

**Annual Financial Report**

**New Hanover Regional Medical Center  
Wilmington, North Carolina**

(A Component Unit of New Hanover County, North Carolina)

**Years Ended September 30, 2017 and 2016**

**With Report of Independent Auditor**

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RSM US LLP

## **Independent Auditor's Report**

Board of Trustees  
New Hanover Regional Medical Center  
Wilmington, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the fiduciary fund information of New Hanover Regional Medical Center (NHRMC), a component unit of New Hanover County, North Carolina, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the NHRMC's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Lower Cape Fear Hospice, Incorporated, which is a discretely presented component unit, which comprises 54% and 54% of the assets, 58% and 57% of the net position, and 13% and 14% of the revenues of the aggregate discretely presented component units as of and for the years ended September 30, 2017 and 2016, respectively. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lower Cape Fear Hospice, Incorporated, is based solely on the report of the other auditor. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the fiduciary fund information of New Hanover Regional Medical Center as of September 30, 2017 and 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-10, the Pension Plan of NHRMC's Changes in Net Pension Liability and Related Ratios and Schedule of Contributions on page 81-82, and the Pension Plan of PMH's Changes in Net Pension Liability and Related Ratios and Schedule of Contributions on page 83-84 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise NHRMC's basic financial statements. The supplementary information listed in the contents under supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the contents under supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audits, the procedures performed as described above, and the reports of the other auditor, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*RSM US LLP*

Wilmington, North Carolina  
December 8, 2017

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**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Management's Discussion and Analysis  
For the Fiscal Years Ended September 30, 2017 and 2016**

Management's discussion and analysis of New Hanover Regional Medical Center's (NHRMC) financial performance provides an overview of the Medical Center's activities for the fiscal years ended September 30, 2017 and 2016. Except as otherwise noted, the financial highlights in this analysis refer exclusively to New Hanover Regional Medical Center and its blended component unit (NHRMC).

**FINANCIAL HIGHLIGHTS**

**For the year ended September 30, 2017**

NHRMC's net position increased over the prior year by \$98.0M (12.5%).

NHRMC reported operating income of \$86.3M or \$19.1M more than prior year.

Total non-operating activity resulted in net revenues of \$28.5M, representing a net revenue increase of \$16.6M over the prior year's net non-operating revenue of \$11.8M.

**For the year ended September 30, 2016**

NHRMC's net position increased over the prior year by \$76.7M (10.9%).

NHRMC reported operating income of \$67.2M or \$35.7M less than prior year.

Total non-operating activity resulted in net revenues of \$11.8M, representing a net revenue increase of \$21.0M over the prior year's net non-operating expense of \$9.2M.

**SUMMARY OF NEW HANOVER REGIONAL MEDICAL CENTER**

The reporting entity includes New Hanover Regional Medical Center, as well as New Hanover Regional Medical Center Foundation, Inc., blended component unit (collectively, NHRMC), Carolina Healthcare Associates, Inc. (CHA), The Pension Plan of New Hanover Regional Medical Center, Pender Memorial Hospital, Incorporated (PMH), Physician Quality Partners, LLC (PQP) and Lower Cape Fear Hospice, Incorporated (LCFH). CHA, PQP, PMH and LCFH are discretely presented component units. The reporting entity's business activities are presented in the Audited Financial Statements as Totals (Memorandum Only).

**USING THIS ANNUAL REPORT**

The Annual Financial Report includes the basic financial statements and notes to the financial statements. In using the statements, please refer to Note 1 of the basic financial statements for additional information regarding the definition of the reporting entity, blended component units and discretely presented component units.

The financial statements report information about NHRMC using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net position; a statement of revenues, expenses and changes in net position; a statement of cash flows; fiduciary fund information; and notes to the financial statements. The statement of net position presents the financial position of NHRMC on a full accrual, historical cost basis. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event, when an obligation arises, or the depreciation of capital assets.

Fiduciary fund information is included as a result of NHRMC's fiduciary responsibility for a defined benefit plan it sponsors.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of the material data provided in the financial statements. The notes present information about NHRMC's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information presents the financial data of each entity blended to form NHRMC as reported in the financial statements as well as the financial data for each of the discretely presented component units. The activity of the blended component unit is not considered to be materially significant as compared to the activity of NHRMC (the Primary Government).

The financial statements were prepared by NHRMC's staff from the detailed books and records of NHRMC.

#### **NHRMC'S OPERATING RESULTS AND CHANGES IN NET POSITION:**

	Years Ended		
	September 30, 2017	September 30, 2016	September 30, 2015
	(In Thousands)		
Net patient service revenue	\$ 944,473	\$ 870,044	\$ 800,741
Other revenue	28,608	19,741	20,698
<b>Total operating revenue</b>	<b>973,081</b>	<b>889,785</b>	<b>821,439</b>
Expenses:			
Health care services			
Salaries, wages and benefits	434,770	408,921	369,274
Medical supplies	192,266	174,861	158,170
Professional fees	45,349	48,648	41,370
Purchased services	109,597	97,033	60,669
Depreciation and amortization	51,304	49,848	47,489
Other	53,518	43,322	41,619
<b>Total operating expenses</b>	<b>886,804</b>	<b>822,633</b>	<b>718,591</b>
<b>Operating income</b>	<b>86,277</b>	<b>67,152</b>	<b>102,848</b>
Nonoperating revenues (expenses), net	28,461	11,816	(9,168)
	114,738	78,968	93,680
Capital and permanent endowment contributions and transfers to component units	(16,743)	(2,290)	(3,188)
<b>Increase in net position</b>	<b>97,995</b>	<b>76,678</b>	<b>90,492</b>
Net position, beginning, previously reported	783,364	706,686	602,863
Restatement	-	-	13,331
Net position, beginning, restated	783,364	706,686	616,194
Net position, ending	<b>\$ 881,359</b>	<b>\$ 783,364</b>	<b>\$ 706,686</b>

**For the year ended September 30, 2017**

Total operating revenue increased \$83.3M (9.4%). The increase in operating revenue is largely due to increased utilization of both inpatient and outpatient services, and a 5% charge rate increase.

Total operating expenses increased \$64.2M (7.8%). The increased utilization of services as described above contributed to the increase in operating expense. Costs for medical supplies, purchased services and other expenses rose above the rate of increase in revenues, while costs for personnel and depreciation rose at a rate below revenue growth, and professional fees decreased. Increases in medical supplies expenses were due to technological advancements designed to improve patient outcomes and increased utilization. Purchased services costs increased as a result of agreements to expand radiation oncology services. Personnel costs increased as a result of higher wages due to market pressures combined with increases in the Hospital's benefit costs. NHRMC continues to ensure that wage and benefit costs remain competitive while managing productivity through staffing targets along with increased focus on employee health and wellness. These activities continue to ensure personnel costs trend in line with revenue growth. Professional fees decreased from reduced consulting services.

Operating income reflects income earned from operations before consideration of any interest income from investments, interest expense or other non-operating income. Operating income increased approximately \$19.1M as a result of increased patient volumes as well as implemented strategies to increase operational efficiency.

Income before capital contributions and transfers increased \$35.8M reflecting income from operations along with any interest earned on investments, increases and decreases in the fair value of investments, interest expense, and other non-operating items. Nonoperating revenues increased primarily due to the increase in the fair value of investments. This activity, when added to the increase in operating income, accounted for the change from the prior year.

**For the year ended September 30, 2016**

Total operating revenue increased \$68.3M (8.3%). The increase in operating revenue is largely due to increased utilization of both inpatient and outpatient services from the previous year. Net patient service revenue continues to be impacted by an increase in unreimbursed services as health insurers shift more reimbursement responsibility to individuals through increased deductibles and co-pays along with an increase in those individuals who have little or no health insurance or other means of payment. These trends are consistent in the healthcare industry. Other operating revenue consists primarily of outpatient pharmacy sales, grants, contributions and rental income from NHRMC owned facilities.

Total operating expenses increased \$104M (14.5%). The increased utilization of services as described above contributed to the increase in operating expense. Costs for personnel, medical supplies, professional fees and purchased services rose above the rate of increase in revenues; costs for depreciation and other expenses rose at a rate below revenue growth. Personnel costs increased as a result of a combination of higher wages due to market pressures and increases in the Hospital's benefit costs. Increases in medical supplies expenses were largely due to technological advancements designed to improve patient outcomes. Professional fees increased primarily from physician and consulting services. An expansion of the provider network contributed to these costs. Purchased services costs increased as a result of increased funding to the Hospital's discrete reporting units (see supplementary schedules).

NHRMC continues to ensure that wage and benefit costs remain competitive while managing productivity through staffing targets along with increased focus on employee health and wellness. These activities continue to ensure personnel costs trend in line with revenue growth.

Operating income reflects income earned from operations before consideration of any interest income from investments, interest expense or other non-operating income. Operating income decreased approximately \$35.7M as a result of increased operating expenses as a percentage of operating revenue.

**For the year ended September 30, 2016 (Continued)**

Income before capital contributions and transfers decreased \$14.7M reflecting income from operations along with any interest earned on investments, increases and decreases in the fair value of investments, interest expense, and other non-operating items. This activity, when added to the decrease in operating income, accounted for the change from the prior year.

**SUMMARY OF NHRMC NET POSITION**

	September 30, 2017	September 30, 2016	September 30, 2015
	(In Thousands)		
Assets:			
Current assets	\$ 410,378	\$ 298,346	\$ 327,920
Capital assets – tangible, net	496,114	447,409	435,623
Other noncurrent assets	539,214	458,116	377,718
<b>Total assets</b>	<b>1,445,706</b>	<b>1,203,871</b>	<b>1,141,261</b>
Deferred outflows of resources	70,236	38,079	15,934
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,515,942</b>	<b>\$ 1,241,950</b>	<b>\$ 1,157,195</b>
Liabilities:			
Current liabilities	\$ 156,075	\$ 122,514	\$ 126,902
Long-term obligations	467,666	330,261	318,382
<b>Total liabilities</b>	<b>623,741</b>	<b>452,775</b>	<b>445,284</b>
Deferred inflows of resources	10,842	5,811	5,225
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 634,583</b>	<b>\$ 458,586</b>	<b>\$ 450,509</b>
Net position:			
Net investment in capital assets	\$ 73,922	\$ 213,856	\$ 191,405
Unrestricted	789,654	552,049	498,324
Restricted	17,783	17,459	16,957
<b>Total net position</b>	<b>881,359</b>	<b>783,364</b>	<b>706,686</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 1,515,942</b>	<b>\$ 1,241,950</b>	<b>\$ 1,157,195</b>

**September 30, 2017**

Total assets and deferred outflows of resources have increased by \$274.0M over the past fiscal year end. The increase in current assets is primarily due to an increase in cash equivalents held by bond paying agent, which is attributable to the issuance of bonds in 2017. Increases in noncurrent assets are the result of additional excess funds invested from operations along with interest earnings and unrealized gains / losses in the market value of NHRMC investments.

Total liabilities and deferred inflows of resources have increased by \$176.0M over the past fiscal year end. An increase in current liabilities resulted primarily from an increase in accounts payable and other liabilities. Long-term liabilities increased as a result of the issuance of bonds in 2017.

Net position increased \$98.0M during the past year reflecting the overall performance during the past fiscal year.

### **September 30, 2016**

Total assets and deferred outflows of resources have increased by \$84.8M over the past fiscal year end. The decrease in current assets is primarily due to a decrease in cash and cash equivalents. This decrease is attributable to the transfer of excess cash into longer term investment vehicles. Increases in noncurrent assets are the result of additional excess funds invested from operations along with interest earnings and unrealized gains/losses in the market value of NHRMC investments.

Total liabilities and deferred inflows of resources have increased by \$8.1M over the past fiscal year end. A decrease in current liabilities resulted primarily from a decrease in estimated third-party payor settlements. Estimated third-party payor settlements reflect potential settlements with Medicare and Medicaid upon final audit of cost reports. The reader may refer to Note 2 of the basic financial statements for additional information. Long-term liabilities increased as a result of an increase in the Hospital's net pension obligation.

Net position increased \$76.7M during the past year reflecting the overall performance during the past fiscal year.

### **LONG-TERM DEBT DISCUSSION**

#### **For the year ended September 30, 2017**

Long-term debt (noncurrent portion) is approximately \$406.4M as of September 30, 2017, and includes Hospital Revenue Bonds issued in 2006, 2008, 2011, 2013 and 2017 as well as approximately \$3.9M in interest rate swaps related to the 2008 series Revenue bonds and \$2.0M of a note payable to New Hanover County (see Note 8).

NHRMC continues to make annual debt service and semi-annual interest payments on these bonds in compliance with bond documents. There have been no changes in the credit rating for New Hanover Regional Medical Center over the past year. Changes in long-term liabilities are summarized in Note 6 of the basic financial statements.

#### **For the year ended September 30, 2016**

Long-term debt (noncurrent portion) is approximately \$262M as of September 30, 2016, and includes Hospital Revenue Bonds issued in 2006, 2008, 2011 and 2013 as well as approximately \$6.3M in interest rate swaps related to the 2008 series Revenue bonds (see Note 8).

NHRMC continues to make annual debt service and semi-annual interest payments on these bonds in compliance with bond documents. There have been no changes in the credit rating for New Hanover Regional Medical Center over the past year. Changes in long-term liabilities are summarized in Note 6 of the basic financial statements.

### **CAPITAL ASSETS DISCUSSION**

#### **For the year ended September 30, 2017**

NHRMC completed construction on the expansion of the emergency department at the 17<sup>th</sup> St campus and renovations on the Zimmer Cancer Center, and began several bond-funded capital projects (Note 8). These include construction of a new five level parking deck and sky bridge with 720 parking spaces, construction and equipping of a new Orthopedic and Spine Hospital with three 36-bed patient floors on top of the existing Surgical Pavilion at the 17<sup>th</sup> St campus, and the expansion and renovation of the Intensive Care Unit to include refurbishing 40 existing ICU patient rooms and installing new nursing stations and renovating staff support spaces.

### **For the year ended September 30, 2016**

NHRMC continued construction on the expansion of the emergency department at the 17<sup>th</sup> St campus and began renovations on the Zimmer Cancer Center. The expansion of the emergency department at the 17<sup>th</sup> St campus will double the number of treatment rooms and provide specific rooms for pediatrics, low, medium and high acuity and behavioral health. The renovations of the Zimmer Cancer Center will increase the number of infusion suites from 15 to 45 and allow for expanded radiation, surgical and gynecologic oncology services.

### **NEXT YEAR'S FORECAST AND RATES**

The operational environment for the health care industry continues to be challenging. Demands for new technology and services, increases in costs for medical supplies, and increasing challenges for cost containment because of reductions in reimbursement for services provided continue to impact the industry.

For the fiscal year beginning October 1, 2017, the Board of Trustees has approved a forecast to include an increase of \$27.5M in salaries and benefits for employees, as well as full year bad debt and charity care provision of \$163.0M, and capital investments and debt service of \$92.7M.

To offset increases in operating costs, the forecast reflects an increase in volumes in both inpatient and outpatient services along with anticipated cost savings in supplies, labor costs and improved focus on the hospital's revenue cycle. A price increase of 5% was approved for NHRMC to also offset additional operating costs.

### **OTHER ECONOMIC FACTORS**

NHRMC continues to compensate for federal and state reimbursement below the rate of expense growth in the healthcare industry. Excluding the governmental programs, Medicare and Medicaid, there is no other payer that has a significant presence in New Hanover County. NHRMC continues to manage expense growth in an environment of lower reimbursement from governmental payers and an increasing burden on the patient to pay a higher portion of their medical care costs as seen through an increase in individual co-pays, deductibles and uninsured. The recent implementation of the Accountable Care Act (ACA) at a national level and the state of North Carolina's election to not expand medical access continues to have an overall negative impact on operations.

With improved growth in the national, state and local economies, unemployment has improved over the past year. NHRMC, like hospitals across the state, continues to serve as an economic engine in the community. New Hanover County and the surrounding primary service area of NHRMC, including Brunswick and Pender Counties, continue to see growth resulting in additional demand for services provided by NHRMC. It is expected however, given the current job market, economic climate and other economic factors affecting healthcare, that NHRMC will be faced with absorbing more uninsured patients and more uncompensated care in the upcoming year. NHRMC receives no local taxpayer support to assist with this care.

### **CONTACTING THE FINANCIAL MANAGER**

This financial report is designed to provide our customers and creditors with a general overview of the finances of New Hanover Regional Medical Center and to demonstrate the accountability for the monies received for services provided. If you have any questions or concerns about this report or need additional financial information contact Ed Ollie, Executive Vice President/CFO, PO Box 9000, Wilmington, North Carolina 28402.

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**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Statements of Net Position – Proprietary Fund  
(Dollars in Thousands)**

	September 30, 2017			September 30, 2016		
	NHRMC	Combined Component Units	Total (Memorandum Only)	NHRMC	Combined Component Units	Total (Memorandum Only)
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents (Note 3)	\$ 91,660	\$ 13,704	\$ 105,364	\$ 85,535	\$ 10,825	\$ 96,360
Assets limited as to use (Note 3):						
Cash equivalents held by bond paying agent	112,020	-	112,020	17,481	-	17,481
Cash for debt service-not held by bond paying agent	1,041	-	1,041	996	-	996
Cash equivalents and investments for the future payment of claims liabilities	22,048	-	22,048	21,974	-	21,974
Receivables:						
Patient accounts, less allowance for bad debts (Note 2)	126,354	19,294	145,648	113,201	19,280	132,481
Estimated third-party payor settlements (Note 2)	5,869	150	6,019	11,532	1,293	12,825
Due from primary government	-	6,666	6,666	-	7,596	7,596
Due from component units	260	-	260	845	-	845
Other receivables	11,559	1,927	13,486	8,458	1,934	10,392
Investments (Note 3)	-	11,719	11,719	-	10,720	10,720
Inventories	23,279	1,633	24,912	21,894	1,717	23,611
Prepaid expenses	16,288	1,436	17,724	16,430	1,664	18,094
<b>Total current assets</b>	<b>410,378</b>	<b>56,529</b>	<b>466,907</b>	<b>298,346</b>	<b>55,029</b>	<b>353,375</b>
Noncurrent cash, investments and donor receivables						
Noncurrent cash and investments (Note 3):						
Designated by Board for operating and other	-	10,509	10,509	-	9,707	9,707
Designated by Board for capital improvements	508,870	9,314	518,184	402,778	9,315	412,093
Designated by Board for supplemental retirement plans (Note 10)	2,403	-	2,403	1,766	-	1,766
Restricted by donors for specific purpose	14,333	-	14,333	10,012	-	10,012
Restricted by donors for endowments	2,076	1,502	3,578	2,072	1,430	3,502
	527,682	21,325	549,007	416,628	20,452	437,080
Pledges and grants receivable	1,282	4	1,286	1,290	81	1,371
<b>Total noncurrent cash, investments and donor receivables</b>	<b>528,964</b>	<b>21,329</b>	<b>550,293</b>	<b>417,918</b>	<b>20,533</b>	<b>438,451</b>
Other assets:						
Intangible capital assets, net of amortization (Note 5)	83	-	83	283	-	283
Investment in affiliates (Note 12)	5,305	-	5,305	3,515	-	3,515
Other long-term assets	4,862	159	5,021	4,709	161	4,870
<b>Total other assets</b>	<b>10,250</b>	<b>159</b>	<b>10,409</b>	<b>8,507</b>	<b>161</b>	<b>8,668</b>
Capital assets — tangible (Note 5)						
Land	16,968	5,652	22,620	12,305	5,652	17,957
Depreciable capital assets, net of accumulated depreciation	433,690	33,769	467,459	415,783	34,629	450,412
Construction in progress	45,456	189	45,645	19,321	820	20,141
<b>Total capital assets — tangible</b>	<b>496,114</b>	<b>39,610</b>	<b>535,724</b>	<b>447,409</b>	<b>41,101</b>	<b>488,510</b>
<b>Total assets</b>	<b>1,445,706</b>	<b>117,627</b>	<b>1,563,333</b>	<b>1,172,180</b>	<b>116,824</b>	<b>1,289,004</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pension deferrals (Note 10)	31,817	799	32,616	34,828	750	35,578
Excess consideration provided for acquisition, net of amortization	30,256	-	30,256	31,691	-	31,691
Deferred charges on bond refundings (Note 7)	8,163	-	8,163	3,251	-	3,251
Interest rate swap agreements (Note 8)	-	164	164	-	248	248
<b>Total deferred outflows of resources</b>	<b>70,236</b>	<b>963</b>	<b>71,199</b>	<b>69,770</b>	<b>998</b>	<b>70,768</b>
<b>Total assets and deferred outflows     of resources</b>	<b>\$ 1,515,942</b>	<b>\$ 118,590</b>	<b>\$ 1,634,532</b>	<b>\$ 1,241,950</b>	<b>\$ 117,822</b>	<b>\$ 1,359,772</b>

See notes to financial statements.

	September 30, 2017			September 30, 2016		
	NHRMC	Combined	Total	NHRMC	Combined	Total
		Component	(Memorandum		Component	(Memorandum
	Units	Only)	Units	Only)		
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other liabilities	\$ 55,093	\$ 12,048	\$ 67,141	\$ 37,660	\$ 13,075	\$ 50,735
Professional liability claims (Note 9)	13,781	891	14,672	13,320	864	14,184
Accrued salaries and wages	32,732	6,696	39,428	30,387	5,725	36,112
Estimated third-party payor settlements (Note 2)	5,637	-	5,637	5,591	-	5,591
Due to primary government	-	277	277	-	869	869
Due to component units	6,656	-	6,656	7,616	-	7,616
Accrued interest payable	5,786	-	5,786	5,505	-	5,505
Other self-funded liabilities (Note 9)	8,462	-	8,462	9,370	-	9,370
Capital lease obligations, notes and bonds payable, current portion (Notes 6 and 7)	27,928	686	28,614	13,065	734	13,799
<b>Total current liabilities</b>	<b>156,075</b>	<b>20,598</b>	<b>176,673</b>	<b>122,514</b>	<b>21,267</b>	<b>143,781</b>
Long-term obligations:						
Net pension liability (Note 10)	58,927	3,300	62,227	65,363	3,179	68,542
Supplemental retirement plans (Notes 7 and 10)	2,301	-	2,301	2,849	-	2,849
Interest rate swap agreements (Note 8)	3,928	164	4,092	6,336	248	6,584
Notes and bonds payable, less current portion (Note 7)	402,510	9,782	412,292	255,713	11,190	266,903
<b>Total long-term obligations</b>	<b>467,666</b>	<b>13,246</b>	<b>480,912</b>	<b>330,261</b>	<b>14,617</b>	<b>344,878</b>
<b>Total liabilities</b>	<b>623,741</b>	<b>33,844</b>	<b>657,585</b>	<b>452,775</b>	<b>35,884</b>	<b>488,659</b>
Commitments and contingencies (Notes 2, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15)						
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension deferrals (Note 10)	10,842	165	11,007	5,811	220	6,031
<b>Total liabilities and deferred inflows of resources</b>	<b>634,583</b>	<b>34,009</b>	<b>668,592</b>	<b>458,586</b>	<b>36,104</b>	<b>494,690</b>
<b>NET POSITION</b>						
Net investment in capital assets	73,922	28,978	102,900	213,856	28,968	242,824
Unrestricted	789,654	54,041	843,695	552,049	51,250	603,299
Restricted	17,783	1,562	19,345	17,459	1,500	18,959
<b>Total net position</b>	<b>881,359</b>	<b>84,581</b>	<b>965,940</b>	<b>783,364</b>	<b>81,718</b>	<b>865,082</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 1,515,942</b>	<b>\$ 118,590</b>	<b>\$ 1,634,532</b>	<b>\$ 1,241,950</b>	<b>\$ 117,822</b>	<b>\$ 1,359,772</b>

**New Hanover Regional Medical Center**  
**(A Component Unit of New Hanover County, North Carolina)**

**Statements of Revenues, Expenses and Changes in Net Position – Proprietary Fund**  
**(Dollars in Thousands)**

	Year Ended September 30, 2017			Year Ended September 30, 2016		
	Combined		Total	Combined		Total
	NHRMC	Component	(Memorandum	NHRMC	Component	(Memorandum
	Units	Only)	Only)	Units	Only)	Only)
Operating revenues:						
Net patient service revenue (Notes 2 and 7)	\$ 944,473	\$ 206,291	\$ 1,150,764	\$ 870,044	\$ 197,455	\$ 1,067,499
Other revenue	28,608	67,414	96,022	19,741	66,006	85,747
<b>Total operating revenue</b>	<b>973,081</b>	<b>273,705</b>	<b>1,246,786</b>	<b>889,785</b>	<b>263,461</b>	<b>1,153,246</b>
Operating expenses:						
Salaries, wages and benefits	434,770	96,623	531,393	408,921	90,433	499,354
Medical supplies	192,266	51,908	244,174	174,861	47,251	222,112
Professional fees	45,349	76,681	122,030	48,648	69,824	118,472
Purchased services	109,597	25,327	134,924	97,033	22,679	119,712
Depreciation and amortization	51,304	4,775	56,079	49,848	4,849	54,697
Other	53,518	19,007	72,525	43,322	18,231	61,553
<b>Total operating expenses</b>	<b>886,804</b>	<b>274,321</b>	<b>1,161,125</b>	<b>822,633</b>	<b>253,267</b>	<b>1,075,900</b>
<b>Operating income (loss)</b>	<b>86,277</b>	<b>(616)</b>	<b>85,661</b>	<b>67,152</b>	<b>10,195</b>	<b>77,347</b>
Nonoperating revenues (expenses):						
Interest expense	(11,385)	(391)	(11,776)	(11,236)	(405)	(11,641)
Other nonoperating income (expense)	(825)	1,531	706	380	(240)	140
Interest earned and net realized gain on investments	4,611	-	4,611	10,356	-	10,356
Net increase in fair value of investments	36,251	1,406	37,657	12,453	1,976	14,429
Gain (loss) on sale of capital assets	260	(17)	243	(744)	(369)	(1,113)
Equity in net income of joint ventures (Note 12)	(451)	-	(451)	607	-	607
<b>Nonoperating revenues, net</b>	<b>28,461</b>	<b>2,529</b>	<b>30,990</b>	<b>11,816</b>	<b>962</b>	<b>12,778</b>
<b>Excess of revenues over expenses before capital contributions</b>	<b>114,738</b>	<b>1,913</b>	<b>116,651</b>	<b>78,968</b>	<b>11,156</b>	<b>90,124</b>
Special items, capital and permanent endowment contributions and capital transfers to/from component units	(16,743)	950	(15,793)	(2,290)	2,162	(128)
<b>Increase in net position</b>	<b>97,995</b>	<b>2,863</b>	<b>100,858</b>	<b>76,678</b>	<b>13,318</b>	<b>89,996</b>
Net position, beginning	783,364	81,718	865,082	706,686	68,400	775,086
Net position, ending	\$ 881,359	\$ 84,581	\$ 965,940	\$ 783,364	\$ 81,718	\$ 865,082

See notes to financial statements.

**New Hanover Regional Medical Center**  
**(A Component Unit of New Hanover County, North Carolina)**

**Statements of Cash Flows – Proprietary Fund**  
**(Dollars in Thousands)**

	Year Ended September 30, 2017			Year Ended September 30, 2016		
	NHRMC	Combined	Total	NHRMC	Combined	Total
		Component Units	(Memorandum Only)		Component Units	(Memorandum Only)
Cash flows from operating activities:						
Cash received from and on behalf of patients	\$ 936,905	\$ 208,780	\$ 1,145,685	\$ 851,411	\$ 192,115	\$ 1,043,526
Cash payments to suppliers for services and goods	(393,632)	(173,733)	(567,365)	(362,707)	(163,440)	(526,147)
Cash payments to employees for services	(438,419)	(95,696)	(534,115)	(413,398)	(91,188)	(504,586)
Other operating cash receipts	22,765	66,447	89,212	23,351	65,289	88,640
<b>Net cash provided by operating activities</b>	<b>127,619</b>	<b>5,798</b>	<b>133,417</b>	<b>98,657</b>	<b>2,776</b>	<b>101,433</b>
Cash flows from noncapital financing activities:						
Contributions and operating grants	2,210	-	2,210	1,552	-	1,552
Payments (to) from component unit	(375)	-	(375)	4,025	-	4,025
<b>Net cash provided by noncapital financing activities</b>	<b>1,835</b>	<b>-</b>	<b>1,835</b>	<b>5,577</b>	<b>-</b>	<b>5,577</b>
Cash flows from capital and related financing activities:						
Acquisition of capital assets	(86,643)	(2,936)	(89,579)	(59,794)	(5,275)	(65,069)
Proceeds from disposed assets	2,271	-	2,271	618	120	738
Capital contributions	154	-	154	231	-	231
Principal payments on revenue bonds and other outstanding debt	(12,605)	(1,540)	(14,145)	(12,605)	(1,375)	(13,980)
Interest paid on capital financing	(12,935)	(391)	(13,326)	(11,890)	(405)	(12,295)
Proceeds from bonds/notes	212,710	-	212,710	-	700	700
Refunding of revenue bonds	(83,955)	-	(83,955)	-	-	-
Payment of bond premium	(30,340)	-	(30,340)	-	-	-
Transfers (to) from component unit	(1,647)	923	(724)	(2,521)	2,144	(377)
<b>Net cash used in capital and related financing activities</b>	<b>(12,990)</b>	<b>(3,944)</b>	<b>(16,934)</b>	<b>(85,961)</b>	<b>(4,091)</b>	<b>(90,052)</b>
Cash flows from investing activities:						
Purchases of investments, net of maturities	21,438	(535)	20,903	(16,849)	(598)	(17,447)
Strategic business investment	(2,246)	-	(2,246)	-	-	-
Interest earned on investments	1,639	1,595	3,234	10,750	184	10,934
Contributions to partnerships	(2,812)	-	(2,812)	-	-	-
Distributions from partnerships	1,772	-	1,772	865	-	865
Other interest earned	1,517	-	1,517	(1,233)	-	(1,233)
<b>Net cash provided by (used in) investing activities</b>	<b>21,308</b>	<b>1,060</b>	<b>22,368</b>	<b>(6,467)</b>	<b>(414)</b>	<b>(6,881)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>137,772</b>	<b>2,914</b>	<b>140,686</b>	<b>11,806</b>	<b>(1,729)</b>	<b>10,077</b>
Cash and cash equivalents:						
Beginning of year	211,808	10,865	222,673	200,002	12,594	212,596
End of year	\$ 349,580	\$ 13,779	\$ 363,359	\$ 211,808	\$ 10,865	\$ 222,673

(Continued)

**New Hanover Regional Medical Center**  
**(A Component Unit of New Hanover County, North Carolina)**

**Statements of Cash Flows – Proprietary Fund (Continued)**  
**(Dollars in Thousands)**

	Year Ended September 30, 2017			Year Ended September 30, 2016		
	NHRMC	Combined Component Units	Total (Memorandum Only)	NHRMC	Combined Component Units	Total (Memorandum Only)
Reconciliation of cash and cash equivalents to the statement of net position:						
Unrestricted cash and cash equivalents	\$ 91,660	\$ 13,704	\$ 105,364	\$ 85,535	\$ 10,825	\$ 96,360
Cash and cash equivalents in noncurrent cash and investments:						
Designated by Board for operating and PDO reserve	-	2	2	-	22	22
Reserved for debt service – held by bond paying agent	112,020	-	112,020	17,481	-	17,481
Reserved for debt service – not held by bond paying agent	1,041	-	1,041	996	-	996
Designated by Board for claims liabilities	133	-	133	75	-	75
Designated by Board for capital improvements	144,726	-	144,726	107,721	-	107,721
By donor restrictions	-	73	73	-	18	18
<b>Cash and cash equivalents at end of year</b>	<b>\$ 349,580</b>	<b>\$ 13,779</b>	<b>\$ 363,359</b>	<b>\$ 211,808</b>	<b>\$ 10,865</b>	<b>\$ 222,673</b>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Cash flows from operating activities:						
Operating income (loss)	\$ 86,277	\$ (616)	\$ 85,661	\$ 67,152	\$ 10,194	\$ 77,346
Employee services in nonoperating revenue	(1,236)	(39)	(1,275)	-	-	-
Operating grants in other revenue	(2,210)	-	(2,210)	(1,552)	-	(1,552)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	51,304	4,775	56,079	49,848	4,849	54,697
Pension expense (benefit)	16,871	(553)	16,318	15,914	(488)	15,426
Changes in:						
Patient receivables and programs	(16,910)	2,473	(14,437)	2,152	(5,340)	(3,188)
Inventories	(1,385)	83	(1,302)	(2,134)	(346)	(2,480)
Prepaid expenses and other current assets	142	(293)	(151)	259	(2,307)	(2,048)
Accounts payable and other liabilities	14,203	(1,261)	12,942	(12,818)	(3,142)	(15,960)
Accrued salaries and wages	2,345	659	3,004	(7,115)	(1,099)	(8,214)
Deferred outflows of resources for pensions	(21,629)	570	(21,059)	(13,276)	455	(12,821)
Other long term assets	(153)	-	(153)	227	-	227
<b>Net cash provided by operating activities</b>	<b>\$ 127,619</b>	<b>\$ 5,798</b>	<b>\$ 133,417</b>	<b>\$ 98,657</b>	<b>\$ 2,776</b>	<b>\$ 101,433</b>
Noncash capital and related financing activities:						
Unrealized gain	\$ 36,251	\$ 1,406	\$ 37,657	\$ 12,453	\$ 1,743	\$ 14,196
Capital assets acquired via accounts payable	\$ 25,193	\$ -	\$ 25,193	\$ -	\$ -	\$ -

See notes to financial statements.

**New Hanover Regional Medical Center**  
**(A Component Unit of New Hanover County, North Carolina)**

**Statements of Fiduciary Net Position – Fiduciary Fund**  
**December 31, 2016 and 2015**  
**(Dollars in Thousands)**

<b>Assets</b>	<b>The Pension Plan of New Hanover Regional Medical Center</b>	
	<b>2016</b>	<b>2015</b>
Investments (Note 3):		
Money market mutual funds	\$ 1,668	\$ 2,059
Mutual funds, registered investment companies	218,295	199,836
	<u>219,963</u>	<u>201,895</u>
Receivable:		
Accrued income	136	166
	<u>136</u>	<u>166</u>
<b>Total assets</b>	<b><u>220,099</u></b>	<b><u>202,061</u></b>
Net position – restricted for pension benefits	<b><u>\$ 220,099</u></b>	<b><u>\$ 202,061</u></b>

See notes to financial statements.

**New Hanover Regional Medical Center**  
**(A Component Unit of New Hanover County, North Carolina)**

**Statements of Changes in Fiduciary Net Position – Fiduciary Fund**  
**Years Ended December 31, 2016 and 2015**  
**(Dollars in Thousands)**

	<b>The Pension Plan of New Hanover Regional Medical Center</b>	
	<b>2016</b>	<b>2015</b>
<b>Additions</b>		
Employer's contributions	\$ 14,506	\$ 16,238
Investment income:		
Net (depreciation) appreciation in fair value of investments	12,399	(9,673)
Dividends and interest	4,670	5,626
	<u>17,069</u>	<u>(4,047)</u>
Less investment expense	277	275
<b>Net investment income</b>	<u>16,792</u>	<u>(4,322)</u>
<b>Total additions</b>	<u>31,298</u>	<u>11,916</u>
<b>Deductions</b>		
Distributions to participants	13,040	15,968
Administrative expenses	220	288
<b>Total deductions</b>	<u>13,260</u>	<u>16,256</u>
<b>Net increase in net position</b>	18,038	(4,340)
Transfers	-	10
Net position – restricted for pension benefits:		
Beginning of year	<u>202,061</u>	<u>206,391</u>
End of year	<u>\$ 220,099</u>	<u>\$ 202,061</u>

See notes to financial statements.

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies**

**Reporting Entity**

New Hanover Regional Medical Center (NHRMC) is a public, nonprofit corporation providing health care to residents of southeastern North Carolina. NHRMC is a component unit of New Hanover County (County), North Carolina for financial reporting purposes and is included in the basic financial statements of the County together with its component units, which are described below. As required by accounting principles generally accepted in the United States of America, these financial statements present NHRMC and its component units. All dollars presented in these Notes to Financial Statements are in thousands.

**NHRMC**

The New Hanover Regional Medical Center Foundation, Inc. (Foundation) is a 501(c)(3) nonprofit organization, which was founded by NHRMC in 1991 to serve solely NHRMC as a fundraising entity. As such, the Foundation is included in NHRMC's financial statements as a blended component unit; the balances and transactions of this entity are blended with those of New Hanover Regional Medical Center in the accompanying financial statements, and referred to as NHRMC. Intercompany balances and transactions are eliminated in the process. The Foundation assets and revenues are less than 2% of the NHRMC total activities and the details of the Foundation are not considered material to the financial statements.

The Pension Plan of New Hanover Regional Medical Center comprises the fiduciary fund information. The Plan's fiscal year ends included herein are December 31, 2016 and 2015.

**Combined Component Units**

The combined component units consist of the following discretely presented component units: Carolina Healthcare Associates, Inc. (CHA), Physician Quality Partners, LLC (PQP), Lower Cape Fear Hospice, Incorporated (LCFH) and Pender Memorial Hospital, Incorporated (PMH). They are reported in a separate column in NHRMC's basic financial statements to emphasize that they are legally separate from NHRMC.

**Carolina Healthcare Associates.** CHA (doing business as NHRMC Physicians Group) is a 501(c)(3) nonprofit corporation governed by NHRMC. The Executive Committee of the NHRMC Board of Trustees, which includes 8 of the 17 voting members of NHRMC's full Board of Trustees, serves as the CHA Board, thereby constituting 100% of CHA's Board members. CHA provides an integrated primary and specialty care physician practice network to NHRMC in the form of physician and nurse practitioner services within NHRMC clinical areas and independent office locations in the NHRMC service area. Through contractual agreement, Carolinas Physician Network (CPN) operates and manages most of the medical practices owned by CHA and provides certain professional medical services for the majority of those practices. At the end of fiscal year 2017, CHA consisted of 177 physicians, 6 nurse practitioners and 69 mid-level providers. CHA's operating revenue was \$205,404 in fiscal year 2017 and \$193,409 in fiscal year 2016. During the years ended September 30, 2017 and 2016, NHRMC recorded an operating expense and CHA recorded other operating revenue in the amount of approximately \$48,402 and \$47,393, respectively, to fund CHA's fiscal year operating deficits. Additionally, during 2017, NHRMC received capital acquisitions, net of returns of capital assets, for CHA of approximately (\$462). During 2016, NHRMC funded capital acquisitions, net of returns of capital assets, for CHA of approximately \$256.

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies  
(Continued)**

**Physician Quality Partners.** On May 24, 2013, Articles of Organization were filed with the NC Department of the Secretary of State for Physician Quality Partners, LLC (PQP). PQP is a Clinically Integrated Network (CIN)/Accountable Care Organization (ACO) formed to actively develop clinical initiatives that will improve the quality of health care services and control costs. PQP is included in NHRMC's financial statements as a discretely presented component unit. During the years ended September 30, 2017 and 2016, NHRMC transferred \$1,200 and \$1,400, respectively, to fund PQP's operations. NHRMC carries an equity interest equal to PQP's net position, which is included in investment in affiliates.

**Lower Cape Fear Hospice.** LCFH is an affiliated organization of NHRMC. The Trustees of NHRMC appoint 80% of the Board of Directors of LCFH, a nonprofit organization that provides professional care to the terminally ill and support and education to the family and community. The organization currently serves six counties in southeastern North Carolina and three counties in South Carolina. During the years ended September 30, 2017 and 2016, NHRMC granted and paid LCFH approximately \$564 in support of LCFH's Palliative Care Program.

**Pender Memorial Hospital.** PMH consists of Pender Memorial Hospital, a nonprofit acute care hospital, and NHRMC Homecare, formed in 2008 as a nonprofit home health care service. The hospital provides inpatient, outpatient and emergency care services to the residents of Pender County and vicinity. NHRMC Homecare provides homecare services in Pender and other surrounding counties. PMH is an affiliated organization of NHRMC through a 20-year operating agreement commencing in fiscal year 1999. NHRMC is required by the operating agreement to fund any operating deficit of PMH during any fiscal year the agreement is in effect. All operating income generated by PMH operations shall be returned to NHRMC on an annual basis. During the years ended September 30, 2017 and 2016, NHRMC recorded an operating expense and PMH recorded other operating revenue in the amount of approximately \$6,442 and \$7,039 to fund PMH's fiscal year operating deficits. Additionally, under the operating agreement, beginning in fiscal year 2009, NHRMC committed to infuse capital into PMH as part of the NHRMC annual capital budget process. Upon termination of the operating agreement, PMH is required to reimburse NHRMC for the unamortized value of capital acquired under this commitment. During 2017 and 2016, NHRMC funded capital acquisitions of approximately \$1,385 and \$1,888, respectively, of capital into PMH.

Complete separate financial statements are issued by the following individual component units and may be obtained at their administrative offices:

New Hanover Regional Medical Center Foundation, Inc.  
2259 South 17th Street  
Wilmington, North Carolina 28401

Lower Cape Fear Hospice, Incorporated  
1414 Physicians Drive  
Wilmington, North Carolina 28401

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies  
(Continued)**

**Basis of Presentation**

The statements of net position (presented in a balance sheet format), statements of revenues, expenses and changes in net position, and statements of cash flows present information about the primary entity (NHRMC) and its component units. These statements include the financial activities of the overall entity, except for the fiduciary activities. The statements of fiduciary net position and statements of changes in fiduciary net position present information about The Pension Plan of New Hanover Regional Medical Center (NHRMC Pension Plan) (see Note 10).

**Basis of Accounting**

NHRMC uses enterprise fund accounting. Revenues and expenses of enterprise funds are recognized on the economic resources measurement focus and the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

**Use of Estimates**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments maturing in three months or less from the date of purchase. All investments are carried at fair value.

**Inventories**

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

**Designated Assets and Restricted Assets**

Designated assets are set aside by the Board of Trustees for future capital or other long-term needs and the Board may, at its discretion, subsequently use them for other purposes. As of September 30, 2017 and 2016, NHRMC also had funds restricted by donors. Restricted funds of LCFH are for LCFH programs.

Gifts, bequests and grants restricted by the donor for specific operating purposes are recorded as restricted revenue in the period received. Gifts, bequests and grants received with conditions as to their use or funding are recorded as liability when received and included as other operating revenue in the financial statements of the period in which expenses are made for the purpose intended by the donor. Resources restricted by donors for additions to capital assets are included in the statements of revenues, expenses and changes in net position as capital contributions.

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies  
(Continued)**

**Investments**

Investments are reported at fair value. Fair value of investments in equity securities and mutual funds is determined by quoted market prices. Fair value of fixed income investments is recorded at the amount reported by the financial institution, which approximates a value determined by a discounted cash flow model. Amounts in the NCCMT – Cash Portfolio, an SEC registered (2a-7) money market fund, are measured at their amortized cost, which is the NCCMT's share price. The NCCMT – Term Portfolio's securities are valued at fair value.

**Intangible Capital Assets**

Intangible capital assets consist of other intangibles and are recorded net of amortization. Other intangibles are recorded at historical cost and amortized over the estimated life of the expected economic benefit, using the straight-line method. Estimated lives are 5 years.

**Tangible Capital Assets**

Purchased or constructed tangible capital assets are recorded at cost. Donated capital assets received prior to June 15, 2015, are recorded at estimated fair value at the date of donation. Donated capital assets received after June 15, 2015, are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. NHRMC's, CHA's and PMH's policies are to generally capitalize assets with a cost of \$2.5 or greater and a useful life of at least one year.

Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets as recommended by the American Hospital Association. Core Information Technology Software is depreciated over 10 years, and Other Information Technology Software is depreciated over 5 years, which may be different than the AHA's recommendation. Amounts in construction-in-progress are not yet subject to depreciation. NHRMC's net interest costs of approximately \$930 and \$654 were incurred and capitalized during fiscal years ended September 30, 2017 and 2016, respectively, in the construction of long-term assets and will be amortized over the related assets' estimated useful lives. LCFH calculates depreciation using accelerated methods using lives of 3 to 10 years for furniture and equipment and lives of 20 to 45 years for buildings.

Legal title to NHRMC's capital assets is in the name of either New Hanover County or New Hanover Regional Medical Center. Substantially all facilities, equipment and future improvements are leased from New Hanover County (see Note 6). Legal title to CHA's capital assets is in CHA's name. Legal title to LCFH's capital assets is in LCFH's name. Legal title to PQP's capital assets is in PQP's name. Legal title to PMH's capital assets is in the name of either Pender County or Pender Memorial Hospital, Incorporated. Substantially all of PMH's facilities are leased from Pender County (see Note 6).

**Self-Funded Liabilities**

NHRMC is self-insured for employee medical claims and contracts with a third party to administer the program. NHRMC's losses are limited under the contract by specific and aggregate stop-loss insurance coverage for claims above specified amounts. NHRMC is also self-insured for a portion of professional liabilities, workers' compensation and unemployment benefits. Provisions for estimated unpaid claims outstanding at September 30, 2017 and 2016, have been made.

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies  
(Continued)**

CHA employees are covered under the NHRMC medical and professional liability plans. CHA is self-insured for unemployment benefits. Provisions for estimated unpaid claims outstanding at September 30, 2017 and 2016, have been made.

**Unamortized Premiums**

Bonds payable are recorded net of unamortized premiums (discounts) on bonds. Premiums and discounts are amortized over the life of the related debt using the effective interest method (see Note 7).

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflow of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. NHRMC has four items that meet this criterion: interest rate swap agreements, contributions made to the pension plan in the 2017 fiscal year, excess consideration provided for acquisition, net of amortization, and unamortized charges on bond refundings. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. NHRMC has one item that meets this criterion: deferrals of pension expense that result from the implementation of GASB Statement 68.

**Interest Rate Swap Agreements**

NHRMC and LCFH have entered into interest rate swap agreements to modify interest rates on certain outstanding debt. Net interest expenses resulting from these agreements and the resulting accrued receivable or payable under the swap agreements are reflected in the financial statements as assets or liabilities at fair value. The fair value of interest rate swaps is recorded at the values reported by the counterparties, which approximates a value determined by the discounted cash flow model. For all swap instruments determined to be ineffective, the change in fair value is recorded in the statements of revenues, expenses and changes in net position as a component of the net increase (decrease) in fair value of investments. For all hedged swap instruments determined to be effective, any change in fair value is deferred and recorded on the statement of net position as a deferred outflow of resources.

**Unamortized Deferral on Refundings**

Losses on bond refundings are deferred and amortized over the shorter of the lives of the refunded debt or the refunding debt using the effective interest method for fixed rate bonds and the straight-line method for variable rate bonds recorded net of accumulated amortization. The deferrals are included in deferred outflows of resources.

**Compensated Absences**

NHRMC's employees earn vacation days at varying rates depending on years of service. The maximum amount of vacation that can carry over from one fiscal year to the next varies based on years of service. Annually, NHRMC buys back excess accrued vacation over 480 hours. The liabilities recorded for compensated absences are included in accrued expenses in the balance sheets.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies  
(Continued)**

**Net Position**

Net position classifications are defined as follows:

- *Net investment in capital assets* consists of capital asset, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted* at NHRMC consists of net position generated from revenues that have constraints on their use imposed by third parties, creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of September 30, 2017 and 2016, restricted net position consists of: nonexpendable endowments of approximately \$2,100 and \$2,100, respectively; and other expendable net position resulting from specific purpose donations and grants. As of September 30, 2017 and 2016, LCFH had restricted net position consisting of nonexpendable endowments of approximately \$1,600 and \$1,400, respectively.
- *Unrestricted* consists of net position that has no third party restrictions on use and is not invested in capital assets.

**Operating Income**

Transactions resulting from the primary purpose of NHRMC, which is to provide medical services to the region, are reported as operating revenues and expenses. Revenues and expenses not meeting these criteria are reported as non-operating. Transfers from NHRMC to CHA and PMH to fund operating deficits are included in operating income.

**Charity Care**

NHRMC has estimated its direct and indirect costs of providing charity care under its charity care policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the per-diem rate from the most recently filed cost report to the System's gross bill rate. The cost to charge ratio is applied to the charity care charges foregone to calculate the estimated direct and indirect cost of providing charity care.

Using the methodology noted above, NHRMC has estimated the costs of providing patient services classified as charity care to be \$16,592 and \$13,614 for the years ended September 30, 2017 and 2016, respectively. NHRMC did not receive any funds to subsidize the costs of providing charity care under its charity care policy for the years ended September 30, 2017 and 2016.

Charity care provided by component units is not considered significant to the financial statements.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies  
(Continued)**

**Net Patient Service Revenue and Net Patient Receivables**

Net patient service revenue and net patient receivables are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Net patient service revenue includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated third-party payor settlements are accrued in the period the related services are rendered and adjusted in future periods, as final settlements are determined, and it is possible that the amounts of final settlements could be materially different than those initially estimated by management.

**Sales and Income Taxes**

NHRMC, CHA, LCFH, PQP and PMH are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, they receive reimbursement from the state of North Carolina for sales taxes paid during the year.

**Pension Plan**

NHRMC maintains a defined benefit pension plan covering substantially all of its employees in addition to a few CHA employees grandfathered into the plan. PMH also maintains a separate defined benefit pension plan covering substantially all of its employees. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Pension Plan of NHRMC and Pension Plan of PMH and additions to/deductions from each Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the Pension Plans of NHRMC and PMH. For this purpose, plan contributions are recognized in the period in which the contributions are due. Both NHRMC and PMH's employer contributions are recognized when due and NHRMC and PMH have a legal requirement to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Pension Plans of NHRMC and PMH. Investments are reported at fair value.

**Total (Memorandum Only) Columns**

Total "Memorandum Only" columns do not represent financial information of the reporting entity, and do not present information that reflects financial position, changes in financial position or cash flows in conformity with accounting principles generally accepted in the United States of America. These columns are presented only to facilitate financial analysis.

**Impact of Recently Adopted Accounting Standards**

In March 2017, the GASB issued Statement Number 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements and is effective for reporting periods beginning after June 15, 2017 with early adoption encouraged. NHRMC early adopted the provisions of GASB 85 at September 30, 2017 which resulted in the reclassification of \$30,256 and \$31,691 of historical excess consideration provided for acquisitions from a long term asset to a deferred outflow of resources for the year ended September 30, 2017 and 2016, respectively.

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 2. Net Patient Service Revenue and Allowance and Provision for Bad Debts**

NHRMC, CHA, LCFH and PMH have agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of payment arrangements with major third-party payors are as follows:

**Medicare**

As of April 14, 2012, NHRMC was recognized by the Centers for Medicare and Medicaid Services (CMS) as a Sole Community Hospital (SCH). CMS reimburses SCH hospitals at a higher rate than Prospective Payment System hospitals.

Services for NHRMC Medicare acute inpatients are paid at interim rates subject to settlement, and non-acute inpatients and outpatients are paid at prospectively determined rates.

Other Medicare payments are based on interim rates with final settlement determined after submission of annual cost reports and audits of these reports by the Medicare fiscal intermediary. NHRMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2012.

PMH is a "Critical Access Hospital." This enables PMH to receive 101% cost based reimbursement from Medicare for its hospital based services. PMH's skilled nursing and home health services are reimbursed at prospectively determined rates. PMH's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2013.

Medicare services represent:

	Percentage of Net Patient Services Revenue for the Years Ended September 30,		Percentage of Net Patient Accounts Receivable as of September 30,	
	2017	2016	2017	2016
NHRMC	38%	37%	26%	22%
CHA	65%	62%	35%	32%
LCFH	91%	92%	81%	83%
PMH	75%	79%	55%	44%

**Medicaid**

Inpatient services rendered to NHRMC Medicaid patients are reimbursed at a prospectively determined rate. Services to outpatients are reimbursed at a percentage of cost as defined in the Medicaid regulations. Effective October 1, 2005, PMH is reimbursed at cost by Medicaid for both inpatient and outpatient critical access hospital services. NHRMC and PMH Medicaid cost reimbursement is based on tentative interim rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. NHRMC's Medicaid cost reports have been audited through September 30, 2014. PMH's Medicaid cost reports have been audited through September 30, 2015. PMH's skilled nursing and home health services are reimbursed on prospective rates.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 2. Net Patient Service Revenue and Allowance and Provision for Bad Debts (Continued)**

Medicaid services represent:

	Percentage of Net Patient Services Revenue for the Years Ended September 30,		Percentage of Net Patient Accounts Receivable as of September 30,	
	2017	2016	2017	2016
NHRMC	11%	12%	3%	11%
CHA	4%	3%	6%	6%
LCFH	4%	4%	11%	14%
PMH	16%	19%	12%	18%

NHRMC qualifies for reimbursement under the Medicaid Reimbursement Initiative (MRI also known as Medicaid Disproportionate Share or DSH). During 2011, the state of North Carolina enacted legislation (the GAP Program) intended to supplement existing Medicaid Disproportionate Share payments with federal matching funds drawn down via provider assessments. During fiscal year ended September 30, 2017, NHRMC received approximately \$41,711 from the state of North Carolina under the MRI program, of which \$3,495 was from the GAP Program. During fiscal year ended September 30, 2016, NHRMC received approximately \$37,587 from the state of North Carolina under the MRI program, of which \$2,501 was from the GAP Program. The MRI Program balances are recorded net of assessments in net patient service revenue.

For the fiscal year ended September 30, 2017, PMH received approximately \$231 of which \$59 was for the GAP program. For the fiscal year ended September 30, 2016, PMH received approximately \$215 of which \$63 was for the GAP program.

Audits of MRI program reports are performed annually. Fiscal year 2011 is the first year since 2003 where MRI audits can potentially have a financial impact and NHRMC has determined that payments received in the years since 2010 are not at risk. For prior years, the MRI was audited and settled through September 30, 2003. Amounts of supplemental payments received by NHRMC for years 2004 through 2010 were not subject to settlement. In the fiscal years since 2011, audits have been completed through September 30, 2013, with no adjustments.

**Changes in Estimates Related to Third Party Payors**

Adjustments to estimated third party payor settlements from prior years occurring in 2017 and 2016 increased NHRMC's change in net position by approximately \$5,149 and \$10,792, respectively.

Adjustments to estimated third party payor settlements from prior years occurring in 2017 and 2016 increased PMH's change in net position by approximately \$34 and decreased PMH's change in net position by approximately \$112, respectively.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 2. Net Patient Service Revenue and Allowance and Provision for Bad Debts (Continued)**

**Recovery Audit Contractor Audits**

In 2009, the Centers for Medicare and Medicaid Services (CMS) implemented nation-wide use of recovery audit contractors (RACs) as part of CMS' efforts to ensure accurate claims payments. The RACs search for potentially improper Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. The North Carolina Department of Health and Human Services implemented a similar program in August 2012 for Medicaid payments.

During the years ended September 30, 2017 and 2016, the number of NHRMC claims chosen by RAC for review totaled 591 and 330, respectively. Net overpayments processed to date for fiscal year 2017 and 2016, respectively, are \$173 and \$411. NHRMC has recorded a reserve for estimated assessments under future RAC audits in the estimated third-party payor settlements on the statement of net position.

PMH RAC activity is immaterial at this time for either Medicare or Medicaid.

**Electronic Health Records Incentive Program**

The Electronic Health Records Incentive Program provides for incentive payments under both the Medicare and Medicaid programs to eligible health care providers that demonstrate meaningful use of certified electronic health records technology (EHR). The year ending September 30, 2016, was the final year of accrual for NHRMC under this program. Payments for any fiscal year may be subject to audit for up to six years and recouped by CMS if there are audit findings of noncompliance. Audits of meaningful use incentives made to NHRMC have had no findings.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 2. Net Patient Service Revenue and Allowance and Provision for Bad Debts (Continued)**

**Allowances for Bad Debts**

Allowance for bad debts are maintained for receivables which historically experience uncollectible accounts. The allowance for bad debts is as follows:

	September 30	
	2017	2016
NHRMC	\$ 73,240	\$ 86,065
CHA	6,663	5,915
LCFH	482	718
PMH	2,016	2,377
	\$ 82,401	\$ 95,075

For the years ended September 30, 2017 and 2016, net patient service revenue is reported net of a provision for bad debts of:

	Years Ended September 30	
	2017	2016
NHRMC	\$ 85,727	\$ 84,191
CHA	11,226	9,348
LCFH	711	303
PMH	3,669	2,947
	\$ 101,333	\$ 96,789

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 3. Cash and Cash Equivalents and Investments**

**Deposits**

As of September 30, 2017 and 2016, the carrying values and bank balances of deposits were as follows (in thousands):

	2017		2016	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
NHRMC	\$ 55,889	\$ 60,719	\$ 50,197	\$ 57,694
CHA	4,279	4,409	3,952	4,200
LCFH	3,853	3,854	4,540	4,542
PMH	4,919	5,106	1,948	2,233
PQP	664	665	362	410

Custodial credit risk for deposits is the risk that in the event of bank failure, a government's deposits may not be returned to it. NHRMC and PMH have no policy on custodial credit risk, but all deposits of NHRMC and PMH were with depositories covered under statewide single financial institution collateral pools (known as the Pooling Method) whereby collateral is maintained for all the depository's governmental units in the State. The North Carolina State Treasurer monitors Pooling Method depositories for adequate collateralization.

Under the Pooling Method, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with NHRMC or PMH. Because of the inability to measure the exact amount of collateral pledged for NHRMC and PMH under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each Pooling Method depository.

As of September 30, 2017, financial institutions are each insured by the Federal Deposit Insurance Corporation (FDIC) for deposits up to \$250,000. The Foundation has cash balances in a financial institution that from time to time have exceeded federal depository insurance limits. Bank balances in excess of federal depository insurance limits are uninsured and uncollateralized and amounted to \$1,356 and \$4,005 for the Foundation as of September 30, 2017 and 2016, respectively. NHRMC and PMH have cash balances in financial institutions that exceed federal depository limits, but the excess is collateralized under the Pooling Method described above.

CHA, PQP and LCFH are not subject to the above described statutes. CHA, PQP and LCFH have cash balances in a financial institution that from time to time have exceeded federal depository insurance limits. Bank balances in excess of federal depository insurance limits are uninsured and uncollateralized and amounted to \$3,905 and \$3,693 for CHA, \$415 and \$160 for PQP and \$3,545 and \$4,254 for LCFH, as of September 30, 2017 and 2016, respectively.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 3. Cash and Cash Equivalents and Investments (Continued)**

**Investments**

North Carolina General Statute 159-30 authorizes NHRMC and PMH to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of specific U.S. government agencies; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; certain high quality issues of commercial paper and bankers' acceptances; a commingled investment pool established and administered by the North Carolina State Treasurer pursuant to North Carolina General Statute 147-69.3; certain repurchase agreements with respect to direct obligations of the United States or obligations which are guaranteed by the United States as to principal and interest; and the North Carolina Capital Management Trust (NCCMT). Additionally, North Carolina General Statute 159-30 also requires NHRMC and PMH to limit custodial credit risk as governed by the Statute. State statutes do not govern the Foundation's investment policies or those of LCFH and CHA.

NHRMC's investment policy consists of strategies for the short-term and the long-term. The intent of the short-term fund investment strategy is to provide short-term liquidity and working capital for operations and other strategic purposes. Assets invested in the short-term fund are primarily in the NCCMT. The intent of the long-term fund investment strategy is to generate current income and maintain stability of principal. The long-term fund divides investments into three investment strategies: short/intermediate fixed income, broad duration fixed income, and domestic and international equity securities. NHRMC invests in domestic and international equity securities through a commingled investment pool administered by the North Carolina State Treasurer in preferred or common stocks allowable under North Carolina General Statute. NHRMC's participation in the commingled investment pool is voluntary, and generally only 2 withdrawals are allowed within any 12-month period and are only permitted on the first business day of each calendar month.

The Foundation's investment policy allows investments to be allocated among fixed income securities, equity securities and cash equivalents, with specific minimum target allocations and maximums by investment type.

LCFH's investment policy divides investment strategies into two investment categories, short-term and long-term. Allocation to each category is based on the liquidity needs of LCFH. The intent of the short-term fund investment strategy, generally LCFH operations, is to provide short-term liquidity and working capital for operations and other strategic purposes, with the primary strategy to be preservation of principal, and income a secondary consideration. The intent of the long-term fund investment strategy is to generate current income and maintain stability of principal.

CHA does not have a formal investment policy and generally does not retain funds for investments.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 3. Cash and Cash Equivalents and Investments (Continued)**

As of September 30, 2017 and 2016, NHRMC had the following investments, concentrations and maturities, excluding fiduciary investments:

Investment Type	Weighted Average Maturity in Years	Fair Value 2017	Weighted Average Maturity in Years	Fair Value 2016
U.S. Government Treasury Notes	1.5	\$ 24,006	1.8	\$ 22,701
U.S. Government Treasury Bonds	10.6	9,466	13	7,306
U.S. Government Agencies:				
Federal Farm Credit Bank	-	-	0.3	2,148
Federal Home Loan Bank	0.7	2,099	1.7	2,113
Federal Home Loan Mortgage Corp	1.3	4,248	0.2	4,264
Federal Nat'l Mortgage Association	3.4	8,609	2.2	10,162
Mortgage Backed Securities:				
Federal Home Loan Mtg Corp Pool	16.4	12,107	17.3	16,212
Federal Nat'l Mortgage Assoc Pool	19.5	25,900	19.4	23,848
Gov't Nat'l Mortgage Assoc Pool	18.8	12,710	19	13,689
Asset Backed CMO's:				
Gov't Nat'l Mortgage Assoc	21.8	24,448	23.2	25,993
Vendee Mortgage Trust Series 1993-1	5.4	291	6.4	389
Vendee Mortgage Trust Ser 1992-1 CL 2Z	4.6	281	5.6	383
Vendee Mortgage Trust Ser 1994-3B CL 2F	5.0	252	6.0	323
Vendee Mortgage Trust Ser 1995-1 CL 3ZB	7.4	330	8.4	405
Vendee Mortgage Trust Ser 1997-1 CL 2Z	9.4	199	10.4	241
Vendee Mortgage Trust Ser 1996-1 CL 1Z	8.4	432	9.4	545
Vendee Mortgage Trust Series 2001-3 CL Z	13.6	1,699	14.6	2,170
NC Capital Management Trust – Cash Portfolio	N/A	293,277	N/A	161,607
Department of State Treasurer Trust Funds				
Investment Program – Equity Investment Fund	N/A	219,034	N/A	183,982
Department of State Treasurer Short-Term				
Investment Fund (STIF)	N/A	81	N/A	80
Mutual Funds	N/A	2,403	N/A	13,850
Commercial Paper	N/A	39,867	N/A	-
		\$ 681,739		\$ 492,411

N/A = Not applicable.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 3. Cash and Cash Equivalents and Investments (Continued)**

As of September 30, 2017 and 2016, LCFH had the following investments:

Investment Type	Fair Value	
	2017	2016
Bond Funds	\$ 8,741	\$ 9,494
Equity Funds	24,230	21,637
	<u>\$ 32,971</u>	<u>\$ 31,131</u>

**Interest Rate Risk.** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. NHRMC's investment policy mitigates interest rate risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. NHRMC also invests in collateralized mortgage obligations and mortgage backed securities. The value of the securities is based on the cash flows from principal and interest payments due on the underlying mortgages. When interest rates decline, prepayments by mortgagees may increase. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.

LCFH's investment policy mitigates interest rate risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The policy does not formally limit maturities as a means of managing exposure to fair value losses arising from changes in interest rates.

**Credit Risk.** Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State Statutes limit NHRMC's investments to obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of specific U.S. government agencies; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; certain high quality issues of commercial paper and bankers' acceptances; investment in a commingled investment pool established and administered by the North Carolina State Treasurer; certain repurchase agreements with respect to direct obligations of the United States or obligations which are guaranteed by the United States as to principal and interest; and the North Carolina Capital Management Trust (NCCMT). NHRMC's investments in the NCCMT Cash Portfolio carried a rating of AAAM by Standard & Poor's as of September 30, 2017.

**New Hanover Regional Medical Center  
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**Note 3. Cash and Cash Equivalents and Investments (Continued)**

NHRMC's investment portfolio includes debentures and mortgage backed securities (MBS) issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corp., Vendee Mortgage Trust and the Government National Mortgage Association; debentures issued by Federal Home Loan Bank and Federal Farm Credit Bank; and certain mutual funds. All are rated Aaa by Moody's Investors Service or backed by the full faith of the U.S. Government, which is rated Aaa, as of September 30, 2017 and 2016. With respect to NHRMC's investments in mortgage backed securities, NHRMC's investment portfolio consists of both traditional mortgage backed securities (MBS's) and asset backed collateralized mortgage obligations (CMO's). An MBS is an asset backed security whose cash flows are backed by the principal and interest payments of a pool of mortgage loans. Payments are typically made monthly over the lifetime of the underlying loans. CMO's, a type of mortgage backed security, are bonds that represent claims to specific cash flows from large pools of mortgages. The streams of principal and interest payments on the mortgages are distributed to the different classes of CMO interests. Credit risk associated with MBS's and CMO's is affected by homeowners or borrowers defaulting on their loans. NHRMC's investments in CMO's are explicitly guaranteed by the U.S. Government (Government National Mortgage Association and Vendee Mortgage Trust securities).

In addition to minimizing credit risk by limiting investments to those allowed by State Statute, it is NHRMC's policy to diversify the investment portfolio so that the impact of potential losses from any one type of security and/or issuer will be minimized.

LCFH's policy is to diversify the investment portfolio so that the impact of potential losses from any one type of security will be minimized.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of government's investment in a single issuer. NHRMC's investment policy requires a balance between short/intermediate fixed income securities, broad duration fixed income securities, and investment in a commingled investment pool established and administered by the North Carolina State Treasurer as allowable under State Statute; however it places no limit on the amount NHRMC may invest in any one issuer. As of September 30, 2017, securities issued/backed by Fannie Mae, Freddie Mac and Ginnie Mae represent 5.1%, 2.4% and 5.5% of the Hospital's investment portfolio, respectively. As of September 30, 2016, securities issued/backed by Fannie Mae, Freddie Mac and Ginnie Mae represent 6.9%, 4.2% and 8.1% of the Hospital's investment portfolio, respectively.

**Foreign Currency Risk.** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. NHRMC's investment in the State Treasurer's Trust Funds Investment Program-Equity Investment Fund exposes NHRMC to foreign currency risk as a result of its positions in foreign currency-denominated equity securities. NHRMC does not have an investment policy that limits its exposure to foreign currency risk, however NHRMC's investment policy provides for the maintenance of a balance between three investment strategies, one of which is the State Treasurer's Trust Funds Investment Program-Equity Investment Fund. At September 30, 2017 and 2016, NHRMC had approximately \$109,036 and \$85,068, respectively, exposed to foreign currency risk, of which 25% and 18%, respectively, represent investments denominated in the Euro; 11% and 14%, respectively, represent investments denominated in the British Pound; and 15% and 17%, respectively, represent investments denominated in the Japanese Yen.

Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported by NHRMC and LCFH in the statement of net position.

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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 3. Cash and Cash Equivalents and Investments (Continued)**

Deposits and investments of NHRMC as of September 30, 2017 and 2016, are summarized as follows:

	2017	2016
Cash and cash equivalents:		
Cash on hand	\$ 10	\$ 3
Deposits	55,251	49,202
Short-term mutual fund (1)	36,399	36,330
	<u>\$ 91,660</u>	<u>\$ 85,535</u>
Assets limited as to use:		
Held by bond paying agent:		
Short-term mutual fund (1)	\$ 112,020	\$ 17,481
By Board for debt service:		
Deposits	1,041	996
By Board for claims liabilities:		
U.S. Treasury securities	11,964	9,731
U.S. Agency securities	9,951	12,168
Short-term mutual fund (1)	133	75
	<u>\$ 135,109</u>	<u>\$ 40,451</u>
Designated by Board for capital improvements:		
U.S. Treasury securities	\$ 21,509	\$ 20,277
U.S. Agency securities	5,004	6,519
Other securities backed by		
U.S. Government/Gov't Agencies	78,648	84,199
Dept. of State Treasurer Trust Funds		
Investment Program –		
Equity Investment Fund	219,035	183,982
Dept. of State Treasurer Short-Term		
Investment Fund (STIF)	81	80
Commercial paper	39,867	-
Short-term mutual fund (1)	144,726	107,721
	<u>\$ 508,870</u>	<u>\$ 402,778</u>
Designated by Board for employee benefit plans:		
Mutual funds	\$ 2,403	\$ 1,766
	<u>\$ 2,403</u>	<u>\$ 1,766</u>
Restricted for specific purposes:		
Mutual funds	\$ 14,333	\$ 10,012
	<u>\$ 14,333</u>	<u>\$ 10,012</u>
Restricted for endowments:		
Mutual funds	\$ 2,076	\$ 2,072
	<u>\$ 2,076</u>	<u>\$ 2,072</u>

(1) – North Carolina Capital Management Trust, a cash equivalent.

Deposits of CHA as of September 30, 2017 and 2016, are summarized as follows:

	2017	2016
Cash and cash equivalents:		
Cash on hand	\$ 6	\$ 6
Deposits	4,279	3,952
	<u>\$ 4,285</u>	<u>\$ 3,958</u>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 3. Cash and Cash Equivalents and Investments (Continued)**

Deposits and investments of LCFH as of September 30, 2017 and 2016, are summarized as follows:

	2017	2016
Cash and cash equivalents:		
Cash on hand	\$ 2	\$ 2
Deposits	3,778	4,500
	<u>\$ 3,780</u>	<u>\$ 4,502</u>
Investments:		
Bond and mutual funds	\$ 11,719	\$ 10,720
	<u>\$ 11,719</u>	<u>\$ 10,720</u>
By Board for operating and PDO reserve:		
Deposits	\$ 38	\$ 23
Bond and mutual funds	10,471	9,684
	<u>\$ 10,509</u>	<u>\$ 9,707</u>
By Board for capital improvements:		
Bond and mutual funds	\$ 9,314	\$ 9,315
	<u>\$ 9,314</u>	<u>\$ 9,315</u>
Endowments:		
Deposits	\$ 35	\$ 18
Bond and mutual funds	1,467	1,412
	<u>\$ 1,502</u>	<u>\$ 1,430</u>

(1) – North Carolina Capital Management Trust, a cash equivalent.

Deposits and investments of PMH as of September 30, 2017 and 2016, are summarized as follows:

	2017	2016
Cash and cash equivalents:		
Deposits	\$ 4,920	\$ 1,948
Short-term mutual fund (1)	55	55
	<u>\$ 4,975</u>	<u>\$ 2,003</u>

(1) – North Carolina Capital Management Trust, a cash equivalent.

Deposits of PQP as of September 30, 2017 and 2016, are as follows:

	2017	2016
Cash and cash equivalents:		
Deposits	\$ 664	\$ 362

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 3. Cash and Cash Equivalents and Investments (Continued)**

**Pension Trust Investments**

Investments of The Pension Plan of New Hanover Regional Medical Center (Plan) are governed by North Carolina State Statutes, which generally provide for any type of investment subject to the prudent person rule.

The following table presents investments as of December 31, 2016 and 2015:

	2016	2015
Money market funds:		
Federated Government Obligations Fund	\$ 1,668	\$ 2,059
Mutual funds:		
Columbia Acom Fund	5,895	5,022
DFA Emerging Mkts Core Equity	7,277	6,823
Harbor Fund	21,468	20,253
Pimco Stocksplus International (USD-Hedged) Fund	5,858	4,900
Vanguard Strategic Equity Fund	5,872	4,959
Baird Aggregate Bond Fund	21,362	20,401
Tortoise MLP & Pipeline FD - Inst	5,697	4,438
Oppenheimer Steelpath MLP Select 40 Fund	5,673	4,898
SPDR Dow Jones International Real Estate ETF	2,008	1,987
Vanguard REIT Index Fund - ADM	2,256	2,094
AQR Managed Futures Strategy Fund	4,203	3,882
Diamond Hill Long-Short Fund	4,346	4,014
Litman Gregory Masters Alternative Strategies Fund	3,827	3,529
MFS Global Alternative Strategy Fund	3,659	3,496
Mainstay High Yield Corporate Bond Fund	5,448	4,957
Oppenheimer International Growth Fund Y	5,355	4,989
Oppenheimer Developing Markets Fund	8,354	7,880
Pimco Emerging Local Bond Fund	5,188	4,885
Pimco Total Return Institutional Fund	16,081	15,420
SEI Institutionally Managed Mid Cap Fund	5,699	5,013
T. Rowe Price Inst US Str Research Fund	43,930	39,863
Vanguard High Yield Corporate Fund	5,432	5,018
Wisdomtree Large Cap Dividend Fund	18,083	16,136
Wisdomtree Emerging Markets Corporate Bond Fund	5,324	4,979
	<u>\$ 219,963</u>	<u>\$ 201,895</u>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 3. Cash and Cash Equivalents and Investments (Continued)**

**Interest Rate Risk.** The Plan does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. The Plan may invest in domestic fixed income securities; however, the Plan's investment policy does not allow these securities to exceed 40% of the Plan's portfolio. The average maturity of the Federated Government Obligations Fund is approximately 40 days. All of the Plan's bond funds have average effective maturities between five and nine years.

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy limits the Plan's portfolio in domestic fixed income securities rated less than BBB to no more than 10% of the total plan portfolio. The Moody's credit quality rating of the Federated Government Obligations Fund is Aaa-mf. The Plan's bond funds are not rated by credit rating agencies.

**Custodial Credit Risk.** Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments and other assets that are in possession of an outside third party. Mutual funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Money market funds and registered investment companies (mutual funds) are excluded from this disclosure requirement. The Plan's policies restrict investment by type of investment, geographic location and percentage of total portfolio.

Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of fiduciary net position.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 4. Fair Value Measurements**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described below:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

**Level 2:** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth, NHRMC's investments as of September 30, 2017 and 2016.

Investment Type	Valuation Measurement Method	Book Value 2017	Book Value 2016
U.S. Government Treasury Notes	Fair Value Level 1	\$ 24,006	\$ 22,701
U.S. Government Treasury Bonds	Fair Value Level 1	9,466	7,306
U.S. Government Agencies	Fair Value Level 1	14,956	18,687
Mortgage Backed Securities	Fair Value Level 2	50,717	53,749
Asset Backed CMO's	Fair Value Level 2	27,932	30,449
NC Capital Management Trust – Cash Portfolio	Amortized Cost	293,277	161,607
Department of State Treasurer Trust Funds			
Investment Program – Equity Investment Fund	Fair Value Level 1	219,034	183,982
Department of State Treasurer Short-Term			
Investment Fund (STIF)	Fair Value Level 1	81	80
Mutual Funds	Fair Value Level 1	2,403	13,850
Commercial Paper	Fair Value Level 1	39,867	-
Interest Rate Swaps	Fair Value Level 2	(3,928)	(6,336)
		\$ 677,811	\$ 486,075

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 4. Fair Value Measurements (Continued)**

The following table sets forth LCFH's investments as of September 30, 2017 and 2016.

Investment Type	Valuation Measurement Method	Book Value 2017	Book Value 2016
Bond Funds	Fair Value Level 1	\$ 8,741	\$ 9,494
Equity Funds	Fair Value Level 1	24,230	21,637
Interest Rate Swap	Fair Value Level 2	(164)	(248)
		\$ 32,807	\$ 30,883

The following table sets forth, PMH's investments as of September 30, 2017 and 2016.

Investment Type	Valuation Measurement Method	Book Value 2017	Book Value 2016
NC Capital Management Trust – Cash Portfolio	Amortized Cost	\$ 55	\$ 55

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 5. Capital Asset Activity**

Capital asset activity was as follows:

NHRMC – Year Ended September 30, 2017

	Beginning Balance	Additions	Retirements	Ending Balance
<b>NHRMC Activity</b>				
Capital assets, not being depreciated:				
Land	\$ 12,305	\$ 4,663	\$ -	\$ 16,968
Construction in progress	19,321	96,242	(70,107)	45,456
Total capital assets, not being depreciated	<u>31,626</u>	<u>100,905</u>	<u>(70,107)</u>	<u>62,424</u>
Capital assets, being depreciated/amortized:				
Intangible assets	4,954	-	(3,954)	1,000
Buildings and leasehold improvements	561,150	32,813	(11,658)	582,305
Equipment	358,573	37,294	(16,826)	379,041
Total capital assets being depreciated/amortized	<u>924,677</u>	<u>70,107</u>	<u>(32,438)</u>	<u>962,346</u>
Less accumulated depreciation/amortization for:				
Intangible assets	(4,671)	(200)	3,954	(917)
Buildings, leasehold improvements and equipment	<u>(503,940)</u>	<u>(49,669)</u>	<u>25,953</u>	<u>(527,656)</u>
Total accumulated depreciation/amortization	<u>(508,611)</u>	<u>(49,869)</u>	<u>29,907</u>	<u>(528,573)</u>
Total capital assets being depreciated/ amortized, net	<u>416,066</u>	<u>20,238</u>	<u>(2,531)</u>	<u>433,773</u>
NHRMC activities, capital assets, net	<u>\$ 447,692</u>	<u>\$ 121,143</u>	<u>\$ (72,638)</u>	<u>\$ 496,197</u>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 5. Capital Asset Activity (Continued)**

NHRMC – Year Ended September 30, 2016

	Beginning Balance	Additions	Retirements	Ending Balance
NHRMC Activity				
Capital assets, not being depreciated:				
Land	\$ 12,305	\$ -	\$ -	\$ 12,305
Construction in progress	11,261	60,678	(52,618)	19,321
Total capital assets, not being depreciated	<u>23,566</u>	<u>60,678</u>	<u>(52,618)</u>	<u>31,626</u>
Capital assets, being depreciated/amortized:				
Intangible assets	4,954	-	-	4,954
Buildings and leasehold improvements	546,089	16,949	(1,888)	561,150
Equipment	341,877	35,669	(18,973)	358,573
Total capital assets being depreciated/amortized	<u>892,920</u>	<u>52,618</u>	<u>(20,861)</u>	<u>924,677</u>
Less accumulated depreciation/amortization for:				
Intangible assets	(4,019)	(652)	-	(4,671)
Buildings, leasehold improvements and equipment	<u>(475,909)</u>	<u>(47,702)</u>	19,671	<u>(503,940)</u>
Total accumulated depreciation/amortization	<u>(479,928)</u>	<u>(48,354)</u>	19,671	<u>(508,611)</u>
Total capital assets being depreciated/ amortized, net	<u>412,992</u>	<u>4,264</u>	<u>(1,190)</u>	<u>416,066</u>
NHRMC activities, capital assets, net	<u>\$ 436,558</u>	<u>\$ 64,942</u>	<u>\$ (53,808)</u>	<u>\$ 447,692</u>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 5. Capital Asset Activity (Continued)**

CHA – Year Ended September 30, 2017

	Beginning			Ending
	Balance	Additions	Retirements	Balance
CHA Activity				
Capital assets, not being depreciated:				
Construction in progress	\$ 217	\$ 1,363	\$ (1,407)	\$ 173
Total capital assets, not being depreciated	217	1,363	(1,407)	173
Capital assets, being depreciated/amortized:				
Intangible assets	1,500	-	(1,500)	-
Buildings and leasehold improvements	2,716	(153)	-	2,563
Equipment	10,634	1,560	(475)	11,719
Total capital assets being depreciated/amortized	14,850	1,407	(1,975)	14,282
Less accumulated depreciation/amortization for:				
Intangible assets	(1,500)	-	1,500	-
Buildings, leasehold improvements and equipment	(7,174)	(1,850)	380	(8,644)
Total accumulated depreciation/amortization	(8,674)	(1,850)	1,880	(8,644)
Total capital assets being depreciated/amortized, net	6,176	(443)	(95)	5,638
CHA activities, capital assets, net	\$ 6,393	\$ 920	\$ (1,502)	\$ 5,811

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 5. Capital Asset Activity (Continued)**

CHA – Year Ended September 30, 2016

	Beginning Balance	Additions	Retirements	Ending Balance
CHA Activity				
Capital assets, not being depreciated:				
Construction in progress	\$ 486	\$ 2,681	\$ (2,950)	\$ 217
Total capital assets, not being depreciated	486	2,681	(2,950)	217
Capital assets, being depreciated/amortized:				
Intangible assets	1,500	-	-	1,500
Buildings and leasehold improvements	839	1,889	(12)	2,716
Equipment	10,197	1,061	(624)	10,634
Total capital assets being depreciated/amortized	12,536	2,950	(636)	14,850
Less accumulated depreciation/amortization for:				
Intangible assets	(1,415)	(85)	-	(1,500)
Buildings, leasehold improvements and equipment	(5,886)	(1,832)	544	(7,174)
Total accumulated depreciation/amortization	(7,301)	(1,917)	544	(8,674)
Total capital assets being depreciated/amortized, net	5,235	1,033	(92)	6,176
CHA activities, capital assets, net	\$ 5,721	\$ 3,714	\$ (3,042)	\$ 6,393

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 5. Capital Asset Activity (Continued)**

LCFH – Year Ended September 30, 2017

	Beginning Balance	Additions	Retirements	Ending Balance
LCFH Activity				
Capital assets, not being depreciated:				
Land	\$ 5,610	\$ -	\$ -	\$ 5,610
Construction in progress	8	1	-	9
Total capital assets, not being depreciated	<u>5,618</u>	<u>1</u>	<u>-</u>	<u>5,619</u>
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	20,116	726	(100)	20,742
Equipment	4,755	210	(363)	4,602
Total capital assets being depreciated/amortized	<u>24,871</u>	<u>936</u>	<u>(463)</u>	<u>25,344</u>
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements and equipment	(7,218)	(981)	485	(7,714)
Total accumulated depreciation/amortization	<u>(7,218)</u>	<u>(981)</u>	<u>485</u>	<u>(7,714)</u>
Total capital assets being depreciated/ amortized, net	<u>17,653</u>	<u>(45)</u>	<u>22</u>	<u>17,630</u>
LCFH activities, capital assets, net	<u>\$ 23,271</u>	<u>\$ (44)</u>	<u>\$ 22</u>	<u>\$ 23,249</u>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 5. Capital Asset Activity (Continued)**

LCFH – Year Ended September 30, 2016

	Beginning Balance	Additions	Retirements	Ending Balance
LCFH Activity				
Capital assets, not being depreciated:				
Land	\$ 5,610	\$ -	\$ -	\$ 5,610
Construction in progress	8	-	-	8
Total capital assets, not being depreciated	<u>5,618</u>	<u>-</u>	<u>-</u>	<u>5,618</u>
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	20,068	60	(12)	20,116
Equipment	4,503	269	(17)	4,755
Total capital assets being depreciated/amortized	<u>24,571</u>	<u>329</u>	<u>(29)</u>	<u>24,871</u>
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements and equipment	(6,212)	(1,018)	12	(7,218)
Total accumulated depreciation/amortization	<u>(6,212)</u>	<u>(1,018)</u>	<u>12</u>	<u>(7,218)</u>
Total capital assets being depreciated/ amortized, net	<u>18,359</u>	<u>(689)</u>	<u>(17)</u>	<u>17,653</u>
LCFH activities, capital assets, net	<u>\$ 23,977</u>	<u>\$ (689)</u>	<u>\$ (17)</u>	<u>\$ 23,271</u>

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 5. Capital Asset Activity (Continued)**

PMH – Year Ended September 30, 2017

	Beginning			Ending
	Balance	Additions	Retirements	Balance
PMH Activity				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	595	1,533	(2,121)	7
Total capital assets, not being depreciated	<u>637</u>	<u>1,533</u>	<u>(2,121)</u>	<u>49</u>
Capital assets, being depreciated/amortized:				
Intangible assets	191	-	(191)	-
Buildings and leasehold improvements	14,661	803	(165)	15,299
Equipment	11,405	1,318	(510)	12,213
Total capital assets being depreciated/amortized	<u>26,257</u>	<u>2,121</u>	<u>(866)</u>	<u>27,512</u>
Less accumulated depreciation/amortization for:				
Intangible assets	(191)	-	191	-
Buildings, leasehold improvements and equipment	(15,298)	(1,935)	197	(17,036)
Total accumulated depreciation/amortization	<u>(15,489)</u>	<u>(1,935)</u>	<u>388</u>	<u>(17,036)</u>
Total capital assets being depreciated/amortized, net	<u>10,768</u>	<u>186</u>	<u>(478)</u>	<u>10,476</u>
PMH activities, capital assets, net	<u>\$ 11,405</u>	<u>\$ 1,719</u>	<u>\$ (2,599)</u>	<u>\$ 10,525</u>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 5. Capital Asset Activity (Continued)**

PMH – Year Ended September 30, 2016

	Beginning Balance	Additions	Retirements	Ending Balance
<b>PMH Activity</b>				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	138	2,330	(1,873)	595
Total capital assets, not being depreciated	180	2,330	(1,873)	637
Capital assets, being depreciated/amortized:				
Intangible assets	191	-	-	191
Buildings and leasehold improvements	14,301	411	(51)	14,661
Equipment	10,433	1,462	(490)	11,405
Total capital assets being depreciated/amortized	24,925	1,873	(541)	26,257
Less accumulated depreciation/amortization for:				
Intangible assets	(191)	-	-	(191)
Buildings, leasehold improvements and equipment	(13,846)	(1,910)	458	(15,298)
Total accumulated depreciation/amortization	(14,037)	(1,910)	458	(15,489)
Total capital assets being depreciated/amortized, net	10,888	(37)	(83)	10,768
PMH activities, capital assets, net	\$ 11,068	\$ 2,293	\$ (1,956)	\$ 11,405

All depreciation is directly or indirectly related to the provision of healthcare services. NHRMC and PMH have active projects for building construction and leasehold improvements as of September 30, 2017 and 2016. As of September 30, 2017, NHRMC and PMH have remaining committed amounts to be paid of approximately \$14,157 and \$0 on projects, respectively.

**Note 6. Lease Obligations and Commitments**

Under a lease agreement dated October 1, 1993, and most recently amended June 1, 2017, NHRMC leases its existing facilities and equipment and all future improvements from New Hanover County through October 2047, all of which have been recorded as capital assets in the accompanying statements of net position. Covenants under the lease agreement correspond to those in the Series 2006, 2008, 2011, 2013 and 2017 Revenue Bond Indentures. The County maintains a limited right under the bond order to terminate the lease with 90 days' notice (after public hearing). In addition, under the lease agreement, NHRMC has agreed to maintain certain debt service coverage and cushion ratios as discussed further in Note 7.

NHRMC also leases capital assets under operating leases that have initial or remaining noncancelable terms in excess of one year.

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 6. Lease Obligations and Commitments (Continued)**

Scheduled payments on NHRMC's operating lease commitments are as follows:

	<u>Amount</u>
Years ending September 30:	
2018	\$ 6,433
2019	5,606
2020	3,941
2021	3,975
2022	3,303
2023-2027	12,134
2028-2032	1,389
2033-2037	1,527
2038-2042	1,604
Total minimum payments	<u>\$ 39,912</u>

Rent expense on operating leases for NHRMC totaled approximately \$9,735 and \$9,250 in 2017 and 2016, respectively. Rent expense is included in other operating expenses on the statements of revenues, expenses, and changes in net position.

CHA leases office space and equipment under various noncancelable operating lease agreements that expire between 2018 and 2028. Scheduled payments on CHA's operating lease commitments are as follows:

	<u>Amount</u>
Years ending September 30:	
2018	\$ 6,276
2019	6,192
2020	4,132
2021	3,161
2022	2,015
2023 – 2027	2,609
2028	38
Total minimum payments	<u>\$ 24,423</u>

Included in these commitments is \$9,701 of minimum payments to NHRMC.

Rent expense on operating leases for CHA totaled approximately \$6,131 and \$5,567 in 2017 and 2016, including payments of \$2,135 and \$1,788 to NHRMC, respectively. Rent expense is included in other operating expenses on the statements of revenues, expenses, and changes in net position.

LCFH leases office space under various noncancelable operating lease agreements, which expire over the next year. Rent expense related to these agreements totaled approximately \$51 and \$51 in 2017 and 2016, respectively. Rent expense is included in other operating expenses on the statements of revenues, expenses, and changes in net position.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 6. Lease Obligations and Commitments (Continued)**

LCFH also has capital leases for various pieces of equipment and vehicles. As of September 30, 2017, the leased assets had been recorded at \$128 and had accumulated amortization of \$106. A summary of capital lease obligations of LCFH is as follows at September 30, 2017:

Capital lease obligations, at an interest rate of 6.9% collateralized by leased equipment	\$ 39
Less current portion	(33)
Capital lease obligations, less current portion	<u>\$ 6</u>

Scheduled payments of LCFH's capital lease obligations are as follows:

	<u>Amount</u>
Years ending September 30:	
2018	\$ 35
2019	6
Total minimum payments	41
Less amount representing interest	(2)
Present value of net minimum payments	<u>\$ 39</u>

PMH, under an amended and restated lease agreement dated November 15, 2004, leases its main facilities and equipment and all future improvements from Pender County through 2019, with an option (at NHRMC's direction) to renew for ten additional years. Pender County and PMH maintain a limited right under the lease agreement to terminate the lease if specified provisions cannot be cured within 180 days, provided that NHRMC shall be permitted to cure any breach on behalf of PMH within established time frames.

PMH leases additional space under a noncancelable operating lease, which expires in fiscal year 2028. In addition, PMH leases certain medical equipment under operating leases that expire between 2018 and 2020. Scheduled payments on PMH's operating lease commitments are as follows:

	<u>Amount</u>
Years ending September 30:	
2018	\$ 376
2019	294
2020	269
2021	201
2022	203
2023-2028	1,082
Total minimum payments	<u>\$ 2,425</u>

Rent expense on operating leases for PMH totaled approximately \$373 and \$367 in 2017 and 2016, respectively. Rent expense is included in other operating expenses on the statements of revenues, expenses and changes in net position.

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 7. Bonds Payable and Other Long-Term Liabilities**

**Changes in Long-Term Liabilities**

Long-term obligation activity for the years ended September 30, 2017 and 2016, was as follows:

NHRMC – Year Ended September 30, 2017

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 264,430	\$ 212,710	\$ (97,020)	\$ 380,120	\$ 13,625
Less deferred amounts:					
Issuance discounts (premiums), net	(4,348)	(30,858)	1,191	(34,015)	-
Total bonds payable	268,778	243,568	(98,211)	414,135	13,625
Note payable to primary government	-	18,803	(2,500)	16,303	14,303
Supplemental retirement plans	1,766	535	-	2,301	-
Long-term obligations	\$ 270,544	\$ 262,906	\$ (100,711)	\$ 432,739	\$ 27,928

NHRMC – Year Ended September 30, 2016

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 277,035	\$ -	\$ (12,605)	\$ 264,430	\$ 13,065
Less deferred amounts:					
Issuance discounts (premiums), net	(5,112)	-	764	(4,348)	-
Total bonds payable	282,147	-	(13,369)	268,778	13,065
Supplemental retirement plans	1,464	302	-	1,766	[A]
Long-term obligations	\$ 283,611	\$ 302	\$ (13,369)	\$ 270,544	\$ 13,065

[A] Supplemental retirement plans on the statement of net position also include residual frozen defined benefit plan liabilities associated with the merger of SEAHEC totaling \$1,083 at September 30, 2016.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 7. Bonds Payable and Other Long-Term Liabilities (Continued)**

LCFH – Year Ended September 30, 2017

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 4,886	\$ -	\$ (332)	\$ 4,554	\$ 332
Notes payable	6,967	-	(1,003)	5,964	320
Capital leases (Note 6)	71	-	(32)	39	34
	<u>\$ 11,924</u>	<u>\$ -</u>	<u>\$ (1,367)</u>	<u>\$ 10,557</u>	<u>\$ 686</u>

LCFH – Year Ended September 30, 2016

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 5,212	\$ -	\$ (326)	\$ 4,886	\$ 332
Notes payable	7,283	700	(1,016)	6,967	369
Capital leases (Note 6)	110	-	(39)	71	33
	<u>\$ 12,605</u>	<u>\$ 700</u>	<u>\$ (1,381)</u>	<u>\$ 11,924</u>	<u>\$ 734</u>

**New Hanover Regional Medical Center  
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**Note 7. Bonds Payable and Other Long-Term Liabilities (Continued)**

**NHRMC Bonds Payable**

Series 2006, 2008, 2011, 2013 and 2017 bonds outstanding at September 30, 2017 and 2016, are as follows:

Revenue Bonds	Principal Amount	
	2017	2016
Series 2006A Hospital Revenue Bonds:		
Serial revenue bonds with interest rates ranging from 3.0% to 4.79%, maturing annually through 2024	\$ 14,780	\$ 43,285
Series 2006B Hospital Revenue Bonds:		
Term revenue bonds maturing in 2027, with stated interest rate of 5.0%	-	26,440
Term revenue bonds maturing in 2031, with stated interest rate of 5.162%	-	33,560
Series 2008A Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	16,745	17,210
Series 2008B Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	16,745	17,210
Series 2011 Revenue Bonds:		
Serial revenue bonds with interest rates ranging from 3.0% to 5.0%, maturing annually through 2025	44,120	47,785
Term revenue bonds maturing in October 2026, with stated interest rates of 4.625% and 5.0%	7,535	7,535
Term revenue bonds maturing in October 2027, with stated interest rates of 4.625% and 5.0%	12,375	12,375
Term revenue bonds maturing in October 2028, with stated interest rates of 4.625% and 5.0%	12,980	12,980
Series 2013 Revenue Bonds:		
Serial revenue bonds with interest rates ranging from 2.0% to 5.0%, maturing annually through 2026	42,130	46,050
Series 2017 Revenue Bonds:		
Serial revenue bonds with interest rates ranging from 3.0% to 5.0%, maturing annually through 2048	212,710	-
Revenue bonds payable	380,120	264,430
Unamortized premiums, net	34,015	4,348
Current portion	(13,625)	(13,065)
Total revenue bonds payable, long-term	<u>\$ 400,510</u>	<u>\$ 255,713</u>

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**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 7. Bonds Payable and Other Long-Term Liabilities (Continued)**

**Series 2006 Hospital Revenue Bonds (Fixed Rates)**

On September 13, 2006, NHRMC issued \$60,000 of Series 2006A Variable Rate Hospital Revenue Bonds, and \$60,000 of Series 2006B Variable Rate Hospital Revenue Bonds (collectively the 2006 Bonds) through New Hanover County for use by NHRMC. The bonds initially bore interest at an auction rate, established weekly. The bonds were issued for the purpose of providing funding, together with other available funds, to pay the costs of various construction projects including, but not limited to, the construction and equipping of a new 186,804 square foot surgical pavilion, construction and equipping of a new 194,995 square foot Women's and Children's Center, expansion and upgrading of the central energy plant, and related site work including reconfiguration of existing parking lots.

In 2009, the Series 2006A Bonds were converted from auction rate securities to fixed rate mode for a discount of approximately \$168, and the Series 2006B Bonds were converted for a premium of \$358, both of which are being amortized under the effective interest method over the life of the bonds. There was no significant economic gain or loss resulting from this transaction.

In connection with the 2017 Series Bond issuance, the 2006A bonds were partially refunded and the 2006B bonds were fully refunded.

**Series 2008 Variable Rate Hospital Revenue Bonds**

On November 6, 2008, NHRMC issued Variable Rate Hospital Revenue Bonds (demand bonds) through New Hanover County, Series 2008A and Series 2008B (collectively, the 2008 Bonds), in the amounts of \$20,000 and \$20,000, respectively, for use by NHRMC. The bonds bear interest at a variable rate, established weekly by the applicable remarketing agents. The bonds were issued to reimburse NHRMC for certain costs associated with construction and equipping of the surgical pavilion, Women's and Children's Center, and certain facilities improvements; acquisition of certain information system equipment; and acquisition of certain operating equipment. As of September 30, 2017 and 2016, the rates on these bonds were 0.98% and 0.83%, respectively.

The 2008 Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the remarketing agent and tender agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to the principal amount plus accrued and unpaid interest thereon, if any, to the purchase date.

NHRMC and the County have entered into a Reimbursement Agreement and an Irrevocable Letter of Credit with a bank under which NHRMC can draw down the funds to purchase any 2008 bonds that are tendered for purchase, to the extent that remarketing proceeds are not sufficient or available. The letter of credit expires on September 20, 2019. All unpaid drawings become due and payable upon expiration of the letter of credit in 2019. There were no unpaid drawings at September 30, 2017 or 2016. The agreement carries a variable interest rate based on the bank's prime rate or a maximum of 18%.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 7. Bonds Payable and Other Long-Term Liabilities (Continued)**

**Series 2011 Hospital Revenue Bonds (Fixed Rates)**

On September 28, 2011, NHRMC issued \$93,965 of Series 2011 Fixed Rate Hospital Revenue Refunding Bonds through New Hanover County for use by NHRMC. The net proceeds (net of issuance costs) from the sale of the 2011 Series Bonds were used to redeem outstanding Series 1999 Bonds maturing on October 1, 2012 and thereafter. The Series 1999 Bonds had an outstanding balance of \$95,320 as of October 1, 2011. The net proceeds of the Series 2011 bonds were held in escrow as of September 30, 2011, and then used to redeem all of the Refunded 1999 Bonds on October 1, 2011.

Interest on the Series 2011 bonds is paid at fixed rates established at the time of bond issuance. The Series 2011 bonds were originally issued at a premium of approximately \$2,651, which is being amortized under the effective interest method over the life of the bonds.

**Series 2013 Hospital Revenue Bonds (Fixed Rates)**

On December 14, 2005, NHRMC issued Variable Rate Hospital Revenue Refunding Bonds (demand bonds) through New Hanover County, Series 2005A-1, Series 2005A-2, Series 2005B-1 and Series 2005B-2 (collectively the 2005 Bonds), in the amounts of \$11,435, \$11,435, \$28,100 and \$28,100, respectively, for use by NHRMC. Interest on the Series 2005 bonds is set weekly at rates established by the applicable remarketing agents, not to exceed 12% per annum.

On July 18, 2013 NHRMC issued \$56,745 of Series 2013 Fixed Rate Hospital Revenue Refunding Bonds through New Hanover County. The net proceeds (net of issuance costs) from the sale of the 2013 Series Bonds were used to redeem Series 2005 Bonds totaling \$58,560 and partially terminate swaps held in connection with the Series 2005 Bonds. With the issuance of the 2013 Bonds and resulting redemption of the Series 2005 Bonds, the Standby Bond Purchase Agreement, under which the bank agreed to purchase any 2005 bonds that were tendered for purchase to the extent that remarketing proceeds were not sufficient or available, was also terminated.

Interest on the Series 2013 bonds is paid at fixed rates, established at the time of bond issuance. The Series 2013 bonds were originally issued at a premium of \$4,630, which is being amortized under the effective interest method over the life of the bonds. Additionally, NHRMC recorded a deferred outflow of resources of \$1,976 related to the refunding.

**Series 2017 Hospital Revenue Bonds (Fixed Rates)**

On June 1, 2017, NHRMC issued \$212,710 of Series 2017 Fixed Rate Hospital Revenue Bonds through New Hanover County. Some of the net proceeds (net of issuance costs) from the sale of the 2017 Series Bonds were used to refund Series 2006B Bonds totaling \$60,000 and partially refund Series 2006A Bonds totaling \$23,955.

The bonds were issued for the purpose of providing funds, together with other available funds, to pay the costs of various construction projects including the construction of a five level parking deck and sky bridge; construction and equipping of a new orthopedic and spine hospital with the addition of 3 floors on top of the existing surgical pavilion on NHRMC's main campus; expansion and renovation of the intensive care unit; renovation of the Zimmer Cancer Center; and construction and renovation of the main campus's emergency department; and to refund a portion of the outstanding Series 2006 Bonds.

**New Hanover Regional Medical Center  
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**Note 7. Bonds Payable and Other Long-Term Liabilities (Continued)**

Interest on the Series 2017 bonds is paid at fixed rates, established at the time of bond issuance. The Series 2017 bonds were originally issued at a premium of \$30,858, which is being amortized under the effective interest method over the life of the bonds. Additionally, NHRMC recorded a deferred outflow of resources of \$6,515 related to the refunding.

**Debt Service and Covenants**

Under the terms of the Bond indentures and related lease agreement with the County, the Obligated Unit (New Hanover Regional Medical Center, CHA and PQP) is required to make semiannual debt service payments on unpaid fixed rate debt (2006, 2011, 2013 and 2017 bonds), monthly debt service payments on variable rate demand bonds (2008 bonds) and is also required to comply with certain restrictive covenants, including limitations on incurrence of additional debt, limitations on transfer of assets and maintenance of certain measures of financial performance, including a minimum long-term debt service ratio of 1.75 and a cushion ratio of 1.75, for as long as the bonds are outstanding.

The following table sets forth on an historical basis the maximum annual long-term debt service coverage ratio as of September 30, 2017 and 2016, calculated for the Obligated Unit:

Long-term debt service coverage ratio	Years Ended September 30	
	2017	2016
Income before capital contributions and operating transfers	\$ 111,714	\$ 85,410
Plus:		
Depreciation and amortization	53,161	51,769
Interest expense	11,385	11,236
Less:		
Unrealized gains (loss) on investments	35,000	11,716
Income available for debt service	<u>\$ 141,260</u>	<u>\$ 136,699</u>
Maximum annual debt service	\$ 37,906	\$ 25,333
Maximum annual debt service coverage ratio	3.73	5.71
	September 30	
Cushion ratio	2017	2016
Cash	\$ 94,343	\$ 84,925
Designated by Board	508,870	402,778
Total unrestricted cash and investments	<u>\$ 603,213</u>	<u>\$ 487,703</u>
Maximum annual debt service	\$ 37,906	\$ 25,333
Cushion ratio	15.91	19.25

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

**Note 7. Bonds Payable and Other Long-Term Liabilities (Continued)**

The Series 2006, 2008, 2011, 2013 and 2017 Revenue Bonds are secured by and payable from the net revenue of the Obligated Unit, the money and securities held by the trustee pursuant to the bonds, as well as the income from the temporary investment of these trustee-held funds. Substantially all of the Obligated Unit's revenues, which were \$1,127,221 and \$1,033,797 for the years ended September 30, 2017 and 2016, respectively, are security for the revenue bonds.

Total funds held by the trustee (including amounts as bond paying agent) at September 30, 2017 and 2016, were approximately \$112,020 and \$17,481, respectively.

Scheduled payments of principal and interest on total debt are as follows. (Interest on any variable rate bonds is included at the rates in effect as of September 30, 2017; payments are shown assuming the letter of credit for the 2008 Bonds are renewed throughout the life of the bonds.)

Fiscal Year	Principal	Interest	Total Debt Service
2018	\$ 27,947	\$ 9,052	\$ 36,999
2019	18,235	16,012	34,247
2020	16,780	15,357	32,137
2021	17,220	14,668	31,888
2022	17,890	13,893	31,783
2023 – 2027	102,060	56,413	158,473
2028 – 2032	89,355	32,229	121,584
2033 – 2037	31,870	20,286	52,156
2038 – 2042	32,125	14,554	46,679
2043 – 2047	34,890	7,395	42,285
2048	8,051	404	8,455
	<u>\$ 396,423</u>	<u>\$ 200,263</u>	<u>\$ 596,686</u>

Interest paid related to the above debt was approximately \$11,949 and \$12,342 during fiscal years ended September 30, 2017 and 2016, respectively.

**Other NHRMC Long-Term Liabilities**

In connection with the purchase of the New Hanover County Health Department in 2017 (See Note 13), NHRMC agreed to pay up to \$19,350 to New Hanover County (the County). As of September 30, 2017, NHRMC's note payable balance to the County was \$16,303, of which \$2,000 was classified as non-current.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 7. Bonds Payable and Other Long-Term Liabilities (Continued)**

**Lower Cape Fear Hospice 2007 Bonds**

During the year ended September 30, 2008, LCFH issued \$4,000 of Series 2007 Variable Rate Health Care Facility Revenue Bonds (the LCFH 2007 Bonds) through the North Carolina Medical Care Commission for use by LCFH. The bonds bear interest at a variable rate of London Interbank Offered Rate (LIBOR) plus 1.9%, determined weekly. The bond funds were used to finance construction on a new administrative building in Wilmington, North Carolina, which was completed during fiscal year 2009. Repayment of principal is due annually through October 2027. The LCFH 2007 Bonds are secured by a letter of credit from a bank. Under the terms of the bond, LCFH is required to maintain a minimum long-term debt service coverage ratio of 1.2, LCFH is required to maintain a maximum debt to net position ratio of 0.75 to 1.0; LCFH is required to maintain a cash flow coverage ratio of 1.25 to 1.0; and LCFH's total net position must be more than \$9 million. As of September 30, 2017, LCFH was in compliance with those covenants.

**Lower Cape Fear Hospice 2011 Bonds**

During the year ended September 30, 2011, LCFH issued \$3,400 of Series 2011 Variable Rate Health Care Facility Revenue Bonds (the LCFH 2011 Bonds) through the North Carolina Medical Care Commission for use by LCFH. The bonds bear interest at a variable rate of 78% of LIBOR plus 1.3%, adjusted monthly. The bond funds were used to finance construction of an inpatient facility in Brunswick County, North Carolina. Repayment of principal is due annually through April 2029. Under the terms of the bond, LCFH is required to maintain a minimum long-term debt service coverage ratio of 1.2. As of September 30, 2017, LCFH was in compliance with those covenants.

During the year ended September 30, 2011, LCFH entered into an interest rate protection transaction. The agreement insures that LCFH's effective interest rate on the 2011 Bonds will not exceed 3.7% through April 13, 2018.

Scheduled payments of principal and interest on the LCFH 2007 and 2011 Bonds are as follows. (Interest on any variable rate bonds is included at the rates in effect as of September 30, 2017):

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2018	\$ 332	\$ 115	\$ 447
2019	341	109	450
2020	344	104	448
2021	349	98	447
2022	361	91	452
2023 – 2027	2,303	349	2,652
2028 – 2029	524	146	670
	\$ 4,554	\$ 1,012	\$ 5,566

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 7. Bonds Payable and Other Long-Term Liabilities (Continued)**

**Lower Cape Fear Hospice Notes Payable**

During the year ended September 30, 2009, LCFH converted short-term debt into a long-term loan with financing provided by USDA Rural Development. The funds were used to construct an inpatient facility in Whiteville, North Carolina. The total amount of the loan was approximately \$2,071. This loan was refinanced in July 2013. The original amount was \$2,000. The loan has a fixed interest rate of 3.45% and matures in August 2028. The loan is carried on the financial statements as of September 30, 2017, at approximately \$1,699. The Whiteville Care Center serves as collateral.

During the year ended September 30, 2012, LCFH borrowed \$1,230 from First Citizens Bank to purchase land adjacent to its other facilities. The loan has a fixed interest rate of 3.35% and a repayment of 15 years. The loan is carried on the financial statements as of September 30, 2017, at approximately \$872. The land serves as collateral.

During the year ended September 30, 2014, LCFH obtained a construction loan from First Citizens Bank with a maximum draw of \$4,000 for the expansion and renovation of the Wilmington inpatient facility and for site parking and service road additions on the Wilmington campus. The construction began in 2013, resulting in a drawn down balance of \$3,856. The facility opened and began serving patients in November 2014. The loan has a fixed interest rate of 3.45% and a maturity date of August 2028. The loan is carried on the financial statements as of September 30, 2017 at approximately \$3,393.

During the year ended September 30, 2014, LCFH acquired Mercy Care of Horry County, and assumed a mortgage loan on its facility on Devon Court, Myrtle Beach, South Carolina. In August 2016, the loan was refinanced with a balance of \$700. The mortgage loan is from First Citizens, and has a fixed interest rate of 3.4% and matures in August 2026. The loan was paid in full as of September 30, 2017.

Scheduled principal repayment on these notes payables are as follows:

Fiscal Year	Amount
2018	\$ 320
2019	332
2020	344
2021	356
2022	369
Thereafter	4,243
	5,964
Less current portion	(320)
	\$ 5,644

**New Hanover Regional Medical Center  
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**Note 8. Derivative Investments**

NHRMC has the following interest rate swap agreements:

As of September 30, 2017

Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/17	Change in Fair Value for the Year Ended 9/30/17
Series 2008A-1	\$ 5,345	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (384)	\$ 255
Series 2008A-2	5,335	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(383)	255
Series 2008B-1	16,455	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(1,691)	936
Series 2008B-2	6,355	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(1,398)	560
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd		
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index	Avg LIBOR	(72)	402
						<u>\$ (3,928)</u>	

As of September 30, 2016

Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/16	Change in Fair Value for the Year Ended 9/30/16
Series 2008A-1	\$ 6,000	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (639)	\$ 99
Series 2008A-2	5,990	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(638)	99
Series 2008B-1	17,780	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(2,627)	90
Series 2008B-2	4,650	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(1,958)	(298)
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd		
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index	Avg LIBOR	(474)	(641)
						<u>\$ (6,336)</u>	

**Swaps associated with 2005 and 2008 bonds**

As a means to lower its borrowing costs when compared against fixed-rate bonds at the time of the issuance of the Series 2005 Variable Rate Hospital Revenue Refunding Bonds, NHRMC entered into two separate interest rate swaps in connection with the bonds.

With the issuance of the 2013 Bonds to redeem the Series 2005 Bonds, NHRMC partially terminated swaps held in connection with the Series 2005 Bonds. The remaining swaps totaling \$37,000 were restructured to hedge the Series 2008 Bonds until 2026.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 8. Derivative Investments (Continued)**

The terms, fair values and underlying bond issues of the outstanding swaps as of September 30, 2017 and 2016, are shown in the table above (in thousands). The notional amounts of the swaps approximate the principal amounts of the associated debt.

During the year ended September 30, 2013, the swaps were restructured in conjunction with the issuance of the 2013 Bonds, the remaining swaps held to hedge the Series 2008 Bonds were determined to be ineffective hedging derivative instruments under the provisions of GASB 53. Therefore, the entire fair value of the ineffective swaps in the amount of \$5,404 as of September 30, 2013, was recorded as a component (a decrease) of net increase in fair value of investments in the statements of revenues, expenses, and changes in net position. For the years ended September 30, 2017 and 2016, the net change in fair value of \$2,006 and (\$10), respectively, has been recorded as a component of net increase (decrease) in fair value of investments in the statements of revenues, expenses and changes in net position.

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2017. However, should interest rates change and the fair value of the swap become positive, NHRMC would be exposed to credit risk in the amount of the swap's fair value.

NHRMC or the counterparties may terminate the swap if the other party fails to perform under the terms of the contract or there is a termination event, as defined in the contract. If the swaps are terminated, the variable rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swaps have negative fair values, NHRMC would be liable to the counterparties for payments equal to the swaps' fair values.

Basis Swap

During fiscal year 2002, NHRMC entered into a 19-year interest rate swap (basis swap) agreement, with a notional amount of \$50 million related to its Series 1999 Hospital Revenue Bonds. NHRMC's objective was to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. Because NHRMC anticipated that interest rates might decline, NHRMC decided to synthetically create variable-rate debt by entering into a derivative. Terms of the rate swap agreement is described below.

Based on the swap agreement, NHRMC owes the counterparty interest calculated at a variable rate of the weighted-average BMA Municipal Bond Swap Index to the counterparty to the swap. In return, the counterparty owes NHRMC interest based on 73.875% of weighted-average one month US LIBOR. Under the swap agreement, only the net difference in the interest payments is actually exchanged with the counterparty. Settlement payments under the swap agreement are exchanged semi-annually. The notional amounts are not exchanged; they are only the basis on which the interest payments are calculated.

As of September 30, 2017, the basis swap has an estimated negative fair value of approximately \$72 which is recorded as a liability for interest rate swap agreements in the statement of net position. As of September 30, 2016, the basis swap had an estimated negative fair value of approximately \$474 which was recorded as a liability for interest rate swap agreements in the statement of net position. Under the provisions of GASB 53, the basis swap qualifies as an investment derivative instrument and therefore, changes in fair value of \$402 and (\$641) for the years ended September 30, 2017 and 2016, respectively, have been recorded as a component of net increase (decrease) in fair value of investments in the statements of revenues, expenses and changes in net position.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 8. Derivative Investments (Continued)**

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2017. However, should interest rates change and the fair value of the swap become positive, NHRMC would be exposed to credit risk in the amount of the swap's fair value. NHRMC's objective for holding the basis swap was to preserve short-term cash resources in a market that was not favorable to the performance of the basis swap. NHRMC or the counter-party may terminate the swap if the other party fails to perform under the terms of the contract. If, at the time of the termination, the swap has a negative fair value, NHRMC would be liable to the counterparty for a payment equal to the swap's fair value.

**LCFH Swap**

LCFH hedged \$2,000 of its interest rate exposure associated with the LCFH 2007 Bonds through an interest rate swap agreement with a bank. As of September 30, 2017 and 2016, the \$1,350 and \$1,450 notional amounts, respectively, are hedged at an interest rate of 3.885%. Based on market tax exempt interest rates of about 0.020% and 0.020% the present value of cash payment under the swap arrangement is a negative position of approximately \$164 and \$248 as of September 30, 2017 and 2016, respectively, which is recognized as a liability. The objective of the swap agreement was to effectively change one half of the LCFH 2007 Bonds' variable rate to a fixed rate of 3.885%, to provide LCFH with a reduced possibility of a negative budget outcome. This swap has been effective from inception through September 30, 2017. The term of the LCFH 2007 Bonds and the swap are essentially the same: 20 years.

**Credit Risk.** The counterparty carries a guarantee by an entity rated A1 by Moody's Investors Service, A by Standard & Poor's, and A+ by Fitch Ratings.

**Basis Risk.** All interest rates in the swap are based on BMA and no basis risk exists.

**Termination Risk.** If at the time of termination the swap has a negative fair value, LCFH would be liable to the counterparty for a payment equal to the swap's fair value.

A summary of future debt payments is as follows:

Fiscal Year	Series 2007 Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2018	\$ 200	\$ 2	\$ 112	\$ 314
2019	200	1	103	304
2020	200	1	95	296
2021	200	1	85	286
2022	200	1	76	277
2023 – 2027	1,400	3	245	1,648
2028	300	-	45	345
	<u>\$ 2,700</u>	<u>\$ 9</u>	<u>\$ 761</u>	<u>\$ 3,470</u>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 9. Risk Management**

NHRMC, CHA, LCFH and PMH are exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of medical malpractice (hospital professional liability), natural disasters, employee and officer errors and omissions, and employee workers' compensation and medical claims.

NHRMC purchases commercial insurance coverage against risk of loss due to errors and omissions, fiduciary liability, property damage and theft, pollution liability and various other insurable risks. NHRMC carries property insurance in the amount of \$750,000 for 2017 and 2016 with a deductible of \$100 for all perils except named windstorm. For 2017 and 2016, the minimum deductible for named storm is \$5,000 per location, with a maximum deductible of \$25,000 per location. For 2017 and 2016, NHRMC was self-insured for workers' compensation and employer's liability up to \$350 per claim. A specific limit of \$25,000 applies to worker's compensation. For 2017 and 2016, NHRMC was also self-insured for professional liability and general liability claims up to \$5,000. There was a \$20,000 annual aggregate retention in 2017 and 2016. In both 2017 and 2016, hospital professional liability and general liability stop loss coverage is on a claims made basis; general liability is written on an occurrence basis. Excess commercial insurance is purchased to provide coverage above the self-insured retention levels for hospital professional liability and general liability. NHRMC is fully self-insured for hospital professional liability claims incurred prior to June 25, 2002, but not reported as of that date. No payments have exceeded insurance coverage in the past three fiscal years where insurance coverage applies, subject to the deductibles and retentions noted above. NHRMC is self-insured for employee medical claims up to \$350 per individual, excluding costs associated with domestic claims (claims for services provided at NHRMC).

NHRMC records an estimated liability for unpaid medical claims based upon reserve amounts and/or historical trends calculated by the third party administrators of the plans. The liabilities for workers' compensation, hospital professional liability and general liability claims are accrued at estimated amounts as determined by a third party actuary.

Following is a reconciliation of changes in NHRMC's recorded aggregate liability for claims, which is included in professional liability claims and other self-funded liabilities. Provisions for claims are primarily included in salaries, wages and benefits, and other expense on the statements of revenues, expenses, and changes in net position.

	Years Ended September 30,		
	2017	2016	2015
Beginning liability	\$ 22,690	\$ 24,774	\$ 28,258
Provisions for claims	79,918	67,799	56,383
Payments for claims	(76,360)	(65,874)	(56,596)
Administrative fees	(4,005)	(4,009)	(3,271)
Ending liability	<u>\$ 22,243</u>	<u>\$ 22,690</u>	<u>\$ 24,774</u>

The combined component units' risk management disclosures are not considered significant to the reporting entity.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 10. Pension and Supplemental Retirement Plan Obligations**

NHRMC and PMH provide defined benefit pension plans, which are summarized as follows:

**NHRMC Plan Description:** NHRMC sponsors and has fiduciary responsibility for The Pension Plan of New Hanover Regional Medical Center (the NHRMC Plan). The Plan was originally effective June 14, 1967, and was most recently amended in December 2012 to comply with the Heroes Earnings Assistance and Relief Tax Act of 2008. The Plan is a single employer plan, covering all employees of NHRMC (including Foundation) and certain employees of CHA who meet eligibility requirements. The Plan was created by act of the Trustees of New Hanover Regional Medical Center, who have the authority to amend or terminate the Plan.

**Benefits Provided:** An employee is eligible to participate in the plan upon completion of 1,000 hours of service in a plan year. Employees may retire with unreduced retirement benefits upon attainment of the age of 65 (if participation in the plan was prior to January 1, 1988) or the later of age 65 or completion of five years of participation (if participation in the plan was on or after January 1, 1988). Employees hired prior to January 1, 2001 who retire under the above conditions are entitled to annual retirement benefits equal to 1.25% of their average compensation times the years of service up to 30 years and .65% of the excess, if any, of the average compensation over Social Security covered compensation, times the years of service up to 30 years. Employees hired on or after January 1, 2001, who retire under the above conditions are entitled to annual retirement benefits equal to .75% of their average compensation times the years of service up to 30 years and .65% of the excess, if any, of the average compensation over Social Security covered compensations, times the years of service up to 30 years. The average compensation is the average salary of the employee during the five highest paid consecutive calendar years of creditable service during the ten calendar years preceding the employee's retirement date.

Employees may retire with reduced retirement benefits after reaching age 55 and completing five years of creditable service. Plan provisions also include death and disability retirement benefits, whereby the disabled employee is entitled to receive their normal retirement benefit accrued up to the date of disability retirement. Upon death of an employee before retirement, benefit payments will be paid to the surviving spouse, if any. If there is no surviving spouse, the death benefit will be split among surviving children or paid to a designated beneficiary. Upon the death of an employee after retirement, benefit payments will be distributed in accordance with the method elected by the employee.

**Contributions:** The contribution requirements of the contributing employers to the NHRMC plan are established by the Plan document and determined annually by NHRMC based on actuarial recommendations. Contributions to the pension plan from NHRMC were \$14,506 for the year ended September 30, 2017.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At September 30, 2017, NHRMC reported a net pension obligation of \$58,927. The net pension obligation was measured as of September 30, 2016. The total pension liability used to calculate the net pension obligation was determined by an actuarial valuation as of January 1, 2016. The total pension liability was then rolled forward to the measurement date of September 30, 2016, utilizing update procedures incorporating the actuarial assumptions.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)**

For the year ended September 30, 2017, NHRMC recognized pension expense of \$16,871. At September 30, 2017, NHRMC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,579	\$ (1,380)
Net difference between projected and actual earnings on pension plan investments	14,732	(8,056)
Assumption changes	-	(1,406)
Contributions made in fiscal year ending September 30, 2016	14,506	-
Total	<u>\$ 31,817</u>	<u>\$ (10,842)</u>

Deferred outflows of resources of \$14,506 related to pensions resulting from NHRMC's contributions subsequent to the measurement date will be recognized as a decrease of the net pension obligation in the year ended September 30, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Years ending September 30:

2018	\$ 2,276
2019	2,276
2020	3,398
2021	(1,516)
2022	35
	<u>\$ 6,469</u>

Actuarial Assumptions – The total pension liability in the January 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.00%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2006 with generational MP-2015 projection.

**New Hanover Regional Medical Center  
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**Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)**

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equity	40.00%	4.50%
Small Cap U.S. Equity	5.00%	4.99%
International Equity	2.50%	4.99%
Emerging Markets Equity	7.50%	6.35%
Core U.S. Fixed Income	17.50%	1.96%
High Yield Bonds	7.50%	2.25%
Emerging Market Bonds (Corporate USD)	2.50%	3.52%
Emerging Market Bonds (Sov. Local)	5.00%	4.30%
Hedge Fund-of-Funds Universe	5.00%	3.32%
Commodities	7.50%	3.62%
Total	100.00%	

Discount rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**New Hanover Regional Medical Center  
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**Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balances at September 30, 2016</b>	\$ 253,421	\$ 188,058	\$ 65,363
<b>Changes for the year:</b>			
Service cost	9,036	-	9,036
Interest	17,899	-	17,899
Differences between expected and actual experience	776	-	776
Changes of assumptions	-	-	-
Contributions - employer	-	12,613	(12,613)
Net investment income	-	21,788	(21,788)
Benefit payments, including refunds of employee contributions	(14,336)	(14,336)	-
Administrative expense	-	(254)	254
Other changes	-	-	-
<b>Net changes</b>	<b>13,375</b>	<b>19,811</b>	<b>(6,436)</b>
<b>Balances at September 30, 2017</b>	<b>\$ 266,796</b>	<b>\$ 207,869</b>	<b>\$ 58,927</b>

Sensitivity of the net pension liability to changes in the discount rate – The following presents NHRMC's net pension liability calculated using the discount rate of 7.00 %, as well as what the NHRMC's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 %) or one percentage point higher (8.00 %) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Total pension liability	\$ 296,202	\$ 266,796	\$ 247,658
Plan fiduciary net position	207,870	207,869	207,870
Net pension liability	<b>\$ 88,332</b>	<b>\$ 58,927</b>	<b>\$ 39,788</b>

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued, stand-alone financial report that can be obtained by contacting the office of the Executive Vice President/CFO, P.O. Box 9000, Wilmington, North Carolina 28402.

**PMH Plan Description**

PMH sponsors a single-employer, non-contributory defined benefit pension plan covering substantially all employees. The Plan was originally effective January 1, 1970, and was most recently amended and restated effective January 1, 2009.

**New Hanover Regional Medical Center  
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**Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)**

**Benefits Provided**

All employees having completed two years of service who are at least 21 years old and work a minimum of 1,000 hours annually are eligible to participate in the Plan. Retirement benefits under the Plan are based upon earnings and number of years of service of Plan participants. Employer benefits vest to 100 % after 5 years of service. Employees hired prior to January 1, 1992, who retire under the above conditions are entitled to annual retirement benefits equal to 1% of their 1991 annual benefit compensation as defined by the Plan times the years of service prior to January 1, 1992, and .5% of their 1991 annual benefit compensation in excess of \$9 times the years of service after January 1, 1992. Personnel employed on or after January 1, 1992, who retire at or after age 65 with five years of credited service are entitled to an annual retirement benefit, payable monthly for a maximum of 35 years based on service to normal retirement date, in an amount equal to .75% of their average compensation as defined by the Plan and .65% of average compensation in excess of the applicable covered compensation for Social Security purposes for each year of credited service after December 31, 1991. Credited service for the .5% and .65% portions is limited to a maximum of 35 years. Employees may retire with reduced retirement benefits after reaching age 60 and completing ten years of creditable service. The Plan also provides a death benefit for surviving spouses of vested employees.

**Contributions**

The contribution requirements of the contributing employer to the Plan are established by the Plan document and determined annually by PMH based on actuarial recommendations. Employee contributions were required prior to January 1, 1992, based on 3% of their annual salary up to \$9 and 4.5% of annual salary over \$9. No employee contributions are required or permitted after 1991. Contributions to the pension plan from PMH were \$535 for the year ended September 30, 2017.

**Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At September 30, 2017, PMH reported a net pension obligation of \$3,300. The net pension obligation was measured as of September 30, 2016. The total pension liability used to calculate the net pension obligation was determined by an actuarial valuation as of January 1, 2016. The total pension liability was then rolled forward to the measurement date of September 30, 2016, utilizing update procedures incorporating the actuarial assumptions.

For the year ended September 30, 2017, PMH recognized pension expense of \$553. At September 30, 2017, PMH reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 92	\$ (33)
Net difference between projected and actual earnings on pension plan investments	172	(79)
Assumption changes	-	(53)
Contributions made in fiscal year ending September 30, 2017	535	-
Total	<u>\$ 799</u>	<u>\$ (165)</u>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)**

Deferred outflows of resources of \$535 related to pensions resulting from PMH's contributions subsequent to the measurement date will be recognized as a decrease of the net pension obligation in the year ended September 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending September 30:		
2018	\$	4
2019		28
2020		74
2021		(7)
	\$	<u>99</u>

Actuarial assumptions – The total pension liability in the January 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.1%
Salary increases	3.0%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 with generational MP-2015 projection.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity (Large Cap)	40.00%	4.50%
Domestic Equity (Small Cap)	5.00%	5.00%
International Equity	10.00%	5.00%
Core U.S. Fixed Income	44.00%	2.00%
Cash	1.00%	1.20%
Total	<u>100.00%</u>	

**New Hanover Regional Medical Center  
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**Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)**

Discount rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
<b>Balances at September 30, 2016</b>	\$ 7,802	\$ 4,623	\$ 3,179
<b>Changes for the year:</b>			
Service cost	254	-	254
Interest	553	-	553
Differences between expected and actual experience	126	-	126
Changes in assumptions	-	-	-
Contributions – employer	-	521	(521)
Net investment income	-	379	(379)
Benefit payments, including refunds of employee contributions	(298)	(298)	-
Administrative expense	-	(88)	88
Other changes	-	-	-
<b>Net changes</b>	<b>635</b>	<b>514</b>	<b>121</b>
<b>Balances at September 30, 2017</b>	<b>\$ 8,437</b>	<b>\$ 5,137</b>	<b>\$ 3,300</b>

Sensitivity of the net pension liability to changes in the discount rate – The following presents PMH's net pension liability calculated using the discount rate of 7.00 %, as well as what the PMH's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 %) or one percentage point higher (8.00 %) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Total pension liability	\$ 9,873	\$ 8,437	\$ 7,423
Plan fiduciary net position	5,138	5,137	5,138
Net pension liability	<b>\$ 4,735</b>	<b>\$ 3,300</b>	<b>\$ 2,285</b>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)**

**Supplemental Retirement Plans**

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued, stand-alone financial report that can be obtained by contacting the office of the Financial Officer, 507 E. Fremont Street, Burgaw, North Carolina, 28425.

In addition, NHRMC offers two supplemental retirement plans under IRC Section 457(f) to certain eligible employees. NHRMC has recorded a liability of approximately \$2,067 and \$1,531 as of September 30, 2017 and 2016, respectively, in accordance with the provisions of these plans.

NHRMC has assumed assets and liabilities of the former Cape Fear Memorial Hospital, Inc. deferred compensation plan. The assets are valued at fair value as of the statement of net position date. There are no additional deferrals being made to the plan and no active employees participating. NHRMC has recorded a liability of approximately \$235 as of September 30, 2017 and 2016, in accordance with the provision of this plan.

NHRMC has assumed assets and liabilities of the former SEAHEC deferred compensation plan. The assets are valued at fair value as of the statement of net position date. There are no additional deferrals being made to the plan and no active employees participating. NHRMC has recorded a liability of approximately \$1,083 as of September 30, 2016, in accordance with the provision of this plan. During the year ended September 30, 2017, NHRMC purchased annuity contracts to service future plan payments, relieving the obligation to the plan members.

**Note 11. Defined Contribution Retirement Plans**

NHRMC offers a defined contribution plan under IRS code section 403(b) which is available to all employees and administered by AIGValic. Under provisions of the Plan document, NHRMC matches employee contributions according to a Plan formula, which is weighted for years of service. This match was suspended in January 2010. Employee contributions vest when made, employer contributions vest after three calendar years of service with 1,000 hours worked in each year.

Employee optional contributions totaled approximately \$11,515 and \$10,810, for the years ended September 30, 2017 and 2016, respectively. Employee contribution percentages were 3.6% and 3.6% of total payroll for the years ended September 30, 2017 and 2016, respectively. There were no employer matching contributions by NHRMC for the years ended September 30, 2017 and 2016.

NHRMC also offers all employees a retirement plan created in accordance with the Internal Revenue Code, Section 457(b). NHRMC is not required to match employee contributions or make employer contributions to the plan. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in NHRMC’s financial statements.

CHA offers a defined contribution plan under IRS code section 403(b) which is available to all employees and administered by AIGValic. Under provisions of the Plan document, CHA matches employee contributions according to a Plan formula, which is weighted for years of service. Employee contributions vest when made, employer contributions vest after three calendar years of service with 1,000 hours worked in each year.

**New Hanover Regional Medical Center  
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**Note 11. Defined Contribution Retirement Plans (Continued)**

CHA employer required and actual matching contributions totaled approximately \$909 and \$806, and employee optional contributions totaled approximately \$1,697 and \$1,573, for the years ended September 30, 2017 and 2016, respectively. Employer matching contribution percentages were 2.27% and 2.22%, and employee contribution percentages were 4.24% and 4.33% of total payroll for the years ended September 30, 2017 and 2016, respectively.

As of January 1, 2009, LCFH adopted a defined contribution plan under IRS code section 403(b) and an elective deferral plan. The plans cover qualified employees of LCFH, which are generally all employees.

LCFH can match contributions to the 403(b) plan, but is not required to do so. Employer contributions vest after 3 complete years of service. During the year ended September 30, 2015, management elected to discontinue the employer retirement contribution.

PMH offers a defined contribution plan under IRS code section 403(b), which is available to all employees and is administered by AIGValic. There is no match made by PMH; all contributions are made by employees only. Employee contributions vest when made.

**Note 12. Investment in Affiliates**

South Atlantic Radiology Oncology, LLC

In February 2005, NHRMC entered into a joint venture agreement to form South Atlantic Radiation Oncology, LLC (SARO). NHRMC has committed to contribute capital for 50% ownership in the joint venture. South Atlantic Radiation Oncology, LLC was formed to provide essential radiation oncology services for patients in Southeastern North Carolina.

Atlantic Surgicenter, LLC

In March 2005, NHRMC invested in Atlantic Surgicenter, LLC (Surgicenter), a joint venture formed to operate a freestanding ambulatory surgery center consisting of four general operating rooms and one non-licensed procedure room, located in New Hanover County, North Carolina. In July 2016, NHRMC acquired 100% ownership in Atlantic Surgicenter, LLC. NHRMC plans to recapitalize its investment in Surgicenter in future years. NHRMC's investment in Surgicenter is recorded in other long-term assets as of September 30, 2017 and 2016.

Porters Neck Imaging, LLC

Also in 2005, NHRMC entered into a joint venture agreement to form Porters Neck Imaging, LLC (PNI), committing to contribute capital for a 50% ownership in the joint venture. PNI was formed to provide mobile MRI services to New Hanover and surrounding counties.

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**Note 12. Investment in Affiliates (Continued)**

Dosher/NHRMC, LLC

In April 2007, NHRMC entered into a joint venture agreement to form Dosher/NHRMC, LLC. NHRMC has committed to contribute capital for a 50% ownership in the joint venture. The purpose of the joint venture is to operate healthcare related facilities and provide healthcare services in Brunswick County, North Carolina in a manner that furthers the charitable and tax-exempt purposes of the members.

Assuring Affordable, Quality Healthcare in North Carolina, LLC

In March 2012, NHRMC entered into a joint venture agreement to acquire and maintain a 10% ownership in the newly formed company, Assuring Affordable, Quality Healthcare in North Carolina, LLC (AAQHNC). This company conducts advocacy activities in support of North Carolina state laws that are designed to ensure access to safe, affordable, quality healthcare.

Provider-Led, Patient-Centered Care of North Carolina, LLC

In April 2015, NHRMC entered into a joint venture agreement to acquire and maintain a 9% ownership in the newly formed company, Provider-Led, Patient-Centered Care of North Carolina, LLC (PLPCC). This entity was formed to develop and plan for the creation of a statewide Medicaid health maintenance organization in anticipation of action by the North Carolina General Assembly to convert the North Carolina Medicaid Program to a managed care system.

Diagnostic Imaging Partners, LLC

Effective March 1, 2017, NHRMC entered into a joint venture with Delaney Members as a 50% member. This entity was formed to provide diagnostic imaging services to the Onslow county area.

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**Note 12. Investment in Affiliates (Continued)**

A summary of NHRMC's joint venture and other affiliate investment activity as of and for the years ended September 30, 2017 and 2016, is as follows:

	Ownership Percentage	Method of Accounting	2017				Cumulative Contributions (Net of Distributions Received)
			Net Income (Loss)	Investment as of September 30	2017 Capital Contributions	2017 Distributions Received	
SARO	50%	Equity	\$ 1,056	\$ 595	\$ -	\$ 1,475	\$ (4,554)
PNI	50%	Equity	222	257	-	296	(5,099)
Dosher/ NHRMC	50%	Equity	2	93	-	-	181
AAQHNC	10%	Equity	(4)	5	-	-	18
PQP	100%	Equity	(1,318)	854	1,200	-	3,900
PLPCC	9%	Equity	(127)	2,789	1,818	-	2,918
DIP	50%	Equity	(282)	712	994	-	994
<b>Total</b>			<b>\$ (451)</b>	<b>\$ 5,305</b>	<b>\$ 4,012</b>	<b>\$ 1,771</b>	<b>\$ (1,642)</b>

	Ownership Percentage	Method of Accounting	2016				Cumulative Contributions (Net of Distributions Received)
			Net Income (Loss)	Investment as of September 30	2016 Capital Contributions	2016 Distributions Received	
SARO	50%	Equity	\$ 979	\$ 1,014	\$ -	\$ 510	\$ (3,079)
PNI	50%	Equity	324	331	-	355	(4,803)
Dosher/ NHRMC	50%	Equity	4	91	-	-	181
AAQHNC	10%	Equity	-	9	-	-	18
PQP	100%	Equity	(698)	972	1,400	-	2,700
PLPCC	9%	Equity	(2)	1,098	-	-	1,100
<b>Total</b>			<b>\$ 607</b>	<b>\$ 3,515</b>	<b>\$ 1,400</b>	<b>\$ 865</b>	<b>\$ (3,883)</b>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 12. Investment in Affiliates (Continued)**

All investments noted above are included in the Investment in affiliates in the statements of net position. The net income (loss) of all equity investments is included in equity in net income of joint ventures in the statements of revenues, expenses and changes in net position.

**Note 13. New Hanover County Transaction**

In July 2017, NHRMC entered into an agreement with New Hanover County to purchase the New Hanover County Health Department complex to alleviate parking needs and facilitate the future expansion of operations. The complex consists of four buildings and associated parking immediately adjacent to NHRMC's main campus. Under the agreement, NHRMC agreed to pay up to \$19,350 to the County. The County will use the proceeds of this transaction to construct a new health department facility, including parking. If the total costs of the new facility, including parking, are less than the \$19,350 purchase price of the complex, the County will return the difference to NHRMC.

Terms of repayment require installments at varying amounts, with no stated rate of interest, every three months beginning September 1, 2017 through December 1, 2018, with an installment of up to \$350 due upon request by the County.

Additionally, NHRMC agreed to lease the complex back to the County for a three year term, at a cost of \$1 per year, with the County having the unilateral right to extend the lease for one additional annual term, if necessary to allow time to complete the construction of the new facility.

As NHRMC is a component unit of the County, the land and building were recorded at the depreciated carrying value of the County of \$3,437, with the purchase price paid by NHRMC in excess of the carrying value of the complex of \$15,250 recorded as Excess Consideration on Purchase of Assets in special items.

At September 30, 2017, the outstanding balance was \$16,303 included in notes and bonds payable on the statement of net position.

**Note 14. Contingencies**

NHRMC is aware of various asserted and unasserted claims. Management has been unable to reasonably estimate the amount of the loss, if any, relative to these claims, since the ultimate resolution of these matters will be dependent upon future events. Management feels that these claims can be successfully defended and intends to resist the allegations of these matters in every way and does not plan to seek out-of-court settlements. In the event that judgments adverse to their interests should be rendered, management feels any liability will be fully covered by existing insurance or not be material to the financial statements.

NHRMC strives to be paid appropriately for services it provides, but third-party payors continue to provide lower rates of payments. In recent years, there have been numerous federal legislative and administrative actions, including the Health Care Reform Act, that have reduced the rate of increase in Medicare payments to hospitals and other health care providers. The federal government has also reduced the share of federal matching payments made to the states to subsidize the cost of Medicaid. Accordingly, NHRMC funding from Medicare and Medicaid is likely to be reduced.

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 14. Contingencies (Continued)**

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. NHRMC believes that they are in compliance with all applicable laws and regulations and are not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

NHRMC entered into an agreement with a consulting firm during the year ended September 30, 2014, to achieve cost savings and operating efficiencies. During the year ended September 30, 2017, NHRMC paid \$2,008 to the consulting firm, which is included in professional fees on the statements of revenues, expenses, and changes in net position. As of September 30, 2017, maximum remaining payments total \$1,250, all of which is contingent. Contingent fees are based on a percentage of cost savings achieved by the consulting firm, and NHRMC estimates it to be \$1,250 as of September 30, 2017, which is accrued in accounts payable and other liabilities.

**Note 15. Physician Practice Management Commitments**

CHA has engaged Carolinas Physician Network (CPN), a physician practice network within the nonprofit corporation of Carolinas HealthCare Systems, through contractual agreements, to operate and manage most of the medical practices owned by CHA and provide certain professional medical services for each of those practices. CPN provides physicians and mid-level providers to operate most of the medical practices owned by CHA and provides certain professional medical services for each of those practices. In exchange, CHA pays a flat annual fee adjusted annually to equal the estimated compensation of the Practice Providers. In its role as manager, CPN provides management and billing services, practice acquisition services, provider recruiting, and access to its practice management system. Fees under the management agreement are based on the number and specialties of the practices. The Management Services and Professional Services Agreements, amended in 2017, expires September 30, 2022, and may be renewed for successive one year terms. During the years ended September 30, 2017 and 2016, CHA paid \$85,171 and \$83,653, respectively, to CPN under these agreements, including \$72,701 and \$72,197, respectively, for physician fees, and \$12,470 and \$11,456, respectively, for all other administrative services. CHA had \$5,026 and \$5,281 of physician fees payable to CPN as of September 30, 2017 and 2016, respectively.

**Note 16. Pending GASB Statements**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2017, that have effective dates that may impact future financial presentations.

In January 2016, GASB issued GASB Statement Number 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of this Statement are effective for NHRMC beginning with its year ending September 30, 2020.

In May 2017, GASB issued GASB Statement Number 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The provisions of this Statement are effective for NHRMC beginning with its year ending September 30, 2018.

**New Hanover Regional Medical Center  
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements  
(Dollars in Thousands)**

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**Note 16. Pending GASB Statements (Continued)**

In June 2017, GASB issued GASB Statement Number 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions of this Statement will be effective for NHRMC beginning with its year ending September 30, 2021.

## **Required Supplementary Information**

**New Hanover Regional Medical Center**

**Changes in the Net Pension Liability and Related Ratios – Pension Plan of NHRMC  
(Dollars in Thousands)**

	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service cost	\$ 9,036	\$ 8,334	\$ 7,974	
Interest cost	17,899	16,998	16,423	
Changes in benefit terms	-	-	-	
Differences between expected and actual experiences	776	3,196	(3,228)	
Changes in assumptions	-	(2,304)	-	
Benefit payments, including refunds of member contributions	(14,336)	(14,349)	(12,512)	
Net change in total pension liability	13,375	11,875	8,657	
Total pension liability (beginning)	253,421	241,546	232,889	
Total pension liability (ending)	<u>\$ 266,796</u>	<u>\$ 253,421</u>	<u>\$ 241,546</u>	<u>\$ 232,889</u>
<b>Plan Fiduciary Net Position</b>				
Contributions – employer	\$ 12,613	\$ 12,125	\$ 8,422	
Net investment income	21,788	(10,407)	16,615	
Benefit payments, including refunds of member contributions	(14,336)	(14,349)	(12,512)	
Administrative expense	(254)	(249)	(233)	
Net change in plan fiduciary net position	19,811	(12,880)	12,292	
Plan fiduciary net position (beginning)	188,058	200,938	188,646	
Plan fiduciary net position (ending)	<u>\$ 207,869</u>	<u>\$ 188,058</u>	<u>\$ 200,938</u>	<u>\$ 188,646</u>
Net pension liability (ending)	\$ 58,927	\$ 65,363	\$ 40,608	\$ 44,243
Net position as a % of pension liability	77.91%	74.21%	83.19%	81.00%
Covered-employee payroll*	\$ 261,390	\$ 251,816	\$ 241,422	\$ 234,391
Net pension liability as a % of payroll	22.54%	25.96%	16.13%	18.33%

\* The amounts presented for each fiscal year were determined as of the prior calendar year ending December 31.

**New Hanover Regional Medical Center**

**Schedule of NHRMC Contributions  
(Dollars in Thousands)**

	2017	2016	2015	2014
Actuarially determined contribution	\$ 14,506	\$ 12,613	\$ 11,917	\$ 8,422
Contributions made in relation to the actuarially determined contribution	14,613	12,613	12,125	8,422
Contribution deficiency (excess)	\$ (107)	\$ -	\$ (208)	\$ -
Covered-employee payroll	\$ 280,034	\$ 261,390	\$ 251,816	\$ 241,422
Contributions as a % of payroll	5.22%	4.83%	4.82%	3.49%

**Notes to Schedule**

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method:	Entry Age Normal with 20-year closed amortization period for initial unfunded and subsequent actuarial gains/losses
Asset Valuation Method:	5-year smoothing; set equal to market values as of 10/1/2014
IRS Limit Increases:	2.50%
Salary Increases:	3.00%
Investment Rate of Return:	7.00%, net of pension plan investment expense, including inflation
Retirement Age:	Varies by age, same as GASB 68
Mortality:	RP-2014 with generational projection using scale MP-2015

**New Hanover Regional Medical Center**  
**Changes in the Net Pension Liability and Related Ratios – Pension Plan of PMH**  
**(Dollars in Thousands)**

	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service cost	\$ 254	\$ 250	\$ 217	
Interest cost	553	531	503	
Changes in benefit terms	-	-	-	
Differences between expected and actual experiences	126	(49)	(58)	
Changes in assumptions	-	(115)	-	
Benefit payments, including refunds of member contributions	(298)	(298)	(281)	
Net change in total pension liability	635	319	381	-
Total pension liability (beginning)	7,802	7,483	7,102	
Total pension liability (ending)	<u>\$ 8,437</u>	<u>\$ 7,802</u>	<u>\$ 7,483</u>	<u>\$ 7,102</u>
<b>Plan Fiduciary Net Position</b>				
Contributions – employer	\$ 521	\$ 545	\$ 336	
Net investment income	379	35	415	
Benefit payments, including refunds of member contributions	(298)	(298)	(281)	
Administrative expense	(88)	(56)	(61)	
Net change in plan fiduciary net position	514	226	409	-
Plan fiduciary net position (beginning)	4,623	4,397	3,988	
Plan fiduciary net position (ending)	<u>\$ 5,137</u>	<u>\$ 4,623</u>	<u>\$ 4,397</u>	<u>\$ 3,988</u>
Net pension liability (ending)	\$ 3,300	\$ 3,179	\$ 3,086	\$ 3,114
Net position as a % of pension liability	60.89%	59.25%	58.76%	56.15%
Covered-employee payroll*	\$ 10,514	\$ 10,110	\$ 9,515	\$ 8,736
Net pension liability as a % of payroll	31.39%	31.44%	32.43%	35.65%

\* The amounts presented for each fiscal year were determined as of the prior calendar year ending December 31.

**New Hanover Regional Medical Center  
Schedule of PMH Contributions  
(Dollars in Thousands)**

	2017	2016	2015	2014
Actuarially determined contribution	\$ 535	\$ 521	\$ 522	\$ 336
Contributions made in relation to the actuarially determined contribution	535	521	545	336
Contribution deficiency (excess)	\$ -	\$ -	\$ (23)	\$ -
Covered-employee payroll	\$ 10,244	\$ 10,514	\$ 10,110	\$ 9,515
Contributions as a % of payroll	5.22%	4.96%	5.39%	3.53%

**Notes to Schedule**

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method:	Entry Age Normal with 20-year closed amortization period for initial unfunded and subsequent actuarial gains/losses
Asset Valuation Method:	5-year smoothing; set equal to market values as of 10/1/2014
IRS Limit Increases:	2.50%
Salary Increases:	3.00%
Investment Rate of Return:	7.00%, net of pension plan investment expense, including inflation
Retirement Age:	Varies by age, same as GASB 68
Mortality:	RP-2014 with generational projection using scale MP-2015

## **Supplementary Information**

**New Hanover Regional Medical Center**

**Combining Statements of Net Position  
(Dollars in Thousands)**

	September 30, 2017				September 30, 2016			
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 89,394	\$ 2,266	\$ -	\$ 91,660	\$ 80,605	\$ 4,930	\$ -	\$ 85,535
Assets limited as to use:								
Cash equivalents held by bond paying agent	112,020	-	-	112,020	17,481	-	-	17,481
Cash for debt service-not held by bond paying agent	1,041	-	-	1,041	996	-	-	996
Cash equivalents and investments for the future payment of claims liabilities	22,048	-	-	22,048	21,974	-	-	21,974
Receivables:								
Patient accounts, less allowance for bad debts	126,354	-	-	126,354	113,201	-	-	113,201
Estimated third-party payor settlements	5,869	-	-	5,869	11,532	-	-	11,532
Due from component units	260	-	-	260	845	-	-	845
Other receivables	11,958	371	(770)	11,559	7,871	693	(106)	8,458
Inventories	23,279	-	-	23,279	21,894	-	-	21,894
Prepaid expenses	16,137	151	-	16,288	16,371	59	-	16,430
<b>Total current assets</b>	<b>408,360</b>	<b>2,788</b>	<b>(770)</b>	<b>410,378</b>	<b>292,770</b>	<b>5,682</b>	<b>(106)</b>	<b>298,346</b>
Noncurrent cash and investments:								
Cash and investments:								
Designated by Board for capital improvements	508,870	-	-	508,870	402,778	-	-	402,778
Designated by Board for supplemental retirement plans	2,403	-	-	2,403	1,766	-	-	1,766
Restricted by donors for specific purpose	-	14,333	-	14,333	-	10,012	-	10,012
Restricted by donors for endowments	-	2,076	-	2,076	-	2,072	-	2,072
	511,273	16,409	-	527,682	404,544	12,084	-	416,628
Pledges and grants receivable	-	1,282	-	1,282	-	1,290	-	1,290
<b>Total assets limited as to use</b>	<b>511,273</b>	<b>17,691</b>	<b>-</b>	<b>528,964</b>	<b>404,544</b>	<b>13,374</b>	<b>-</b>	<b>417,918</b>
Other assets:								
Intangible capital assets, net of amortization	83	-	-	83	283	-	-	283
Investment in affiliates	5,305	-	-	5,305	3,515	-	-	3,515
Other long-term assets	4,852	10	-	4,862	4,699	10	-	4,709
<b>Total other assets</b>	<b>10,240</b>	<b>10</b>	<b>-</b>	<b>10,250</b>	<b>8,497</b>	<b>10</b>	<b>-</b>	<b>8,507</b>
Capital assets – tangible:								
Land	16,968	-	-	16,968	12,305	-	-	12,305
Depreciable capital assets, net of accumulated depreciation	433,690	-	-	433,690	415,783	-	-	415,783
Construction in progress	45,456	-	-	45,456	19,321	-	-	19,321
<b>Total capital assets – tangible</b>	<b>496,114</b>	<b>-</b>	<b>-</b>	<b>496,114</b>	<b>447,409</b>	<b>-</b>	<b>-</b>	<b>447,409</b>
<b>Total assets</b>	<b>1,425,987</b>	<b>20,489</b>	<b>(770)</b>	<b>1,445,706</b>	<b>1,153,220</b>	<b>19,066</b>	<b>(106)</b>	<b>1,172,180</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>								
Pension deferrals	31,817	-	-	31,817	34,828	-	-	34,828
Excess consideration provided for acquisition, net of amortization	30,256	-	-	30,256	31,691	-	-	31,691
Deferred charges on bond refundings	8,163	-	-	8,163	3,251	-	-	3,251
<b>Total deferred outflows of resources</b>	<b>70,236</b>	<b>-</b>	<b>-</b>	<b>70,236</b>	<b>69,770</b>	<b>-</b>	<b>-</b>	<b>69,770</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,496,223</b>	<b>\$ 20,489</b>	<b>\$ (770)</b>	<b>\$ 1,515,942</b>	<b>\$ 1,222,990</b>	<b>\$ 19,066</b>	<b>\$ (106)</b>	<b>\$ 1,241,950</b>

**New Hanover Regional Medical Center**

**Combining Statements of Net Position  
(Dollars in Thousands)**

	September 30, 2017				September 30, 2016			
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and other liabilities	\$ 55,152	\$ 711	\$ (770)	\$ 55,093	\$ 37,409	\$ 357	\$ (106)	\$ 37,660
Professional liability claims	13,781	-	-	13,781	13,320	-	-	13,320
Accrued salaries and wages	32,732	-	-	32,732	30,387	-	-	30,387
Estimated third-party payor settlements	5,637	-	-	5,637	5,591	-	-	5,591
Due to component units	6,656	-	-	6,656	7,616	-	-	7,616
Accrued interest payable	5,786	-	-	5,786	5,505	-	-	5,505
Other self-funded liabilities	8,462	-	-	8,462	9,370	-	-	9,370
Capital lease obligations, notes and bonds payable, current portion	27,928	-	-	27,928	13,065	-	-	13,065
<b>Total current liabilities</b>	<b>156,134</b>	<b>711</b>	<b>(770)</b>	<b>156,075</b>	<b>122,263</b>	<b>357</b>	<b>(106)</b>	<b>122,514</b>
Long-term obligations								
Net pension liability	58,927	-	-	58,927	65,363	-	-	65,363
Supplemental retirement plans	2,301	-	-	2,301	2,849	-	-	2,849
Interest rate swap agreements	3,928	-	-	3,928	6,336	-	-	6,336
Notes and bonds payable, less current portion	402,510	-	-	402,510	255,713	-	-	255,713
<b>Total long-term obligations</b>	<b>467,666</b>	<b>-</b>	<b>-</b>	<b>467,666</b>	<b>330,261</b>	<b>-</b>	<b>-</b>	<b>330,261</b>
<b>Total liabilities</b>	<b>623,800</b>	<b>711</b>	<b>(770)</b>	<b>623,741</b>	<b>452,524</b>	<b>357</b>	<b>(106)</b>	<b>452,775</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Pension deferrals	10,842	-	-	10,842	5,811	-	-	5,811
<b>Total liabilities and deferred inflows of resources</b>	<b>634,642</b>	<b>711</b>	<b>(770)</b>	<b>634,583</b>	<b>458,335</b>	<b>357</b>	<b>(106)</b>	<b>458,586</b>
<b>NET POSITION</b>								
Net investment in capital assets	73,922	-	-	73,922	225,642	-	-	225,642
Unrestricted	787,659	1,995	-	789,654	539,013	1,250	-	540,263
Restricted	-	17,783	-	17,783	-	17,459	-	17,459
<b>Total net position</b>	<b>861,581</b>	<b>19,778</b>	<b>-</b>	<b>881,359</b>	<b>764,655</b>	<b>18,709</b>	<b>-</b>	<b>783,364</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 1,496,223</b>	<b>\$ 20,489</b>	<b>\$ (770)</b>	<b>\$ 1,515,942</b>	<b>\$ 1,222,990</b>	<b>\$ 19,066</b>	<b>\$ (106)</b>	<b>\$ 1,241,950</b>

## New Hanover Regional Medical Center

### Combining Statements of Revenues, Expenses, and Changes in Net Position (Dollars in Thousands)

	Year Ended September 30, 2017			Year Ended September 30, 2016		
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Operating revenues:						
Net patient service revenue	\$ 944,473	\$ -	\$ 944,473	\$ 870,044	\$ -	\$ 870,044
Other revenue	26,398	2,210	28,608	18,189	1,552	19,741
<b>Total operating revenue</b>	<b>970,871</b>	<b>2,210</b>	<b>973,081</b>	<b>888,233</b>	<b>1,552</b>	<b>889,785</b>
Operating expenses:						
Salaries, wages and benefits	434,098	672	434,770	408,359	562	408,921
Medical supplies	192,266	-	192,266	174,861	-	174,861
Professional fees	45,326	23	45,349	48,621	27	48,648
Purchased services	109,597	-	109,597	97,033	-	97,033
Depreciation and amortization	51,304	-	51,304	49,848	-	49,848
Other	52,983	535	53,518	42,892	430	43,322
<b>Total operating expenses</b>	<b>885,574</b>	<b>1,230</b>	<b>886,804</b>	<b>821,614</b>	<b>1,019</b>	<b>822,633</b>
<b>Operating income</b>	<b>85,297</b>	<b>980</b>	<b>86,277</b>	<b>66,619</b>	<b>533</b>	<b>67,152</b>
Nonoperating revenues (expenses):						
Interest expense	(11,385)	-	(11,385)	(11,236)	-	(11,236)
Other nonoperating income (expense), net	(927)	102	(825)	161	219	380
Interest earned and net realized gain on investments	4,375	236	4,611	10,108	248	10,356
Net increase in fair value of investments	35,000	1,251	36,251	11,716	737	12,453
Gain (loss) on sale of capital assets	260	-	260	(744)	-	(744)
Equity in net income of joint ventures	(451)	-	(451)	607	-	607
<b>Nonoperating revenues, net</b>	<b>26,872</b>	<b>1,589</b>	<b>28,461</b>	<b>10,612</b>	<b>1,204</b>	<b>11,816</b>
<b>Income before capital contributions and capital transfers</b>	<b>112,169</b>	<b>2,569</b>	<b>114,738</b>	<b>77,231</b>	<b>1,737</b>	<b>78,968</b>
Special items, capital contributions and transfers:						
Special item: excess consideration on purchase of assets	(15,250)	-	(15,250)	-	-	-
Capital and permanent endowment contributions	153	1	154	230	1	231
Capital transfers to component units	(146)	(1,501)	(1,647)	(1,629)	(892)	(2,521)
<b>Total special items, capital contributions and capital transfers</b>	<b>(15,243)</b>	<b>(1,500)</b>	<b>(16,743)</b>	<b>(1,399)</b>	<b>(891)</b>	<b>(2,290)</b>
<b>Change in net position</b>	<b>96,926</b>	<b>1,069</b>	<b>97,995</b>	<b>75,832</b>	<b>846</b>	<b>76,678</b>
Net position, beginning	764,655	18,709	783,364	688,823	17,863	706,686
Net position, ending	\$ 861,581	\$ 19,778	\$ 881,359	\$ 764,655	\$ 18,709	\$ 783,364

**New Hanover Regional Medical Center**

**Combining Statement of Cash Flows  
(Dollars in Thousands)**

	Year Ended September 30, 2017			Year Ended September 30, 2016		
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Cash flows from operating activities:						
Cash received from and on behalf of patients	\$ 936,905	\$ -	\$ 936,905	\$ 851,411	\$ -	\$ 851,411
Cash payments to suppliers for goods and services	(393,336)	(296)	(393,632)	(362,371)	(336)	(362,707)
Cash payments to employees for services	(437,747)	(672)	(438,419)	(412,836)	(562)	(413,398)
Other operating cash receipts	22,435	330	22,765	22,769	582	23,351
<b>Net cash provided by (used in) operating activities</b>	<b>128,257</b>	<b>(638)</b>	<b>127,619</b>	<b>98,973</b>	<b>(316)</b>	<b>98,657</b>
Cash flows from noncapital financing activities:						
Contributions and operating grants	-	2,210	2,210	-	1,552	1,552
Payments (to) from component unit	(375)	-	(375)	4,025	-	4,025
Advances between affiliates	727	(727)	-	454	(454)	-
<b>Net cash provided by noncapital financing activities</b>	<b>352</b>	<b>1,483</b>	<b>1,835</b>	<b>4,479</b>	<b>1,098</b>	<b>5,577</b>
Cash flows from capital and related financing activities:						
Acquisition and construction of property and equipment	(86,643)	-	(86,643)	(59,794)	-	(59,794)
Proceeds from disposed assets	2,271	-	2,271	618	-	618
Capital contributions	153	1	154	230	1	231
Principal payments on revenue bonds and other outstanding debt	(12,605)	-	(12,605)	(12,605)	-	(12,605)
Interest paid on capital financing	(12,935)	-	(12,935)	(11,890)	-	(11,890)
Proceeds from revenue bonds	212,710	-	212,710	-	-	-
Refunding of revenue bonds	(83,955)	-	(83,955)	-	-	-
Premium on 2017 bonds	(30,340)	-	(30,340)	-	-	-
Transfers (to) from component unit	(873)	(774)	(1,647)	(2,083)	(438)	(2,521)
<b>Net cash used in capital and related financing activities</b>	<b>(12,217)</b>	<b>(773)</b>	<b>(12,990)</b>	<b>(85,524)</b>	<b>(437)</b>	<b>(85,961)</b>
Cash flows from investing activities:						
Sales (purchases) of investments, net of maturities	21,438	-	21,438	(16,849)	-	(16,849)
Strategic business investments	(2,246)	-	(2,246)	-	-	-
Interest earned on investments	4,375	(2,736)	1,639	10,108	642	10,750
Contributions to partnerships	(2,812)	-	(2,812)	-	-	-
Distributions from partnerships	1,772	-	1,772	865	-	865
Other interest earned	1,517	-	1,517	(1,233)	-	(1,233)
<b>Net cash provided by (used in) investing activities</b>	<b>24,044</b>	<b>(2,736)</b>	<b>21,308</b>	<b>(7,109)</b>	<b>642</b>	<b>(6,467)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>140,436</b>	<b>(2,664)</b>	<b>137,772</b>	<b>10,819</b>	<b>987</b>	<b>11,806</b>
Cash and cash equivalents at beginning of year	206,878	4,930	211,808	196,059	3,943	200,002
Cash and cash equivalents at end of year	\$ 347,314	\$ 2,266	\$ 349,580	\$ 206,878	\$ 4,930	\$ 211,808

(Continued)

**New Hanover Regional Medical Center  
Combining Statement of Cash Flows (Continued)  
(Dollars in Thousands)**

	Year Ended September 30, 2017			Year Ended September 30, 2016		
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Reconciliation of cash and cash equivalents to the statement of net position:						
Unrestricted cash and cash equivalents	\$ 89,394	\$ 2,266	\$ 91,660	\$ 80,605	\$ 4,930	\$ 85,535
Cash and cash equivalents in noncurrent cash and investments						
Reserved for debt service-held by bond paying agent	112,020	-	112,020	17,481	-	17,481
Reserved for debt service-not held by bond paying agent	1,041	-	1,041	996	-	996
Designated by Board for payment of claims liabilities	133	-	133	75	-	75
Designated by Board for capital improvements	144,726	-	144,726	107,721	-	107,721
<b>Cash and cash equivalents at end of year</b>	<b>\$ 347,314</b>	<b>\$ 2,266</b>	<b>\$ 349,580</b>	<b>\$ 206,878</b>	<b>\$ 4,930</b>	<b>\$ 211,808</b>
Reconciliation of operating income to net cash provided by (used in) operating activities:						
Cash flows from operating activities:						
Operating income	\$ 85,297	\$ 980	\$ 86,277	\$ 66,619	\$ 533	\$ 67,152
Employee services included in nonoperating income	(1,236)	-	(1,236)	-	-	-
Operating grants and contributions	-	(2,210)	(2,210)	-	(1,552)	(1,552)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Depreciation and amortization	51,304	-	51,304	49,848	-	49,848
Pension expense	16,871	-	16,871	15,914	-	15,914
Changes in:						
Receivables	(17,240)	330	(16,910)	1,570	582	2,152
Inventories	(1,385)	-	(1,385)	(2,134)	-	(2,134)
Prepaid expenses	234	(92)	142	289	(30)	259
Accounts payable and other liabilities	13,849	354	14,203	(12,969)	151	(12,818)
Accrued salaries and wages	2,345	-	2,345	(7,115)	-	(7,115)
Deferred outflows of resources for pensions	(21,629)	-	(21,629)	(13,276)	-	(13,276)
Other long-term assets	(153)	-	(153)	227	-	227
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 128,257</b>	<b>\$ (638)</b>	<b>\$ 127,619</b>	<b>\$ 98,973</b>	<b>\$ (316)</b>	<b>\$ 98,657</b>
Non-cash capital and related financing activities						
Unrealized gains	\$ 35,000	\$ 1,251	\$ 36,251	\$ 11,716	\$ 737	\$ 12,453
Capital assets acquisitions financed by debt	\$ 25,193	\$ -	\$ 25,193	\$ -	\$ -	\$ -

**New Hanover Regional Medical Center**

**Combining Statements of Net Position – Discretely Presented Component Units  
(Dollars in Thousands)**

	September 30, 2017					September 30, 2016				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
<b>ASSETS</b>										
Current assets:										
Cash and cash equivalents	\$ 4,285	\$ 3,780	\$ 4,975	\$ 664	\$ 13,704	\$ 3,958	\$ 4,502	\$ 2,003	\$ 362	\$ 10,825
Patient accounts, less allowance for bad debts	13,128	2,691	3,475	-	19,294	12,822	2,996	3,462	-	19,280
Due from health insurance programs	-	-	150	-	150	-	-	1,293	-	1,293
Due from primary government	4	83	6,442	137	6,666	4	10	7,039	543	7,596
Other receivables	793	275	859	-	1,927	765	231	938	-	1,934
Investments	-	11,719	-	-	11,719	-	10,720	-	-	10,720
Inventories	1,169	-	464	-	1,633	1,283	-	434	-	1,717
Prepaid expenses	673	427	302	34	1,436	829	487	313	35	1,664
<b>Total current assets</b>	<b>20,052</b>	<b>18,975</b>	<b>16,667</b>	<b>835</b>	<b>56,529</b>	<b>19,661</b>	<b>18,946</b>	<b>15,482</b>	<b>940</b>	<b>55,029</b>
Noncurrent cash, investments, and donor receivables:										
Noncurrent cash and investments:										
Designated by Board for operating and PDO reserve	-	10,509	-	-	10,509	-	9,707	-	-	9,707
Designated by Board for capital improvements	-	9,314	-	-	9,314	-	9,315	-	-	9,315
Restricted by donors for endowments	-	1,502	-	-	1,502	-	1,430	-	-	1,430
	-	21,325	-	-	21,325	-	20,452	-	-	20,452
Pledges and grants receivable	-	4	-	-	4	-	81	-	-	81
<b>Total noncurrent cash, investments, and donor receivables</b>	<b>-</b>	<b>21,329</b>	<b>-</b>	<b>-</b>	<b>21,329</b>	<b>-</b>	<b>20,533</b>	<b>-</b>	<b>-</b>	<b>20,533</b>
Other assets:										
Other long-term assets	-	159	-	-	159	-	161	-	-	161
<b>Total other assets</b>	<b>-</b>	<b>159</b>	<b>-</b>	<b>-</b>	<b>159</b>	<b>-</b>	<b>161</b>	<b>-</b>	<b>-</b>	<b>161</b>
Capital assets – tangible										
Land	-	5,610	42	-	5,652	-	5,610	42	-	5,652
Depreciable capital assets, net of accumulated depreciation	5,638	17,630	10,476	25	33,769	6,176	17,653	10,768	32	34,629
Construction in progress	173	9	7	-	189	217	8	595	-	820
<b>Total capital assets – tangible</b>	<b>5,811</b>	<b>23,249</b>	<b>10,525</b>	<b>25</b>	<b>39,610</b>	<b>6,393</b>	<b>23,271</b>	<b>11,405</b>	<b>32</b>	<b>41,101</b>
<b>Total assets</b>	<b>25,863</b>	<b>63,712</b>	<b>27,192</b>	<b>860</b>	<b>117,627</b>	<b>26,054</b>	<b>62,911</b>	<b>26,887</b>	<b>972</b>	<b>116,824</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>										
Pension deferrals	-	-	799	-	799	-	-	750	-	750
Interest rate swap agreements	-	164	-	-	164	-	248	-	-	248
<b>Total deferred outflows of resources</b>	<b>-</b>	<b>164</b>	<b>799</b>	<b>-</b>	<b>963</b>	<b>-</b>	<b>248</b>	<b>750</b>	<b>-</b>	<b>998</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 25,863</b>	<b>\$ 63,876</b>	<b>\$ 27,991</b>	<b>\$ 860</b>	<b>\$ 118,590</b>	<b>\$ 26,054</b>	<b>\$ 63,159</b>	<b>\$ 27,637</b>	<b>\$ 972</b>	<b>\$ 117,822</b>

**New Hanover Regional Medical Center**  
**Combining Statements of Net Position – Discretely Presented Component Units**  
(Dollars in Thousands)

	September 30, 2017					September 30, 2016				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
<b>LIABILITIES</b>										
Current liabilities:										
Accounts payable and other liabilities	\$ 9,357	\$ 1,506	\$ 1,179	\$ 6	\$ 12,048	\$ 9,236	\$ 2,156	\$ 1,683	\$ -	\$ 13,075
Professional liability claims	573	-	318	-	891	505	-	359	-	864
Accrued salaries and wages	2,984	2,596	1,116	-	6,696	2,447	2,278	1,000	-	5,725
Due to primary government	-	17	260	-	277	-	24	845	-	869
Capital lease obligations, notes and bonds payable, current portion	-	686	-	-	686	-	734	-	-	734
<b>Total current liabilities</b>	<b>12,914</b>	<b>4,805</b>	<b>2,873</b>	<b>6</b>	<b>20,598</b>	<b>12,188</b>	<b>5,192</b>	<b>3,887</b>	<b>-</b>	<b>21,267</b>
Long-term obligations:										
Net pension liability	-	-	3,300	-	3,300	-	-	3,179	-	3,179
Interest rate swap agreements	-	164	-	-	164	-	248	-	-	248
Notes and bonds payable, less current portion	-	9,782	-	-	9,782	-	11,190	-	-	11,190
<b>Total long-term obligations</b>	<b>-</b>	<b>9,946</b>	<b>3,300</b>	<b>-</b>	<b>13,246</b>	<b>-</b>	<b>11,438</b>	<b>3,179</b>	<b>-</b>	<b>14,617</b>
<b>Total liabilities</b>	<b>12,914</b>	<b>14,751</b>	<b>6,173</b>	<b>6</b>	<b>33,844</b>	<b>12,188</b>	<b>16,630</b>	<b>7,066</b>	<b>-</b>	<b>35,884</b>
Commitments and contingencies										
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Pension deferrals	-	-	165	-	165	-	-	220	-	220
<b>Total liabilities and deferred inflows of resources</b>	<b>12,914</b>	<b>14,751</b>	<b>6,338</b>	<b>6</b>	<b>34,009</b>	<b>12,188</b>	<b>16,630</b>	<b>7,286</b>	<b>-</b>	<b>36,104</b>
<b>NET POSITION</b>										
Net investment in capital assets	5,811	12,617	10,525	25	28,978	6,393	11,170	11,405	-	28,968
Unrestricted	7,138	34,946	11,128	829	54,041	7,473	33,859	8,946	972	51,250
Restricted	-	1,562	-	-	1,562	-	1,500	-	-	1,500
<b>Total net position</b>	<b>12,949</b>	<b>49,125</b>	<b>21,653</b>	<b>854</b>	<b>84,581</b>	<b>13,866</b>	<b>46,529</b>	<b>20,351</b>	<b>972</b>	<b>81,718</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 25,863</b>	<b>\$ 63,876</b>	<b>\$ 27,991</b>	<b>\$ 860</b>	<b>\$ 118,590</b>	<b>\$ 26,054</b>	<b>\$ 63,159</b>	<b>\$ 27,637</b>	<b>\$ 972</b>	<b>\$ 117,822</b>

**New Hanover Regional Medical Center**

**Combining Statements of Revenues, Expenses, and Changes in Net Position – Discretely Presented Component Units  
(Dollars in Thousands)**

	Year Ended September 30, 2017					Year Ended September 30, 2016				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
Operating revenues:										
Net patient service revenue	\$ 150,331	\$ 30,119	\$ 25,841	\$ -	\$ 206,291	\$ 139,697	\$ 32,443	\$ 25,315	\$ -	\$ 197,455
Other revenue	55,073	4,386	6,707	1,248	67,414	53,712	3,263	7,404	1,627	66,006
<b>Total operating revenue</b>	<b>205,404</b>	<b>34,505</b>	<b>32,548</b>	<b>1,248</b>	<b>273,705</b>	<b>193,409</b>	<b>35,706</b>	<b>32,719</b>	<b>1,627</b>	<b>263,461</b>
Operating expenses:										
Salaries, wages and benefits	50,364	24,781	20,807	671	96,623	45,158	24,556	20,184	535	90,433
Medical supplies	45,789	4,719	1,400	-	51,908	40,162	5,436	1,653	-	47,251
Professional fees	75,246	370	985	80	76,681	68,696	246	871	11	69,824
Purchased services	19,815	696	4,816	-	25,327	17,146	532	5,001	-	22,679
Depreciation and amortization	1,850	981	1,937	7	4,775	1,917	1,018	1,910	4	4,849
Other	12,777	3,001	2,621	608	19,007	12,109	2,666	3,081	375	18,231
<b>Total operating expenses</b>	<b>205,841</b>	<b>34,548</b>	<b>32,566</b>	<b>1,366</b>	<b>274,321</b>	<b>185,188</b>	<b>34,454</b>	<b>32,699</b>	<b>925</b>	<b>253,267</b>
<b>Operating (loss) income</b>	<b>(437)</b>	<b>(43)</b>	<b>(18)</b>	<b>(118)</b>	<b>(616)</b>	<b>8,221</b>	<b>1,252</b>	<b>20</b>	<b>702</b>	<b>10,194</b>
Nonoperating revenues (expenses):										
Interest expense	-	(391)	-	-	(391)	-	(405)	-	-	(405)
Other nonoperating income (loss)	-	1,596	(65)	-	1,531	-	(183)	(57)	-	(240)
Net increase in fair value of investments	-	1,406	-	-	1,406	-	1,976	-	-	1,976
(Loss) gain on sale of capital assets	(18)	1	-	-	(17)	(42)	(327)	-	-	(369)
Nonoperating revenues (expenses), net	(18)	2,612	(65)	-	2,529	(42)	1,061	(57)	-	962
<b>Income (loss) before capital contributions and capital transfers</b>	<b>(455)</b>	<b>2,569</b>	<b>(83)</b>	<b>(118)</b>	<b>1,913</b>	<b>8,179</b>	<b>2,313</b>	<b>(38)</b>	<b>702</b>	<b>11,156</b>
Capital and permanent endowment contributions and capital transfers to (from) component units	(462)	27	1,385	-	950	256	18	1,888	-	2,162
<b>Change in net position</b>	<b>(917)</b>	<b>2,596</b>	<b>1,302</b>	<b>(118)</b>	<b>2,863</b>	<b>8,435</b>	<b>2,331</b>	<b>1,850</b>	<b>702</b>	<b>13,318</b>
Net position, beginning	13,866	46,529	20,351	972	81,718	5,431	44,198	18,501	270	68,400
Net position, ending	\$ 12,949	\$ 49,125	\$ 21,653	\$ 854	\$ 84,581	\$ 13,866	\$ 46,529	\$ 20,351	\$ 972	\$ 81,718

**New Hanover Regional Medical Center**

**Combining Statements of Cash Flows – Discretely Presented Component Units  
(Dollars in Thousands)**

	Year Ended September 30, 2017					Year Ended September 30, 2016				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
Cash flows from operating activities:										
Cash received from and on behalf of patients	\$ 149,998	\$ 31,134	\$ 27,648	\$ -	\$ 208,780	\$ 136,987	\$ 32,910	\$ 22,218	\$ -	\$ 192,115
Cash payments to suppliers for services and goods	(153,156)	(9,340)	(10,963)	(274)	(173,733)	(141,724)	(10,732)	(10,055)	(929)	(163,440)
Cash payments to employees for services	(49,840)	(24,463)	(20,721)	(672)	(95,696)	(45,753)	(24,346)	(20,554)	(535)	(91,188)
Other operating cash receipts	55,073	3,420	6,706	1,248	66,447	53,712	2,546	7,404	1,627	65,289
<b>Net cash provided by (used in) operating activities</b>	<b>2,075</b>	<b>751</b>	<b>2,670</b>	<b>302</b>	<b>5,798</b>	<b>3,222</b>	<b>378</b>	<b>(987)</b>	<b>163</b>	<b>2,776</b>
Cash flows from capital and related financing activities:										
Acquisition of capital assets	(1,286)	(567)	(1,083)	-	(2,936)	(2,632)	(301)	(2,306)	(36)	(5,275)
Proceeds from disposed assets	-	-	-	-	-	-	120	-	-	120
Interest paid on capital financing	-	(391)	-	-	(391)	-	(405)	-	-	(405)
Proceeds from bonds	-	-	-	-	-	-	700	-	-	700
Payments on notes payable	-	(1,540)	-	-	(1,540)	-	(1,375)	-	-	(1,375)
Transfers (to) from component unit	(462)	-	1,385	-	923	256	-	1,888	-	2,144
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(1,748)</b>	<b>(2,498)</b>	<b>302</b>	<b>-</b>	<b>(3,944)</b>	<b>(2,376)</b>	<b>(1,261)</b>	<b>(418)</b>	<b>(36)</b>	<b>(4,091)</b>
Cash flows from investing activities:										
Purchases of investments, net of maturities	-	(535)	-	-	(535)	-	(598)	-	-	(598)
Interest earned on investments	-	1,595	-	-	1,595	-	184	-	-	184
<b>Net cash provided by (used in) investing activities</b>	<b>-</b>	<b>1,060</b>	<b>-</b>	<b>-</b>	<b>1,060</b>	<b>-</b>	<b>(414)</b>	<b>-</b>	<b>-</b>	<b>(414)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>327</b>	<b>(687)</b>	<b>2,972</b>	<b>302</b>	<b>2,914</b>	<b>846</b>	<b>(1,297)</b>	<b>(1,405)</b>	<b>127</b>	<b>(1,729)</b>
Cash and cash equivalents:										
Beginning of year	3,958	4,542	2,003	362	10,865	3,112	5,839	3,408	235	12,594
End of year	\$ 4,285	\$ 3,855	\$ 4,975	\$ 664	\$ 13,779	\$ 3,958	\$ 4,542	\$ 2,003	\$ 362	\$ 10,865

(Continued)

**New Hanover Regional Medical Center**

**Combining Statements of Cash Flows – Discretely Presented Component Units (Continued)**  
**(Dollars in Thousands)**

	Year Ended September 30, 2017					Year Ended September 30, 2016				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
Reconciliation of cash and cash equivalents to the statement of net position:										
Unrestricted cash and cash equivalents	\$ 4,285	\$ 3,780	\$ 4,975	\$ 664	\$ 13,704	\$ 3,958	\$ 4,502	\$ 2,003	\$ 362	\$ 10,825
Cash and cash equivalents in noncurrent cash and investments:										
Designated by Board for operating reserve	-	2	-	-	2	-	22	-	-	22
By donor restrictions	-	73	-	-	73	-	18	-	-	18
<b>Cash and cash equivalents at end of year</b>	<b>\$ 4,285</b>	<b>\$ 3,855</b>	<b>\$ 4,975</b>	<b>\$ 664</b>	<b>\$ 13,779</b>	<b>\$ 3,958</b>	<b>\$ 4,542</b>	<b>\$ 2,003</b>	<b>\$ 362</b>	<b>\$ 10,865</b>
Reconciliation of operating income (loss) to net cash provided by operating activities										
Cash flows from operating activities:										
Operating income (loss)	\$ (437)	\$ (43)	\$ (18)	\$ (118)	\$ (616)	\$ 8,221	\$ 1,252	\$ 19	\$ 702	\$ 10,194
Employee services included in nonoperating income	-	-	(39)	-	(39)	-	-	-	-	-
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:										
Depreciation and amortization	1,850	981	1,937	7	4,775	1,917	1,018	1,910	4	4,849
Pension expense	-	-	(553)	-	(553)	-	-	(488)	-	(488)
Changes in:										
Patient receivables and programs	(332)	1,015	1,790	-	2,473	(2,710)	467	(3,097)	-	(5,340)
Inventories	114	-	(31)	-	83	(305)	-	(41)	-	(346)
Prepaid expenses and other current assets	154	(865)	11	407	(293)	145	(2,283)	(134)	(35)	(2,307)
Accounts payable and other liabilities	204	(410)	(1,061)	6	(1,261)	(3,452)	91	727	(508)	(3,142)
Accrued salaries and wages	522	73	64	-	659	(594)	(167)	(338)	-	(1,099)
Deferred outflows of resources for pensions	-	-	570	-	570	-	-	455	-	455
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 2,075</b>	<b>\$ 751</b>	<b>\$ 2,670</b>	<b>\$ 302</b>	<b>\$ 5,798</b>	<b>\$ 3,222</b>	<b>\$ 378</b>	<b>\$ (987)</b>	<b>\$ 163</b>	<b>\$ 2,776</b>
<b>Noncash capital and related financing activities</b>										
Non-cash capital and related financing activities:										
Unrealized gain	\$ -	\$ 1,406	\$ -	\$ -	\$ 1,406	\$ -	\$ 1,743	\$ -	\$ -	\$ 1,743

**New Hanover Regional Medical Center**

**Combining Statements of Net Position – Obligated Unit  
(Dollars in Thousands)**

	September 30, 2017					September 30, 2016				
	New Hanover					New Hanover				
	Regional Medical Center	CHA	PQP	Eliminating Entries	Combined	Regional Medical Center	CHA	PQP	Eliminating Entries	Combined
<b>ASSETS</b>										
Current assets:										
Cash and cash equivalents	\$ 89,394	\$ 4,285	\$ 664	\$ -	\$ 94,343	\$ 80,605	\$ 3,958	\$ 362	\$ -	\$ 84,925
Assets limited as to use:										
Cash equivalents held by bond paying agent	112,020	-	-	-	112,020	17,481	-	-	-	17,481
Cash for debt service-not held by bond paying agent	1,041	-	-	-	1,041	996	-	-	-	996
Cash equivalents and investments for the future payment of claims liabilities	22,048	-	-	-	22,048	21,974	-	-	-	21,974
Receivables:										
Patient accounts, less allowance for bad debts	126,354	13,128	-	-	139,482	113,201	12,822	-	-	126,023
Estimated third-party payor settlements	5,869	-	-	-	5,869	11,532	-	-	-	11,532
Due from component units	260	4	137	(141)	260	845	4	543	(543)	849
Other receivables	11,958	793	-	-	12,751	7,871	765	-	-	8,636
Inventories	23,279	1,169	-	-	24,448	21,894	1,283	-	-	23,177
Prepaid expenses	16,137	673	34	-	16,844	16,371	829	35	-	17,235
<b>Total current assets</b>	<b>408,360</b>	<b>20,052</b>	<b>835</b>	<b>(141)</b>	<b>429,106</b>	<b>292,770</b>	<b>19,661</b>	<b>940</b>	<b>(543)</b>	<b>312,828</b>
Noncurrent cash and investments:										
Cash and Investments:										
Designated by Board for capital improvements	508,870	-	-	-	508,870	402,778	-	-	-	402,778
Designated by Board for supplemental retirement plans	2,403	-	-	-	2,403	1,766	-	-	-	1,766
<b>Total assets limited as to use</b>	<b>511,273</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>511,273</b>	<b>404,544</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>404,544</b>
Other assets:										
Intangible capital assets, net of amortization	83	-	-	-	83	283	-	-	-	283
Investment in affiliates	5,305	-	-	(854)	4,451	3,515	-	-	(972)	2,543
Other long-term assets	4,852	-	-	-	4,852	4,699	-	-	-	4,699
<b>Total other assets</b>	<b>10,240</b>	<b>-</b>	<b>-</b>	<b>(854)</b>	<b>9,386</b>	<b>8,497</b>	<b>-</b>	<b>-</b>	<b>(972)</b>	<b>7,525</b>
Capital assets – tangible:										
Land	16,968	-	-	-	16,968	12,305	-	-	-	12,305
Depreciable capital assets, net of accumulated depreciation	433,690	5,638	25	-	439,353	415,783	6,176	32	-	421,991
Construction in progress	45,456	173	-	-	45,629	19,321	217	-	-	19,538
<b>Total capital assets – tangible</b>	<b>496,114</b>	<b>5,811</b>	<b>25</b>	<b>-</b>	<b>501,950</b>	<b>447,409</b>	<b>6,393</b>	<b>32</b>	<b>-</b>	<b>453,834</b>
<b>Total assets</b>	<b>1,425,987</b>	<b>25,863</b>	<b>860</b>	<b>(995)</b>	<b>1,451,715</b>	<b>1,153,220</b>	<b>26,054</b>	<b>972</b>	<b>(1,515)</b>	<b>1,178,731</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>										
Pension deferrals	31,817	-	-	-	31,817	34,828	-	-	-	34,828
Excess consideration provided for acquisition, net of amortization	30,256	-	-	-	30,256	31,691	-	-	-	31,691
Deferred charges on bond refundings	8,163	-	-	-	8,163	3,251	-	-	-	3,251
<b>Total deferred outflows of resources</b>	<b>70,236</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,236</b>	<b>69,770</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>69,770</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,496,223</b>	<b>\$ 25,863</b>	<b>\$ 860</b>	<b>\$ (995)</b>	<b>\$ 1,521,951</b>	<b>\$ 1,222,990</b>	<b>\$ 26,054</b>	<b>\$ 972</b>	<b>\$ (1,515)</b>	<b>\$ 1,248,501</b>

**New Hanover Regional Medical Center**

**Combining Statements of Net Position – Obligated Unit  
(Dollars in Thousands)**

	September 30, 2017					September 30, 2016				
	New Hanover				Eliminating	New Hanover				Eliminating
	Regional Medical Center	CHA	PQP	Combined		Regional Medical Center	CHA	PQP	Combined	
<b>LIABILITIES</b>										
Current liabilities:										
Accounts payable and other liabilities	\$ 55,152	\$ 9,357	\$ 6	\$ -	\$ 64,515	\$ 37,409	\$ 9,236	\$ -	\$ -	\$ 46,645
Professional liability claims	13,781	573	-	-	14,354	13,320	505	-	-	13,825
Accrued salaries and wages	32,732	2,984	-	-	35,716	30,387	2,447	-	-	32,834
Estimated third-party payor settlements	5,637	-	-	-	5,637	5,591	-	-	-	5,591
Due to component units	6,656	-	-	(141)	6,515	7,616	-	-	(543)	7,073
Accrued interest payable	5,786	-	-	-	5,786	5,505	-	-	-	5,505
Other self-funded liabilities	8,462	-	-	-	8,462	9,370	-	-	-	9,370
Capital lease obligations, notes and bonds payable, current portion	27,928	-	-	-	27,928	13,065	-	-	-	13,065
<b>Total current liabilities</b>	<b>156,134</b>	<b>12,914</b>	<b>6</b>	<b>(141)</b>	<b>168,913</b>	<b>122,263</b>	<b>12,188</b>	<b>-</b>	<b>(543)</b>	<b>133,908</b>
Long-term obligations:										
Net pension liability	58,927	-	-	-	58,927	65,363	-	-	-	65,363
Supplemental retirement plans	2,301	-	-	-	2,301	2,849	-	-	-	2,849
Interest rate swap agreements	3,928	-	-	-	3,928	6,336	-	-	-	6,336
Notes and bonds payable, less current portion	402,510	-	-	-	402,510	255,713	-	-	-	255,713
<b>Total long-term obligations</b>	<b>467,666</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>467,666</b>	<b>330,261</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>330,261</b>
<b>Total liabilities</b>	<b>623,800</b>	<b>12,914</b>	<b>6</b>	<b>(141)</b>	<b>636,579</b>	<b>452,524</b>	<b>12,188</b>	<b>-</b>	<b>(543)</b>	<b>464,169</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Pension deferrals	10,842	-	-	-	10,842	5,811	-	-	-	5,811
<b>Total liabilities and deferred inflows of resources</b>	<b>634,642</b>	<b>12,914</b>	<b>6</b>	<b>(141)</b>	<b>647,421</b>	<b>458,335</b>	<b>12,188</b>	<b>-</b>	<b>(543)</b>	<b>469,980</b>
<b>NET POSITION</b>										
Net Investment in capital assets	73,922	5,811	25	-	79,758	213,856	6,393	-	-	220,249
Unrestricted	787,659	7,138	829	(854)	794,772	550,799	7,473	972	(972)	558,272
<b>Total net position</b>	<b>861,581</b>	<b>12,949</b>	<b>854</b>	<b>(854)</b>	<b>874,530</b>	<b>764,655</b>	<b>13,866</b>	<b>972</b>	<b>(972)</b>	<b>778,521</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 1,496,223</b>	<b>\$ 25,863</b>	<b>\$ 860</b>	<b>\$ (995)</b>	<b>\$ 1,521,951</b>	<b>\$ 1,222,990</b>	<b>\$ 26,054</b>	<b>\$ 972</b>	<b>\$ (1,515)</b>	<b>\$ 1,248,501</b>

**New Hanover Regional Medical Center**

**Combining Statements of Revenues, Expenses, and Changes in Net Position – Obligated Unit  
(Dollars in Thousands)**

	Year Ended September 30, 2017					Year Ended September 30, 2016				
	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined
	Operating revenues:									
Net patient service revenue	\$ 944,473	\$ 150,331	\$ -	\$ -	\$ 1,094,804	\$ 870,044	\$ 139,697	\$ -	\$ -	\$ 1,009,741
Other revenue	26,398	55,073	1,248	(50,302)	32,417	18,189	53,712	1,627	(49,472)	24,056
<b>Total operating revenue</b>	<b>970,871</b>	<b>205,404</b>	<b>1,248</b>	<b>(50,302)</b>	<b>1,127,221</b>	<b>888,233</b>	<b>193,409</b>	<b>1,627</b>	<b>(49,472)</b>	<b>1,033,797</b>
Operating expenses:										
Salaries, wages and benefits	434,098	50,364	671	-	485,133	408,359	45,158	535	-	454,052
Medical supplies	192,266	45,789	-	-	238,055	174,861	40,162	-	-	215,023
Professional fees	45,326	75,246	80	(13,750)	106,902	48,621	68,696	11	(12,921)	104,407
Purchased services	109,597	19,815	-	(34,653)	94,759	97,033	17,146	-	(34,472)	79,707
Depreciation and amortization	51,304	1,850	7	-	53,161	49,848	1,917	4	-	51,769
Other	52,983	12,777	608	(699)	65,669	42,892	12,109	375	(679)	54,697
<b>Total operating expenses</b>	<b>885,574</b>	<b>205,841</b>	<b>1,366</b>	<b>(49,102)</b>	<b>1,043,679</b>	<b>821,614</b>	<b>185,188</b>	<b>925</b>	<b>(48,072)</b>	<b>959,655</b>
<b>Operating income (loss)</b>	<b>85,297</b>	<b>(437)</b>	<b>(118)</b>	<b>(1,200)</b>	<b>83,542</b>	<b>66,619</b>	<b>8,221</b>	<b>702</b>	<b>(1,400)</b>	<b>74,142</b>
Nonoperating revenues (expenses):										
Interest expense	(11,385)	-	-	-	(11,385)	(11,236)	-	-	-	(11,236)
Other nonoperating income (loss), net	(927)	-	-	-	(927)	161	-	-	-	161
Interest earned and net realized gain on investments	4,375	-	-	-	4,375	10,108	-	-	-	10,108
Net increase in fair value of investments	35,000	-	-	-	35,000	11,716	-	-	-	11,716
Gain (loss) on sale of capital assets	260	(18)	-	-	242	(744)	(42)	-	-	(786)
Equity in net income of joint ventures	(451)	-	-	1,318	867	607	-	-	698	1,305
<b>Nonoperating revenues (expenses), net</b>	<b>26,872</b>	<b>(18)</b>	<b>-</b>	<b>1,318</b>	<b>28,172</b>	<b>10,612</b>	<b>(42)</b>	<b>-</b>	<b>698</b>	<b>11,268</b>
<b>Income (loss) before special items, capital contributions and capital transfers</b>	<b>112,169</b>	<b>(455)</b>	<b>(118)</b>	<b>118</b>	<b>111,714</b>	<b>77,231</b>	<b>8,179</b>	<b>702</b>	<b>(702)</b>	<b>85,410</b>
Special items, capital contributions and transfers:										
Special item: excess consideration on purchase of assets	(15,250)	-	-	-	(15,250)	-	-	-	-	-
Capital and permanent endowment contributions	153	-	-	-	153	230	-	-	-	230
Capital transfers (to) from component units	(146)	(462)	-	-	(608)	(1,629)	256	-	-	(1,373)
<b>Total special items, capital contributions and capital transfers</b>	<b>(15,243)</b>	<b>(462)</b>	<b>-</b>	<b>-</b>	<b>(15,705)</b>	<b>(1,399)</b>	<b>256</b>	<b>-</b>	<b>-</b>	<b>(1,143)</b>
<b>Change in net position</b>	<b>96,926</b>	<b>(917)</b>	<b>(118)</b>	<b>118</b>	<b>96,009</b>	<b>75,832</b>	<b>8,435</b>	<b>702</b>	<b>(702)</b>	<b>84,267</b>
Net position, beginning	764,655	13,866	972	(972)	778,521	688,823	5,431	270	(270)	694,254
Net position, ending	\$ 861,581	\$ 12,949	\$ 854	\$ (854)	\$ 874,530	\$ 764,655	\$ 13,866	\$ 972	\$ (972)	\$ 778,521

**New Hanover Regional Medical Center**

**Combining Statements of Cash Flows – Obligated Unit  
(Dollars in Thousands)**

	Year Ended September 30, 2017					Year Ended September 30, 2016				
	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined
Cash flows from operating activities:										
Cash received from and on behalf of patients	\$ 936,905	\$ 149,998	\$ -	\$ -	\$ 1,086,903	\$ 851,411	\$ 136,987	\$ -	\$ -	\$ 988,398
Cash payments to suppliers for goods and services	(393,336)	(153,156)	(274)	49,102	(497,664)	(362,371)	(141,724)	(929)	48,072	(456,952)
Cash payments to employees for services	(437,747)	(49,840)	(672)	-	(488,259)	(412,836)	(45,753)	(535)	-	(459,124)
Other operating cash receipts (payments)	22,435	55,073	1,248	(50,302)	28,454	22,769	53,712	1,627	(49,472)	28,636
<b>Net cash provided by (used in) operating activities</b>	<b>128,257</b>	<b>2,075</b>	<b>302</b>	<b>(1,200)</b>	<b>129,434</b>	<b>98,973</b>	<b>3,222</b>	<b>163</b>	<b>(1,400)</b>	<b>100,958</b>
Cash flows from noncapital financing activities:										
Payments from component unit	(375)	-	-	-	(375)	4,025	-	-	-	4,025
Advances between affiliates	727	-	-	-	727	454	-	-	-	454
<b>Net cash provided by noncapital financing activities</b>	<b>352</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>352</b>	<b>4,479</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,479</b>
Cash flows from capital and related financing activities:										
Acquisition and construction of property and equipment	(86,643)	(1,286)	-	-	(87,929)	(59,794)	(2,632)	(36)	-	(62,462)
Proceeds from disposed assets	2,271	-	-	-	2,271	618	-	-	-	618
Capital contributions	153	-	-	-	153	230	-	-	-	230
Principal payments on revenue bonds and other outstanding debt	(12,605)	-	-	-	(12,605)	(12,605)	-	-	-	(12,605)
Interest paid on capital financing	(12,935)	-	-	-	(12,935)	(11,890)	-	-	-	(11,890)
Proceeds from revenue bonds	212,710	-	-	-	212,710	-	-	-	-	-
Refunding of revenue bonds	(83,955)	-	-	-	(83,955)	-	-	-	-	-
Payment of bond premium	(30,340)	-	-	-	(30,340)	-	-	-	-	-
Transfers (to) from component unit	(873)	(462)	-	-	(1,335)	(2,083)	256	-	-	(1,827)
<b>Net cash used in capital and related financing activities</b>	<b>(12,217)</b>	<b>(1,748)</b>	<b>-</b>	<b>-</b>	<b>(13,965)</b>	<b>(85,524)</b>	<b>(2,376)</b>	<b>(36)</b>	<b>-</b>	<b>(87,936)</b>
Cash flows from investing activities:										
(Purchases) sales of investments, net of maturities	21,438	-	-	-	21,438	(16,849)	-	-	-	(16,849)
Strategic business investments	(2,246)	-	-	-	(2,246)	-	-	-	-	-
Interest earned on investments	4,375	-	-	-	4,375	10,108	-	-	-	10,108
Contributions to partnerships	(2,812)	-	-	1,200	(1,612)	-	-	-	1,400	1,400
Distributions from partnerships	1,772	-	-	-	1,772	865	-	-	-	865
Other interest earned	1,517	-	-	-	1,517	(1,233)	-	-	-	(1,233)
<b>Net cash provided by (used in) investing activities</b>	<b>24,044</b>	<b>-</b>	<b>-</b>	<b>1,200</b>	<b>25,244</b>	<b>(7,109)</b>	<b>-</b>	<b>-</b>	<b>1,400</b>	<b>(5,709)</b>
<b>Net increase in cash and cash equivalents</b>	<b>140,436</b>	<b>327</b>	<b>302</b>	<b>-</b>	<b>141,065</b>	<b>10,819</b>	<b>846</b>	<b>127</b>	<b>-</b>	<b>11,792</b>
Cash and cash equivalents:										
Beginning of year	206,878	3,958	362	-	211,198	196,059	3,112	235	-	199,406
End of year	\$ 347,314	\$ 4,285	\$ 664	\$ -	\$ 352,263	\$ 206,878	\$ 3,958	\$ 362	\$ -	\$ 211,198

(Continued)

**New Hanover Regional Medical Center**

**Combining Statements of Cash Flows – Obligated Unit (Continued)**  
**(Dollars in Thousands)**

	Year Ended September 30, 2017					Year Ended September 30, 2016				
	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined
Reconciliation of cash and cash equivalents to the statement of net position:										
Unrestricted cash and cash equivalents	\$ 89,394	\$ 4,285	\$ 664	\$ -	\$ 94,343	\$ 80,605	\$ 3,958	\$ 362	\$ -	\$ 84,925
Cash and cash equivalents in noncurrent cash and investments										
Reserved for debt service-held by bond paying agent	112,020	-	-	-	112,020	17,481	-	-	-	17,481
Reserved for debt service-not held by bond paying agent	1,041	-	-	-	1,041	996	-	-	-	996
Designated by Board for payment of claims liabilities	133	-	-	-	133	75	-	-	-	75
Designated by Board for capital improvements	144,726	-	-	-	144,726	107,721	-	-	-	107,721
Restricted under letter of credit	-	-	-	-	-	-	-	-	-	-
<b>Cash and cash equivalents at end of year</b>	<b>\$ 347,314</b>	<b>\$ 4,285</b>	<b>\$ 664</b>	<b>\$ -</b>	<b>\$ 352,263</b>	<b>\$ 206,878</b>	<b>\$ 3,958</b>	<b>\$ 362</b>	<b>\$ -</b>	<b>\$ 211,198</b>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:										
Cash flows from operating activities:										
Operating income (loss)	\$ 85,297	\$ (437)	\$ (118)	\$ (1,200)	\$ 83,542	\$ 66,619	\$ 8,221	\$ 702	\$ (1,400)	\$ 74,142
Employee services included in nonoperating income	(1,236)	-	-	-	(1,236)	-	-	-	-	-
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:										
Depreciation and amortization	51,304	1,850	7	-	53,161	49,848	1,917	4	-	51,769
Pension expense	16,871	-	-	-	16,871	15,914	-	-	-	15,914
Changes in:										
Receivables	(17,240)	(332)	-	-	(17,572)	1,570	(2,710)	-	-	(1,140)
Inventories	(1,385)	114	-	-	(1,271)	(2,134)	(305)	-	-	(2,439)
Prepaid expenses and other current assets	234	154	407	-	795	289	145	(35)	-	399
Accounts payable and other liabilities	13,849	204	6	-	14,059	(12,969)	(3,452)	(508)	-	(16,929)
Accrued salaries and wages	2,345	522	-	-	2,867	(7,115)	(594)	-	-	(7,709)
Deferred outflows of resources for pensions	(21,629)	-	-	-	(21,629)	(13,276)	-	-	-	(13,276)
Other long-term assets	(153)	-	-	-	(153)	227	-	-	-	227
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 128,257</b>	<b>\$ 2,075</b>	<b>\$ 302</b>	<b>\$ (1,200)</b>	<b>\$ 129,434</b>	<b>\$ 98,973</b>	<b>\$ 3,222</b>	<b>\$ 163</b>	<b>\$ (1,400)</b>	<b>\$ 100,958</b>
Noncash capital and related financing activities:										
Unrealized gain	\$ 35,000	\$ -	\$ -	\$ -	\$ 35,000	\$ 11,716	\$ -	\$ -	\$ -	\$ 11,716
Capital assets acquired via accounts payable	\$ 25,193	\$ -	\$ -	\$ -	\$ 25,193	\$ -	\$ -	\$ -	\$ -	\$ -