The Moses H. Cone Memorial Hospital and Affiliates

Consolidated Financial Statements as of and
for the Years Ended September 30, 2019 and 2018,
Consolidating Supplemental Schedules as of and
for the Year Ended September 30, 2019
and Independent Auditors' Report

THE MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Moses H. Cone Memorial Hospital:

We have audited the accompanying consolidated financial statements of The Moses H. Cone Memorial Hospital and affiliates (dba Cone Health) (the "Health System"), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Health System as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Health System has changed its method of accounting for revenue and net assets in fiscal year 2019 due to the adoption of Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* and all subsequent amendments (collectively, "ASC 606") and ASC Topic 958, *Not-for-Profit Entities* ("ASU 2016-14"). The Health System adopted ASC 606 and ASU 2016-14 on a full retrospective basis. Our opinion is not modified with respect to this manner.

As discussed in Note 10 to the consolidated financial statements, the activities surrounding the termination of the Company's pension plan triggered settlement accounting during fiscal year 2019, in accordance with ASC 715, *Compensation-Retirement Benefits*. The settlement expense related to the termination of the pension plan was $75.2 million, which is reflected in pension settlement expense on the statement of operations. Our opinion is not modified with respect to this matter.

Report on Consolidating Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These consolidating supplemental schedules are the responsibility of the Health System's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such consolidating supplemental schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such consolidating supplemental schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such consolidating supplemental schedules are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

January 24, 2020

THE MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2019 AND 2018
(In thousands of dollars)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 43,644	$ 62,354
Short-term investments	63,533	77,776
Patient accounts receivable	233,367	192,696
Inventories	36,781	34,460
Assets limited as to use—required for current liabilities	7,073	6,488
Other current assets	72,546	84,273
Total current assets	456,944	458,047
LONG-TERM INVESTMENTS	831,134	816,723
ASSETS LIMITED AS TO USE—Net of portion required for current liabilities	231,091	315,222
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	62,335	59,877
PROPERTY AND EQUIPMENT—Net	1,185,326	1,105,505
GOODWILL	10,132	9,729
OTHER ASSETS	95,488	84,495
TOTAL	$2,872,450	$2,849,598
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 69,382	$ 69,349
Accrued expenses	261,126	231,999
Current portion of long-term debt and capital lease obligations	191,664	192,589
Total current liabilities	522,172	493,937
LONG-TERM DEBT—Net of current portion	457,373	470,289
CAPITAL LEASE OBLIGATION—Net of current portion	8,595	8,005
OTHER NONCURRENT LIABILITIES	117,349	133,992
Total liabilities	1,105,489	1,106,223
NET ASSETS:		
Without donor restrictions:		
Moses H. Cone Memorial Hospital and Affiliates	1,758,283	1,737,140
Noncontrolling interests	(6,286)	(7,010)
Total net assets without donor restrictions	1,751,997	1,730,130
With donor restrictions	14,964	13,245
Total net assets	1,766,961	1,743,375
TOTAL	$2,872,450	$2,849,598

See notes to consolidated financial statements.

THE MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands of dollars)

	2019	2018
Net patient service revenue	$ 1,983,363	$ 1,816,020
Other revenue	66,367	60,699
Premium revenue	144,772	124,373
Total operating revenue	2,194,502	2,001,092
Operating expenses:		
Salaries and wages	805,397	746,162
Fringe benefits	253,150	249,208
Supplies	407,461	354,443
Other direct expenses	514,407	449,781
Interest expense	19,890	18,406
Depreciation and amortization	132,164	126,845
Total operating expenses	2,132,469	1,944,845
INCOME FROM OPERATIONS	62,033	56,247
NONOPERATING INCOME (EXPENSE):		
Investment income	22,704	96,583
Pension settlement expense	(75,225)	(5,929)
Other nonoperating expense—net	(25,800)	(37,758)
Total nonoperating (expense) income	(78,321)	52,896
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS	(16,288)	109,143
(EXCESS) DEFICIT OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(2,882)	1,238
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES	$ (19,170)	$ 110,381

See notes to consolidated financial statements.

THE MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands of dollars)

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
(Deficit) Excess of revenues over expenses from consolidated operations	$ (16,288)	$ 109,143
Change in net unrealized gains and losses on investments	(8,392)	(29,033)
Pension-related changes other than net periodic benefit cost	75,225	5,727
Change in the fair value of the floating-to-fixed swap agreements	(23,589)	8,922
Distributions to non-controlling interest	(5,486)	(6,685)
Other changes in net assets	397	(446)
Increase in net assets without donor restrictions	21,867	87,628
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	3,812	6,151
Net assets released from restrictions	(2,572)	(6,364)
Other changes in net assets	479	1,421
Increase in net assets with donor restrictions	1,719	1,208
INCREASE IN NET ASSETS	23,586	88,836
NET ASSETS—Beginning of year	1,743,375	1,654,539
NET ASSETS—End of year	$1,766,961	$1,743,375

See notes to consolidated financial statements.

THE MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands of dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 23,586	$ 88,836
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Change in net unrealized gains on investments	8,392	29,033
Change in fair value of the floating-to-fixed swap agreements	23,589	(8,922)
Net realized gain (loss) on sale of investments	2,195	(76,990)
Depreciation and amortization	132,164	126,845
Pension-related changes other than net periodic pension cost	(75,225)	(5,727)
Asset impairment		7,780
Loss on disposal of property and equipment	3,679	967
Earnings of unconsolidated affiliates	(7,367)	(7,923)
Distributions from unconsolidated affiliates	5,363	4,781
Distributions to noncontrolling interests	5,486	6,685
Changes in:		
Patient accounts receivable	(40,671)	6,091
Other current assets	(2,625)	5,139
Inventories	(2,321)	(3,025)
Accounts payable and accrued expenses	11,212	(3,086)
Other operating assets	(11,150)	26,285
Other operating liabilities	54,195	(15,846)
Net cash provided by operating activities	130,502	180,923
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(200,770)	(144,922)
Proceeds from sale of property and equipment	26	
Purchases of investments	(401,172)	(684,901)
Proceeds from sale of investments	472,678	532,256
Restriction of funds in Care-N-Care Inc.	8,959	(16,028)
Pharmacy acquisition	(402)	
Net cash used in investing activities	(120,681)	(313,595)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt issuances and refundable entrance fees	36,240	198,442
Repayments of debt and entrance fees refunded	(48,697)	(51,608)
Purchase of noncontrolling interest	(5,600)	
Distributions to noncontrolling interests	(5,486)	(6,685)
Payments on capital lease obligations	(4,988)	(2,931)
Net cash (used in) provided by financing activities	(28,531)	137,218
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(18,710)	4,546
CASH AND CASH EQUIVALENTS:		
Beginning of year	62,354	57,808
End of year	$ 43,644	$ 62,354
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest—net of amounts capitalized	$ 19,638	$ 17,412
Purchases of equipment under capital lease	$ 7,899	$ 532
Property and equipment purchases in accounts payable	$ 7,539	$ 10,893

See notes to consolidated financial statements.

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization and Business—The Moses H. Cone Memorial Hospital (the "Parent Corporation"), a nonstock, not-for-profit, parent holding company and its affiliates: The Moses H. Cone Memorial Hospital Operating Corporation (the "Operating Corporation"); ARMC Health Care (ARMC); The Moses Cone Medical Services, Inc. ("Medical Services"); The Moses Cone Physician Services, Inc. ("Physician Services"); The Moses Cone Affiliated Physicians, Inc. (MCAP); The Wesley Long Community Health Services Inc. (WLCHS); Triad Healthcare Network, LLC (THN); The Cone Health Foundation (the "Foundation"); and The Alamance Community and Health Foundation (d/b/a "Impact Alamance") were established to provide health care services and community health programs to the residents of Guilford County, Alamance County, and the surrounding regional area. The organization operates as an integrated network of health services called Cone Health (the "Health System"). The Health System seeks to provide affordable and superior health care to patients through continued expansion of acute care and nonhospital programs.

On October 1, 2012, the Health System entered into a management services agreement (the "Agreement") with Charlotte-Mecklenburg Hospital Authority, which does business as Atrium Health (Atrium) (formerly Carolinas HealthCare System). Under the Agreement, the top five executives on the leadership team became employees of Atrium, but continue to manage the Health System as a local team in Greensboro, North Carolina. The Health System reimburses Atrium for the salary and benefits costs of these executives. The terms of the Agreement also call for the Health System to pay Atrium an annual management fee based on a percentage of net revenue. The Health System continues to be governed by its local and independent board of trustees.

Effective October 1, 2019, the Health System and Atrium signed a resolution agreement with the intent to change the relationship between the parties (the "Resolution Agreement"). The Agreement was amended and restated to a new relationship arising from a services agreement (the "Service Agreement"). As a condition to the effectiveness of this Resolution Agreement, the Service Agreement terminates and supersedes the Agreement as set forth in the Services Agreement. The top four executives of the Health System will be employees of the Health System effective January 1, 2020. The annual management fee will be a flat annual fee.

In May of 2016, the Operating Corporation entered into a management services agreement with Randolph Hospital, Inc. ("Randolph") a North Carolina not-for-profit corporation located in Asheboro, North Carolina. Operating Corporation will provide management assistance and support for an annual management fee based on a percentage of Randolph's annual net revenue. Randolph continues to be governed by its local and independent Board of Trustees.

The Parent Corporation—The Parent Corporation was founded through a trust established by Mrs. Bertha Lindau Cone as a memorial to her late husband, Mr. Moses H. Cone. Following the death of Mrs. Bertha Lindau Cone, the cornerstone of The Moses H.

Cone Memorial Hospital was laid on May 2, 1951, and the facility opened with 53 beds on February 25, 1953, in Greensboro, North Carolina. In 1985, the Parent Corporation reorganized and created the Operating Corporation to operate its health care facilities and provide health care services to the community. The Parent Corporation retained the real estate and other noncurrent assets, while the current assets and liabilities were transferred to the Operating Corporation. The real property is leased to the Operating Corporation pursuant to a lease of 10 years. The lease was renewed effective October 1, 2017, for a one-year term with an automatic renewal clause.

The assets of the Parent Corporation primarily include an investment portfolio and the hospitals' land, buildings, and fixed equipment. Additionally, the Parent Corporation holds the long-term debt and reports the related activity associated with financing certain hospital expansion projects. The majority of cash and investments held by the Parent Corporation have been invested in securities for the purpose of funding future capital requirements. Certain assets have been classified as noncurrent in the accompanying consolidated balance sheets due to these designations.

The Operating Corporation—Acute care hospital services are provided to the community by The Moses H. Cone Memorial Hospital, The Women's Hospital of Greensboro, Wesley Long Hospital, The Cone Behavioral Health Hospital, and Annie Penn Hospital.

Acute care inpatient and outpatient hospital services are provided to the community by The Moses H. Cone Memorial Hospital, The Women's Hospital of Greensboro, Wesley Long Hospital, The Cone Behavioral Health Hospital, and Annie Penn Hospital. In addition to services at the hospitals, the Operating Corporation includes long-term care services through Penn Nursing Center, oncology services at Cone Health Cancer Center, ambulatory surgery centers, various outpatient services at MedCenter operations in Kernersville and High Point, outpatient rehabilitation services, retail pharmacy services, wellness services, and various physician office practices. Annie Penn Hospital receives support from a foundation, the Annie Penn Memorial Hospital Foundation.

ARMC—ARMC was founded primarily to coordinate and support the delivery of health services in Alamance County, North Carolina, and the surrounding area. The not-for-profit affiliates of the corporation include Alamance Regional Medical Center, Inc., a not-for-profit acute care hospital; ARMC Physicians Care, Inc., a 8-practice physician group entity; Alamance Extended Care, Inc. (AEC), a continuing care retirement community which includes accommodations and services at various levels of care—independent living, assisted living, and skilled nursing care; and ARMC Foundation, Inc., a charitable foundation. The Parent Corporation became the sole member of the ARMC entities effective May 1, 2013.

Medical Services, Physician Services, and MCAP—These entities provide nonhospital health care services and other services to support the overall Health System activities.

THN—THN is a clinically integrated network of community physicians and the Health System organized to improve health care in Guilford County, Alamance County, and the surrounding region through care management, evidence-based medical practices, and integrated information and data systems. THN is a designated accountable care organization.

The Foundation and Impact Alamance—The Foundation operates as a charitable foundation created to support and promote community health programs in concert with the Health System. The Foundation was capitalized with $50 million received in October 1997

from the Health System and $60 million received from the Health System in April 1999. In connection with the acquisition of ARMC, the Health System established Impact Alamance with a contribution of $54 million to support and promote community health programs in Alamance County in concert with other Health System activities. The grant activities of the Foundation and Impact Alamance are not considered core to the provision of health care services and therefore are included in nonoperating expense—net in the accompanying consolidated statements of operations.

WLCHS—WLCHS is a holding company for the Health System's taxable subsidiaries, including:

Care N' Care Insurance Company of North Carolina, Inc. (CNCNC)—CNCNC was established in 2015 as an 80% owned entity licensed to provide health insurance in North Carolina, with the remaining 20% held by an unaffiliated entity. CNCNC, in partnership with THN providing patient care management functions, provides insurance coverage through a Medicare Advantage plan called "Health Team Advantage". On August 31, 2017, the Health System purchased the remaining 20% ownership in CNCNC from the noncontrolling interest holder for $17.6 million, of which $12.0 million was paid in 2017. The remaining purchase price of $5.6 million was paid on October 31, 2018.

Wellsmith LLC—Wellsmith LLC was organized in December 2015 as a 50% owned entity for the purpose of developing and licensing of proprietary technology for a web-based chronic disease management portal and consumer application. Wellsmith LLC is reported on a consolidated basis due to the Health System's majority control of the Wellsmith LLC board of directors.

Insurance Casualty and Risk Enterprise, LTD—On August 14, 2017, the Health System created Insurance Casualty and Risk Enterprise, LTD, ("iCare"), a limited liability tax-exempt entity incorporated in the Cayman Islands, for the purpose of providing risk financing and claims management services to the Health System for medical malpractice and general liability claims up to the self-insured limit of $4 million per claim. The coverage was effective beginning October 1, 2017. iCare is domiciled in the Cayman Islands and regulated by the Cayman Islands Monetary Authority.

Principles of Consolidation—The consolidated financial statements include all subsidiaries for which the Health System has a controlling financial interest. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation—The consolidated financial statements of the Health System have been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles (GAAP) and with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

Based on the existence or absence of donor-imposed restrictions, the Health System classifies resources into two categories: without donor restrictions and with donor restrictions.

Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenses are reported as decreases in net assets without donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions that will be met either by actions of the Health System or the passage of time. These net assets include donor

restricted endowments and unconditional pledges. Generally, donor imposed restrictions of these assets permit the Health System to use all or part of the income earned on related investments only for certain general or specific purposes.

Expirations of donor restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the consolidated statements of changes in net assets.

Contributions which impose restrictions that are met in the same fiscal year they are received are reported as increases in net assets without donor restrictions.

Operating results (change in net assets without donor restrictions) in the consolidated statements of changes in net assets reflect all transactions that change net assets without donor restrictions, except for contributions for capital improvements, investment return in excess of or less than amounts designated for current operations, nonperiodic changes in defined benefit plans, changes in the fair value of derivative financial instruments, losses on the extinguishment of debt, and certain nonrecurring items.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (US 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents include demand deposits and certain investments in highly liquid debt instruments with original maturities at the time of purchase of three months or less.

Short-Term Investments—Short-term investments include certain investments in mutual fund securities that are expected to be used in current operations.

Inventories—Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Inventories include medical and surgical supplies and pharmaceuticals.

Long-Term Investments—Investments in equity securities with readily determinable fair values, investments in common/commingled/collective trusts, and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets.

Interests in alternative investments, whose operating and financial policies the Health System's management has virtually no influence over, are measured at cost in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses in the accompanying consolidated statements of operations. Changes in unrealized gains and losses on investments are included as changes in unrestricted net assets in the accompanying consolidated statements of changes in net assets.

The Health System periodically evaluates investments that have declined below original cost to determine if the decline is other than temporary. If the investment decline in value below cost is determined to be other than temporary, the loss is recorded as a realized loss.

Assets Limited as to Use—Assets limited as to use include cash and investments held by the trustee under bond indenture agreements and certain long-term investments. The long-term investments include investments held by CNCNC required by regulators and investments designated to support and promote community health programs for the Foundation, Annie Penn Foundation, Impact Alamance, and ARMC Foundation. Assets limited as to use that are required for settlement of current liabilities are reported in current assets.

Other Current Assets—Other current assets consist primarily of third-party receivables, prepaid expenses, and sales tax receivables.

Deferred Revenue—Deferred revenue related to AEC includes the reservation deposit and nonrefundable portion of entrance fees paid by the residents. The entrance fees vary according to the type and size of the residence and contract type. When the residents take occupancy, the nonrefundable portions are recognized as revenue based on amortization over the life expectancy of each resident in the independent living units. Net unamortized entrance fees were $6.2 million and $5.8 million as of September 30, 2019 and 2018, respectively, and are included in other noncurrent liabilities and accrued expenses.

Property and Equipment—Property and equipment are recorded at cost or, if donated, at fair market value at the date of receipt. Depreciation is recorded over the estimated useful life of each class of depreciable assets and is computed using the straight-line method for financial reporting purposes. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Interest cost incurred on borrowed funds, less any interest earned on temporary investment of those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

In accordance with Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment*, the Health System reviews its long-lived assets and certain identifiable intangibles for evidence of impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. See *Asset Impairment* below for information related to adjustments to carrying value of intangible assets in fiscal year 2018.

In 2018, the Health System began construction on the Cone Health Women's and Children's Center at Moses Cone Hospital, a new facility for women's and children's services on the Campus of Moses Cone Hospital. Upon completion of the facility, which is expected in February 2020, the Health System will move clinical operations of the Women's Hospital to the new facility. As a result of the transfer of operations out of the Women's Hospital, the Health System determined the useful life of the Women's Hospital assets would end at the end of fiscal 2020. The Health System recorded additional depreciation expense associated with the new useful life of the assets of $5.8 million for the year ended September 30, 2019 and 2018.

Goodwill—Goodwill represents the excess of purchase price over the assigned value of the net assets of acquired entities. Goodwill is assessed annually for impairment, or more frequently if events or circumstances indicate that assets might be impaired, by applying a fair value-based test. The Health System performed its annual goodwill impairment test as of September 30, 2019 and concluded there was no impairment of goodwill. During 2019,

$0.4 million of additional goodwill was recognized from the purchase of a pharmacy that is utilized by patients and employees. There were no additions to goodwill during the year ended September 30, 2018.

Noncontrolling Interests—Noncontrolling interests represent the minority stockholders' proportionate share of the net assets of certain consolidated subsidiaries. Revenues in excess of expenses are allocated to the noncontrolling interests in proportion to their ownership percentage and are reflected as deficiency (excess) of revenue over expenses attributable to noncontrolling interests in the consolidated statements of operations.

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.

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 net patient service revenue.

Other Operating Revenue—Other operating revenue consists of cafeteria revenue, child care center revenue, contract pharmacy revenue, lease income, grant revenue and other non-patient-related revenues.

Premium Revenue—CNCNC generates premium revenue from members enrolled in its Medicare Advantage Plan and the related revenue is recognized in the month in which members are entitled to health care services. The Health System recorded premium revenue of $144.8 million and $124.4 million for the years ended September 30, 2019 and 2018, respectively.

Claims Expense—Claims expense related to insurance coverage offered by CNCNC is recognized in the period in which services are provided and includes an actuarially determined estimate of the cost of services which have been incurred but not yet reported (IBNR). Claims expense totaled $113.3 million and $89.3 million for the years ended September 30, 2019 and 2018, respectively, and is included in other direct expenses in the accompanying consolidated statements of operations.

The liability for unpaid health claims and IBNR was $16.2 million and $11.7 million as of September 30, 2019 and 2018, respectively, and associated medical claims payable was $0.9 million and $0.6 million as of September 30, 2019 and 2018, respectively. These balances are included in accrued expenses in the accompanying consolidated balance sheets. Such estimates are based on the most current historical claims experience of previous payments, changes in number of members, and estimates of health care trend (cost, utilization, and intensity of services) changes. Revisions in the estimate of IBNR claims are reflected in the accompanying consolidated statements of operations in the year the changes occur.

Grant Revenue and Expense—The Foundation and Impact Alamance record grants as expense in the period in which the grants are authorized. Grant expense incurred by the Foundation and Impact Alamance of approximately $2.7 million and $14.5 million in fiscal years 2019 and 2018, respectively, is included in nonoperating expense—net in the accompanying consolidated statements of operations.

Revenues on restricted grant funds are recognized only to the extent of expenditures that satisfy the restricted purpose of these grants. Grant revenue of approximately $4.9 million and $4.7 million in fiscal years 2019 and 2018, respectively, is included in other revenue in the accompanying consolidated statements of operations.

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. These costs are included in other current liabilities and other noncurrent liabilities.

(Deficit) Excess of Revenues over Expenses—Changes in net assets without donor restrictions, which are excluded from (deficit) excess of revenues over expenses, include inherent contributions, unrealized gains and losses on investments and hedging derivative instruments, permanent transfers of assets to and from affiliates for other than goods and services, pension-related changes other than net periodic pension cost, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes—All Health System entities, with the exception of WLCHS, its subsidiaries and iCARE, have been recognized by the Internal Revenue Service as tax exempt under Internal Revenue Code 501(c)(3). As of September 30, 2019 and 2018, the Health System had no uncertain tax positions under Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*, requiring adjustments to its consolidated financial statements. The Health System does not expect that unrecognized tax benefits will materially increase within the next 12 months. Interest and penalties related to uncertain tax positions, if any, would be reported in the consolidated financial statements as income tax expense. Fiscal years 2015 through 2018 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Fair Value Measurements—The Health System uses the framework established by the FASB for measuring fair value and disclosures about fair value measurements. The Health System uses fair value measurements in areas that include, but are not limited to, the valuation and impairment of short-term and long-term investments and financial instruments, including derivatives.

US GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1—Valuations based on unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date

Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement

US GAAP permits, as a practical expedient, a reporting entity to measure the fair value of certain investments without readily determinable fair values by using the reported net asset value (NAV) per share of the investment without further adjustment if the investment is in an entity that meets the description of an investment company whose underlying investments are measured at fair value as set forth in the ASC.

Transfers between Levels—The availability of market observable data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or valuation methodologies may require the transfer of financial instruments from one fair value hierarchy level to another. In such instances, the transfer would be reported at the beginning of the reporting period. The Health System evaluates the significance of transfers based on the nature of the financial instrument and the size of the transfer. There were no transfers of investments between levels for the years ended September 30, 2019 and 2018.

Debt Issuance Costs—Debt issuance costs consist of underwriting costs, legal expenses, insurance, and other direct costs incurred in connection with the issuance of long-term debt. Such costs are reported within long-term debt in the consolidated balance sheets and amortized over the term of the bonds.

Valuation methods for the primary fair value measurements disclosed below are as follows:

Cash Equivalents, Patient and Other Receivables, and Accounts Payable—The carrying amount approximates fair value because of the short maturity of these instruments.

Investments—The Health System's investments in equity securities and debt and equity mutual funds are stated at fair value based on unadjusted quoted prices for identical assets in active markets that are available as of the measurement date. The fair values of investments in common/commingled/collective trusts, which are recorded at fair value in the consolidated balance sheets, and alternative investments, which are recorded at cost in the consolidated balance sheets and disclosed at fair value in Note 4, are generally measured using the NAV per share reported by the respective fund managers or the general partners.

The estimated fair values of certain alternative investments, such as private equity interests, are based on valuations performed prior to the consolidated balance sheet date by the external investment managers and adjusted for cash receipts, cash disbursements, and securities distributions through September 30. Because alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

The Health System's management, with the assistance of a third-party investment consultant, where appropriate, evaluates the NAV information and valuations provided by external fund managers or general partners for appropriateness through review of the most recently available annual audited financial statements and unaudited interim reporting for the respective funds, review of the methodologies used to determine fair value, and comparisons of fund performance to market benchmarks.

Interest Rate Swaps—The Health System is a party to three interest rate swap agreements. Swaps with positive values of $0 and $14.4 million as of September 30, 2019 and 2018, respectively, are reported in current assets in the consolidated balance

sheets. Swaps with negative values of $28.7 million and $11.7 million as of September 30, 2019 and 2018, respectively, are recorded in other current liabilities in the consolidated balance sheets. Interest rates swaps designated as cash flow hedges were assessed for effectiveness at inception of the contracts and on an ongoing basis thereafter. Unrealized gains and losses related to the effective portion of the swaps are recognized in other changes in unrestricted net assets and gains or losses related to ineffective portions are recognized in the excess of revenue over expenses. The unrealized gains and losses of interest rate swaps not designated as cash flow hedges are recognized within investment income on consolidated statements of operations.

The swaps are measured at fair value using pricing models, with all significant inputs derived from, or corroborated by, observable market data, such as interest rates, futures pricing, and volatility metrics, and accordingly are included in Level 2 of the fair value hierarchy.

In October 2005, the Health System entered into a floating-to-fixed swap agreement with a notional amount of $85.2 million for 30 years to hedge the floating-rate 2001 Series bonds. Under this agreement, the Health System receives a floating interest rate based on the three-month London InterBank Offered Rate (LIBOR) index and pays a fixed interest rate of 3.437%. The Series 2001 swap was considered effective at September 30, 2019 and 2018, and $8.8 million unrealized loss, and $6.1 million unrealized gain, respectively, was reported in other changes in unrestricted net assets, resulting in a corresponding cumulative liability of $20.1 million and $11.3 million, respectively.

In August 2013, the Health System entered into a floating-to-fixed swap agreement with a notional amount of $48 million for 22 years to hedge the floating-rate 2011B Series bonds. Under this agreement, the Health System receives a floating interest rate based on the one-month LIBOR index and pays a fixed interest rate of 2.097%. The Series 2011B swap was considered effective at September 30, 2019 and 2018, and $3.1 million unrealized loss, and $2.0 million unrealized gain, respectively, was reported in other changes in unrestricted net assets, resulting in a corresponding cumulative liability of $3.5 million and $0.3 million, respectively. Should the fair value of the Series 2011B interest rate swap exceed negative $50 million, the Health System would be required to post collateral against the swap for amounts in excess of the $50 million threshold.

On October 6, 2016, the Health system entered into an interest rate swap agreement with a notional amount of $100 million, a forward starting date of October 1, 2018, and a maturity date of October 1, 2048, to hedge the expected issuance of variable-rate debt in fiscal 2018 to fund construction projects. The Health System will pay a fixed rate of 1.336% and receive a variable rate of 70% of the one-month LIBOR index rate. The fair value of the swap of $5.1 million and $14.3 million as of September 30, 2019 and September 30, 2018, respectively, is included in other current assets in the consolidated balance sheet. In December 2017, the Health System issued $60 million of variable rate debt. At that time, the Health System de-designated $40 million of the interest rate swap and recorded the fair value of the de-designated portion of the swap within investment income on the consolidated statement of operations. At September 30, 2019 and September 30, 2018, the remaining $60 million of the Series 2018A swap still designated as a cash flow hedge was considered effective. At September 30, 2019, the Health System reported realized loss of $7.5 million in investment income and

$(23.6) million in other changes in unrestricted net assets. At September 30, 2018, the Health System reported unrealized gains of $5.7 million in investment income and $8.9 million in other changes in unrestricted net assets.

Asset Impairment—During 2018, Wellsmith LLC began developing an updated version of the company's proprietary technology for a web-based chronic disease management portal and consumer application. Management has determined that the existing technology will not be marketed for sale or licensing. Accordingly, Wellsmith LLC's original product did not provide future cash flows; and therefore, an impairment charge of $7.8 million was recorded and reported within nonoperating expense-net in the consolidated statement of operations for the year ended September 30, 2018.

Subsequent Events—The Health System evaluated events and transactions for potential recognition or disclosure through January 24, 2020, the date the consolidated financial statements were issued.

New Accounting Pronouncements

Adopted

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), which supersedes existing guidance in FASB ASC 958, *Not-for-Profit Entities*, to improve the current net asset classification requirements and the information presented in the consolidated financial statements and related notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The ASU removes the requirement to distinguish between resources with temporary and permanent restrictions on the face of the financial statements and replaces this with a requirement to present two classes of net assets – with and without donor restrictions. Additionally, the ASU requires expenses to be presented by their natural and functional classifications. The guidance also requires that investment returns be presented net of external and direct internal investment expenses and eliminates the requirements for disclosures of the components of investment returns. Further, the ASU requires additional qualitative and quantitative disclosures about liquidity and availability of financial assets. The Health System adopted ASU 2016-14 on September 30, 2019 and has adjusted the presentation of the financial statements accordingly. The adoption of ASU 2016-14 did not have a material impact on the Health System's financial position, results from operations, or cash flows. ASU 2016-14 required enhanced and additional disclosures which are included in Notes 3 and 14 to the consolidated financial statements. ASU 2016-14 has been applied retrospectively to all periods.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Health System adopted ASU 2014-09 effective October 1, 2018 using the full retrospective method. Adoption of the new standard did not have an impact on the recognition of revenues for any periods prior to adoption. The adoption of ASU 2014-09 resulted in changes to the presentation and disclosure of revenue related to uninsured patients and co-pays, coinsurance amounts and deductibles for patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due

from these patients are generally considered implicit price concessions that are a direct reduction to net patient services revenue and a corresponding material reduction in the amounts presented separately as provision for doubtful accounts. During the fiscal years ended September 30, 2019 and September 30, 2018, the Health System recorded implicit price concessions of $166.3 million and $160.9 million, respectively. As part of the adoption of ASC 606, the Health System elected two of the available practical expedients provided for in the standard. The Health System does not adjust the transaction price for any financing components as those were deemed to be insignificant. Additionally, the Health System expenses all incremental customer contract acquisition costs as incurred as such costs are not material and would be amortized over a period of less than one year. In addition, the Health System reclassified revenues from risk-sharing agreements to net patient service revenue from other operating revenue. Net assets are unchanged due to these reclassifications.

In March 2016, the FASB issued ASU 2016-07, *Investments—Equity Method and Joint Ventures (Topic 323) Simplifying the Transition to the Equity Method of Accounting* ("ASU 2016-07"). ASU 2016-07 eliminates the requirement for retroactively accounting for an investment that qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. The update requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The provisions of this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The adoption of this standard had no impact on the Health System's consolidated financial statements for the year ended September 30, 2019.

In October 2016, the FASB issued ASU 2016-17, *Consolidation—Interests Held through Related Parties That Are Under Common Control (Topic 810)* ("ASU 2016-17"). ASU 2016-17 clarifies treatment of interests held by a single decision-making entity and other related parties under common control. Adoption of this standard had no impact on the Health System's consolidated financial statements for the year ended September 30, 2019.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ("ASU 2018-18"). ASU 2018-08 applies to all entities that receive or make contributions, including business entities. The new guidance clarifies the definition of an exchange transaction and provides additional guidance to determine whether donor conditions are substantive. The amendments in this Update should be applied on a modified prospective basis and early adoption is permitted. Retrospective application is also permitted. ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. The Health System adopted ASU No 2018-08 on October 1, 2018. Adoption of this standard had no material impact on the Health System's consolidated financial statements for the year ended September 30, 2019.

Not Yet Adopted

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends

certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements. As permitted by ASU 2016-01, the Health System has elected to eliminate the disclosure of the fair value of long term debt in the consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) Section A—Leases: Amendments to the FASB Accounting Standards Codification* ("ASU 2016-02"), which supersedes existing guidance on accounting for leases in FASB ASC 840, *Leases*, and generally requires all leases to be recognized in the consolidated balance sheets. The liability will be equal to the present value of lease payments and the asset will be based on the liability, subject to adjustment, such as initial direct costs. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. The amendments are applied using a modified retrospective approach. The Health System has not determined the impact to its consolidated financial statements from the adoption of this standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 provides guidance regarding the treatment of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Health System has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments (Topic 230)* ("ASU 2016-15"). ASU 2016-15 clarifies the guidance on the classification of certain cash receipts and payments in the statement of cash flows related to debt extinguishment costs, distributions received from equity method investees, and proceeds from the settlement of insurance claims. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 2019. Early adoption is permitted. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and other (Topic 350)* ("ASU 2017-04"). ASU 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill, which is currently required if an entity with goodwill fails a Step 1 test comparing the fair value of the entity to its carrying value including goodwill. Under this new guidance, an entity should perform its annual, or interim, goodwill impairment test using only the Step 1 test of comparing the fair value of the entity with its carrying amount. Any goodwill impairment, representing the amount by which the carrying amount exceeds the entity's fair value, is determined using this Step 1 test. Any goodwill impairment loss recognized would not exceed the total carrying amount of goodwill allocated to that entity. ASU 2017-04 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715)* ("ASU 2017-07"). ASU 2017-07 requires entities to (1) disaggregate the service cost component from the other components of net benefit cost and present it with other current compensation costs for related employees on the statement of operations and (2) present the other components elsewhere on the statement of operations and outside of income from operations. In addition, the ASU requires entities to disclose the statement of operations lines that contain the other components if they are not presented on appropriately described separate lines. ASU 2017-07 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"), which is intended to better align risk management activities and financial reporting for hedging relationships. The new standard eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. It also eases certain documentation and assessment requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirement for Fair Value Measurement (*"ASU 2018-13*")*. This update focuses on improving the effectiveness of disclosures in the notes to the financial statements by facilitating clear communication of the information required by U.S. GAAP that is most important to users of each entity's financial statements. Specifically certain disclosure requirements are removed (the amount of, and reasons for, transfer between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements) while it modifies and adds certain other disclosures (the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements). The amendments regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent period in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 712-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans (*"ASU 2018-14*")*. The amendments in this guidance modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Specifically, the amendment eliminated disclosures of the amounts of accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and the reconciliation of the opening balances to the closing balances of plan assets measured in Level 3 of the fair value hierarchy. The amendment also added disclosures of the weighted-

average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and an explanation for the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments in the Update should be applied on a retrospective basis. ASU 2018-14 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (ASU 2018-15). The amendment addresses customer's accounting for implemented costs incurred in a cloud computing arrangement that is a service contract and aims to reduce complexity in the accounting for costs of implementing a cloud computing service arrangement. The amendments require a customer in a hosting arrangement that is a service contract to determine which implementation costs to capitalize as an asset related to service contract and which costs to expense. Additionally, it requires the customer to expense the capitalized implementation costs over the term of the hosting arrangement. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 and will be applied on a prospective basis. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

In October 2018, the FASB issued ASU No. 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate, Overnight Index Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes* ("ASU 2018 16"), which provides guidance on risks associated with financial assets or liabilities permitted to be hedged. ASU 2018-16 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted but FASB requires this standard to be adopted concurrently with ASU 2017-12. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

In October 2018, the FASB issued ASU No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* ("ASU 2018-17"), which allows a reporting entity to not apply VIE guidance to legal entities under common control if both the parent and the legal entity being evaluated for consolidation are not public business entities. The provisions of this update are to be applied retrospectively with a cumulative-effect adjustment to retained earnings. ASU 2018-17 is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606* ("ASU 2018-18"), which provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606. The provisions of this update are to be applied retrospectively to the date of the initial application of Topic 606. The provisions of ASU 2018-18 are effective for reporting periods beginning after December 15, 2019, and interim periods within those fiscal years. The Health System is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

2. OPERATING REVENUE

As discussed in Note 1 under New Accounting Pronouncements, the Health System adopted ASU 2014-09 effective October 1, 2018 using the full retrospective method. In accordance with ASU 2014-09, net patient service revenue is reported at the amount reflecting the consideration to which the Health System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive adjustments under reimbursement agreements with third-party payors. Generally, the Health System bills patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Health System. For most services, revenue is recognized over time as the customer simultaneously receives and consumes the benefits of the services when provided. Performance obligations for outpatient services and physician office visits are generally satisfied over a period of less than one day. Revenue for performance obligations satisfied over more than one day, such as inpatient hospital services, is recognized based on charges incurred in relation to total expected (or actual) charges. The Health System believes this method provides a faithful depiction of the transfer of services to the patient. Revenue for performance obligations satisfied at a point in time, such as retail pharmacy prescriptions, is recognized when the goods are provided to the customer.

The Health System determines the transaction price based on its standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Health System's policy, and implicit price concessions provided to uninsured patients and insured patients with copayment obligations. The Health System determines its estimates of contractual adjustments, discounts, and implicit price concessions based on contractual agreements, its discount policies, and historical experience. In determining these estimates, the Health System uses a portfolio approach as a practical expedient by accounting for patient contracts with common characteristics as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Through its Triad Healthcare Network (THN) accountable care organization (ACO), the Health System enters into risk-based agreements with third-party payors for the care of various populations of patients. These arrangements represent potential variable consideration for the underlying contracts with patients and are considered in determining the transaction price for those contracts. As a participant in Medicare's Next Generation ACO Model, THN receives a benchmark spending target for Medicare patients in its network. If actual Medicare spending for these patients is less than the benchmark, THN shares in the savings with the federal government. Conversely, if spending is above the benchmark, THN must reimburse the federal government for the excess. THN also participates in similar risk agreements with insurers operating Medicare Advantage plans. Benchmark spending under these agreements varies with the premiums received by the

Medicare Advantage plans as adjusted by patient risk factors and network quality measures. THN receives the benefit of medical claims cost less than the benchmark and is responsible for any excess spending.

The Health System has agreements with government and 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 major 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. Outpatient services are generally 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 Administrative Contractor. The Health System's classification of patients under the Medicare program and the appropriateness of their admission are subject to review by an independent quality review organization.

The Health System's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2011.

Medicaid—Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are reimbursed based on 70% of actual costs incurred. The Health System's Medicaid cost reports have been settled through September 30, 2015.

Net revenue from the Medicare and Medicaid programs accounted for 16.0% and 11.1%, respectively, of the Health System's net patient service revenue for the year ended September 30, 2019, and 16.6% and 11.9%, respectively, of the Health System's net patient service revenue for the year ended September 30, 2018. Recorded estimates are subject to change as a result of complex laws and regulations governing the Medicare and Medicaid programs, which are subject to interpretation. In addition, Medicare Advantage plans accounted for 19.3% of net revenue for the year ended September 30, 2019, and 19.5% of net revenue for the year ended September 30, 2018. Medicare beneficiaries may elect coverage through these plans that are based on Medicare benefit and payment terms but marketed and administered by commercial insurers.

The Health System has participated in the North Carolina Medicaid Reimbursement Initiative (the "MRI Plan") since 1996. In connection therewith, the Health System received and recognized as patient service revenue $13.0 million and $11.9 million from the MRI Plan during the years ended September 30, 2019 and 2018, respectively.

Beginning in 2012, the Health System began participating in the North Carolina Gap Assessment Plan (the "GAP Plan"). The GAP Plan is designed to fund hospitals for a portion of unreimbursed costs of treating Medicaid and uninsured patients. Under the GAP Plan, hospitals periodically pay an assessment to the state of North Carolina (the "State") and periodically receive Medicaid payments from the State. The total assessment payments made by the Health System were $39.6 million and $38.7 million for the years ended 2019 and 2018, respectively, and are reported as other direct expenses in the accompanying consolidated statements of operations. The total GAP Plan receipts for the Health System were $88.9 million and $84.8 million for the years ended 2019 and 2018, respectively, and are reported in patient service revenue (net of contractual adjustments) in the accompanying consolidated statements of operations.

Under the Medicare and Medicaid programs, the Health System is entitled to reimbursements for certain patient charges at rates determined by federal and state governments. Differences between established billing rates and reimbursements from these programs are recorded as contractual adjustments to arrive at net patient service revenue. Final determination of amounts due from Medicare and Medicaid programs is subject to review by these programs. Changes resulting from final determination are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for any adjustments that may result from such reviews. Net patient service revenue increased approximately $5.3 million and $4.0 million for the years ended September 30, 2019 and 2018, respectively, due to prior-year retroactive adjustments that differed from amounts previously estimated.

The health care 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, and government health care participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Health System is in compliance with fraud and abuse, as well as other applicable government laws and regulations. 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.

Commercial and Other Third-Party Payors—The Health System has entered into contracts with third-party payors providing coverage for individuals in its service area. Payment arrangements within these contracts include per case or per diem rates or amounts based on a percentage of Medicare payment or the Health System's charges. Payment rates vary based on coverage criteria established by the third-party payors and the products and copayment terms applicable to specific insured groups or individuals.

Charity Care—The Health System provides charity care to patients who are financially unable to pay for the health care services received and who are unable to access federal or state entitlement programs. The Health System does not pursue collection of amounts determined to qualify as charity care and does not report such amounts as revenue. Uninsured patients whose total annual household income is at or below 200% of the federal poverty level may be eligible for charity care. Uninsured patients whose income exceeds 200% of the federal poverty level also may be eligible for charity care, if incurred charges are considered to be beyond the patient's ability to pay. The federal poverty level is established by the federal government and is based on income and family size. The Health System provided charity care at an estimated cost of approximately $98.3 million and $94.4 million for the years ended September 30, 2019 and 2018, respectively. The estimated costs of providing charity services are calculated based on the ratio of cost to charges from the Health System's consolidated financial statements applied to each period's gross uncompensated charges for charity care patients.

The composition of net patient service revenue by primary payor class for the years ended September 30, 2019 and 2018, is as follows (in thousands of dollars):

	2019	2018
Medicare and Medicare Advantage	$ 720,086	$ 679,802
Medicaid	216,180	211,368
Third-party payors	1,007,539	891,233
Self-pay	39,558	33,617
Net patient service revenue	$1,983,363	$1,816,020

The composition of net patient service revenue by primary service category for the years ended September 30, 2019 and 2018, is as follows (in thousands of dollars):

	2019	2018
Inpatient hospital services	$ 789,442	$ 739,688
Outpatient hospital services	764,114	631,425
Professional services	312,263	342,051
Long term care	34,780	33,339
Retail pharmacy	53,433	31,478
THN risk share revenue	29,331	38,039
Net patient service revenue	$ 1,983,363	$ 1,816,020

Other Operating Revenue was $66.4 million and $60.7 million at September 30, 2019 and 2018, respectively. Other operating revenues for which performance obligations are satisfied at a point in time primarily include the provision of goods to customers such as pharmacy prescriptions, cafeteria and nursing home resident meals, and other goods. Services provided over time include medical services provided under contract to other entities, administrative and care management services provided by Triad Healthcare Network, management and other services. Revenues from grants and rentals are not within the scope of ASC Topic 606. Grant revenues are generally considered conditional promises to give and are recognized as conditions on which they depend are substantially met. Rental revenues, representing the Health System's lease of properties to third-parties, are recognized over the lease term.

Under the provisions of ASU 2014-09, which the Health System adopted effective October 1, 2018 on a full retrospective basis, amounts related to services provided to patients which do not meet the conditions of unconditional rights to payment at the end of the reporting period are contract assets. As of September 30, 2019, and 2018, the Health System did not have any contract assets.

3. LIQUIDITY AND AVAILABILITY

At September 30, 2019, financial assets available for general expenditures within one year of the balance sheet date, are as follows (in thousands of dollars):

	2019
Cash and cash equivalents	$ 43,644
Short-term investments	63,533
Patient receivables, net	233,367
Investments available to be liquidated	673,747
Financial assets available within one year	$1,014,291

To help manage unanticipated liquidity needs, the Health Plan has committed lines of credit with a total borrowing capacity of $50 million at September 30, 2019 which it could draw upon.

The asset allocation of the Health Plan's investment portfolio is broadly diversified and is designed to maximize the probability of achieving the Health Plan's long-term investment objectives at an appropriate level of risk, while maintaining a level of liquidity to meet the needs of ongoing portfolio management. The nature of certain investments restricts the liquidity and availability of these investments to be available for the general expenditures of the Health Plan within one year of the combined balance sheet date. These investments have been excluded from the amounts above.

4. INVESTMENTS AND ASSETS LIMITED AS TO USE

The Health System's investments, including assets limited as to use, consist of cash and cash equivalents, marketable equity and fixed-income securities, hedge funds, and private investment funds.

At September 30, 2019, the composition of the Health System's investments and assets limited as to use, is as follows (in thousands of dollars):

		Fair Value Measurement Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed-income securities and funds	$ 317,793	$226,784	$ 91,009	$ -
Equity securities and funds	246,717	246,717		
Subtotal	564,510	$473,501	$ 91,009	$ -
Investments measured at net asset value	265,449			
Investments measured at cost	369,503			
Total investments and assets limited as to use	$1,199,462			

At September 30, 2018, the composition of the Health System's investments and assets limited as to use, is as follows (in thousands of dollars):

		Fair Value Measurement Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed-income securities and funds	$ 397,781	$311,828	$85,952	$ -
Equity securities and funds	262,018	262,018		
Subtotal	659,799	$573,846	$85,952	$ -
Investments measured at net asset value	272,051			
Investments measured at cost	346,985			
Total investments and assets limited as to use	$1,278,835			

The investments and assets limited as to use are included in the captions in the consolidated balance sheets as of September 30, 2019 and 2018, are as follows (in thousands of dollars):

	2019	2018
Short-term investments	$ 63,533	$ 77,776
Long-term investments	$ 831,134	$ 816,723
Assets limited as to use:		
Foundation and Impact Alamance	$ 167,868	$ 174,851
AEC	4,132	4,174
Under bond indenture agreements held by trustee	32,014	106,014
CNCNC	22,182	30,920
ICARE	8,052	2,727
Other	3,916	3,024
Total assets limited as to use	238,164	321,710
Less assets limited as to use that are required for current liabilities	(7,073)	(6,488)
Assets limited as to use—net of portion required for current liabilities	$ 231,091	$ 315,222
Deferred compensation (within other assets)	$ 66,631	$ 62,626
Total investments and assets limited as to use	$1,199,462	$1,278,835

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the Health System's investment balances reported in the consolidated balance sheets.

A summary of the investments measured at NAV as of September 30, 2019, is as follows (in thousands of dollars):

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments in common, comingled, and collective trusts:				
Equity securities and funds	$248,378	$ -	Semi-monthly, and monthly	5 day to 30 days
Fixed-income securities and funds	12,034		Semi-monthly	5 business days
Balanced funds	5,037		Monthly	15 business days
	$265,449	$ -		
Alternative investment funds carried at cost in the consolidated balance sheets:				
Private equity	$125,954	$58,504	N/A–Illiquid	N/A–Illiquid
Private debt	43,006	21,334	N/A–Illiquid	N/A–Illiquid
Private debt	11,015	7,025	Monthly and Quarterly	45–90 days
Hedge funds	64,488		Monthly, Qtrly, Annual Qtr Anniver	20–95 days
Hedge funds	114,949		Monthly, and Quarterly	3–90 days
Real estate	4,764	5,708	N/A–Illiquid	N/A–Illiquid
Real estate	71,445		Quarterly	90 days
	$435,621	$92,571		

A summary of the investments measured at NAV as of September 30, 2018, is as follows (in thousands of dollars):

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments in common, comingled, and collective trusts:				
Equity securities and funds	$248,391	$ -	Daily, semi-monthly, and monthly	1–30 days
Equity securities and funds	2,552		End of any calendar quarter	65 days
Fixed-income securities and funds	15,617		Daily, semi-monthly, and monthly	3–15 days
Balanced funds	5,491		Monthly	15 business days
	$272,051	$ -		
Alternative investment funds carried at cost in the consolidated balance sheets:				
Private equity	$104,731	$61,981	N/A–Illiquid	N/A–Illiquid
Private debt	34,312	18,283	N/A–Illiquid	N/A–Illiquid
Private debt	1,537	848	Quarterly	60–90 days
Hedge funds	60,291		Monthly and quarterly	20–95 days
Hedge funds	130,771		Daily, monthly, and quarterly	1–90 days
Real estate	66,905		Quarterly	90 days
	$398,547	$81,112		

Alternative investments are less liquid compared to the Health System's other investments. These investments held by the Health System and the Foundation at September 30, 2019 and 2018, are summarized as follows (in thousands of dollars):

	2019		2018	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Held by the Health System:				
Private equity	$ 81,815	$ 109,835	$ 75,413	$ 92,287
Private debt	43,805	46,113	27,376	30,657
Hedge funds	137,596	161,235	147,258	171,378
Real estate	65,042	68,059	59,286	59,907
	328,258	385,242	309,333	354,229
Held by the Foundation:				
Private equity	11,548	16,120	10,237	12,443
Private debt	7,288	7,908	4,524	5,192
Hedge funds	14,614	18,201	15,965	19,685
Real estate	7,795	8,150	6,926	6,998
	41,245	50,379	37,652	44,318
Total	$369,503	$ 435,621	$346,985	$398,547

Alternative investments include limited partnerships, limited liability corporations, and offshore investment funds. Included in investments of the limited partnerships are certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These instruments may contain elements of both credit and market risks. Such risks include, but are not limited to, limited liquidity, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Estimated fair values of private equity investments are based on a series of inputs that provide support to the valuations provided by the private equity managers, including analysis of the investment statements and supporting documents performed by management and its investment adviser, as well as audited consolidated financial statements provided by external independent auditors. Portfolio updates are provided by the managers at least quarterly and are updated more frequently for major events or new capital investment in the portfolio.

The total amount of unrealized losses on alternative investments recorded at cost at September 30, 2019 and 2018, was $2.6 million and $1.8 million, respectively.

Other-Than-Temporary Impairment of Investments—The Health System evaluates the near-term prospects for improvement of unrealized investment losses in relation to the severity and duration of the loss for each individual investment by analyzing the earning trends and economic conditions and other sources of information. Based on this evaluation, the Health System recorded realized losses of $6.7 million on investments that were other-than-temporarily impaired at September 30, 2019. The total amount of unrealized losses remaining at September 30, 2019, was $10.4 million, of which $3.0 million relates to investments that have been in a continuous unrealized loss position for more than 12 months. Based on this evaluation, the Health System recorded realized losses of $4.5 million on investments that were other-than-temporarily impaired at September 30, 2018. The total amount of unrealized losses remaining at September 30, 2018, was $6.9 million, of which $5.3 million relates to investments that have been in a continuous unrealized loss position for more than 12 months.

At September 30, 2019, the fair value, except for alternative investments which are recorded at cost, and gross unrealized losses of available-for-sale securities, were as follows (in thousands of dollars):

	September 30, 2019					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed income	$ -	$ -	$62,934	$(1,048)	$ 62,934	$(1,048)
International equity securities and funds	101,290	(6,699)			101,290	(6,699)
Total	$101,290	$ (6,699)	$62,934	$(1,048)	$164,224	$(7,747)

At September 30, 2018, the fair value, except for alternative investments which are recorded at cost, and gross unrealized losses of available-for-sale securities, were as follows (in thousands of dollars):

	September 30, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed income securities and funds	$13,553	$(523)	$55,337	$(4,603)	$68,890	$(5,126)

Investment income and gains and losses for the years ended September 30, 2019 and 2018, consist of the following (in thousands of dollars):

	2019	2018
Dividend and interest income	$24,899	$19,592
Realized gains (loss)—net	(2,195)	76,991
Total	$22,704	$96,583

Investments in Unconsolidated Affiliated Entities—The Health System's investment in unconsolidated affiliated entities reflects the Health System's ownership interests in various health care-related entities accounted for primarily through the equity method.

A summary of investments, ownership percentages, investment amounts, and the Health System's share of net income for the years ended September 30, 2019 and 2018, is as follows (in thousands of dollars):

	Percent Ownership		Investment Balance		Health System's Share of Net Income	
	2019	2018	2019	2018	2019	2018
Investment name:						
Diagnostic Radiology and Imaging, LLC	50.00 %	50.00 %	$ 239	$ 422	$ 1,755	$ 1,011
Hospice at Greensboro, Inc.	50.00	50.00	17,239	16,423	816	878
Advanced Homecare, Inc.	34.49	34.49	28,401	28,478	2,847	2,931
Health Care Casualty Insurance Limited	25.00	17.80	479	1,246	1,152	1,888
Health Care Casualty Risk Retention Group, Inc.	25.00	20.00	580	506	73	506
Randolph Cancer Center, LLC	40.00	40.00	5,882	5,438	421	394
Other			9,515	7,364	303	315
Total			$ 62,335	$ 59,877	$ 7,367	$ 7,923

Financial information related to investments in unconsolidated affiliated entities at September 30, 2019 and 2018, is summarized as follows (in thousands of dollars):

	2019	2018
Assets	$243,441	$244,414
Liabilities	58,907	74,461
Equity	184,534	169,955
Total revenue	280,482	223,663
Total expenses	257,146	199,442
Net income	23,336	24,221
Health System's share of net income	7,367	7,923

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30, 2019 and 2018, is as follows (in thousands of dollars):

	Depreciable Lives	2019	2018
Land and land improvements	10–15 years	$ 97,937	$ 94,321
Buildings and leasehold improvements	5–40 years	1,399,984	1,334,492
Equipment	3–15 years	555,421	510,763
		2,053,342	1,939,576
Less accumulated depreciation		(1,021,441)	(916,469)
		1,031,901	1,023,107
Construction in progress		153,425	82,398
Total		$1,185,326	$1,105,505

Depreciation and amortization expense for the years ended September 30, 2019 and 2018, amounted to $132.2 million and $126.8 million, respectively.

The Health System had unexpended project contractual commitments at September 30, 2019 and 2018, of $51.9 million and $93 million, respectively.

6. ACCRUED EXPENSES

A summary of accrued expenses at September 30, 2019 and 2018, is as follows (in thousands of dollars):

	2019	2018
Accrued salaries and wages	$113,879	$ 80,092
Accrued benefits	52,815	60,071
Interest rate swaps	28,698	11,684
Self-insurance and medical insurance liabilities	35,135	28,348
Other current liabilities	30,599	51,804
Total	$261,126	$231,999

7. LONG-TERM DEBT

Long-term debt at September 30, 2019 and 2018, consists of the following (in thousands of dollars):

	2019	2018
Series 2001A and 2001B, payable in annual installments increasing in fiscal year 2024 through fiscal year 2035, interest payable monthly at variable rates (1.63% and 1.57% at September 30, 2019 and 2018, respectively)	$ 85,200	$ 85,200
Series 2004A, payable in annual installments in fiscal year 2016 through fiscal year 2035, interest payable monthly at variable rates (1.53% and 1.55% at September 30, 2019 and 2018, respectively)	45,145	46,065
Series 2011A, payable in annual installments in fiscal year 2014 through fiscal year 2024, interest payable semiannually at fixed rates of 3.2% to 5.0%	26,775	31,905
Series 2011B, payable in annual installments in fiscal year 2016 through fiscal year 2036, interest payable monthly at variable rates (1.93% and 1.91% at September 30, 2019 and 2018, respectively)	43,120	45,135
Series 2011C and 2011D, payable in annual installments in fiscal year 2014 through fiscal year 2045, interest payable monthly at variable rates (2.06% and 2.08% at September 30, 2019 and 2018, respectively)	93,750	94,750
Series 2013A, payable in annual installments in fiscal year 2024 through fiscal 2045, interest payable monthly a fixed rate of 3.08%	88,775	88,775
Series 2013B, payable in annual installments in fiscal year 2014 through fiscal 2023, interest payable monthly at a fixed rate of 2.24%	10,005	12,870
Series 2013C, payable in annual installments in fiscal year 2014 through fiscal 2023, interest payable monthly at a fixed rate of 2.26%	6,565	8,445
Series 2017, payable in annual installments in fiscal year 2026 through fiscal 2046, interest payable semiannually at a fixed rate of 4.33%	50,000	50,000
Series 2017A, payable in annual installments in fiscal year 2021 through fiscal 2046, interest payable semiannually at a fixed rate of 2.79%	100,000	100,000
Series 2017B, payable in annual installments in fiscal year 2033 through fiscal year 2046, interest payable monthly at variable rates (2.13% and 2.19% at September 30, 2019 and 2018, respectively)	60,000	60,000
Note payable to a commercial bank in annual installments beginning in fiscal year 2013, with the remaining balance due in fiscal year 2023 at a fixed rate of 2.73%	16,340	17,200
Note payable to a commercial bank with principal and interest due monthly and a final payment due February 1, 2026 at a fixed rate of 2.49%	19,780	20,700
Note payable, payable in annual installments 2015 through 2019, interest payable monthly at fixed interest 2.85%	1,296	1,724
	646,751	662,769
Less scheduled payments due within one year	16,478	16,018
Less additional portion of Series 2001A and 2001B, 2004A, and 2011B classified as current	170,140	173,465
Less unamortized debt issuance costs	2,760	2,997
Total long-term debt	$457,373	$470,289

The Obligated Group for the debt consists of the Parent Corporation; the Operating Corporation; the Foundation; Impact Alamance; Alamance Regional Medical Center, Inc.; and ARMC Health Care (excluding AEC). The weighted-average interest rate on the Health System's Master Indenture Trust debt was approximately 2.88% and 2.98% in fiscal years 2019 and 2018, respectively.

The Health System has set aside approximately $32 million and $106 million at September 30, 2019 and 2018, respectively, in a debt service interest fund designated to meet scheduled interest payments as well as $19.6 million of trustee-held 2017A & B bond funds. These amounts are included in assets limited as to use in the accompanying consolidated balance sheets at September 30, 2019 and 2018.

Certain puttable variable-rate debt instruments are included in the current portion of long-term debt because of subjective acceleration clauses or due-on-demand provisions in the respective liquidity facilities from the supporting financial institutions. The future annual scheduled principal payment requirements of long-term debt at September 30, 2019, are as follows (in thousands of dollars):

Years Ending September 30	
2020	$ 16,478
2021	15,894
2022	15,805
2023	28,855
2024	15,595
Thereafter	554,124
Total	$646,751

On August 1, 2011, the Health System issued the second amended and restated master trust indenture (the "Indenture"). The Indenture provides that the members of the obligated group are jointly and severally liable for all obligations issued and outstanding under the Indenture. The Indenture also provides that all obligations issued and outstanding under the Indenture shall be uncollateralized obligations of the Obligated Group. Certain assets of the Health System, including patient accounts receivable, may collateralize future obligations issued under the Indenture.

There are several restrictive covenants contained in the Indenture, including, but not limited to, financial reporting, debt coverage requirements, and the maintenance of insurance coverage. The Health System is also restricted from pledging, mortgaging, or assigning interest in its property. Approximately 78% of the Health System's revenues and 95% of the Health System's assets are part of the Obligated Group under the revenue bonds as of and for the year ended September 30, 2019.

The Series 2017A and 2017B Hospital Revenue Bonds were issued on December 22, 2017, in the aggregate amount of $160 million to provide funding for qualifying Health System's projects. The $100 million carries a ten-year fixed rate of 2.79% and $60 million carries a variable rate of 85% of 1 month LIBOR plus 0.34%. The bonds are payable in annual installments in fiscal year 2021 through fiscal year 2046 for 2017A and fiscal year 2033 through fiscal year 2042 for 2017B.

The Series 2017 Hospital Revenue Bonds were issued on December 26, 2016, with $50 million of proceeds to provide funding for the Health System's pension plan. The bonds are payable in annual installments in fiscal year 2026 through fiscal year 2046 at fixed rates of 4.33%.

On February 29, 2016, the Health System purchased the remaining interest in a medical services building and entered into a $23 million term loan with a commercial bank to fund the acquisition. The term loan carries a fixed interest rate of 2.49% and partially amortizes over 10 years with a final payment March 2, 2026.

The Health System entered into a revolving credit agreement with a financial institution on May 31, 2019, in the amount of $50 million, maturing October 1, 2020. There were no borrowings against the agreement at September 30, 2019. The credit agreement bears interest at an annual rate of LIBOR, plus 0.38%. Under terms of the credit agreement, the Health System is required to maintain a specific debt service coverage ratio, a specific day's cash on hand, and minimum debt rating, as those terms are defined.

The Series 2013A, 2013B, and 2013C Revenue Bonds were issued on November 20, 2013, in the aggregate amount of $130.2 million that, along with debt service reserve funds, were used to reimburse construction costs and fund a construction fund in the amount of approximately $59.8 million for construction at ARMC, fund an escrow in the amount of $29.9 million to retire the AEC Series 2007 bonds, reimburse borrowings under a bank line of credit, and pay issuance costs. On January 1, 2014, the above escrow, along with accrued interest, was used to retire the AEC Series 2007 bonds.

The Series 2011C and 2011D Hospital Revenue Bonds were issued on September 21, 2011, with $50 million each of new proceeds to provide funding for qualifying Health System's projects. The bonds are variable-rate bonds issued by a bank with variable-rate commitments through the termination date of October 1, 2020.

The Series 2011B Hospital Revenue Bonds were issued on August 3, 2011, to refund the 2008 Series bonds. The Health System provides self-liquidity in support of the bonds. Bonds that have not been remarketed for a period of 30 days are payable after an additional 180 days. The Series 2011B bonds are classified as current liabilities in the consolidated balance sheets; however, they are reflected in the table of scheduled payments above based on their stated maturities.

The Series 2011A Hospital Revenue Bonds were issued to fully refund the 1993 bonds and are payable in annual installments in fiscal year 2014 through fiscal year 2024 at fixed rates of between 3.2% and 5.0%.

The Series 2004A Hospital Revenue Bonds are puttable variable-rate bonds supported by self-liquidity of the Health System. Additionally, the Health System has entered into a revolving credit agreement through October 1, 2016 with a bank to provide loans to cover 2004A bonds that are not remarketed. The revolving loans convert to a term loan if not repaid within 366 days and the term loan is amortized in six equal semiannual installments. This revolving credit agreement has been extended until October 1, 2022, with the same terms and conditions. The Series 2004A bonds are classified as current liabilities in the consolidated balance sheets; however, they are reflected in the table of scheduled payments above based on their stated maturities.

The Series 2001A and 2001B Hospital Revenue Bonds are puttable variable-rate bonds under which the Health System has entered into two separate standby bond purchase

agreements (the "Liquidity Facilities") with a bank to provide credit and liquidity support for the bonds. The Liquidity Facilities were amended during fiscal year 2014 and expire on December 20, 2023. In the event that the bonds are tendered for purchase and cannot be remarketed, the Liquidity Facilities provide the funds to purchase the unremarketed bonds. These agreements will expire if the bonds are converted, or required to be converted, to a fixed interest rate. Principal payments by the Health System under agreement begin 455 days after the day on which the bonds failed to be remarketed and continue in six semiannual installments. The Series 2001A and Series 2001B bonds are classified as current liabilities in the consolidated balance sheets because of subjective acceleration provisions in the amended Liquidity Facilities. However, they are reflected in the table of scheduled payments above based on their stated maturities.

On November 30, 2012, the Health System purchased a medical services building and entered into a $21.5 million term loan with a commercial bank to partially fund the purchase. The loan carries a fixed interest rate of 2.73% and amortizes over 10 years, with a final payment due in fiscal year 2023.

8. LEASE COMMITMENTS

The Health System leases various equipment and buildings used in its operations. Future minimum lease payments on capital leases and operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of September 30, 2019, are as follows (in thousands of dollars):

Years Ending September 30	Operating Leases	Capital Leases
2020	$13,463	$6,133
2021	11,794	6,004
2022	9,650	1,876
2023	7,699	376
2024	6,721	243
Thereafter	23,302	311
Total	$72,629	14,943
Less finance charges on capital leases		1,302
Less current portion of capital lease obligations		5,046
Capital lease obligation—net of current portion		$8,595

Rent expense for the years ended September 30, 2019 and 2018, was approximately $20.9 million and $18.1 million, respectively.

9. COMMITMENTS UNDER MRS. BERTHA LINDAU CONE GIFT

Under the terms of a gift by Mrs. Bertha Lindau Cone, the Parent Corporation is required to meet certain conditions. The more significant conditions of the gift are that the existing hospital and land will be forever used and maintained for hospital purposes and that the name of The Moses H. Cone Memorial Hospital will never be changed.

A substantial portion of the Parent Corporation's investment in its hospital building has been funded by this gift and is subject to the above conditions. Failure to comply with the conditions of the gift could result in the forfeiture to unrelated parties of all property purchased from the original gift and earnings on the gift.

10. EMPLOYEE RETIREMENT PLANS

The Health System has the right under the terms of the Employees' Retirement Plan of the Moses H. Cone Memorial Hospital (the "Plan"), a pension plan, in certain circumstances, to discontinue its contributions at any time and to terminate the Plan, subject to the provisions set forth in ERISA. On February 6, 2018, the Board of Trustees of the Moses H. Cone Memorial Hospital Board of Trustees approved a resolution to terminate the Plan, effective April 16, 2018. All required regulatory approvals were obtained in November 2018. Letters were mailed to plan participants in February 2019. Lump sum distributions were completed in May 2019. An additional $15 million employer contribution was made on June 5, 2019 to fund the Plan in liquidation. On June 6, 2019 transfer of assets for the purchase of annuities from Principal Financial Services, Inc. ("Principal") was completed. Principal will begin making payments to the participants on August 1, 2019.

Certain benefits under the Plan are insured by the Pension Benefit Guaranty Corporation (PBGC) if the Plan terminates. Generally, the PBGC guarantees most vested normal-age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the Plan and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination, subject to a statutory ceiling on the amount of an individual's monthly benefit.

Defined benefit pension plan benefits are based on years of service and employees' compensation during their years of employment. The Health System's pension funding policy is based upon actuarially calculated amounts to fund normal pension cost.

The Health System froze the Plan as of December 31, 2011, at which time benefit accruals under the Plan ceased. Effective October 1, 2003, the Plan was amended to close the Plan to new participants after October 1, 2003, and to offer current participants the right to continue to participate in the Plan or to freeze their accrued benefits and participate in a defined contribution plan sponsored by the Health System. Approximately 93% of participants at October 1, 2003 elected to continue participation in the Plan.

The Health System's pension costs are calculated using various actuarial assumptions and methodologies as prescribed by ASC 715, *Compensation—Retirement Benefits*. These assumptions include discount rates, expected return on the Plan's assets, inflation, mortality rates, and other factors and are reviewed on an annual basis.

A discount rate is used to determine the present value of the Health System's future pension benefit obligations. The discount rate is determined by matching the expected cash flows to a yield curve based on long-term, high-quality fixed-income debt instruments available as of the measurement date and is updated on an annual basis.

An assumption for return on the Plan's assets is used to determine the expected return on asset component of net periodic benefit cost for the Health System's pension plan. The expected long-term target rate of return on the Plan's assets is based upon the Health System's projected investment mix of the Plan's assets, the assumption that future returns will be close to the historical long-term rate of return experienced for equity and fixed-

income securities, actuarial surveys performed in association with the Health System's investment policies, and a 10- to 15-year investment horizon. This assumption is consistent with the assumption used for funding purposes and target asset allocations.

Actuarial Assumptions—The weighted-average actuarial assumptions used to determine the net periodic benefit cost of the Health System's pension plan are as follows:

	Pension Plan	
	2019	**2018**
Discount rate	NA	3.81 %
Expected return on plan assets	NA	5.30

The weighted-average actuarial assumptions used to determine the benefit obligations of the Health System's pension plan are as follows:

	Pension Plan	
	2019	**2018**
Discount rate	NA	4.25 %
Expected return on plan assets	NA	4.25

Assets of the Plan are invested in marketable equity and fixed-income securities, hedge funds, and private investment vehicles.

Plan Asset Investment Policy—The Health System's Investment Committee establishes investment policies and strategies that support the objectives of the Plan. The primary objective of the Plan is to provide a source of retirement income for its participants and beneficiaries. The primary financial objective of the Plan is to maintain full funding of the plans, as well as minimize cash contributions over the long term. The desired investment objective is a long-term real rate of return on assets that is approximately 4.5% greater than the assumed rate of inflation, as measured by the Consumer Price Index. The target rate of return for the Plan has been based upon an analysis of historical returns supplemented with an economic and structural review for each asset class. The Plan currently has target allocations of 60% growth assets, 30% income assets, and 10% diversified strategy assets.

In fiscal year 2015, the Health System modified the pension investment policy to incorporate a separate liability hedging allocation outside of the allocation noted above. The amount of assets transferred to the liability hedging portfolio is based on the funded status of the Plan and the liability hedging portion of the total assets will grow as the Plan's funded status increases. At September 30, 2015, 20% of the total pension investment assets were allocated to the liability hedging portfolio.

The Health System's defined benefit plan asset allocations at September 30, 2019 and 2018, are as follows:

Asset Category	Percentage of Plan Assets at September 30, 2019	2018
Cash	100 %	- %
Equity securities		21
Fixed-income securities		65
Alternative investments		14
Commodities and other		
Total	100 %	100 %

The liability portfolio was allocated 100% to cash. The following table summarizes the basis used to measure the fair value of the Health System's pension plan assets as of September 30, 2019 (in thousands of dollars):

	Fair Value Measurement at September 30, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	$ 3	$ -	$ -	$ 3
Subtotal	$ 3	$ -	$ -	3
Investments measured at net asset value:				
US equity funds				
Subtotal				-
Alternative investments				
Total				$ 3

The following table summarizes the basis used to measure the fair value of the Health System's pension plan assets as of September 30, 2018 (in thousands of dollars):

	Fair Value Measurement at September 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets:				
Cash and cash equivalents	$ 975	$ -	$ -	$ 975
US equity securities and funds	1,617			1,617
Fixed-income securities and funds	118,525			118,525
Subtotal	$121,117	$ -	$ -	121,117
Investments measured at net asset value:				
US equity funds				35,749
Subtotal				35,749
Alternative investments				24,533
Total				$181,399

A reconciliation of the projected benefit obligation and a reconciliation of the Plan's assets, the funded status of the Plan, and amounts recognized in the Health System's consolidated balance sheets at September 30, 2019 and 2018, are as follows (in thousands of dollars):

	2019	**2018**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 194,239	$212,414
Interest cost	5,491	7,006
Actuarial gain	(5,845)	(8,155)
Benefits paid	(2,773)	(3,238)
Plan amendments		454
Settlements	(190,270)	(14,242)
Benefit obligation at end of year	842	194,239
Change in plan assets:		
Fair value of plan assets at beginning of year	181,399	203,196
Actual return on plan assets	1,309	(4,317)
Employer contributions	15,120	
Benefits paid	(2,773)	(3,238)
Settlements	(190,270)	(14,242)
Fair value of plan assets at end of year	4,785	181,399
Net pension asset (liability)	$ 3,943	$(12,840)

The accumulated benefit obligation was $0.8 million and $194.2 million as of September 30, 2019 and 2018, respectively. The amounts recognized in the consolidated balance sheets as noncurrent liabilities are $0.8 million and $12.8 million at September 30, 2019 and 2018, respectively. Amounts recorded as changes in unrestricted net assets arising from the defined benefit plan, but not yet included in net periodic benefit cost are $0 and $80.9 million at September 30, 2019 and 2018, respectively.

A $4.8 million receivable was accrued for contract true-ups related to the annuity purchase by Principal Financial Services, which is included in other current assets on the balance sheet and reflected as a credit to pension expense, included in fringe benefits on the statement of operations. The amount was received in November 2019. There were no additional current year service costs related to the pension plan. The settlement expense related to the termination of the pension plan was $75.2 million, which is reflected in pension settlement expense on the statement of operations.

The components of net periodic pension costs and other pension-related changes in net assets for fiscal years 2019 and 2018, are as follows (in thousands of dollars):

	2019	**2018**
Interest cost on projected benefit obligation	$ 5,491	$ 7,006
Expected return on plan assets	(5,459)	(9,890)
Net amortization	3,955	6,019
Curtailments		454
Settlements	75,225	5,929
Net periodic pension cost	79,212	9,518
Current-year actuarial net loss	3,955	6,221
Amortization of net actuarial loss	(3,955)	(6,019)
Settlements	(75,225)	(5,929)
Total recognized in unrestricted net assets	(75,225)	(5,727)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 3,987	$ 3,791

In addition, Cone Health and ARMC Health Care operate certain voluntary savings and defined contribution retirement plans. Contribution expense related to the plans was $40.5 million in 2019 and $40.7 million in 2018 and is reflected in fringe benefits expense in the accompanying consolidated statements of operations.

11. NET ASSETS

A summary of the changes in consolidated unrestricted net assets attributable to Moses H. Cone Memorial Hospital and Affiliates and the noncontrolling interests for the year ended September 30, 2019, is as follows (in thousands of dollars):

	Total	Moses H. Cone Memorial Hospital & Affiliates	Noncontrolling Interests
Balance—beginning of year	$1,730,130	$1,737,140	$(7,010)
(Deficit) excess of revenues over expenses from consolidated operations	(16,288)	(19,171)	2,882
Change in net unrealized gains and losses on investments	(8,392)	(8,392)	
Pension-related changes other than periodic benefit cost	75,225	75,225	
Change in the fair value of the floating-to-fixed swap agreements	(23,589)	(23,589)	
Distributions to noncontrolling interests	(5,486)		(5,486)
Other changes in net assets	397	(2,930)	3,328
Increase in unrestricted net assets	21,867	21,143	724
Balance—end of year	$1,751,997	$1,758,283	$(6,286)

A summary of the changes in consolidated unrestricted net assets attributable to Moses H. Cone Memorial Hospital and Affiliates and the noncontrolling interests for the year ended September 30, 2018, is as follows (in thousands of dollars):

	Total	Moses H. Cone Memorial Hospital & Affiliates	Noncontrolling Interests
Balance—beginning of year	$1,642,502	$1,641,589	$ 913
Excess (deficit) of revenues over expenses from consolidated operations	109,143	110,381	(1,238)
Change in net unrealized gains and losses on investments	(29,033)	(29,033)	
Pension-related changes other than periodic benefit cost	5,727	5,727	
Change in the fair value of the floating-to-fixed swap agreements	8,922	8,922	
Distributions to noncontrolling interests	(6,685)		(6,685)
Other changes in net assets	(446)	(446)	
Increase (decrease) in unrestricted net assets	87,628	95,551	(7,923)
Balance—end of year	$1,730,130	$1,737,140	$(7,010)

Net assets with donor restrictions are available for the following purposes at September 30, 2019 and 2018 (in thousands of dollars):

	2019	2018
Building fund	$ 2,730	$ 2,626
Community outreach	3,184	3,056
Patient support	7,196	6,233
Staff development and education	1,854	1,330
Donor restricted net assets	$14,964	$13,245

Donor restricted funds are those which have been limited by donors to a specific time period or purpose. As required by US GAAP, donor restricted net assets are classified and reported based on the existence or absence of donor-imposed restrictions. Funds associated with donor restrictions are included in assets limited as to use.

12. CONTINGENCIES

The Health System purchases professional and general liability insurance to cover property and medical malpractice claims in excess of $4 million. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Health System has estimated and recorded accruals for the self-insurance portion of these arrangements.

The Health System purchases stop loss workers' compensation insurance to cover North Carolina claims in excess of $1 million. The Health System purchases insurance coverage for employees working in states other than North Carolina. The Health System has employed independent actuaries to estimate the ultimate cost for the self-insurance portion, if any, of the settlement of such claims.

The Health System is self-insured for its employee group health insurance and has estimated and recorded accruals for the self-insurance portion of these arrangements. In management's opinion, these accruals provide adequate reserve for loss contingencies.

The Health System is involved in litigation and regulatory investigations arising in the normal course of business. Management believes that these matters will be resolved without material adverse effect on the Health System's financial position, results of operations, or cash flows.

The aggregate amount accrued for these contingencies is approximately $34.5 million and $34.3 million as of September 30, 2019 and 2018, respectively.

CNCNC Liability for Unpaid Health Claims and IBNR

A reconciliation of the changes in CNCNC's unpaid health claims and IBNR recognized in the Health System's consolidated balance sheets at September 30, 2019 and 2018, is as follows (in thousands of dollars):

	2019	2018
Balance of liability for unpaid health claims and IBNR at beginning of year	$ 12,320	$ 12,052
Incurred related to:		
Current year	138,327	111,555
Prior year	2,365	(795)
Total incurred	140,692	110,760
Paid related to:		
Current year	121,252	99,609
Prior year	14,644	10,883
Total paid	135,896	110,492
Balance of liability for unpaid health claims and IBNR at end of year	$ 17,116	$ 12,320

The above rollforward contains $27.4 million and $26.1 million of CNCNC intercompany expenses paid to THN in relation to their risk-sharing arrangement at September 30, 2019 and 2018, respectively. Management believes that the liability for unpaid claims is adequate to cover the ultimate development of claims. The reserves are continually reviewed to reflect current conditions and claim trends, and any resulting adjustments are reflected in operating results in the year the revisions are made.

13. CONCENTRATIONS OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2019 and 2018, was as follows:

	2019	2018
Medicare	10.1 %	13.1 %
Medicare Managed Care	17.8	20.8
Medicaid	4.0	4.7
Commercial	59.5	51.7
Other	5.0	6.2
Self-Pay	3.6	3.5
	100.0 %	100.0 %

14. FUNCTIONAL EXPENSES

Expenses are presented by functional classification in accordance with the overall service mission of Cone Health. Primary program services are health care services. Expenses for auxiliary enterprises are highlighted.

A summary of the functional expenses as of September 30, 2019, is as follows (in thousands of dollars):

	Healthcare Services	General and Administration	Other Entities	Total Operating Expenses
Salaries and wages	$ 667,524	$ 114,637	$ 23,236	$ 805,397
Fringe benefits	211,395	36,304	5,451	253,150
Supplies	347,247	59,634	580	407,461
Other direct expenses	294,813	50,629	168,965	514,407
Interest expense	16,975	2,915		19,890
Depreciation/amortization	112,296	19,285	583	132,164
Total	$ 1,650,250	$ 283,404	$ 198,815	$ 2,132,469

A summary of the functional expenses as of September 30, 2018, is as follows (in thousands of dollars):

	Healthcare Services	General and Administration	Other Entities	Total Operating Expenses
Salaries and wages	$ 601,065	$ 119,550	$ 25,547	$ 746,162
Fringe benefits	204,445	40,664	4,099	249,208
Supplies	295,177	58,710	556	354,443
Other direct expenses	254,506	50,621	144,654	449,781
Interest expense	15,352	3,054		18,406
Depreciation/amortization	105,544	20,992	309	126,845
Total	$ 1,476,089	$ 293,591	$ 175,165	$ 1,944,845

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CONSOLIDATING SUPPLEMENTAL SCHEDULES

THE MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES

CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2019
(In thousands of dollars)

	Obligated Group						Nonobligated Group			
ASSETS	**Operating Corporation**	**Parent Corporation**	**Alamance Regional**	**Community Foundations**	**Reclassification and Eliminating Entries**	**Total Group**	**Other Entities**	**Alamance Extended Care**	**Reclassification and Eliminating Entries**	**Consolidated**
CURRENT ASSETS:										
Cash and cash equivalents	$ (5,884)	$ 12,133	$ 5	$ 1,322	$ -	$ 7,576	$ 27,977	$ 8,091	$ -	$ 43,644
Short-term investments	63,533					63,533				63,533
Patient accounts receivable	202,520		(760)			201,760	30,894	713		233,367
Inventories	29,016		7,322			36,338	423	20		36,781
Assets limited as to use—required for current liabilities					7,073	7,073				7,073
Other current assets	49,380	11,237	715	386		61,718	45,534	415	(35,121)	72,546
Total current assets	338,565	23,370	7,282	1,708	7,073	377,998	104,828	9,239	(35,121)	456,944
LONG-TERM INVESTMENTS	3,596	863,222		159,809	(191,897)	834,730			(3,596)	831,134
ASSETS LIMITED AS TO USE—Net of portion required for current liabilities	3,841				184,824	188,665	34,698	4,132	3,596	231,091
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	55,861	433	1,621			57,915	24,336		(19,916)	62,335
PROPERTY AND EQUIPMENT—Net	177,487	661,003	258,019	5,041		1,101,550	24,026	59,750		1,185,326
GOODWILL	3,038	779				3,817	6,315			10,132
OTHER ASSETS	39,932	266	663	5		40,866	83,616	(2)	(28,992)	95,488
INTERCOMPANY RECEIVABLES (PAYABLES)	275,996	(430,450)	280,099	(5,124)		120,521	(120,474)	(47)		-
TOTAL	$ 898,316	$ 1,118,623	$ 547,684	$ 161,439	$ -	$ 2,726,062	$ 157,345	$73,072	$ (84,029)	$ 2,872,450

(Continued)

THE MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES

CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2019
(In thousands of dollars)

	Obligated Group						Nonobligated Group			
LIABILITIES AND NET ASSETS	**Operating Corporation**	**Parent Corporation**	**Alamance Regional**	**Community Foundations**	**Reclassification and Eliminating Entries**	**Total Group**	**Other Entities**	**Alamance Extended Care**	**Reclassification and Eliminating Entries**	**Consolidated**
CURRENT LIABILITIES:										
Accounts payable	$ 48,046	$ 10,444	$ 2,032	$ 123	$ -	$ 60,645	$ 8,354	$ 383	$ -	$ 69,382
Accrued expenses	68,060	31,294	23,697	4,989		128,040	161,541	7,655	(36,110)	261,126
Current portion of long-term debt and capital lease obligations	4,867	186,175				191,042	622			191,664
Total current liabilities	120,973	227,913	25,729	5,112	-	379,727	170,517	8,038	(36,110)	522,172
LONG-TERM DEBT—Net of current portion		456,523				456,523	27,009		(26,159)	457,373
CAPITAL LEASE OBLIGATION—Net of current portion	8,055					8,055	540			8,595
OTHER NONCURRENT LIABILITIES	51,738	4	989	4,495		57,226	45,806	15,435	(1,120)	117,347
Total liabilities	180,766	684,440	26,718	9,607	-	901,531	243,872	23,473	(63,389)	1,105,487
NET ASSETS (DEFICIT):										
Net assets without donor restrictions:										
Moses H. Cone Memorial Hospital and Affiliates	706,078	434,183	520,808	151,832	1,000	1,813,901	(90,647)	49,383	(14,354)	1,758,283
Noncontrolling interests									(6,286)	(6,286)
Total net assets (deficit) without donor restrictions	706,078	434,183	520,808	151,832	1,000	1,813,901	(90,647)	49,383	(20,640)	1,751,997
Net assets (deficit) with donor restrictions	11,470		158		(1,000)	10,628	4,120	216		14,964
Total net assets (deficit)	717,548	434,183	520,966	151,832	-	1,824,529	(86,527)	49,599	(20,640)	1,766,961
TOTAL	$898,314	$1,118,623	$547,684	$161,439	$ -	$2,726,060	$157,345	$73,072	$(84,029)	$2,872,448

Note: Entities included in the consolidating balance sheet do not reflect their equity interest in the other entities within the consolidating balance sheet

THE MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(In thousands of dollars)

	Obligated Group						Nonobligated Group			
	Operating Corporation	Parent Corporation	Alamance Regional	Community Foundations	Eliminating Entries	Total Group	Other Entities	Alamance Extended Care	Eliminating Entries	Consolidated
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:										
Net patient service revenue	$1,352,153	$ -	$311,258	$ -	$	$1,663,411	$305,214	$14,738	$	$1,983,363
Other revenue	46,966	43,758	8,306		(42,592)	56,438	15,558	3,200	(8,829)	66,367
Premium revenue							150,043		(5,271)	144,772
Total revenue	1,399,119	43,758	319,564	-	(42,592)	1,719,849	470,815	17,938	(14,100)	2,194,502
EXPENSES:										
Salaries and wages	477,574	1,180	82,061	1,384		562,199	238,256	7,200	(2,258)	805,397
Fringe benefits	168,905	286	28,941	370		198,502	52,875	2,491	(718)	253,150
Supplies	324,311	35	58,040	68		382,454	23,662	1,433	(88)	407,461
Other direct expenses	235,582	14,110	102,041	238	(54,448)	297,523	227,015	4,842	(14,973)	514,407
Interest expense	418	19,374				19,792	280		(182)	19,890
Depreciation and amortization	65,214	43,394	15,521	326		124,455	4,907	2,827	(25)	132,164
Total expenses	1,272,004	78,379	286,604	2,386	(54,448)	1,584,925	546,995	18,793	(18,244)	2,132,469
INCOME (LOSS) FROM OPERATIONS	127,115	(34,621)	32,960	(2,386)	11,856	134,924	(76,180)	(855)	4,144	62,033
NONOPERATING INCOME (EXPENSE):										
Investment income	1,685	15,009		4,980		21,674	1,175	37	(182)	22,704
Pension settlement expense	(75,225)					(75,225)				(75,225)
Other nonoperating income (expense)—net	5,325	(8,572)	(888)	(3,958)	(11,856)	(19,949)	(19,865)	(1)	14,015	(25,800)
Total nonoperating (expense) income	(68,215)	6,437	(888)	1,022	(11,856)	(73,500)	(18,690)	36	13,833	(78,321)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE FROM CONSOLIDATED OPERATIONS	58,900	(28,184)	32,072	(1,364)	-	61,424	(94,870)	(819)	17,977	(16,288)
DEFICIT OF REVENUE OVER EXPENSE ATTRIBUTABLE TO NONCONTROLLING INTERESTS									(2,882)	(2,882)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE ATTRIBUTABLE TO MOSES H. CONE MEMORIAL HOSPITAL AND AFFILIATES	$ 58,900	$(28,184)	$ 32,072	$ (1,364)	$ -	$ 61,424	$ (94,870)	$ (819)	$ 15,095	$ (19,170)