

Annual Financial Report

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

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

Years Ended September 30, 2019 and 2018

With Report of Independent Auditor

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Independent Auditor's Report

Board of Trustees
New Hanover Regional Medical Center

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, 2019 and 2018, 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 48% and 55% of the assets, 59% and 60% of the net position and 12% and 13% of the revenues of the aggregate discretely presented component units as of and for the years ended September 30, 2019 and 2018, 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, 2019 and 2018, 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 73-74, and the Pension Plan of PMH's Changes in Net Pension Liability and Related Ratios and Schedule of Contributions on page 75-76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an 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 audits 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 9, 2019

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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, 2019 and 2018**

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, 2019 and 2018. 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, 2019

NHRMC's net position increased over the prior year by \$107.5 million (11.2%).

NHRMC reported operating income of \$110.8 million or \$28.9 million more than prior year.

Total non-operating activity resulted in net expenses of \$3.2 million representing a net expense increase of \$2.3 million over the prior year's net non-operating expense of \$0.9 million.

For the year ended September 30, 2018

NHRMC's net position increased over the prior year by \$79.8 million (9.1%).

NHRMC reported operating income of \$82.0 million or \$4.3 million less than prior year.

Total non-operating activity resulted in net expenses of \$0.9 million representing a net revenue decrease of \$29.4 million over the prior year's net non-operating revenue of \$28.5 million.

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 statements of net position present the financial position of NHRMC on a full accrual, historical cost basis. While the statements of net position provide 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 statements of cash flows present changes in cash and cash equivalents, resulting from operating, 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, 2019	September 30, 2018	September 30, 2017
	(In Thousands)		
Net patient service revenue	\$ 1,112,644	\$ 1,003,318	\$ 944,473
Other revenue	51,745	36,755	28,608
Total operating revenue	1,164,389	1,040,073	973,081
Expenses:			
Health care services:			
Salaries, wages and benefits	495,651	463,593	434,770
Medical supplies	259,291	221,058	192,266
Professional fees	50,856	46,541	45,349
Purchased services	128,834	120,587	109,597
Depreciation and amortization	52,916	52,416	51,304
Other	66,004	53,896	53,518
Total operating expenses	1,053,552	958,091	886,804
Operating income	110,837	81,982	86,277
Nonoperating revenues (expenses), net	(3,193)	(925)	28,461
Excess of revenues over expenses before special items, capital and permanent endowment contributions and transfers to component units	107,644	81,057	114,738
Special items, capital and permanent endowment contributions and transfers to component units	(113)	(1,280)	(16,743)
Increase in net position	107,531	79,777	97,995
Net position, beginning	961,136	881,359	783,364
Net position, ending	\$ 1,068,667	\$ 961,136	\$ 881,359

For the year ended September 30, 2019

Total operating revenue increased \$124.3 million (12.0%). The increase in operating revenue is largely due to increased utilization of both inpatient and outpatient services, and a 4.1% charge rate increase.

Total operating expenses increased \$95.5 million (10.0%). The increased utilization of services as described above contributed to the increase in operating expense. Costs for medical supplies and other expenses rose above the rate of increase in revenues, while costs for personnel, professional fees, depreciation, purchased services, and depreciation rose at a rate below revenue growth. 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 increases in other contracted purchased 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 increased due to increased physician fees. Other expenses increased due to provisions for professional liability claims.

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 \$28.9 million as a result of increased patient volumes as well as implemented strategies to increase operational efficiency.

Income before capital contributions and transfers increased \$26.6 million reflecting income from operations along with interest earned on investments, increases and decreases in the fair value of investments, interest expense, and other non-operating items. Nonoperating revenues decreased primarily due to decreases in the fair value of investments. This activity, when added to the decrease in operating income, accounted for the change from the prior year.

For the year ended September 30, 2018

Total operating revenue increased \$67.0 million (6.9%). The increase in operating revenue is largely due to increased utilization of both inpatient and outpatient services, and a 5.0% charge rate increase.

Total operating expenses increased \$71.3 million (8.0%). The increased utilization of services as described above contributed to the increase in operating expense. Costs for medical supplies and purchased services rose above the rate of increase in revenues, while costs for personnel, professional fees, depreciation, and other expenses rose at a rate below revenue growth. 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 increases in funding provided to component units. 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 increased due to increased physician fees.

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 \$4.3 million due to the impact of Hurricane Florence (Note 16). Revenues were significantly below management forecasts for the month of September 2018 resulting from cancellations and closures.

Income before capital contributions and transfers decreased \$33.7 million reflecting income from operations along with interest earned on investments, increases and decreases in the fair value of investments, interest expense, and other non-operating items. Nonoperating revenues decreased primarily due to the impact of Hurricane Florence, including additional personnel costs, inventory write-offs, and associated expenses related to preparation and recovery efforts. This activity, when added to the decrease in operating income, accounted for the change from the prior year.

SUMMARY OF NHRMC NET POSITION

	Years Ended		
	September 30, 2019	September 30, 2018	September 30, 2017
	(In Thousands)		
Assets:			
Current assets	\$ 414,964	\$ 363,971	\$ 410,378
Capital assets – tangible, net	552,587	540,703	496,114
Other noncurrent assets	644,112	604,601	539,214
Total assets	1,611,663	1,509,275	1,445,706
Deferred outflows of resources	55,549	60,293	70,236
Total assets and deferred outflows of resources	\$ 1,667,212	\$ 1,569,568	\$ 1,515,942
Liabilities:			
Current liabilities	\$ 173,033	\$ 161,607	\$ 156,075
Long-term obligations	413,278	435,619	467,666
Total liabilities	586,311	597,226	623,741
Deferred inflows of resources	12,234	11,206	10,842
Total liabilities and deferred inflows of resources	\$ 598,545	\$ 608,432	\$ 634,583
Net position:			
Net investment in capital assets	\$ 179,850	\$ 147,922	\$ 73,922
Unrestricted	871,201	796,193	789,654
Restricted	17,616	17,021	17,783
Total net position	1,068,667	961,136	881,359
Total liabilities, deferred inflows of resources and net position	\$ 1,667,212	\$ 1,569,568	\$ 1,515,942

September 30, 2019

Total assets and deferred outflows of resources have increased by \$97.6 million over the past fiscal year end.

The increase in current assets is primarily due to an increase in cash and cash equivalents as a result of operations. Increases in noncurrent assets are the result of additional excess funds invested from operations and construction of capital assets with bond proceeds.

Total liabilities and deferred inflows of resources have decreased by \$9.9 million 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 decreased as a result of scheduled debt payments.

Net position increased \$107.5 million during the past year reflecting the overall performance during the past fiscal year.

September 30, 2018

Total assets and deferred outflows of resources have increased by \$53.6 million over the past fiscal year end.

The decrease in current assets is primarily due to a decrease in cash equivalents held by bond paying agent, which is attributable to usage of bond funds for construction. Increases in noncurrent assets are the result of additional excess funds invested from operations and construction of capital assets with bond proceeds.

Total liabilities and deferred inflows of resources have decreased by \$26.2 million 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 decreased as a result of scheduled debt payments.

Net position increased \$79.8 million during the past year reflecting the overall performance during the past fiscal year.

LONG-TERM DEBT DISCUSSION

For the year ended September 30, 2019

Long-term debt (noncurrent portion) is approximately \$365.2 million as of September 30, 2019, and includes Hospital Revenue Bonds issued in 2006, 2008, 2011, 2013 and 2017 as well as approximately \$3.0 million in interest rate swaps related to the 2008 series Revenue bonds.

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 7 of the basic financial statements.

For the year ended September 30, 2018

Long-term debt (noncurrent portion) is approximately \$383.8 million as of September 30, 2018, and includes Hospital Revenue Bonds issued in 2006, 2008, 2011, 2013 and 2017 as well as approximately \$2.0 million in interest rate swaps related to the 2008 series Revenue bonds.

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 7 of the basic financial statements.

CAPITAL ASSETS DISCUSSION

For the year ended September 30, 2019

NHRMC completed construction of 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 and continued work on bond-funded capital projects (Note 8), including the 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 17th St campus.

For the year ended September 30, 2018

NHRMC completed construction of a new five level parking deck and sky bridge with 720 parking spaces, and continued work on several other bond-funded capital projects (Note 8), including the 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 17th St campus and 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. Management continues to evaluate the impact of Hurricane Florence on property and equipment, and certain capital projects may be delayed in their completion (see Note 16).

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 personnel, as well as 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, 2019, the Board of Trustees has approved a forecast to include an increase of \$30.2 million in salaries and benefits for employees, as well as full year bad debt and charity care provision of \$228.5 million, and capital investments and debt service of \$220.0 million.

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 and labor costs, and improved focus on the hospital's revenue cycle. A price increase of 3.0% 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. The governmental programs Medicare and Medicaid, as well as Blue Cross, each have 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.

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, 2019			September 30, 2018		
	NHRMC	Combined Component Units	Total (Memorandum Only)	NHRMC	Combined Component Units	Total (Memorandum Only)
ASSETS						
Current assets:						
Cash and cash equivalents (Note 3)	\$ 161,393	\$ 22,322	\$ 183,715	\$ 113,479	\$ 16,586	\$ 130,065
Assets limited as to use (Note 3):						
Cash equivalents held by bond paying agent	35,796	-	35,796	50,671	-	50,671
Cash for debt service-not held by bond paying agent	1,125	-	1,125	-	-	-
Cash equivalents and investments for the future payment of claims liabilities	22,822	-	22,822	22,246	-	22,246
Receivables:						
Patient accounts, less allowance for bad debts (Note 2)	130,637	19,696	150,333	113,686	17,323	131,009
Estimated third-party payor settlements (Note 2)	876	-	876	1,248	641	1,889
Due from primary government	-	3,811	3,811	-	5,988	5,988
Due from component units	2,101	-	2,101	358	-	358
Other receivables	9,719	3,381	13,100	16,841	1,597	18,438
Investments (Note 3)	-	9,011	9,011	-	7,947	7,947
Inventories	31,800	1,932	33,732	28,708	1,678	30,386
Prepaid expenses	18,695	1,352	20,047	16,734	1,269	18,003
Total current assets	414,964	61,505	476,469	363,971	53,029	417,000
Noncurrent cash, investments and donor receivables:						
Noncurrent cash and investments (Note 3):						
Designated by Board for operating and other	-	8,583	8,583	-	11,068	11,068
Designated by Board for capital improvements	612,980	10,475	623,455	574,859	9,912	584,771
Designated by Board for supplemental retirement plans (Note 10)	2,201	-	2,201	1,734	-	1,734
Restricted by donors for specific purpose	14,906	-	14,906	14,271	-	14,271
Restricted by donors for endowments	2,578	1,750	4,328	2,076	1,663	3,739
	632,665	20,808	653,473	592,940	22,643	615,583
Pledges and grants receivable	1,005	13	1,018	1,291	13	1,304
Total noncurrent cash, investments and donor receivables	633,670	20,821	654,491	594,231	22,656	616,887
Other assets:						
Investment in affiliates (Note 12)	5,222	-	5,222	5,210	-	5,210
Interest rate swap agreement	69	-	69	176	101	277
Other long-term assets	5,151	263	5,414	4,984	302	5,286
Total other assets	10,442	263	10,705	10,370	403	10,773
Capital assets—tangible (Note 5):						
Land	16,919	6,138	23,057	16,919	6,138	23,057
Depreciable capital assets, net of accumulated depreciation	430,556	31,284	461,840	434,465	31,578	466,043
Construction in progress	105,112	878	105,990	89,319	244	89,563
Total capital assets – tangible	552,587	38,300	590,887	540,703	37,960	578,663
Total assets	1,611,663	120,889	1,732,552	1,509,275	114,048	1,623,323
DEFERRED OUTFLOWS OF RESOURCES						
Pension deferrals (Note 10)	21,906	707	22,613	24,279	703	24,982
Excess consideration provided for acquisition, net of amortization	27,386	-	27,386	28,821	-	28,821
Deferred charges on bond refundings (Note 7)	6,257	-	6,257	7,193	-	7,193
Total deferred outflows of resources	55,549	707	56,256	60,293	703	60,996
Total assets and deferred outflows of resources	\$ 1,667,212	\$ 121,596	\$ 1,788,808	\$ 1,569,568	\$ 114,751	\$ 1,684,319

See notes to financial statements.

	September 30, 2019			September 30, 2018		
	Combined		Total	Combined		Total
	NHRMC	Component Units	(Memorandum Only)	NHRMC	Component Units	(Memorandum Only)
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	\$ 63,578	\$ 19,668	\$ 83,246	\$ 59,527	\$ 11,099	\$ 70,626
Professional liability claims (Note 9)	21,104	987	22,091	14,669	908	15,577
Accrued salaries and wages	45,096	10,254	55,350	35,484	8,268	43,752
Estimated third-party payor settlements (Note 2)	2,576	1,097	3,673	7,462	-	7,462
Due to primary government	-	2,101	2,101	-	403	403
Due to component units	3,811	-	3,811	5,982	-	5,982
Accrued interest payable	7,669	-	7,669	7,976	-	7,976
Other self-funded liabilities (Note 9)	12,419	-	12,419	12,125	-	12,125
Capital lease obligations, notes and bonds payable, current portion (Notes 7)	16,780	343	17,123	18,382	541	18,923
Total current liabilities	173,033	34,450	207,483	161,607	21,219	182,826
Long-term obligations:						
Net pension liability (Note 10)	45,843	3,247	49,090	50,113	3,179	53,292
Supplemental retirement plans (Notes 7 and 10)	2,201	-	2,201	1,736	-	1,736
Interest rate swap agreements (Note 8)	3,020	-	3,020	2,178	101	2,279
Notes and bonds payable, less current portion (Note 7)	362,214	4,969	367,183	381,592	7,612	389,204
Total long-term obligations	413,278	8,216	421,494	435,619	10,892	446,511
Total liabilities	586,311	42,666	628,977	597,226	32,111	629,337
Commitments and contingencies (Notes 2, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15)						
DEFERRED INFLOWS OF RESOURCES						
Pension deferrals (Note 10)	12,234	91	12,325	11,206	156	11,362
Total liabilities and deferred inflows of resources	598,545	42,757	641,302	608,432	32,267	640,699
NET POSITION						
Net investment in capital assets	179,850	32,988	212,838	147,922	29,705	177,627
Unrestricted	871,201	44,026	915,227	796,193	51,041	847,234
Restricted	17,616	1,825	19,441	17,021	1,738	18,759
Total net position	1,068,667	78,839	1,147,506	961,136	82,484	1,043,620
Total liabilities, deferred inflows of resources and net position	\$ 1,667,212	\$ 121,596	\$ 1,788,808	\$ 1,569,568	\$ 114,751	\$ 1,684,319

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, 2019			Year Ended September 30, 2018		
	NHRMC	Combined	Total	NHRMC	Combined	Total
		Component	(Memorandum		Component	(Memorandum
	Units	Only)	Units	Units	Only)	Units
Operating revenues:						
Net patient service revenue (Notes 2 and 7)	\$ 1,112,644	\$ 204,953	\$ 1,317,597	\$1,003,318	\$ 183,402	\$ 1,186,720
Other revenue	51,745	78,085	129,830	36,755	74,354	111,109
Total operating revenue	1,164,389	283,038	1,447,427	1,040,073	257,756	1,297,829
Operating expenses:						
Salaries, wages and benefits	495,651	193,131	688,782	463,593	177,991	641,584
Medical supplies	259,291	37,868	297,159	221,058	32,773	253,831
Professional fees	50,856	5,404	56,260	46,541	2,159	48,700
Purchased services	128,834	26,988	155,822	120,587	25,114	145,701
Depreciation and amortization (Note 5)	52,916	4,374	57,290	52,416	4,861	57,277
Other	66,004	19,761	85,765	53,896	19,239	73,135
Total operating expenses	1,053,552	287,526	1,341,078	958,091	262,137	1,220,228
Operating income (loss)	110,837	(4,488)	106,349	81,982	(4,381)	77,601
Nonoperating revenues (expenses):						
Interest expense (Note 7)	(14,600)	(197)	(14,797)	(13,584)	(460)	(14,044)
Other nonoperating income (expense)	(5,225)	1,370	(3,855)	(16,688)	1,232	(15,456)
Interest earned and net realized gain on investments	10,271	-	10,271	8,064	-	8,064
Net increase (decrease) in fair value of investments	10,672	(1,149)	9,523	23,479	381	23,860
Gain (loss) on sale of capital assets (Note 5)	(2,929)	(174)	(3,103)	(827)	(228)	(1,055)
Equity in net income of joint ventures (Note 12)	(1,382)	-	(1,382)	(1,369)	-	(1,369)
Nonoperating revenues (expenses), net	(3,193)	(150)	(3,343)	(925)	925	-
Excess (deficiency) of revenues over expenses before special items, capital and permanent endowment contributions and capital transfers to/from component units	107,644	(4,638)	103,006	81,057	(3,456)	77,601
Special items, capital and permanent endowment contributions and capital transfers to/from component units	(113)	993	880	(1,280)	1,359	79
Increase in net position	107,531	(3,645)	103,886	79,777	(2,097)	77,680
Net position, beginning	961,136	82,484	1,043,620	881,359	84,581	965,940
Net position, ending	\$ 1,068,667	\$ 78,839	\$ 1,147,506	\$ 961,136	\$ 82,484	\$ 1,043,620

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, 2019			Year Ended September 30, 2018		
		Combined	Total		Combined	Total
	NHRMC	Component Units	(Memorandum Only)	NHRMC	Component Units	(Memorandum Only)
Cash flows from operating activities:						
Cash received from and on behalf of patients	\$ 1,091,280	\$ 204,929	\$ 1,296,209	\$1,022,388	\$ 184,807	\$ 1,207,195
Cash payments to suppliers for services and goods	(499,240)	(79,376)	(578,616)	(441,204)	(77,360)	(518,564)
Cash payments to employees for services	(491,963)	(191,121)	(683,084)	(478,231)	(176,746)	(654,977)
Other operating cash receipts	57,609	77,558	135,167	30,303	73,326	103,629
Net cash provided by operating activities	157,686	11,990	169,676	133,256	4,027	137,283
Cash flows from noncapital financing activities:						
Contributions and operating grants	1,544	-	1,544	1,701	-	1,701
Payments (to) from primary government	149	-	149	-	-	-
Payments (to) from component unit	(3,884)	-	(3,884)	(772)	-	(772)
Net cash provided by (used in) noncapital financing activities	(2,191)	-	(2,191)	929	-	929
Cash flows from capital and related financing activities:						
Acquisition of capital assets	(66,535)	(4,658)	(71,193)	(90,925)	(3,267)	(94,192)
Proceeds from disposed assets	74	6	80	106	-	106
Capital contributions	838	-	838	264	-	264
Principal payments on revenue bonds and other outstanding debt	(18,912)	(2,838)	(21,750)	(30,993)	(2,317)	(33,310)
Interest paid on capital financing	(14,600)	(146)	(14,746)	(15,842)	(460)	(16,302)
Transfers (to) from component unit	(1,100)	859	(241)	(1,544)	1,204	(340)
Net cash used in capital and related financing activities	(100,235)	(6,777)	(107,012)	(138,934)	(4,840)	(143,774)
Cash flows from investing activities:						
Purchases of investments, net of maturities	(11,696)	(644)	(12,340)	(162,014)	2,548	(159,466)
Interest earned on investments	9,437	1,517	10,954	8,583	1,458	10,041
Contributions to partnerships	(2,600)	-	(2,600)	(2,350)	(266)	(2,616)
Distributions from partnerships	1,206	-	1,206	1,076	-	1,076
Other interest earned	386	-	386	354	-	354
Net cash provided by (used in) investing activities	(3,267)	873	(2,394)	(154,351)	3,740	(150,611)
Net increase (decrease) in cash and cash equivalents	51,993	6,086	58,079	(159,100)	2,927	(156,173)
Cash and cash equivalents:						
Beginning of year	190,480	16,706	207,186	349,580	13,779	363,359
End of year	\$ 242,473	\$ 22,792	\$ 265,265	\$ 190,480	\$ 16,706	\$ 207,186

(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, 2019			Year Ended September 30, 2018		
	NHRMC	Combined	Total	NHRMC	Combined	Total
		Component	(Memorandum		Component	(Memorandum
	Units	Only)	Units	Only)		
Reconciliation of cash and cash equivalents to the statements of net position:						
Unrestricted cash and cash equivalents	\$ 161,393	\$ 22,322	\$ 183,715	\$ 113,479	\$ 16,586	\$ 130,065
Cash and cash equivalents in noncurrent cash and investments:						
Reserved for debt service – held by bond paying agent	35,796	-	35,796	50,671	-	50,671
Reserved for debt service – not held by bond paying agent	1,125	-	1,125	-	-	-
Designated by Board for claims liabilities	1,408	-	1,408	50	-	50
Designated by Board for capital improvements	42,751	-	42,751	26,280	-	26,280
By donor restrictions	-	470	470	-	120	120
Cash and cash equivalents at end of year	\$ 242,473	\$ 22,792	\$ 265,265	\$ 190,480	\$ 16,706	\$ 207,186
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Cash flows from operating activities:						
Operating income (loss)	\$ 110,837	\$ (4,488)	\$ 106,349	\$ 81,982	\$ (4,381)	\$ 77,601
Employee services in nonoperating revenue	(5,629)	(147)	(5,776)	(17,058)	(225)	(17,283)
Operating grants in other revenue	(1,544)	-	(1,544)	(1,701)	-	(1,701)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	52,916	4,374	57,290	52,416	4,861	57,277
Pension expense (benefit)	14,421	580	15,001	15,823	532	16,355
Changes in:						
Patient receivables and programs	(9,443)	(2,118)	(11,561)	7,874	1,667	9,541
Other receivables	-	1,629	1,629	-	-	-
Inventories	(3,092)	(254)	(3,346)	(5,429)	(45)	(5,474)
Prepaid expenses and other current assets	(1,961)	(106)	(2,067)	(446)	23	(423)
Cash flows from operating activities:	6,462	10,943	17,405	13,320	783	14,103
Accrued salaries and wages	9,612	2,158	11,770	2,752	1,379	4,131
Deferred outflows of resources for pensions	(14,716)	(581)	(15,297)	(16,155)	(567)	(16,722)
Other long term assets	(177)	-	(177)	(122)	-	(122)
Net cash provided by operating activities	\$ 157,686	\$ 11,990	\$ 169,676	\$ 133,256	\$ 4,027	\$ 137,283
Noncash capital and related financing activities:						
Unrealized gain (loss) on investments, net	\$ 10,672	\$ (1,149)	\$ 9,523	\$ 36,251	\$ 1,406	\$ 37,657
Capital assets acquired via accounts payable	\$ 167	\$ -	\$ 167	\$ 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, 2018 and 2017
(Dollars in Thousands)

	The Pension Plan of New Hanover Regional Medical Center	
	2018	2017
Assets		
Investments at fair value (Note 3):		
Money market mutual funds	\$ 2,209	\$ 2,671
Mutual funds, registered investment companies	<u>243,587</u>	<u>256,176</u>
	245,796	258,847
Accrued investment income	<u>174</u>	<u>137</u>
Net position restricted for pensions	<u>\$ 245,970</u>	<u>\$ 258,984</u>

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, 2018 and 2017
(Dollars in Thousands)

	The Pension Plan of New Hanover Regional Medical Center	
	2018	2017
Additions		
Employer's contributions	\$ 14,530	\$ 15,658
Investment (loss) income:		
Net (depreciation) appreciation in fair value of investments	(18,390)	30,894
Dividends and interest	5,791	5,320
	<u>(12,599)</u>	<u>36,214</u>
Less investment expense	343	314
Net investment (loss) income	<u>(12,942)</u>	<u>35,900</u>
Total additions	<u>1,588</u>	<u>51,558</u>
Deductions		
Benefit payments to participants	14,342	12,385
Administrative expenses	260	288
Total deductions	<u>14,602</u>	<u>12,673</u>
Net (decrease) increase in net position	<u>(13,014)</u>	<u>38,885</u>
Net position restricted for pensions:		
Beginning of year	<u>258,984</u>	<u>220,099</u>
End of year	<u>\$ 245,970</u>	<u>\$ 258,984</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)**

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, 2018 and 2017.

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 2019, CHA consisted of 190 physicians, 6 nurse practitioners and 86 mid-level providers. CHA's operating revenue was \$208,044 in fiscal year 2019 and \$188,865 in fiscal year 2018. During the years ended September 30, 2019 and 2018, NHRMC recorded an operating expense and CHA recorded other operating revenue in the amount of approximately \$50,933 and \$53,065, respectively, to fund CHA's fiscal year operating deficits. Balances are recorded in professional fees and purchased services for NHRMC and as other revenue for CHA.

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

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

**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, 2019 and 2018, NHRMC transferred \$2,400 and \$2,050, 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, 2019 and 2018, NHRMC granted and paid LCFH approximately \$900 and \$712, respectively, in support of LCFH's Palliative Care Program. Balances are recorded as other revenue for LCFH and as other expense for NHRMC.

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, 2019 and 2018, NHRMC recorded an operating expense and PMH recorded other operating revenue in the amount of approximately \$9,362 and \$7,551 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 2019 and 2018, NHRMC funded capital acquisitions of approximately \$859 and \$1,204, 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)**

**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 (see Note 3).

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, 2019 and 2018, 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)**

**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 North Carolina Capital Management Trust (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.

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 \$0 and \$2,258 were incurred and capitalized during fiscal years ended September 30, 2019 and 2018, 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, 2019 and 2018, have been made.

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

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

**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, 2019 and 2018, 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 three items that meet this criterion: contributions made to the pension plan in the 2019 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.

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 statements 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 statements of net position.

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

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

**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 assets, 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, 2019 and 2018, restricted net position consists of: nonexpendable endowments of approximately \$2,600 and \$2,100, respectively; and other expendable net position resulting from specific purpose donations and grants. As of September 30, 2019 and 2018, LCFH had restricted net position consisting of nonexpendable endowments of approximately \$1,752 and \$1,665, 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. Expenses incurred to provide care and maintain the facilities in the normal course of business are classified as operating expenses, including the cost of regularly scheduled labor, supplies and materials used in normal operations. Expenses incurred specifically for uncontrollable environmental events, such as named storms, including preparation of a pending event, ensuring continued care throughout the event, and post-event cleanup and repair efforts, are classified as non-operating expense. Transfers from NHRMC to CHA and PMH to fund operating deficits are included in operating income.

Charity Care

Management has estimated the direct and indirect costs of providing charity care under NHRMC 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, management has estimated the costs of providing patient services classified as charity care to be \$21,379 and \$18,244 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018.

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

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

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

**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.

Reclassification

Certain amounts presented in the statements of net position – proprietary fund for the year ended September 30, 2018 have been reclassified, as necessary, to be consistent with the 2019 presentation. The reclassification had no effect on net position or operating income.

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

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

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

Impact of Recently Adopted Accounting Standards

In June 2018, the GASB issued Statement Number 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which establishes accounting requirements for interest cost incurred before the end of a construction period and is effective for reporting periods beginning after December 15, 2019 with early adoption encouraged, and the requirements applied prospectively. NHRMC early adopted the provisions of GASB 89 at September 30, 2019 which resulted in NHRMC no longer capitalizing interest expense into the historical cost of an asset.

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, 2014.

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,	
	2019	2018	2019	2018
NHRMC	35%	38%	21%	25%
CHA	66%	63%	37%	29%
LCFH	91%	91%	76%	85%
PMH	47%	50%	57%	65%

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

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

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

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, 2016. PMH's Medicaid cost reports have been audited through September 30, 2017. PMH's skilled nursing and home health services are reimbursed on prospective rates.

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,	
	2019	2018	2019	2018
NHRMC	10%	10%	4%	4%
CHA	5%	5%	2%	4%
LCFH	3%	4%	14%	9%
PMH	20%	19%	13%	13%

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, 2019, NHRMC received approximately \$46,636 from the state of North Carolina under the MRI program, of which \$3,355 was from the GAP Program. During fiscal year ended September 30, 2018, NHRMC received approximately \$45,996 from the state of North Carolina under the MRI program, of which \$2,165 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, 2019, PMH received approximately \$228 of which \$73 was for the GAP program. For the fiscal year ended September 30, 2018, PMH received approximately \$220 of which \$53 was for the GAP program. The MRI Program balances are recorded net of assessments in net patient service revenue.

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.

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

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

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

Changes in Estimates Related to Third-Party Payors

Adjustments to estimated third-party payor settlements from prior years occurring in 2019 and 2018 increased NHRMC's change in net position by approximately \$403 and \$1,237, respectively, and are recorded in net patient service revenue.

Adjustments to estimated third party payor settlements from prior years occurring in 2019 and 2018 decreased PMH's change in net position by approximately \$929 and \$22, respectively, and are recorded in net patient service revenue.

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, 2019 and 2018, the number of NHRMC claims chosen by RAC for review totaled 467 and 444, respectively. Net overpayments processed to date for fiscal year 2019 and 2018, respectively, are \$615 and \$136. NHRMC has recorded a reserve for estimated assessments under future RAC audits in the estimated third-party payor settlements on the statements 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
(A Component Unit of New Hanover County, North Carolina)**

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

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	
	2019	2018
NHRMC	\$ 107,565	\$ 92,140
CHA	8,975	6,515
LCFH	332	375
PMH	3,472	2,462
	<u>\$ 120,344</u>	<u>\$ 101,492</u>

For the years ended September 30, 2019 and 2018, net patient service revenue is reported net of a provision for bad debts of:

	Years Ended September 30	
	2019	2018
NHRMC	\$ 119,456	\$ 95,990
CHA	14,508	10,227
LCFH	653	588
PMH	5,139	4,136
	<u>\$ 139,756</u>	<u>\$ 110,941</u>

Note 3. Cash and Cash Equivalents and Investments

Deposits

As of September 30, 2019 and 2018, the carrying values and bank balances of deposits were as follows (in thousands):

	2019		2018	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
NHRMC	\$ 42,470	\$ 49,911	\$ 45,375	\$ 47,495
CHA	6,079	6,104	4,083	4,200
LCFH	2,860	2,860	5,523	5,526
PMH	3,468	3,573	2,658	2,815
PQP	701	701	378	378

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

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

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

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, 2018, 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 \$614 and \$626 for the Foundation as of September 30, 2019 and 2018, 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 \$5,598 and \$3,695 for CHA, \$451 and \$128 for PQP and \$5,023 and \$5,026 for LCFH, as of September 30, 2019 and 2018, respectively.

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 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.

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

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

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

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

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

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

As of September 30, 2019 and 2018, NHRMC had the following investments, concentrations and maturities, excluding fiduciary investments:

Investment Type	Weighted Average Maturity in Years	Fair Value 2019	Weighted Average Maturity in Years	Fair Value 2018
U.S. Government Treasury Notes	1.8	\$ 34,350	2.5	\$ 26,742
U.S. Government Treasury Bonds	13.5	4,600	13.9	4,140
U.S. Government Agencies:				
Federal Nat'l Mortgage Association	2.0	9,406	2.6	16,662
Mortgage Backed Securities:				
Federal Home Loan Mtg Corp Pool	17.4	23,691	18.0	24,439
Federal Nat'l Mortgage Assoc Pool	19.5	55,481	20.4	51,937
Gov't Nat'l Mortgage Assoc Pool	18.8	24,750	20.1	20,935
Asset Backed CMO's:				
Gov't Nat'l Mortgage Assoc	22.2	31,498	22.5	33,220
Vendee Mortgage Trust Series 1993-1	3.4	131	4.4	200
Vendee Mortgage Trust Ser 1992-1 CL 2Z	2.6	118	3.6	189
Vendee Mortgage Trust Ser 1994-3B CL 2F	3.0	133	4.0	184
Vendee Mortgage Trust Ser 1995-1 CL 3ZB	5.4	200	6.4	254
Vendee Mortgage Trust Ser 1997-1 CL 2Z	7.4	131	8.4	160
Vendee Mortgage Trust Ser 1996-1 CL 1Z	11.6	1,179	7.4	339
Vendee Mortgage Trust Series 2001-3 CL Z	6.4	277	12.6	1,350
NC Capital Management Trust – Cash Portfolio	N/A	199,067	N/A	144,264
Department of State Treasurer Trust Funds				
Investment Program – Equity Investment Fund	N/A	355,678	N/A	330,094
Department of State Treasurer Short-Term				
Investment Fund (STIF)	N/A	125	N/A	111
Mutual Funds	N/A	2,201	N/A	1,733
Commercial Paper	N/A	49,883	N/A	59,818
		\$ 792,899		\$ 716,771

N/A = Not applicable.

**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, 2019 and 2018, LCFH had the following investments:

Investment Type	Fair Value	
	2019	2018
Bond Funds	\$ 9,324	\$ 6,263
Equity Funds	20,218	24,207
	<u>\$ 29,542</u>	<u>\$ 30,470</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 NCCMT. NHRMC's investments in the NCCMT Cash Portfolio carried a rating of AAAM by Standard & Poor's as of September 30, 2019.

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, 2019 and 2018.

**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)

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, 2019, securities issued/backed by Fannie Mae, Freddie Mac and Ginnie Mae represent 8.2%, 3.0% and 7.1% of the Hospital's investment portfolio, respectively. As of September 30, 2018, securities issued/backed by Fannie Mae, Freddie Mac and Ginnie Mae represent 9.6%, 3.4% and 7.6% 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, 2019 and 2018, NHRMC had approximately \$167,733 and \$153,375, respectively, exposed to foreign currency risk, of which 25% and 25%, respectively, represent investments denominated in the Euro; 10% and 10%, respectively, represent investments denominated in the British Pound; and 15% and 16%, 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 statements of net position.

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

**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, 2019 and 2018, are summarized as follows:

	2019	2018
Cash and cash equivalents:		
Cash on hand	\$ 16	\$ 23
Deposits	42,265	46,193
Short-term mutual fund (1)	119,112	67,263
	<u>\$ 161,393</u>	<u>\$ 113,479</u>
Assets limited as to use:		
Held by bond paying agent:		
Short-term mutual fund (1)	\$ 35,796	\$ 50,671
By Board for debt service:		
Deposits	1,125	-
By Board for claims liabilities:		
U.S. Treasury securities	20,156	14,729
U.S. Agency securities	1,258	7,468
Short-term mutual fund (1)	1,408	49
	<u>\$ 59,743</u>	<u>\$ 72,917</u>
Designated by Board for capital improvements:		
Cash	\$ 11	-
U.S. Treasury securities	18,795	16,154
U.S. Agency securities	8,148	9,189
Other securities backed by		
U.S. Government/Gov't Agencies	137,589	133,217
Dept. of State Treasurer Trust Funds		
Investment Program –		
Equity Investment Fund	355,678	330,094
Dept. of State Treasurer Short-Term		
Investment Fund (STIF)	125	111
Commercial paper	49,883	59,818
Short-term mutual fund (1)	42,751	26,276
	<u>\$ 612,980</u>	<u>\$ 574,859</u>
Designated by Board for employee benefit plans:		
Mutual funds	\$ 2,201	\$ 1,734
	<u>\$ 2,201</u>	<u>\$ 1,734</u>
Restricted for specific purposes:		
Mutual funds	\$ 14,906	\$ 14,271
	<u>\$ 14,906</u>	<u>\$ 14,271</u>
Restricted for endowments:		
Mutual funds	\$ 2,578	\$ 2,076
	<u>\$ 2,578</u>	<u>\$ 2,076</u>

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

Deposits of CHA as of September 30, 2019 and 2018, are summarized as follows:

	2019	2018
Cash and cash equivalents:		
Cash on hand	\$ 7	\$ 7
Deposits	6,078	4,083
	<u>\$ 6,085</u>	<u>\$ 4,090</u>

**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)

Deposits and investments of LCFH as of September 30, 2019 and 2018, are summarized as follows:

	2019	2018
Cash and cash equivalents:		
Cash on hand	\$ 2	\$ 2
Deposits	2,858	5,404
	<u>\$ 2,860</u>	<u>\$ 5,406</u>
Investments:		
Bond and mutual funds	\$ 9,011	\$ 7,947
	<u>\$ 9,011</u>	<u>\$ 7,947</u>
By Board for operating and PDO reserve:		
Deposits	\$ 61	\$ 29
Bond and mutual funds	8,522	11,039
	<u>\$ 8,583</u>	<u>\$ 11,068</u>
By Board for capital improvements:		
Bond and mutual funds	\$ 10,475	\$ 9,912
	<u>\$ 10,475</u>	<u>\$ 9,912</u>
Endowments:		
Deposits	\$ 216	\$ 91
Bond and mutual funds	1,534	1,572
	<u>\$ 1,750</u>	<u>\$ 1,663</u>

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

Deposits and investments of PMH as of September 30, 2019 and 2018, are summarized as follows:

	2019	2018
Cash and cash equivalents:		
Deposits	\$ 3,468	\$ 2,648
Short-term mutual fund (1)	9,208	4,064
	<u>\$ 12,676</u>	<u>\$ 6,712</u>

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

Deposits of PQP as of September 30, 2019 and 2018, are as follows:

	2019	2018
Cash and cash equivalents:		
Deposits	\$ 701	\$ 378

**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)

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, 2018 and 2017:

	2018	2017
Money market funds:		
Federated Government Obligations Fund	\$ 2,209	\$ 2,671
Mutual funds:		
Columbia Acom Fund	5,729	6,167
DFA Emerging Mkts Core Equity	8,718	8,887
Harbor Fund	23,924	27,323
PIMCO Stocksplus International (USD-Hedged) Fund	6,051	6,072
Vanguard Strategic Equity Fund	5,707	6,235
Baird Aggregate Bond Fund	26,118	24,767
Tortoise MLP & Pipeline FD - Inst	5,800	6,329
Oppenheimer Steelpath MLP Select 40 Fund	6,061	6,295
SPDR Dow Jones International Real Estate ETF	2,395	2,497
Vanguard REIT Index Fund - ADM	2,364	2,446
AQR Managed Futures Strategy Fund	5,155	4,976
Diamond Hill Long-Short Fund	4,756	4,957
Litman Gregory Masters Alternative Strategies Fund	4,379	4,342
MFS Global Alternative Strategy Fund	4,416	4,317
Mackay High Yield Corporate Bond	6,262	6,175
Oppenheimer International Growth Fund Y	6,013	6,235
Oppenheimer Developing Markets Fund	9,899	10,147
PIMCO Emerging Local Bond Fund	6,475	6,235
PIMCO Total Return Institutional Fund	19,529	18,649
SEI Institutionally Managed Mid Cap Fund	5,812	6,210
T. Rowe Price Inst US Str Research Fund	46,370	54,867
Vanguard High Yield Corporate Fund	6,274	6,197
Wisdomtree Large Cap Dividend Fund	18,855	19,708
Wisdomtree Emerging Markets Corporate Bond Fund	6,525	6,143
	<u>\$ 245,796</u>	<u>\$ 258,847</u>

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

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

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 25 days. All of the Plan's bond funds have average effective maturities between five and eight 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 statements of fiduciary net position.

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.

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Note 4. Fair Value Measurements (Continued)

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, 2019 and 2018.

Investment Type	Valuation Measurement Method	Book Value 2019	Book Value 2018
U.S. Government Treasury Notes	Fair Value Level 1	\$ 34,350	\$ 26,742
U.S. Government Treasury Bonds	Fair Value Level 1	4,600	4,140
U.S. Government Agencies	Fair Value Level 1	9,406	16,662
Mortgage Backed Securities	Fair Value Level 2	103,922	97,311
Asset Backed CMO's	Fair Value Level 2	33,667	35,896
NC Capital Management Trust – Cash Portfolio	Amortized Cost	199,067	144,264
Department of State Treasurer Trust Funds Investment Program – Equity Investment Fund	Fair Value Level 1	355,678	330,094
Department of State Treasurer Short-Term Investment Fund (STIF)	Fair Value Level 1	125	111
Mutual Funds	Fair Value Level 1	2,201	1,733
Commercial Paper	Fair Value Level 1	49,883	59,818
Interest Rate Swaps	Fair Value Level 2	(2,951)	(2,002)
		\$ 789,948	\$ 714,769

The following table sets forth LCFH's investments as of September 30, 2019 and 2018.

Investment Type	Valuation Measurement Method	Book Value 2019	Book Value 2018
Bond Funds	Fair Value Level 1	\$ 9,324	\$ 6,263
Equity Funds	Fair Value Level 1	20,218	24,207
Interest Rate Swap	Fair Value Level 2	-	(101)
		\$ 29,542	\$ 30,369

The following table sets forth, PMH's investments as of September 30, 2019 and 2018.

Investment Type	Valuation Measurement Method	Book Value 2019	Book Value 2018
NC Capital Management Trust – Cash Portfolio	Amortized Cost	\$ 9,208	\$ 4,064

**New Hanover Regional Medical Center
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**Notes to Financial Statements
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Note 5. Capital Asset Activity

Capital asset activity was as follows:

NHRMC – Year Ended September 30, 2019

	Beginning Balance	Additions	Retirements	Ending Balance
NHRMC Activity				
Capital assets, not being depreciated:				
Land	\$ 16,919	\$ -	\$ -	\$ 16,919
Construction in progress	89,319	72,680	(56,887)	105,112
Total capital assets, not being depreciated	<u>106,238</u>	<u>72,680</u>	<u>(56,887)</u>	<u>122,031</u>
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	589,823	23,345	(11,750)	601,418
Equipment	377,186	33,542	(17,434)	393,294
Total capital assets being depreciated/amortized	<u>967,009</u>	<u>56,887</u>	<u>(29,184)</u>	<u>994,712</u>
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements and equipment	(532,544)	(51,481)	19,869	(564,156)
Total accumulated depreciation/amortization	<u>(532,544)</u>	<u>(51,481)</u>	<u>19,869</u>	<u>(564,156)</u>
Total capital assets being depreciated/amortized, net	<u>434,465</u>	<u>5,406</u>	<u>(9,315)</u>	<u>430,556</u>
NHRMC activities, capital assets, net	<u>\$ 540,703</u>	<u>\$ 78,086</u>	<u>\$ (66,202)</u>	<u>\$ 552,587</u>

NHRMC – Year Ended September 30, 2018

	Beginning Balance	Additions	Retirements	Ending Balance
NHRMC Activity				
Capital assets, not being depreciated:				
Land	\$ 16,968	\$ -	\$ (49)	\$ 16,919
Construction in progress	45,456	98,822	(54,959)	89,319
Total capital assets, not being depreciated	<u>62,424</u>	<u>98,822</u>	<u>(55,008)</u>	<u>106,238</u>
Capital assets, being depreciated/amortized:				
Intangible assets	1,000	-	(1,000)	-
Buildings and leasehold improvements	582,305	33,128	(25,610)	589,823
Equipment	379,041	21,831	(23,686)	377,186
Total capital assets being depreciated/amortized	<u>962,346</u>	<u>54,959</u>	<u>(50,296)</u>	<u>967,009</u>
Less accumulated depreciation/amortization for:				
Intangible assets	(917)	(83)	1,000	-
Buildings, leasehold improvements and equipment	(527,656)	(51,117)	46,229	(532,544)
Total accumulated depreciation/amortization	<u>(528,573)</u>	<u>(51,200)</u>	<u>47,229</u>	<u>(532,544)</u>
Total capital assets being depreciated/amortized, net	<u>433,773</u>	<u>3,759</u>	<u>(3,067)</u>	<u>434,465</u>
NHRMC activities, capital assets, net	<u>\$ 496,197</u>	<u>\$ 102,581</u>	<u>\$ (58,075)</u>	<u>\$ 540,703</u>

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

Note 5. Capital Asset Activity (Continued)

<u>CHA – Year Ended September 30, 2019</u>	Beginning Balance	Additions	Retirements	Ending Balance
CHA Activity				
Capital assets, not being depreciated:				
Construction in progress	\$ 231	\$ 2,813	\$ (2,491)	\$ 553
Total capital assets, not being depreciated	231	2,813	(2,491)	553
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	2,860	786	(10)	3,636
Equipment	12,873	1,705	(649)	13,929
Total capital assets being depreciated/amortized	15,733	2,491	(659)	17,565
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements and equipment	(10,574)	(1,478)	566	(11,486)
Total accumulated depreciation/amortization	(10,574)	(1,478)	566	(11,486)
Total capital assets being depreciated/amortized, net				
	5,159	1,013	(93)	6,079
CHA activities, capital assets, net	\$ 5,390	\$ 3,826	\$ (2,584)	\$ 6,632

<u>CHA – Year Ended September 30, 2018</u>	Beginning Balance	Additions	Retirements	Ending Balance
CHA Activity				
Capital assets, not being depreciated:				
Construction in progress	\$ 173	\$ 1,717	\$ (1,659)	\$ 231
Total capital assets, not being depreciated	173	1,717	(1,659)	231
Capital assets, being depreciated/amortized:				
Intangible assets	-	-	-	-
Buildings and leasehold improvements	2,563	297	-	2,860
Equipment	11,719	1,362	(208)	12,873
Total capital assets being depreciated/amortized	14,282	1,659	(208)	15,733
Less accumulated depreciation/amortization for:				
Intangible assets	-	-	-	-
Buildings, leasehold improvements and equipment	(8,644)	(2,028)	98	(10,574)
Total accumulated depreciation/amortization	(8,644)	(2,028)	98	(10,574)
Total capital assets being depreciated/amortized, net				
	5,638	(369)	(110)	5,159
CHA activities, capital assets, net	\$ 5,811	\$ 1,348	\$ (1,769)	\$ 5,390

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**Notes to Financial Statements
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Note 5. Capital Asset Activity (Continued)

LCFH – Year Ended September 30, 2019

	Beginning Balance	Additions	Retirements	Ending Balance
LCFH Activity				
Capital assets, not being depreciated:				
Land	\$ 6,096	\$ -	\$ -	\$ 6,096
Construction in progress	9	173	(9)	173
Total capital assets, not being depreciated	6,105	173	(9)	6,269
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	20,439	26	-	20,465
Equipment	4,884	241	(682)	4,443
Total capital assets being depreciated/amortized	25,323	267	(682)	24,908
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements and equipment	(8,682)	(1,087)	666	(9,103)
Total accumulated depreciation/amortization	(8,682)	(1,087)	666	(9,103)
Total capital assets being depreciated/ amortized, net	16,641	(820)	(16)	15,805
LCFH activities, capital assets, net	\$ 22,746	\$ (647)	\$ (25)	\$ 22,074

LCFH – Year Ended September 30, 2018

	Beginning Balance	Additions	Retirements	Ending Balance
LCFH Activity				
Capital assets, not being depreciated:				
Land	\$ 5,610	\$ 48	\$ 438	\$ 6,096
Construction in progress	9	-	-	9
Total capital assets, not being depreciated	5,619	48	438	6,105
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	20,742	54	(357)	20,439
Equipment	4,602	531	(249)	4,884
Total capital assets being depreciated/amortized	25,344	585	(606)	25,323
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements and equipment	(7,714)	(1,014)	46	(8,682)
Total accumulated depreciation/amortization	(7,714)	(1,014)	46	(8,682)
Total capital assets being depreciated/ amortized, net	17,630	(429)	(560)	16,641
LCFH activities, capital assets, net	\$ 23,249	\$ (381)	\$ (122)	\$ 22,746

**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, 2019

	Beginning Balance	Additions	Retirements	Ending Balance
PMH Activity				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	4	1,279	(1,131)	152
Total capital assets, not being depreciated	46	1,279	(1,131)	194
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	15,678	654	(25)	16,307
Equipment	12,318	477	(273)	12,522
Total capital assets being depreciated/amortized	27,996	1,131	(298)	28,829
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements and equipment	(18,235)	(1,801)	497	(19,539)
Total accumulated depreciation/amortization	(18,235)	(1,801)	497	(19,539)
Total capital assets being depreciated/amortized, net	9,761	(670)	199	9,290
PMH activities, capital assets, net	\$ 9,807	\$ 609	\$ (932)	\$ 9,484

PMH – Year Ended September 30, 2018

	Beginning Balance	Additions	Retirements	Ending Balance
PMH Activity				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	7	1,155	(1,158)	4
Total capital assets, not being depreciated	49	1,155	(1,158)	46
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	15,299	384	(5)	15,678
Equipment	12,213	774	(669)	12,318
Total capital assets being depreciated/amortized	27,512	1,158	(674)	27,996
Less accumulated depreciation/amortization for:				
Intangible assets	-	-	-	-
Buildings, leasehold improvements and equipment	(17,036)	(1,500)	301	(18,235)
Total accumulated depreciation/amortization	(17,036)	(1,500)	301	(18,235)
Total capital assets being depreciated/amortized, net	10,476	(342)	(373)	9,761
PMH activities, capital assets, net	\$ 10,525	\$ 813	\$ (1,531)	\$ 9,807

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, 2019 and 2018. As of September 30, 2019, NHRMC and PMH have remaining committed amounts to be paid of approximately \$18,402 and \$0 on projects, respectively.

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

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.

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

	<u>Amount</u>
Years ending September 30:	
2020	\$ 5,055
2021	5,442
2022	4,455
2023	4,283
2024	4,047
2025-2029	8,892
Total minimum payments	<u>\$ 32,174</u>

Rent expense on operating leases for NHRMC totaled approximately \$11,069 and \$10,509 in 2019 and 2018, 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 2019 and 2028. Scheduled payments on CHA's operating lease commitments are as follows:

	<u>Amount</u>
Years ending September 30:	
2020	\$ 5,864
2021	3,563
2022	1,923
2023	911
2024	518
2025-2028	1,016
Total minimum payments	<u>\$ 13,795</u>

Included in these commitments is \$9,352 of minimum payments to NHRMC.

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

Note 6. Lease Obligations and Commitments (Continued)

Rent expense on operating leases for CHA totaled approximately \$6,837 and \$6,564 in 2019 and 2018, including payments of \$2,319 and \$2,475 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 \$53 and \$52 in 2019 and 2018, respectively. Rent expense is included in other operating expenses on the statements of revenues, expenses, and changes in net position.

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. The lease was renewed in 2019 for an additional ten 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 2019 and 2020. Scheduled payments on PMH's operating lease commitments are as follows:

	<u>Amount</u>
Years ending September 30:	
2020	\$ 331
2021	263
2022	266
2023	260
2024	215
2025-2029	659
Total minimum payments	<u>\$ 1,994</u>

Rent expense on operating leases for PMH totaled approximately \$355 and \$422 in 2019 and 2018, 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 7. Bonds Payable and Other Long-Term Liabilities
Changes in Long-Term Liabilities**

Long-term obligation activity for the years ended September 30, 2019 and 2018, was as follows:

NHRMC – Year Ended September 30, 2019

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 366,495	\$ -	\$ (16,250)	\$ 350,245	\$ 16,780
Less deferred amounts:					
Issuance discounts (premiums), net	(31,347)	-	2,598	(28,749)	-
Total bonds payable	397,842	-	(18,848)	378,994	16,780
Note payable to primary government	2,132	-	(2,132)	-	-
Supplemental retirement plans	1,736	866	(401)	2,201	-
Long-term obligations	\$ 401,710	\$ 866	\$ (21,381)	\$ 381,195	\$ 16,780

NHRMC – Year Ended September 30, 2018

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 380,120	\$ -	\$ (13,625)	\$ 366,495	\$ 16,250
Less deferred amounts:					
Issuance discounts (premiums), net	(34,015)	-	2,668	(31,347)	-
Total bonds payable	414,135	-	(16,293)	397,842	16,250
Note payable to primary government	16,303	529	(14,700)	2,132	2,132
Supplemental retirement plans	2,301	838	(1,403)	1,736	-
Long-term obligations	\$ 432,739	\$ 1,367	\$ (32,396)	\$ 401,710	\$ 18,382

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

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

LCFH – Year Ended September 30, 2019

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 2,500	\$ -	\$ (2,500)	\$ -	\$ -
Notes payable	5,644	-	(332)	5,312	343
Capital leases (Note 6)	9	-	(9)	-	-
	<u>\$ 8,153</u>	<u>\$ -</u>	<u>\$ (2,841)</u>	<u>\$ 5,312</u>	<u>\$ 343</u>

LCFH – Year Ended September 30, 2018

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 4,554	\$ -	\$ (2,054)	\$ 2,500	\$ 200
Notes payable	5,964	-	(320)	5,644	332
Capital leases (Note 6)	39	-	(30)	9	9
	<u>\$ 10,557</u>	<u>\$ -</u>	<u>\$ (2,404)</u>	<u>\$ 8,153</u>	<u>\$ 541</u>

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

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, 2019 and 2018, are as follows:

Revenue Bonds	Principal Amount	
	2019	2018
Series 2006A Hospital Revenue Bonds:		
Serial revenue bonds with interest rates ranging from 4.0% to 4.13%, maturing annually through 2019	\$ 5,120	\$ 10,045
Series 2008A Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	15,755	16,260
Series 2008B Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	15,755	16,260
Series 2011 Revenue Bonds:		
Serial revenue bonds with interest rates ranging from 3.0% to 5.0%, maturing annually through 2025	36,385	40,310
Term revenue bonds maturing in October 2026, with stated interest rates of 4.63% and 5.0%	7,535	7,535
Term revenue bonds maturing in October 2027, with stated interest rates of 4.63% and 5.0%	12,375	12,375
Term revenue bonds maturing in October 2028, with stated interest rates of 4.63% 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	33,785	38,020
Series 2017 Revenue Bonds:		
Serial revenue bonds with interest rates ranging from 3.0% to 5.0%, maturing annually through 2048	210,555	212,710
Revenue bonds payable	350,245	366,495
Unamortized premiums, net	28,749	31,347
Current portion	(16,780)	(16,250)
Total revenue bonds payable, long-term	<u>\$ 362,214</u>	<u>\$ 381,592</u>

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

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, 2019 and 2018, the rates on these bonds were 1.63% and 1.57%, 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 November 20, 2021. All unpaid drawings become due and payable upon expiration of the letter of credit in 2021. There were no unpaid drawings at September 30, 2019 or 2018. 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 three 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.

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

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, 2019 and 2018, calculated for the Obligated Unit:

Long-term debt service coverage ratio	Years Ended September 30	
	2019	2018
Income before capital contributions and operating transfers	\$ 104,342	\$ 77,579
Plus:		
Depreciation and amortization	54,402	54,452
Interest expense	14,600	13,584
Less:		
Unrealized gains on investments	10,398	23,038
Income available for debt service	<u>\$ 162,946</u>	<u>\$ 122,577</u>
Maximum annual debt service	\$ 32,638	\$ 34,948
Maximum annual debt service coverage ratio	4.99	3.51
	September 30	
Cushion ratio	2019	2018
Cash	\$ 166,226	\$ 115,992
Designated by Board	612,980	574,859
Total unrestricted cash and investments	<u>\$ 779,206</u>	<u>\$ 690,851</u>
Maximum annual debt service	\$ 32,638	\$ 34,948
Cushion ratio	23.87	19.77

**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 \$1,322,409 and \$1,173,606 for the years ended September 30, 2019 and 2018, respectively, are security for the revenue bonds.

Total funds held by the trustee (including amounts as bond paying agent) at September 30, 2019 and 2018, were approximately \$35,796 and \$50,671, 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, 2019; 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
2020	\$ 16,780	\$ 16,670	\$ 33,450
2021	17,220	14,855	32,075
2022	17,890	14,074	31,964
2023	18,685	13,262	31,947
2024-2028	107,360	52,484	159,844
2029-2033	71,280	28,788	100,068
2034-2038	33,210	19,525	52,735
2039-2043	31,205	13,324	44,529
2044-2048	36,615	5,672	42,287
	\$ 350,245	\$ 178,654	\$ 528,899

Interest paid related to the above debt was \$14,672 and \$14,835 during fiscal years ended September 30, 2019 and 2018, respectively.

Other NHRMC Long-Term Liabilities

In connection with the purchase of the New Hanover County Health Department complex in 2017, NHRMC agreed to pay up to \$19,350 to New Hanover County (the County). The note was paid in full during the year ended September 30, 2019. As of September 30, 2018, NHRMC's note payable balance to the County was \$2,132, of which \$0 was classified as non-current.

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

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. The loan balance was paid off during fiscal year 2019.

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, 2019, at \$1,533. 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, 2019, at \$716. 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, 2019, at \$3,063.

Scheduled principal repayment on these notes payables are as follows:

Fiscal Year	Amount
2020	\$ 343
2021	356
2022	369
2023	382
2024	396
Thereafter	3,466
	<u>5,312</u>
Less current portion	(343)
	<u>\$ 4,969</u>

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

NHRMC has the following interest rate swap agreements:

As of September 30, 2019							
Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/19	Change in Fair Value for the Year Ended 9/30/19
Series 2008A-1	\$ 4,665	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (214)	\$ (26)
Series 2008A-2	4,665	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(214)	(27)
Series 2008B-1	15,080	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(1,299)	(357)
Series 2008B-2	8,120	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(1,293)	(432)
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd Avg LIBOR	69	(107)
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index		<u>\$ (2,951)</u>	

As of September 30, 2018							
Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/18	Change in Fair Value for the Year Ended 9/30/18
Series 2008A-1	\$ 4,665	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (188)	\$ 196
Series 2008A-2	4,665	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(187)	196
Series 2008B-1	15,080	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(942)	749
Series 2008B-2	8,120	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(861)	537
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd Avg LIBOR	176	248
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index		<u>\$ (2,002)</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.

The terms, fair values and underlying bond issues of the outstanding swaps as of September 30, 2019 and 2018, are shown in the table above (in thousands). The notional amounts of the swaps approximate the principal amounts of the associated debt.

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

Note 8. Derivative Investments (Continued)

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, 2019 and 2018, the net change in fair value of (\$842) and \$1,678, respectively, has been recorded as a component of net (decrease) increase 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, 2019. 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, 2019, the basis swap has an estimated fair value of approximately \$69 which is recorded as an asset for interest rate swap agreements in the statement of net position. As of September 30, 2018, the basis swap has an estimated fair value of approximately \$176 which is recorded as an asset 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 (\$107) and \$248 for the years ended September 30, 2019 and 2018, respectively, have been recorded as a component of net (decrease) increase 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 positive position, NHRMC is 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. During the year ended September 30, 2019, the interest rate swap was terminated upon paying off the Series 2007 Bonds, which resulted in a loss to Hospice of \$98.

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 2019 and 2018 with a deductible of \$100 for all perils except named windstorm. For 2019 and 2018, the minimum deductible for named storm is \$5,000 per location, with a maximum deductible of \$25,000 per location. For 2019 and 2018, NHRMC was self-insured for workers' compensation and employer's liability up to \$350 per claim. Statutory limits apply to worker's compensation. For 2019 and 2018, NHRMC was also self-insured for professional liability and general liability claims up to \$5,000. There was a \$25,000 annual aggregate retention in 2019 and 2018. In both 2019 and 2018, 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.

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

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		
	2019	2018	2017
Beginning liability	\$ 26,794	\$ 22,243	\$ 22,690
Provisions for claims	92,420	84,481	79,918
Payments for claims	(83,330)	(75,724)	(76,360)
Administrative fees	(2,361)	(4,206)	(4,005)
Ending liability	<u>\$ 33,523</u>	<u>\$ 26,794</u>	<u>\$ 22,243</u>

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

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.

**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)

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 \$14,530 and \$15,551 for the years ended September 30, 2019 and 2018, respectively.

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

At September 30, 2019 and 2018, NHRMC reported a net pension obligation of \$45,843 and \$50,113, respectively. The net pension obligation was measured as of September 30, 2018 and 2017, respectively. The total pension liability used to calculate the net pension obligation was determined by an actuarial valuation as of January 1, 2018 and 2017, respectively. The total pension liability was then rolled forward to the measurement date of September 30, 2018 and 2017, respectively, utilizing update procedures incorporating the actuarial assumptions.

For the year ended September 30, 2019 and 2018, NHRMC recognized pension expense of \$14,421 and \$15,823, respectively. At September 30, 2019, 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	\$ 7,376	\$ -
Net difference between projected and actual earnings on pension plan investments	-	8,621
Assumption changes	-	3,613
Contributions made in fiscal year ending September 30, 2019	14,530	-
Total	<u>\$ 21,906</u>	<u>\$ 12,234</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)

At September 30, 2018, 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	\$ 8,728	\$ 764
Net difference between projected and actual earnings on pension plan investments	-	5,646
Assumption changes	-	4,796
Contributions made in fiscal year ending September 30, 2018	15,551	-
Total	<u>\$ 24,279</u>	<u>\$ 11,206</u>

Deferred outflows of resources of \$14,530 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, 2019. 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:

2020	\$ 1,320
2021	(3,594)
2022	(2,231)
2023	(457)
2024	104
	<u>\$ (4,858)</u>

Actuarial Assumptions – The total pension liability in the January 1, 2018 and 2017 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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**Notes to Financial Statements
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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, 2019 and 2018, 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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**Notes to Financial Statements
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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)
Balances at September 30, 2017	\$ 266,796	\$ 207,869	\$ 58,927
Service cost	9,818	-	9,818
Interest	18,848	-	18,848
Differences between expected and actual experience	8,756	-	8,756
Changes of assumptions	(4,858)	-	(4,858)
Contributions – employer	-	14,506	(14,506)
Net investment income	-	27,112	(27,112)
Benefit payments, including refunds of employee contributions	(12,121)	(12,121)	-
Administrative expense	-	(240)	240
Net changes	20,443	29,257	(8,814)
Balances at September 30, 2018	\$ 287,239	\$ 237,126	\$ 50,113
Service cost	9,794	-	9,794
Interest	20,440	-	20,440
Differences between expected and actual experience	1,722	-	1,722
Changes of assumptions	(349)	-	(349)
Contributions – employer	-	15,551	(15,551)
Net investment income	-	20,569	(20,569)
Benefit payments, including refunds of employee contributions	(13,714)	(13,715)	1
Administrative expense	-	(242)	242
Net changes	17,893	22,163	(4,270)
Balances at September 30, 2019	\$ 305,132	\$ 259,289	\$ 45,843

**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)

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	\$ 340,164	\$ 305,132	\$ 279,825
Plan fiduciary net position	259,289	259,289	259,289
Net pension liability	<u>\$ 80,875</u>	<u>\$ 45,843</u>	<u>\$ 20,536</u>

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.

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 five 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 \$583 and \$567 for the year ended September 30, 2019 and 2018, respectively.

**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)

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

At September 30, 2019 and 2018, PMH reported a net pension liability of \$3,247 and \$3,179. The net pension liability was measured as of September 30, 2018 and 2017, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018 and 2017, respectively. The total pension liability was then rolled forward to the measurement date of September 30, 2018 and 2017, respectively, utilizing update procedures incorporating the actuarial assumptions.

For the year ended September 30, 2019 and 2018, PMH recognized pension expense of \$580 and \$532, respectively. At September 30, 2019, 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	\$ 113	\$ -
Net difference between projected and actual earnings on pension plan investments	11	-
Assumption changes	-	91
Contributions made in fiscal year ending September 30, 2019	583	-
Total	<u>\$ 707</u>	<u>\$ 91</u>

At September 30, 2018, 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	\$ 136	\$ 9
Net difference between projected and actual earnings on pension plan investments	-	44
Assumption changes	-	103
Contributions made in fiscal year ending September 30, 2019	567	-
Total	<u>\$ 703</u>	<u>\$ 156</u>

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

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

Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)

Deferred outflows of resources of \$583 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending September 30:		
2020	\$	58
2021		(23)
2022		(15)
2023		13
	\$	<u>33</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, 2019 and 2018, 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
(A Component Unit of New Hanover County, North Carolina)**

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

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)
Balances at September 30, 2017	\$ 8,437	\$ 5,137	\$ 3,300
Changes for the year:			
Service cost	243	-	243
Interest	597	-	597
Differences between expected and actual experience	107	-	107
Changes in assumptions	(111)	-	(111)
Contributions – employer	-	535	(535)
Net investment income	-	517	(517)
Benefit payments, including refunds of employee contributions	(376)	(376)	-
Administrative expense	-	(95)	95
Net changes	460	581	(121)
Balances at September 30, 2018	\$ 8,897	\$ 5,718	\$ 3,179
Changes for the year:			
Service cost	261	-	261
Interest	632	-	632
Differences between expected and actual experience	56	-	56
Changes in assumptions	(55)	-	(55)
Contributions – employer	-	567	(567)
Net investment income	-	338	(338)
Benefit payments, including refunds of employee contributions	(341)	(341)	-
Administrative expense	-	(79)	79
Net changes	553	485	68
Balances at September 30, 2018	\$ 9,450	\$ 6,203	\$ 3,247

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

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

Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)

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	\$ 10,758	\$ 9,450	\$ 8,381
Plan fiduciary net position	6,203	6,203	6,203
Net pension liability	<u>\$ 4,555</u>	<u>\$ 3,247</u>	<u>\$ 2,178</u>

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 Ed Ollie, Executive Vice President/CFO, PO Box 9000, Wilmington, North Carolina 28402.

In addition, NHRMC offers two supplemental retirement plans under IRC Section 457(f) to certain eligible employees. NHRMC has recorded a liability of approximately \$1,966 and \$1,501 as of September 30, 2019 and 2018, 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, 2019 and 2018, in accordance with the provision of this plan.

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 \$14,404 and \$12,840 for the years ended September 30, 2019 and 2018, respectively. Employee contribution percentages were 3.9% and 3.7% of total payroll for the years ended September 30, 2019 and 2018, respectively. There were no employer matching contributions by NHRMC for the years ended September 30, 2019 and 2018.

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.

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

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

Note 11. Defined Contribution Retirement Plans (Continued)

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.

CHA employer required and actual matching contributions totaled approximately \$951 and \$911, and employee optional contributions totaled approximately \$1,951 and \$1,783 for the years ended September 30, 2019 and 2018, respectively. Employer matching contribution percentages were 2.28% and 2.26%, and employee contribution percentages were 4.67% and 4.42% of total payroll for the years ended September 30, 2019 and 2018, 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 three 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, 2019 and 2018.

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.

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

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

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.

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

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

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, 2019 and 2018, is as follows:

	Ownership Percentage	Method of Accounting	2019				Cumulative Contributions (Net of Distributions Received)
			Net Income (Loss)	Investment as of September 30	2019 Capital Contributions	2019 Distributions Received	
SARO	50%	Equity	\$ 877	\$ 544	\$ -	\$ 1,038	\$ (6,427)
PNI	50%	Equity	175	172	-	168	(5,508)
Dosher/ NHRMC	50%	Equity	(13)	48	-	-	181
AAQHNC	10%	Equity	14	17	-	-	18
PQP	100%	Equity	(2,284)	992	2,400	-	8,350
PLPCC	9%	Equity	116	2,910	-	-	2,918
DIP	50%	Equity	(267)	539	200	-	1,494
Total			\$ (1,382)	\$ 5,222	\$ 2,600	\$ 1,206	\$ 1,026

	Ownership Percentage	Method of Accounting	2018				Cumulative Contributions (Net of Distributions Received)
			Net Income (Loss)	Investment as of September 30	2018 Capital Contributions	2018 Distributions Received	
SARO	50%	Equity	\$ 945	\$ 705	\$ -	\$ 835	\$ (5,389)
PNI	50%	Equity	149	165	-	241	(5,340)
Dosher/ NHRMC	50%	Equity	(32)	61	-	-	181
AAQHNC	10%	Equity	(2)	3	-	-	18
PQP	100%	Equity	(2,028)	876	2,050	-	5,950
PLPCC	9%	Equity	5	2,794	-	-	2,918
DIP	50%	Equity	(406)	606	300	-	1,294
Total			\$ (1,369)	\$ 5,210	\$ 2,350	\$ 1,076	\$ (368)

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. 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 believes that these claims can be successfully defended and intends to challenge 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.

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

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

Note 13. Contingencies (Continued)

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 prospectively.

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.

Note 14. Physician Practice Management Commitments

CHA has engaged Carolinas Physician Network (CPN), a physician practice network within the nonprofit corporation of Atrium Health, 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, 2019 and 2018, CHA paid \$94,947 and \$93,559, respectively, to CPN under these agreements, including \$81,677 and \$81,357, respectively, for physician fees, and \$13,270 and \$12,202, respectively, for all other administrative services. CHA had \$10,819 and \$2,236 of physician fees payable to CPN as of September 30, 2019 and 2018, respectively, recorded in accounts payable and other liabilities.

Note 15. Storm Related Losses

During September 2018, NHRMC incurred storm related losses due to the impact of Hurricane Florence, including additional personnel costs, inventory write-offs, and associated expenses related to preparation and recovery efforts. NHRMC revenues were significantly below management forecasts for the month of September 2018, and NHRMC expects to file for business interruption losses. No amounts have been recorded for insurance recoveries at September 30, 2019. Losses of \$6,637 and \$15,872 recorded due to Hurricane Florence were included in other non-operating expense for 2019 and 2018, respectively.

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

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

Note 16. Pending GASB Statements

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2019, 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 and its component units beginning with its year ending September 30, 2020.

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 agreements 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 and its component units beginning with its year ending September 30, 2021.

In August 2018, GASB issued GASB Statement Number 90, *Majority Equity Interests*, which clarifies the accounting and financial reporting requirements for a state or local government's majority equity interest in an organization that remains legally separate after acquisition. The provisions of this Statement will be effective for NHRMC and its component units beginning with its year ending September 30, 2020.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations and (3) related note disclosures. The provisions of this Statement will be effective for NHRMC and its component units beginning with its year ending beginning with its year ending September 30, 2022.

Required Supplementary Information

New Hanover Regional Medical Center

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

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 9,794	\$ 9,818	\$ 9,036	\$ 8,334	\$ 7,974	\$ -
Interest cost	20,440	18,848	17,899	16,998	16,423	-
Differences between expected and actual experiences	1,722	8,756	776	3,196	(3,228)	-
Changes in assumptions	(349)	(4,858)	-	(2,304)	-	-
Benefit payments, including refunds of member contributions	(13,714)	(12,121)	(14,336)	(14,349)	(12,512)	-
Net change in total pension liability	17,893	20,443	13,375	11,875	8,657	
Total pension liability (beginning)	287,239	266,796	253,421	241,546	232,889	-
Total pension liability (ending)	\$ 305,132	\$ 287,239	\$ 266,796	\$ 253,421	\$ 241,546	\$ 232,889
Plan Fiduciary Net Position						
Contributions – employer	\$ 15,551	\$ 14,506	\$ 12,613	\$ 12,125	\$ 8,422	\$ -
Net investment income	20,569	27,112	21,788	(10,407)	16,615	-
Benefit payments, including refunds of member contributions	(13,715)	(12,121)	(14,336)	(14,349)	(12,512)	-
Administrative expense	(242)	(240)	(254)	(249)	(233)	-
Net change in plan fiduciary net position	22,163	29,257	19,811	(12,880)	12,292	-
Plan fiduciary net position (beginning)	237,126	207,869	188,058	200,938	188,646	-
Plan fiduciary net position (ending)	\$ 259,289	\$ 237,126	\$ 207,869	\$ 188,058	\$ 200,938	\$ 188,646
Net pension liability (ending)	\$ 45,843	\$ 50,113	\$ 58,927	\$ 65,363	\$ 40,608	\$ 44,243
Net position as a % of pension liability	84.98%	82.55%	77.91%	74.21%	83.19%	81.00%
Covered-employee payroll*	\$ 301,653	\$ 280,034	\$ 261,390	\$ 251,816	\$ 241,422	\$ 234,391
Net pension liability as a % of payroll	15.20%	17.90%	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)**

	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 14,530	\$ 15,551	\$ 14,506	\$ 12,613	\$ 11,917	\$ 8,422
Contributions made in relation to the actuarially determined contribution	14,530	15,551	14,506	12,613	12,125	8,422
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (208)	\$ -
Covered-employee payroll	\$ 317,768	\$ 301,653	\$ 280,034	\$ 261,390	\$ 251,816	\$ 241,422
Contributions as a % of payroll	4.57%	5.16%	5.18%	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 of investment gains and losses
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-2017

New Hanover Regional Medical Center

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

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 261	\$ 243	\$ 254	\$ 250	\$ 217	\$ -
Interest cost	632	597	553	531	503	-
Changes in benefit terms	-	-	-	-	-	-
Differences between expected and actual experiences	56	107	126	(49)	(58)	-
Changes in assumptions	(55)	(111)	-	(115)	-	-
Benefit payments, including refunds of member contributions	(341)	(376)	(298)	(298)	(281)	-
Net change in total pension liability	553	460	635	319	381	-
Total pension liability (beginning)	8,897	8,437	7,802	7,483	7,102	7,102
Total pension liability (ending)	\$ 9,450	\$ 8,897	\$ 8,437	\$ 7,802	\$ 7,483	\$ 7,102
Plan Fiduciary Net Position						
Contributions – employer	\$ 567	\$ 535	\$ 521	\$ 545	\$ 336	\$ -
Net investment income	338	517	379	35	415	-
Benefit payments, including refunds of member contributions	(341)	(376)	(298)	(298)	(281)	-
Administrative expense	(79)	(95)	(88)	(56)	(61)	-
Net change in plan fiduciary net position	485	581	514	226	409	-
Plan fiduciary net position (beginning)	5,718	5,137	4,623	4,397	3,988	-
Plan fiduciary net position (ending)	\$ 6,203	\$ 5,718	\$ 5,137	\$ 4,623	\$ 4,397	\$ 3,988
Net pension liability (ending)	\$ 3,247	\$ 3,179	\$ 3,300	\$ 3,179	\$ 3,086	\$ 3,114
Net position as a % of pension liability	65.64%	64.27%	60.89%	58.76%	56.15%	56.15%
Covered-employee payroll*	\$ 11,287	\$ 10,244	\$ 10,514	\$ 10,110	\$ 9,515	\$ 8,736
Net pension liability as a % of payroll	28.77%	31.03%	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)

	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 582	\$ 567	\$ 535	\$ 521	\$ 522	\$ 336
Contributions made in relation to the actuarially determined contribution	583	567	535	521	545	336
Contribution deficiency (excess)	\$ (1)	\$ -	\$ -	\$ -	\$ (23)	\$ -
Covered-employee payroll	\$ 11,530	\$ 11,287	\$ 10,244	\$ 10,514	\$ 10,110	\$ 9,515
Contributions as a % of payroll	5.06%	5.02%	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 of investment gains and losses
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-2017

Supplementary Information

New Hanover Regional Medical Center

Combining Statements of Net Position (Dollars in Thousands)

	September 30, 2019				September 30, 2018			
	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
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 159,440	\$ 1,953	\$ -	\$ 161,393	\$ 111,524	\$ 1,955	\$ -	\$ 113,479
Assets limited as to use:								
Cash equivalents held by bond paying agent	35,796	-	-	35,796	50,671	-	-	50,671
Cash for debt service-not held by bond paying agent	1,125	-	-	1,125	-	-	-	-
Cash equivalents and investments for the future payment of claims liabilities	22,822	-	-	22,822	22,246	-	-	22,246
Receivables:								
Patient accounts, less allowance for bad debts	130,637	-	-	130,637	113,686	-	-	113,686
Estimated third-party payor settlements	876	-	-	876	1,248	-	-	1,248
Due from component units	2,101	-	-	2,101	358	-	-	358
Other receivables	9,560	332	(173)	9,719	16,928	186	(273)	16,841
Inventories	31,800	-	-	31,800	28,708	-	-	28,708
Prepaid expenses	18,588	107	-	18,695	16,485	249	-	16,734
Total current assets	412,745	2,392	(173)	414,964	361,854	2,390	(273)	363,971
Noncurrent cash and investments:								
Cash and investments:								
Designated by Board for capital improvements	612,980	-	-	612,980	574,859	-	-	574,859
Designated by Board for supplemental retirement plans	2,201	-	-	2,201	1,734	-	-	1,734
Restricted by donors for specific purpose	-	14,906	-	14,906	-	14,271	-	14,271
Restricted by donors for endowments	-	2,578	-	2,578	-	2,076	-	2,076
	615,181	17,484	-	632,665	576,593	16,347	-	592,940
Pledges and grants receivable	-	1,005	-	1,005	-	1,291	-	1,291
Total assets limited as to use	615,181	18,489	-	633,670	576,593	17,638	-	594,231
Other assets:								
Investment in affiliates	5,222	-	-	5,222	5,210	-	-	5,210
Interest rate swap agreement	69	-	-	69	176	-	-	176
Other long-term assets	5,151	-	-	5,151	4,974	10	-	4,984
Total other assets	10,442	-	-	10,442	10,360	10	-	10,370
Capital assets – tangible:								
Land	16,919	-	-	16,919	16,919	-	-	16,919
Depreciable capital assets, net of accumulated depreciation	430,556	-	-	430,556	434,465	-	-	434,465
Construction in progress	105,112	-	-	105,112	89,319	-	-	89,319
Total capital assets – tangible	552,587	-	-	552,587	540,703	-	-	540,703
Total assets	1,590,955	20,881	(173)	1,611,663	1,489,510	20,038	(273)	1,509,275
DEFERRED OUTFLOWS OF RESOURCES								
Pension deferrals	21,906	-	-	21,906	24,279	-	-	24,279
Excess consideration provided for acquisition, net of amortization	27,386	-	-	27,386	28,821	-	-	28,821
Deferred charges on bond refundings	6,257	-	-	6,257	7,193	-	-	7,193
Total deferred outflows of resources	55,549	-	-	55,549	60,293	-	-	60,293
Total assets and deferred outflows of resources	\$ 1,646,504	\$ 20,881	\$ (173)	\$ 1,667,212	\$ 1,549,803	\$ 20,038	\$ (273)	\$ 1,569,568

(Continued)

New Hanover Regional Medical Center

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

	September 30, 2019				September 30, 2018			
	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
LIABILITIES								
Current liabilities:								
Accounts payable and other liabilities	\$ 63,387	\$ 364	\$ (173)	\$ 63,578	\$ 59,132	\$ 668	\$ (273)	\$ 59,527
Professional liability claims	21,104	-	-	21,104	14,669	-	-	14,669
Accrued salaries and wages	45,096	-	-	45,096	35,484	-	-	35,484
Estimated third-party payor settlements	2,576	-	-	2,576	7,462	-	-	7,462
Due to component units	3,811	-	-	3,811	5,982	-	-	5,982
Accrued interest payable	7,669	-	-	7,669	7,976	-	-	7,976
Other self-funded liabilities	12,419	-	-	12,419	12,125	-	-	12,125
Capital lease obligations, notes and bonds payable, current portion	16,780	-	-	16,780	18,382	-	-	18,382
Total current liabilities	172,842	364	(173)	173,033	161,212	668	(273)	161,607
Long-term obligations:								
Net pension liability	45,843	-	-	45,843	50,113	-	-	50,113
Supplemental retirement plans	2,201	-	-	2,201	1,736	-	-	1,736
Interest rate swap agreements	3,020	-	-	3,020	2,178	-	-	2,178
Notes and bonds payable, less current portion	362,214	-	-	362,214	381,592	-	-	381,592
Total long-term obligations	413,278	-	-	413,278	435,619	-	-	435,619
Total liabilities	586,120	364	(173)	586,311	596,831	668	(273)	597,226
DEFERRED INFLOWS OF RESOURCES								
Pension deferrals	12,234	-	-	12,234	11,206	-	-	11,206
Total liabilities and deferred inflows of resources	598,354	364	(173)	598,545	608,037	668	(273)	608,432
NET POSITION								
Net investment in capital assets	179,850	-	-	179,850	147,922	-	-	147,922
Unrestricted	868,300	2,901	-	871,201	793,844	2,349	-	796,193
Restricted	-	17,616	-	17,616	-	17,021	-	17,021
Total net position	1,048,150	20,517	-	1,068,667	941,766	19,370	-	961,136
Total liabilities, deferred inflows of resources and net position	\$ 1,646,504	\$ 20,881	\$ (173)	\$ 1,667,212	\$ 1,549,803	\$ 20,038	\$ (273)	\$ 1,569,568

New Hanover Regional Medical Center

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

	Year Ended September 30, 2019			Year Ended September 30, 2018		
	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	\$ 1,112,644	\$ -	\$ 1,112,644	\$ 1,003,318	\$ -	\$ 1,003,318
Other revenue	50,201	1,544	51,745	35,054	1,701	36,755
Total operating revenue	1,162,845	1,544	1,164,389	1,038,372	1,701	1,040,073
Operating expenses:						
Salaries, wages and benefits	494,873	778	495,651	461,678	1,915	463,593
Medical supplies	259,291	-	259,291	221,058	-	221,058
Professional fees	50,830	26	50,856	46,519	22	46,541
Purchased services	128,834	-	128,834	120,587	-	120,587
Depreciation and amortization	52,916	-	52,916	52,416	-	52,416
Other	65,548	456	66,004	53,378	518	53,896
Total operating expenses	1,052,292	1,260	1,053,552	955,636	2,455	958,091
Operating income (loss)	110,553	284	110,837	82,736	(754)	81,982
Nonoperating revenues (expenses):						
Interest expense	(14,600)	-	(14,600)	(13,584)	-	(13,584)
Other nonoperating income (expense), net	(5,244)	19	(5,225)	(16,704)	16	(16,688)
Interest earned and net realized gain on investments	9,677	594	10,271	7,500	564	8,064
Net increase in fair value of investments	10,398	274	10,672	23,038	441	23,479
Gain (loss) on sale of capital assets	(2,929)	-	(2,929)	(827)	-	(827)
Equity in net income of joint ventures	(1,382)	-	(1,382)	(1,369)	-	(1,369)
Nonoperating revenues (expenses), net	(4,080)	887	(3,193)	(1,946)	1,021	(925)
Excess of revenues over expenses before special items, capital contributions and capital transfers	106,473	1,171	107,644	80,790	267	81,057
Special items, capital contributions and transfers:						
Transfer from primary government	149	-	149	-	-	-
Capital and permanent endowment contributions	337	501	838	264	-	264
Capital transfers to component units	(575)	(525)	(1,100)	(869)	(675)	(1,544)
Total special items, capital contributions and capital transfers	(89)	(24)	(113)	(605)	(675)	(1,280)
Change in net position	106,384	1,147	107,531	80,185	(408)	79,777
Net position, beginning	941,766	19,370	961,136	861,581	19,778	881,359
Net position, ending	\$ 1,048,150	\$ 20,517	\$ 1,068,667	\$ 941,766	\$ 19,370	\$ 961,136

New Hanover Regional Medical Center

Combining Statements of Cash Flows (Dollars in Thousands)

	Year Ended September 30, 2019			Year Ended September 30, 2018		
	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	\$ 1,091,280	\$ -	\$ 1,091,280	\$ 1,022,388	\$ -	\$ 1,022,388
Cash payments to suppliers for goods and services	(498,596)	(644)	(499,240)	(440,523)	(681)	(441,204)
Cash payments to employees for services	(491,185)	(778)	(491,963)	(476,316)	(1,915)	(478,231)
Other operating cash receipts	57,469	140	57,609	30,127	176	30,303
Net cash provided by (used in) operating activities	158,968	(1,282)	157,686	135,676	(2,420)	133,256
Cash flows from noncapital financing activities:						
Contributions and operating grants	-	1,544	1,544	-	1,701	1,701
Payments (to) from component unit	(3,884)	-	(3,884)	(772)	-	(772)
Payments (to) from primary government	149	-	149	-	-	-
Advances between affiliates	265	(265)	-	317	(317)	-
Net cash provided by (used in) noncapital financing activities	(3,470)	1,279	(2,191)	(455)	1,384	929
Cash flows from capital and related financing activities:						
Acquisition and construction of property and equipment	(66,535)	-	(66,535)	(90,925)	-	(90,925)
Proceeds from disposed assets	74	-	74	106	-	106
Capital contributions	337	501	838	264	-	264
Principal payments on revenue bonds and other outstanding debt	(18,912)	-	(18,912)	(30,993)	-	(30,993)
Interest paid on capital financing	(14,600)	-	(14,600)	(15,842)	-	(15,842)
Transfers (to) from component unit	(840)	(260)	(1,100)	(1,186)	(358)	(1,544)
Net cash provided by (used in) capital and related financing activities	(100,476)	241	(100,235)	(138,576)	(358)	(138,934)
Cash flows from investing activities:						
Sales (purchases) of investments, net of maturities	(11,696)	-	(11,696)	(162,014)	-	(162,014)
Interest earned on investments	9,677	(240)	9,437	7,500	1,083	8,583
Contributions to partnerships	(2,600)	-	(2,600)	(2,350)	-	(2,350)
Distributions from partnerships	1,206	-	1,206	1,076	-	1,076
Other interest earned	386	-	386	354	-	354
Net cash provided by (used in) investing activities	(3,027)	(240)	(3,267)	(155,434)	1,083	(154,351)
Net increase (decrease) in cash and cash equivalents	51,995	(2)	51,993	(158,789)	(311)	(159,100)
Cash and cash equivalents at beginning of year	188,525	1,955	190,480	347,314	2,266	349,580
Cash and cash equivalents at end of year	\$ 240,520	\$ 1,953	\$ 242,473	\$ 188,525	\$ 1,955	\$ 190,480

(Continued)

New Hanover Regional Medical Center

Combining Statements of Cash Flows (Continued) (Dollars in Thousands)

	Year Ended September 30, 2019			Year Ended September 30, 2018		
	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	\$ 159,440	\$ 1,953	\$ 161,393	\$ 111,524	\$ 1,955	\$ 113,479
Cash and cash equivalents in noncurrent cash and investments:						
Reserved for debt service-held by bond paying agent	35,796	-	35,796	50,671	-	50,671
Reserved for debt service-not held by bond paying agent	1,125	-	1,125	-	-	-
Designated by Board for payment of claims liabilities	1,408	-	1,408	50	-	50
Designated by Board for capital improvements	42,751	-	42,751	26,280	-	26,280
Cash and cash equivalents at end of year	\$ 240,520	\$ 1,953	\$ 242,473	\$ 188,525	\$ 1,955	\$ 190,480
Reconciliation of operating income to net cash provided by (used in) operating activities:						
Cash flows from operating activities:						
Operating income	\$ 110,553	\$ 284	\$ 110,837	\$ 82,736	\$ (754)	\$ 81,982
Employee services included in nonoperating income	(5,629)	-	(5,629)	(17,058)	-	(17,058)
Operating grants and contributions	-	(1,544)	(1,544)	-	(1,701)	(1,701)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Depreciation and amortization	52,916	-	52,916	52,416	-	52,416
Pension expense	14,421	-	14,421	15,823	-	15,823
Changes in:						
Receivables	(9,583)	140	(9,443)	7,698	176	7,874
Inventories	(3,092)	-	(3,092)	(5,429)	-	(5,429)
Prepaid expenses	(2,103)	142	(1,961)	(348)	(98)	(446)
Accounts payable and other liabilities	6,766	(304)	6,462	13,363	(43)	13,320
Accrued salaries and wages	9,612	-	9,612	2,752	-	2,752
Deferred outflows of resources for pensions	(14,716)	-	(14,716)	(16,155)	-	(16,155)
Other long-term assets	(177)	-	(177)	(122)	-	(122)
Net cash provided by (used in) operating activities	\$ 158,968	\$ (1,282)	\$ 157,686	\$ 135,676	\$ (2,420)	\$ 133,256
Noncash capital and related financing activities:						
Unrealized gain on investments, net	\$ 10,398	\$ 274	\$ 10,672	\$ 23,479	\$ 441	\$ 23,920
Capital assets acquired via accounts payable	\$ 167	\$ -	\$ 167	\$ 3,239	\$ -	\$ 3,239

New Hanover Regional Medical Center

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

	Year Ended September 30, 2019						Year Ended September 30, 2018					
	CHA	LCFH	PMH	PQP	Eliminating Entries	Total Combined Units	CHA	LCFH	PMH	PQP	Eliminating Entries	Total Combined Units
ASSETS												
Current assets:												
Cash and cash equivalents	\$ 6,085	\$ 2,860	\$ 12,676	\$ 701	\$ -	\$ 22,322	\$ 4,090	\$ 5,406	\$ 6,712	\$ 378	\$ -	\$ 16,586
Patient accounts, less allowance for bad debts	12,373	3,101	4,222	-	-	19,696	10,416	2,868	4,039	-	-	17,323
Due from health insurance programs	-	-	-	-	-	-	-	-	641	-	-	641
Due from primary government	-	-	3,811	-	-	3,811	-	71	5,551	366	-	5,988
Due from component units	795	-	-	-	(795)	-	9	-	-	-	(9)	-
Other receivables	609	127	84	2,561	-	3,381	523	151	845	78	-	1,597
Investments	-	9,011	-	-	-	9,011	-	7,947	-	-	-	7,947
Inventories	1,464	-	468	-	-	1,932	1,199	-	479	-	-	1,678
Prepaid expenses	650	278	372	52	-	1,352	393	435	381	60	-	1,269
Total current assets	21,976	15,377	21,633	3,314	(795)	61,505	16,630	16,878	18,648	882	(9)	53,029
Noncurrent cash, investments, and donor receivables:												
Noncurrent cash and investments:												
Designated by Board for operating and PDO reserve	-	8,583	-	-	-	8,583	-	11,068	-	-	-	11,068
Designated by Board for capital improvements	-	10,475	-	-	-	10,475	-	9,912	-	-	-	9,912
Restricted by donors for endowments	-	1,750	-	-	-	1,750	-	1,663	-	-	-	1,663
	-	20,808	-	-	-	20,808	-	22,643	-	-	-	22,643
Pledges and grants receivable	-	13	-	-	-	13	-	13	-	-	-	13
Total noncurrent cash, investments, and donor receivables	-	20,821	-	-	-	20,821	-	22,656	-	-	-	22,656
Other assets:												
Interest rate swap agreements	-	-	-	-	-	-	-	101	-	-	-	101
Other long-term assets	-	263	-	-	-	263	-	302	-	-	-	302
Total other assets	-	263	-	-	-	263	-	403	-	-	-	403
Capital assets – tangible:												
Land	-	6,096	42	-	-	6,138	-	6,096	42	-	-	6,138
Depreciable capital assets, net of accumulated depreciation	6,079	15,805	9,290	110	-	31,284	5,159	16,641	9,761	17	-	31,578
Construction in progress	553	173	152	-	-	878	231	9	4	-	-	244
Total capital assets – tangible	6,632	22,074	9,484	110	-	38,300	5,390	22,746	9,807	17	-	37,960
Total assets	28,608	58,535	31,117	3,424	(795)	120,889	22,020	62,683	28,455	899	(9)	114,048
DEFERRED OUTFLOWS OF RESOURCES												
Pension deferrals	-	-	707	-	-	707	-	-	703	-	-	703
Interest rate swap agreements	-	-	-	-	-	-	-	-	-	-	-	-
Total deferred outflows of resources	-	-	707	-	-	707	-	-	703	-	-	703
Total assets and deferred outflows of resources	\$ 28,608	\$ 58,535	\$ 31,824	\$ 3,424	\$ (795)	\$ 121,596	\$ 22,020	\$ 62,683	\$ 29,158	\$ 899	\$ (9)	\$ 114,751

New Hanover Regional Medical Center

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

	September 30, 2019						September 30, 2018					
	CHA	LCFH	PMH	PQP	Eliminating Entries	Total Combined Units	CHA	LCFH	PMH	PQP	Eliminating Entries	Total Combined Units
LIABILITIES												
Current liabilities:												
Accounts payable and other liabilities	\$ 16,111	\$ 1,872	\$ 1,546	\$ 139	\$ -	\$ 19,668	\$ 8,225	\$ 1,626	\$ 1,234	\$ 14	\$ -	\$ 11,099
Professional liability claims	654	-	333	-	-	987	573	-	335	-	-	908
Accrued salaries and wages	4,236	4,611	1,407	-	-	10,254	3,484	3,531	1,253	-	-	8,268
Estimated third-party payor settlements	-	-	1,097	-	-	1,097	-	-	-	-	-	-
Due to primary government	-	-	604	1,497	-	2,101	-	45	358	-	-	403
Due to component units	-	-	-	795	(795)	-	-	-	-	9	(9)	-
Capital lease obligations, notes and bonds payable, current portion	-	343	-	-	-	343	-	541	-	-	-	541
Total current liabilities	21,001	6,826	4,987	2,431	(795)	34,450	12,282	5,743	3,180	23	(9)	21,219
Long-term obligations:												
Net pension liability	-	-	3,247	-	-	3,247	-	-	3,179	-	-	3,179
Interest rate swap agreements	-	-	-	-	-	-	-	101	-	-	-	101
Notes and bonds payable, less current portion	-	4,969	-	-	-	4,969	-	7,612	-	-	-	7,612
Total long-term obligations	-	4,969	3,247	-	-	8,216	-	7,713	3,179	-	-	10,892
Total liabilities	21,001	11,795	8,234	2,431	(795)	42,666	12,282	13,456	6,359	23	(9)	32,111
Commitments and contingencies												
DEFERRED INFLOWS OF RESOURCES												
Pension deferrals	-	-	91	-	-	91	-	-	156	-	-	156
Total liabilities and deferred inflows of resources	21,001	11,795	8,325	2,431	(795)	42,757	12,282	13,456	6,515	23	(9)	32,267
NET POSITION												
Net investment in capital assets	6,632	16,762	9,484	110	-	32,988	5,390	14,491	9,807	17	-	29,705
Unrestricted	975	28,153	14,015	883	-	44,026	4,348	32,998	12,836	859	-	51,041
Restricted	-	1,825	-	-	-	1,825	-	1,738	-	-	-	1,738
Total net position	7,607	46,740	23,499	993	-	78,839	9,738	49,227	22,643	876	-	82,484
Total liabilities, deferred inflows of resources and net position	\$ 28,608	\$ 58,535	\$ 31,824	\$ 3,424	\$ (795)	\$ 121,596	\$ 22,020	\$ 62,683	\$ 29,158	\$ 899	\$ (9)	\$ 114,751

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, 2019					Year Ended September 30, 2018				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
Operating revenues:										
Net patient service revenue	\$ 149,121	\$ 31,158	\$ 24,674	\$ -	\$ 204,953	\$ 129,041	\$ 29,384	\$ 24,977	\$ -	\$ 183,402
Other revenue	58,923	3,753	9,814	5,595	78,085	59,824	4,550	7,776	2,204	74,354
Total operating revenue	208,044	34,911	34,488	5,595	283,038	188,865	33,934	32,753	2,204	257,756
Operating expenses:										
Salaries, wages and benefits	141,866	27,525	21,514	2,226	193,131	130,659	25,289	20,824	1,219	177,991
Medical supplies	31,460	4,784	1,624	-	37,868	26,690	4,556	1,527	-	32,773
Professional fees	1,384	400	1,104	2,516	5,404	508	657	946	48	2,159
Purchased services	20,159	784	5,445	600	26,988	18,652	745	4,912	805	25,114
Depreciation and amortization	1,478	1,087	1,801	8	4,374	2,027	1,014	1,811	9	4,861
Other	13,738	3,038	2,857	128	19,761	13,252	3,164	2,722	101	19,239
Total operating expenses	210,085	37,618	34,345	5,478	287,526	191,788	35,425	32,742	2,182	262,137
Operating (loss) income	(2,041)	(2,707)	143	117	(4,488)	(2,923)	(1,491)	11	22	(4,381)
Nonoperating revenues (expenses):										
Interest expense	-	(198)	1	-	(197)	-	(460)	-	-	(460)
Other nonoperating income (loss)	-	1,517	(147)	-	1,370	-	1,457	(225)	-	1,232
Net increase in fair value of investments	-	(1,149)	-	-	(1,149)	-	381	-	-	381
(Loss) gain on sale of capital assets	(90)	(84)	-	-	(174)	(288)	60	-	-	(228)
Nonoperating revenues (expenses)	(90)	86	(146)	-	(150)	(288)	1,438	(225)	-	925
Excess (deficiency) of revenues over expenses before capital contributions and capital transfers	(2,131)	(2,621)	(3)	117	(4,638)	(3,211)	(53)	(214)	22	(3,456)
Capital and permanent endowment contributions and capital transfers from component units	-	134	859	-	993	-	155	1,204	-	1,359
Change in net position	(2,131)	(2,487)	856	117	(3,645)	(3,211)	102	990	22	(2,097)
Net position, beginning	9,738	49,227	22,643	876	82,484	12,949	49,125	21,653	854	84,581
Net position, ending	\$ 7,607	\$ 46,740	\$ 23,499	\$ 993	\$ 78,839	\$ 9,738	\$ 49,227	\$ 22,643	\$ 876	\$ 82,484

New Hanover Regional Medical Center

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

	Year Ended September 30, 2019					Year Ended September 30, 2018				
	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	\$ 147,164	\$ 31,536	\$ 26,229	\$ -	\$ 204,929	\$ 130,291	\$ 29,689	\$ 24,827	\$ -	\$ 184,807
Cash payments to suppliers for services and goods	(60,080)	(7,961)	(8,147)	(3,188)	(79,376)	(58,288)	(8,089)	(10,020)	(963)	(77,360)
Cash payments to employees for services	(141,114)	(26,273)	(21,508)	(2,226)	(191,121)	(130,214)	(24,354)	(20,958)	(1,220)	(176,746)
Other operating cash receipts	58,923	3,051	9,814	5,770	77,558	59,824	3,828	7,777	1,897	73,326
Net cash provided by (used in) operating activities	4,893	353	6,388	356	11,990	1,613	1,074	1,626	(286)	4,027
Cash flows from capital and related financing activities:										
Acquisition of capital assets	(2,901)	(440)	(1,284)	(33)	(4,658)	(1,542)	(632)	(1,093)	-	(3,267)
Proceeds from disposed assets	3	3	-	-	6	-	-	-	-	-
Interest paid on capital financing	-	(147)	1	-	(146)	-	(460)	-	-	(460)
Payments on notes payable	-	(2,838)	-	-	(2,838)	-	(2,317)	-	-	(2,317)
Transfers (to) from component unit	-	-	859	-	859	-	-	1,204	-	1,204
Net cash (used in) provided by capital and related financing activities	(2,898)	(3,422)	(424)	(33)	(6,777)	(1,542)	(3,409)	111	-	(4,840)
Cash flows from investing activities:										
Purchases of investments, net of maturities	-	(644)	-	-	(644)	-	2,548	-	-	2,548
Interest earned on investments	-	1,517	-	-	1,517	-	1,458	-	-	1,458
Contributions to partnerships	-	-	-	-	-	(266)	-	-	-	(266)
Net cash provided by (used in) investing activities	-	873	-	-	873	(266)	4,006	-	-	3,740
Net increase (decrease) in cash and cash equivalents	1,995	(2,196)	5,964	323	6,086	(195)	1,671	1,737	(286)	2,927
Cash and cash equivalents:										
Beginning of year	4,090	5,526	6,712	378	16,706	4,285	3,855	4,975	664	13,779
End of year	\$ 6,085	\$ 3,330	\$ 12,676	\$ 701	\$ 22,792	\$ 4,090	\$ 5,526	\$ 6,712	\$ 378	\$ 16,706

(Continued)

New Hanover Regional Medical Center

Combining Statements of Cash Flows – Discretely Presented Component Units (Continued)

(Dollars in Thousands)

	Year Ended September 30, 2019					Year Ended September 30, 2018				
	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	\$ 6,085	\$ 2,860	\$ 12,676	\$ 701	\$ 22,322	\$ 4,090	\$ 5,406	\$ 6,712	\$ 378	\$ 16,586
Cash and cash equivalents in noncurrent cash and investments:										
By donor restrictions	-	470	-	-	470	-	120	-	-	120
Cash and cash equivalents at end of year	\$ 6,085	\$ 3,330	\$ 12,676	\$ 701	\$ 22,792	\$ 4,090	\$ 5,526	\$ 6,712	\$ 378	\$ 16,706
Reconciliation of operating income (loss) to net cash provided by operating activities:										
Cash flows from operating activities:										
Operating income (loss)	\$ (2,041)	\$ (2,707)	\$ 143	\$ 117	\$ (4,488)	\$ (2,923)	\$ (1,491)	\$ 11	\$ 22	\$ (4,381)
Employee services included in nonoperating income	-	-	(147)	-	(147)	-	-	(225)	-	(225)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:										
Depreciation and amortization	1,478	1,087	1,801	8	4,374	2,027	1,014	1,811	9	4,861
Pension expense	-	-	580	-	580	-	-	532	-	532
Changes in:										
Patient receivables and programs	(1,957)	401	1,555	(2,117)	(2,118)	1,514	304	(1,056)	-	762
Other receivables	(872)	-	2,501	-	1,629	-	-	905	-	905
Inventories	(265)	-	11	-	(254)	(30)	-	(15)	-	(45)
Prepaid expenses and other current assets	(257)	134	9	8	(106)	281	155	(79)	(334)	23
Accounts payable and other liabilities	8,055	186	362	2,340	10,943	298	286	182	17	783
Accrued salaries and wages	752	1,252	154	-	2,158	446	806	127	-	1,379
Deferred outflows of resources for pensions	-	-	(581)	-	(581)	-	-	(567)	-	(567)
Net cash provided by (used in) operating activities	\$ 4,893	\$ 353	\$ 6,388	\$ 356	\$ 11,990	\$ 1,613	\$ 1,074	\$ 1,626	\$ (286)	\$ 4,027
Noncash capital and related financing activities										
Noncash capital and related financing activities:										
Unrealized gain on investments, net	\$ -	\$ (1,149)	\$ -	\$ -	\$ (1,149)	\$ -	\$ 381	\$ -	\$ -	\$ 381

New Hanover Regional Medical Center

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

	September 30, 2019					September 30, 2018														
	New Hanover Regional Medical Center		CHA	PQP	Eliminating Entries	Combined	New Hanover Regional Medical Center		CHA	PQP	Eliminating Entries	Combined								
ASSETS																				
Current assets:																				
Cash and cash equivalents	\$	159,440	\$	6,085	\$	701	\$	-	\$	166,226	\$	111,524	\$	4,090	\$	378	\$	-	\$	115,992
Assets limited as to use:																				
Cash equivalents held by bond paying agent		35,796		-		-		-		35,796		50,671		-		-		-		50,671
Cash for debt service-not held by bond paying agent		1,125		-		-		-		1,125		-		-		-		-		-
Cash equivalents and investments for the future payment of claims liabilities		22,822		-		-		-		22,822		22,246		-		-		-		22,246
Receivables:																				
Patient accounts, less allowance for bad debts		130,637		12,373		-		-		143,010		113,686		10,416		-		-		124,102
Estimated third-party payor settlements		876		-		-		-		876		1,248		-		-		-		1,248
Due from component units		2,101		795		-		(2,292)		604		358		9		366		(430)		303
Other receivables		9,560		609		2,561		(49)		12,681		16,928		523		78		-		17,529
Inventories		31,800		1,464		-		-		33,264		28,708		1,199		-		-		29,907
Prepaid expenses		18,588		650		52		-		19,290		16,485		393		60		-		16,938
Total current assets		412,745		21,976		3,314		(2,341)		435,694		361,854		16,630		882		(430)		378,936
Noncurrent cash and investments:																				
Cash and investments:																				
Designated by Board for capital improvements		612,980		-		-		-		612,980		574,859		-		-		-		574,859
Designated by Board for supplemental retirement plans		2,201		-		-		-		2,201		1,734		-		-		-		1,734
Total assets limited as to use		615,181		-		-		-		615,181		576,593		-		-		-		576,593
Other assets:																				
Investment in affiliates		5,222		-		-		(993)		4,229		5,210		-		-		(876)		4,334
Interest rate swap agreement		69		-		-		-		69		176		-		-		-		176
Other long-term assets		5,151		-		-		-		5,151		4,974		-		-		-		4,974
Total other assets		10,442		-		-		(993)		9,449		10,360		-		-		(876)		9,484
Capital assets – tangible:																				
Land		16,919		-		-		-		16,919		16,919		-		-		-		16,919
Depreciable capital assets, net of accumulated depreciation		430,556		6,079		110		-		436,745		434,465		5,159		17		-		439,641
Construction in progress		105,112		553		-		-		105,665		89,319		231		-		-		89,550
Total capital assets – tangible		552,587		6,632		110		-		559,329		540,703		5,390		17		-		546,110
Total assets		1,590,955		28,608		3,424		(3,334)		1,619,653		1,489,510		22,020		899		(1,306)		1,511,123
DEFERRED OUTFLOWS OF RESOURCES																				
Pension deferrals		21,906		-		-		-		21,906		24,279		-		-		-		24,279
Excess consideration provided for acquisition, net of amortization		27,386		-		-		-		27,386		28,821		-		-		-		28,821
Deferred charges on bond refundings		6,257		-		-		-		6,257		7,193		-		-		-		7,193
Total deferred outflows of resources		55,549		-		-		-		55,549		60,293		-		-		-		60,293
Total assets and deferred outflows of resources	\$	1,646,504	\$	28,608	\$	3,424	\$	(3,334)	\$	1,675,202	\$	1,549,803	\$	22,020	\$	899	\$	(1,306)	\$	1,571,416

(Continued)

New Hanover Regional Medical Center

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

	September 30, 2019					September 30, 2018				
	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined
LIABILITIES										
Current liabilities:										
Accounts payable and other liabilities	\$ 63,387	\$ 16,111	\$ 139	\$ (49)	\$ 79,588	\$ 59,132	\$ 8,225	\$ 23	\$ -	\$ 67,380
Professional liability claims	21,104	654	-	-	21,758	14,669	573	-	-	15,242
Accrued salaries and wages	45,096	4,236	-	-	49,332	35,484	3,484	-	-	38,968
Estimated third-party payor settlements	2,576	-	-	-	2,576	7,462	-	-	-	7,462
Due to primary government	-	-	1,497	(1,497)	-	-	-	-	-	-
Due to component units	3,811	-	795	(795)	3,811	5,982	-	-	(430)	5,552
Accrued interest payable	7,669	-	-	-	7,669	7,976	-	-	-	7,976
Other self-funded liabilities	12,419	-	-	-	12,419	12,125	-	-	-	12,125
Capital lease obligations, notes and bonds payable, current portion	16,780	-	-	-	16,780	18,382	-	-	-	18,382
Total current liabilities	172,842	21,001	2,431	(2,341)	193,933	161,212	12,282	23	(430)	173,087
Long-term obligations:										
Net pension liability	45,843	-	-	-	45,843	50,113	-	-	-	50,113
Supplemental retirement plans	2,201	-	-	-	2,201	1,736	-	-	-	1,736
Interest rate swap agreements	3,020	-	-	-	3,020	2,178	-	-	-	2,178
Notes and bonds payable, less current portion	362,214	-	-	-	362,214	381,592	-	-	-	381,592
Total long-term obligations	413,278	-	-	-	413,278	435,619	-	-	-	435,619
Total liabilities	586,120	21,001	2,431	(2,341)	607,211	596,831	12,282	23	(430)	608,706
DEFERRED INFLOWS OF RESOURCES										
Pension deferrals	12,234	-	-	-	12,234	11,206	-	-	-	11,206
Total liabilities and deferred inflows of resources	598,354	21,001	2,431	(2,341)	619,445	608,037	12,282	23	(430)	619,912
NET POSITION										
Net investment in capital assets	179,850	6,632	110	-	186,592	147,922	5,390	17	-	153,329
Unrestricted	868,300	975	883	(993)	869,165	793,844	4,348	859	(876)	798,175
Total net position	1,048,150	7,607	993	(993)	1,055,757	941,766	9,738	876	(876)	951,504
Total liabilities, deferred inflows of resources and net position	\$ 1,646,504	\$ 28,608	\$ 3,424	\$ (3,334)	\$ 1,675,202	\$ 1,549,803	\$ 22,020	\$ 899	\$ (1,306)	\$ 1,571,416

New Hanover Regional Medical Center

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

	Year Ended September 30, 2019					Year Ended September 30, 2018				
	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	\$ 1,112,644	\$ 149,121	\$ -	\$ -	\$ 1,261,765	\$ 1,003,318	\$ 129,041	\$ -	\$ -	\$ 1,132,359
Other revenue	50,201	58,923	5,595	(54,075)	60,644	35,054	59,824	2,204	(55,835)	41,247
Total operating revenue	1,162,845	208,044	5,595	(54,075)	1,322,409	1,038,372	188,865	2,204	(55,835)	1,173,606
Operating expenses:										
Salaries, wages and benefits	494,873	141,866	2,226	-	638,965	461,678	130,659	1,219	-	593,556
Medical supplies	259,291	31,460	-	-	290,751	221,058	26,690	-	-	247,748
Professional fees	50,830	1,384	2,516	(14,905)	39,825	46,519	508	48	(14,660)	32,415
Purchased services	128,834	20,159	600	(36,028)	113,565	120,587	18,652	805	(38,405)	101,639
Depreciation and amortization	52,916	1,478	8	-	54,402	52,416	2,027	9	-	54,452
Other	65,548	13,738	128	(742)	78,672	53,378	13,252	101	(720)	66,011
Total operating expenses	1,052,292	210,085	5,478	(51,675)	1,216,180	955,636	191,788	2,182	(53,785)	1,095,821
Operating income (loss)	110,553	(2,041)	117	(2,400)	106,229	82,736	(2,923)	22	(2,050)	77,785
Nonoperating revenues (expenses):										
Interest expense	(14,600)	-	-	-	(14,600)	(13,584)	-	-	-	(13,584)
Other nonoperating income (loss), net	(5,244)	-	-	-	(5,244)	(16,704)	-	-	-	(16,704)
Interest earned and net realized gain on investments	9,677	-	-	-	9,677	7,500	-	-	-	7,500
Net increase in fair value of investments	10,398	-	-	-	10,398	23,038	-	-	-	23,038
Gain (loss) on sale of capital assets	(2,929)	(90)	-	-	(3,019)	(827)	(288)	-	-	(1,115)
Equity in net income of joint ventures	(1,382)	-	-	2,283	901	(1,369)	-	-	2,028	659
Nonoperating revenues (expenses), net	(4,080)	(90)	-	2,283	(1,887)	(1,946)	(288)	-	2,028	(206)
Excess (deficiency) of revenues over expenses before special items, capital contributions and capital transfers	106,473	(2,131)	117	(117)	104,342	80,790	(3,211)	22	(22)	77,579
Special items, capital contributions and transfers:										
Special item: excess consideration on purchase of assets	149	-	-	-	149	-	-	-	-	-
Capital and permanent endowment contributions	337	-	-	-	337	264	-	-	-	264
Capital transfers (to) from component units	(575)	-	-	-	(575)	(869)	-	-	-	(869)
Total special items, capital contributions and capital transfers	(89)	-	-	-	(89)	(605)	-	-	-	(605)
Change in net position	106,384	(2,131)	117	(117)	104,253	80,185	(3,211)	22	(22)	76,974
Net position, beginning	941,766	9,738	876	(876)	951,504	861,581	12,949	854	(854)	874,530
Net position, ending	\$ 1,048,150	\$ 7,607	\$ 993	\$ (993)	\$ 1,055,757	\$ 941,766	\$ 9,738	\$ 876	\$ (876)	\$ 951,504

New Hanover Regional Medical Center

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

	Year Ended September 30, 2019					Year Ended September 30, 2018				
	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	\$ 1,091,280	\$ 147,164	\$ -	\$ -	\$ 1,238,444	\$ 1,022,388	\$ 130,291	\$ -	\$ -	\$ 1,152,679
Cash payments to suppliers for goods and services	(498,596)	(60,080)	(3,188)	51,675	(510,189)	(440,523)	(58,288)	(963)	53,785	(445,989)
Cash payments to employees for services	(491,185)	(141,114)	(2,226)	-	(634,525)	(476,316)	(130,214)	(1,220)	-	(607,750)
Other operating cash receipts (payments)	57,469	58,923	5,770	(54,075)	68,087	30,127	59,824	1,897	(55,835)	36,013
Net cash provided by (used in) operating activities	158,968	4,893	356	(2,400)	161,817	135,676	1,613	(286)	(2,050)	134,953
Cash flows from noncapital financing activities:										
Payments to component unit	(3,884)	-	-	-	(3,884)	(772)	-	-	-	(772)
Payments from primary government	149	-	-	-	149	-	-	-	-	-
Advances between affiliates	265	-	-	-	265	317	-	-	-	317
Net cash used in noncapital financing activities	(3,470)	-	-	-	(3,470)	(455)	-	-	-	(455)
Cash flows from capital and related financing activities:										
Acquisition and construction of property and equipment	(66,535)	(2,901)	(33)	-	(69,469)	(90,925)	(1,542)	-	-	(92,467)
Proceeds from disposed assets	74	3	-	-	77	106	-	-	-	106
Capital contributions	337	-	-	-	337	264	-	-	-	264
Principal payments on revenue bonds and other outstanding debt	(18,912)	-	-	-	(18,912)	(30,993)	-	-	-	(30,993)
Interest paid on capital financing	(14,600)	-	-	-	(14,600)	(15,842)	-	-	-	(15,842)
Transfers (to) from component unit	(840)	-	-	-	(840)	(1,186)	-	-	-	(1,186)
Net cash used in capital and related financing activities	(100,476)	(2,898)	(33)	-	(103,407)	(138,576)	(1,542)	-	-	(140,118)
Cash flows from investing activities:										
(Purchases) sales of investments, net of maturities	(11,696)	-	-	-	(11,696)	(162,014)	-	-	-	(162,014)
Interest earned on investments	9,677	-	-	-	9,677	7,500	-	-	-	7,500
Contributions to partnerships	(2,600)	-	-	2,400	(200)	(2,350)	(266)	-	2,050	(566)
Distributions from partnerships	1,206	-	-	-	1,206	1,076	-	-	-	1,076
Other interest earned	386	-	-	-	386	354	-	-	-	354
Net cash used in investing activities	(3,027)	-	-	2,400	(627)	(155,434)	(266)	-	2,050	(153,650)
Net increase (decrease) in cash and cash equivalents	51,995	1,995	323	-	54,313	(158,789)	(195)	(286)	-	(159,270)
Cash and cash equivalents:										
Beginning of year	188,525	4,090	378	-	192,993	347,314	4,285	664	-	352,263
End of year	\$ 240,520	\$ 6,085	\$ 701	\$ -	\$ 247,306	\$ 188,525	\$ 4,090	\$ 378	\$ -	\$ 192,993

(Continued)

New Hanover Regional Medical Center

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

	Year Ended September 30, 2019					Year Ended September 30, 2018				
	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	\$ 159,440	\$ 6,085	\$ 701	\$ -	\$ 166,226	\$ 111,524	\$ 4,090	\$ 378	\$ -	\$ 115,992
Cash and cash equivalents in noncurrent cash and investments:										
Reserved for debt service-held by bond paying agent	35,796	-	-	-	35,796	50,671	-	-	-	50,671
Reserved for debt service-not held by bond paying agent	1,125	-	-	-	1,125	-	-	-	-	-
Designated by Board for payment of claims liabilities	1,408	-	-	-	1,408	50	-	-	-	50
Designated by Board for capital improvements	42,751	-	-	-	42,751	26,280	-	-	-	26,280
Cash and cash equivalents at end of year	\$ 240,520	\$ 6,085	\$ 701	\$ -	\$ 247,306	\$ 188,525	\$ 4,090	\$ 378	\$ -	\$ 192,993
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:										
Cash flows from operating activities:										
Operating income (loss)	\$ 110,553	\$ (2,041)	\$ 117	\$ (2,400)	\$ 106,229	\$ 82,736	\$ (2,923)	\$ 22	\$ (2,050)	\$ 77,785
Employee services included in nonoperating income	(5,629)	-	-	-	(5,629)	(17,058)	-	-	-	(17,058)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:										
Depreciation and amortization	52,916	1,478	8	-	54,402	52,416	2,027	9	-	54,452
Pension expense	14,421	-	-	-	14,421	15,823	-	-	-	15,823
Changes in:										
Patient receivables	(9,583)	(1,957)	(2,117)	-	(13,657)	7,698	1,514	-	-	9,212
Other receivables	-	(872)	-	-	(872)	-	-	-	-	-
Inventories	(3,092)	(265)	-	-	(3,357)	(5,429)	(30)	-	-	(5,459)
Prepaid expenses and other current assets	(2,103)	(257)	8	-	(2,352)	(348)	281	(334)	-	(401)
Accounts payable and other liabilities	6,766	8,055	2,340	-	17,161	13,363	298	17	-	13,678
Accrued salaries and wages	9,612	752	-	-	10,364	2,752	446	-	-	3,198
Deferred outflows of resources for pensions	(14,716)	-	-	-	(14,716)	(16,155)	-	-	-	(16,155)
Other long-term assets	(177)	-	-	-	(177)	(122)	-	-	-	(122)
Net cash provided by (used in) operating activities	\$ 158,968	\$ 4,893	\$ 356	\$ (2,400)	\$ 161,817	\$ 135,676	\$ 1,613	\$ (286)	\$ (2,050)	\$ 134,953
Noncash capital and related financing activities:										
Unrealized gain on investments, net	\$ 10,398	\$ -	\$ -	\$ -	\$ 10,398	\$ 23,038	\$ -	\$ -	\$ -	\$ 23,038
Capital assets acquired via accounts payable	\$ 167	\$ -	\$ -	\$ -	\$ 167	\$ 3,239	\$ -	\$ -	\$ -	\$ 3,239