006
Professional fees	37,333	—	1,438	2,516	—	41,287	—	41,287
Purchased services	43,063	—	1,130	1,007	—	45,200	—	45,200
Other expenses	69,347	1,856	3,470	2,709	(2,962)	74,420	1,557	75,977
Depreciation and amortization	27,976	—	4,670	1,136	—	33,782	—	33,782
Interest expense	9,405	—	3,555	7	—	12,967	—	12,967
Total operating expenses	<u>731,616</u>	<u>1,856</u>	<u>36,682</u>	<u>31,757</u>	<u>(2,962)</u>	<u>798,949</u>	<u>1,557</u>	<u>800,506</u>
Operating income	<u>22,929</u>	<u>1,106</u>	<u>276</u>	<u>303</u>	<u>—</u>	<u>24,614</u>	<u>59</u>	<u>24,673</u>
Nonoperating income:								
Net investment income	24,358	2,111	25	—	—	26,494	642	27,136
Other nonoperating (loss) income	523	—	—	2	—	525	—	525
Total nonoperating income	<u>24,881</u>	<u>2,111</u>	<u>25</u>	<u>2</u>	<u>—</u>	<u>27,019</u>	<u>642</u>	<u>27,661</u>
Excess of revenues over expenses and change in net position	47,810	3,217	301	305	—	51,633	701	52,334
Net position:								
Beginning of the year	438,408	18,014	(10,132)	12,261	(11,021)	447,530	6,414	453,944
End of the year	\$ <u>486,218</u>	<u>21,231</u>	<u>(9,831)</u>	<u>12,566</u>	<u>(11,021)</u>	<u>499,163</u>	<u>7,115</u>	<u>506,278</u>

See accompanying independent auditors' report.

CUMBERLAND COUNTY HOSPITAL SYSTEM, INC.
(d/b/a Cape Fear Valley Health System)

Combining Schedule of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2016

(In thousands)

	<u>Obligated group</u>	<u>Nonobligated group</u>			<u>Eliminations</u>	<u>Subtotal</u>	<u>Nonobligated group</u>	<u>Total reporting entity</u>
	<u>Cape Fear Valley Medical Center</u>	<u>Cape Fear Insurance, Ltd. SPC</u>	<u>Hoke Health Services, LLC</u>	<u>Bladen Healthcare, LLC</u>			<u>Cape Fear Valley Health Foundation</u>	
Revenues:								
Net patient service revenue	\$ 661,305	—	30,646	31,859	—	723,810	—	723,810
Other revenues	33,190	1,092	2,234	1,225	(209)	37,532	1,213	38,745
Total revenues	<u>694,495</u>	<u>1,092</u>	<u>32,880</u>	<u>33,084</u>	<u>(209)</u>	<u>761,342</u>	<u>1,213</u>	<u>762,555</u>
Operating expenses:								
Salaries	337,447	—	14,424	18,366	—	370,237	—	370,237
Fringe benefits	55,568	—	3,382	5,371	—	64,321	—	64,321
Medical supplies	118,356	—	3,377	2,409	—	124,142	—	124,142
Professional fees	37,425	—	965	2,383	—	40,773	—	40,773
Purchased services	41,375	—	1,597	1,151	—	44,123	—	44,123
Other expenses	57,826	(1,124)	2,500	2,968	1,124	63,294	1,904	65,198
Depreciation and amortization	26,856	—	4,345	1,112	—	32,313	—	32,313
Interest expense	4,859	—	3,576	9	—	8,444	—	8,444
Total operating expenses (income)	<u>679,712</u>	<u>(1,124)</u>	<u>34,166</u>	<u>33,769</u>	<u>1,124</u>	<u>747,647</u>	<u>1,904</u>	<u>749,551</u>
Operating income (loss)	<u>14,783</u>	<u>2,216</u>	<u>(1,286)</u>	<u>(685)</u>	<u>(1,333)</u>	<u>13,695</u>	<u>(691)</u>	<u>13,004</u>
Nonoperating income:								
Net investment income	24,077	—	—	—	—	24,077	507	24,584
Other nonoperating (loss) income	(765)	1,052	—	9	—	296	—	296
Total nonoperating income	<u>23,312</u>	<u>1,052</u>	<u>—</u>	<u>9</u>	<u>—</u>	<u>24,373</u>	<u>507</u>	<u>24,880</u>
Excess (deficit) of revenues over (under) expenses and change in net position	38,095	3,268	(1,286)	(676)	(1,333)	38,068	(184)	37,884
Net position:								
Beginning of the year	400,313	14,746	(8,846)	12,937	(9,688)	409,462	6,598	416,060
End of the year	\$ <u>438,408</u>	<u>18,014</u>	<u>(10,132)</u>	<u>12,261</u>	<u>(11,021)</u>	<u>447,530</u>	<u>6,414</u>	<u>453,944</u>

See accompanying independent auditors' report.