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THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Atrium Health)

Basic Financial Statements and
Other Financial Information

December 31, 2019

(With Independent Auditors' Report Thereon)

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

Table of Contents

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

Table of Contents (continued)

KPMG LLP
Suite 1000
620 S. Tryon Street
Charlotte, North Carolina 28202-1842

Independent Auditors' Report

The Board of Commissioners
The Charlotte-Mecklenburg Hospital Authority:

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the pension trust funds of The Charlotte-Mecklenburg Hospital Authority (d/b/a Atrium Health) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Atrium Health'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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the pension trust funds of The Charlotte-Mecklenburg Hospital Authority (d/b/a Atrium Health) as of December 31, 2019, and the respective changes in financial position and, were applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in Note 1(a) to the financial statements, effective January 1, 2019, Navicent Health became a controlled affiliate of Atrium Health. Net position as of the beginning of the year has been restated to reflect the inclusion of Navicent as a part of the reporting entity.

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As discussed in Note 1(c) to the financial statements, Atrium Health adopted Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 18, the schedules of changes in the net pension liability and related ratios – Atrium Health Defined Benefit Plan, the schedules of pension contributions – Atrium Health Defined Benefit Plan, the schedules of pension plan investment returns – Atrium Health Defined Benefit Plan, the schedules of changes in the net pension liability and related ratios – Navicent Health Defined Benefit Plan, the schedules of pension contributions – Navicent Health Defined Benefit Plan, the schedules of pension plan investment returns – Navicent Health Defined Benefit Plan as of July 1 and December 31 on pages 90-101 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Atrium Health's basic financial statements. The combining balance sheet – Atrium Health combined group, the combining schedule of revenues, expenses and changes in net position – Atrium Health combined group, the combining schedule of cash flows – Atrium Health combined group, the combining balance sheet – Navicent Health, the combining schedule of revenues, expenses and changes in net position – Navicent Health, the combining schedule of cash flows – Navicent Health, the combining balance sheet – discrete component units, the combining schedule of revenues, expenses, and changes in net position – discrete component units, and the combining schedule of cash flows – discrete component units for the year ended December 31, 2019 (collectively the Combining Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Information is the responsibility of management and 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Charlotte, North Carolina
May 11, 2020

This Management's Discussion and Analysis provides an overview of the financial position and results of activities of Atrium Health for the years ended December 31, 2019 and 2018. It has been prepared by management and is required supplemental information to the basic financial statements and the notes that follow this section. Except as otherwise noted, the financial highlights in this analysis refer exclusively to the Primary Enterprise as described in note 1 of the notes to basic financial statements.

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

Atrium Health Overview

- In December 2018, Atrium Health and Navicent Health (Navicent) signed an Agreement and Member Substitution to enter a strategic combination, effective January 1, 2019 to enhance access, affordability, and equity of care for individuals and families in central and South Georgia. As a result of this combination, on the effective date of the Agreement, Navicent became a component unit of Atrium Health and its financial information is blended with the Primary Enterprise for all periods presented in this discussion and analysis. For more information on the arrangement, see note 1 of the notes to basic financial statements.
- In April 2019, Atrium Health, Wake Forest Baptist Health, an academic healthcare system headquartered in Winston-Salem, North Carolina, and Wake Forest University signed a Memorandum of Understanding to create a next-generation academic healthcare system. In October 2019, Atrium Health, Atrium Health, Inc., a newly formed not-for-profit corporation, and Wake Forest Baptist Health's members and affiliates, entered into a Health System Integration Agreement (Integration Agreement) to form a single, integrated healthcare delivery and academic system. For more information on the arrangement, see note 1 of the notes to basic financial statements.
- In November 2019, Atrium Health signed a Letter of Intent to combine with Floyd Health System (Floyd), a Georgia nonprofit corporation headquartered in Rome, Georgia, with the goal of bringing enhanced capabilities and new investments in skills and talent, facilities and technology to the communities served by Floyd. For more information on the arrangement, see note 1 of the notes to basic financial statements.

Atrium Health Financial Highlights

- For the year ended December 31, 2019, bedded discharges (inpatient discharges and observation stays), were 230,217 or 3.2% over 2018 at the acute and tertiary care hospitals. Excluding Navicent volumes from 2018, bedded discharges grew 25.5%. Additionally, outpatient procedures, including emergency room visits, radiology, and endoscopies experienced growth from 2018.

- For the year ended December 31, 2019, Medical Group patient visits were 5,619,719 or 0.2% more than 2018. Visits increased 6.5% when Navicent visits are excluded from 2018.
- For the year ended December 31, 2019, net patient service revenue of $6,750,656 increased from 2018 by $390,797 or 6.1%. The increase was 20.5% when measured against 2018 net patient service revenue excluding Navicent. Total operating revenue in 2019 was $7,480,352. Total operating revenue consists of net patient service revenue, grant revenue, pharmacy sales revenue, reimbursed services to affiliates and other revenue.
- For the year ended December 31, 2019, operating income was $386,433, a 93.3% increase over 2018 operating income of $199,941.
- For the year ended December 31, 2019, nonoperating income, net was $774,793, a $1,150,789 increase over 2018. This increase was primarily due to favorable changes in the market value of investments in 2019 compared to unfavorable changes in 2018.
- In 2019, Atrium Health approved the project to implement Oracle Cloud Enterprise Resource Planning (ERP). The project has a total budgeted cost of $37,700 and is expected to be complete in year 2021. $7,237 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to implement Epic Clinical Electronic Health Record (EHR) and Revenue Cycle at Navicent in Macon, GA. The project has a total budgeted cost of $86,400 and is expected to be complete in year 2021. $0 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to implement Epic Clinical EHR across the Atrium Health Greater Charlotte region. The project has a total budgeted cost of $237,000 and is expected to be complete in year 2023. $0 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to acquire 106 acres of land in the Lake Norman area of Charlotte's north market. This project was approved to allow Atrium Health to develop a future medical campus on the site to better serve the Lake Norman area and high-growth communities in the North Charlotte market and decompress central Charlotte acute care facilities. This project was completed in 2019 with a total cost of $19,785.
- In 2019, Atrium Health approved the project to construct a new 30-bed hospital on the new Lake Norman campus in the North Charlotte market. This project was approved to better serve the Lake Norman area and other high-growth communities in the North Charlotte market. This project has a total budgeted cost of $147,100 and is expected to be complete in year 2024. $262 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to construct a new 12,500 square foot Freestanding Emergency Department in Charlotte's Central market. This project was approved to serve communities in the Mountain Island Lake area. The project has a total budgeted cost of $13,800 and is expected to be complete in year 2022. $220 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to construct a new 40-bed hospital and 65,000 square foot medical office building on the Union West campus in Charlotte's South market. The project will allow Atrium Health to better serve western Union County and the communities of Matthews, Waxhaw, Indian Trail and

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Mint Hill. This project has a total budgeted cost of $171,500 and is expected to be complete in year 2022. $2,491 was incurred on this project during the year ended December 31, 2019.

- In 2019, Atrium Health approved the project to construct a new 25,000 square foot Medical Office Building in Fort Mill, South Carolina. This project was approved to serve communities in Charlotte's South market. The project has a total budgeted cost of $11,300 and is expected to be complete in year 2021. $0 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to construct a new 25,000 square foot Medical Office Building in Harrisburg adjacent to Atrium Health's Harrisburg Freestanding Emergency Department. This project was approved to serve communities in the Central Charlotte market. The project has a total budgeted cost of $11,300 and is expected to be complete in year 2020. $11 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to construct a new 25,000 square foot Medical Office Building at the intersection of Providence Road and Ardrey Kell Road to serve communities in Charlotte's South market. The project has a total budgeted cost of $11,300 and is expected to be complete in year 2020. $210 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to construct a new 12,500 square foot Freestanding Emergency Department at the intersection of Providence Road and Ardrey Kell Road to serve communities in Charlotte's South market. The project has a total budgeted cost of $11,700 and is expected to be complete in year 2020. $951 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to purchase proton beam equipment and construct a three-story underground concrete vault to house the cyclotron at Carolinas Medical Center (CMC). This project was approved to support world class growth for Levine Cancer Institute's adult and pediatric oncology programs. The project has a total budgeted coast of $45,000 and is expected to be complete in year 2021. $133 was incurred on this project during the year ended December 31, 2019.
- In 2019, Atrium Health approved the project to construct a new Musculoskeletal Institute within Atrium Health Mercy, including the expansion of surgical capacity through the addition of four operating rooms (three relocated and one new), renovations and reconfigurations of dated patient units, and patient facing investments such as a new lobby, retail and vertical transportation upgrades. The investments will establish Mercy as a state-of-the-art facility for the Musculoskeletal Program. This project has a total budgeted cost of $121,700 and is expected to be complete in year 2022. $8,285 was incurred on this project during the year ended December 31, 2019.
- In 2018, Atrium Health approved the project to prepare the CMC campus with necessary infrastructure and enabling upgrades to construct a new 12-story inpatient, surgical services and emergency services facility and to develop both a new Children's ambulatory destination center and pediatric ED/OR components of the bed tower. This project has a total budgeted cost of $756,900 and is expected to be complete in the years 2021 and 2025. $17,319 was incurred on this project during the year ended December 31, 2019.
- In 2018, Atrium Health approved the project to construct a new Carolinas Rehabilitation-Charlotte facility, which includes a 78-bed inpatient hospital and outpatient rehabilitation clinics, to align rehabilitation with our world class service line approach as well as accommodate greater expected demand as acute care inpatient severity of illness rises with an aging population. This project has a total budgeted cost of $81,600 and is

expected to be complete in year 2021. $2,005 was incurred on this project during the year ended December 31, 2019.

- In 2018 and 2017, Atrium Health approved components of a project to lease two new Medical Office Buildings in Central Charlotte. The office buildings will consolidate 13 medical groups, will create a flagship location for Sanger Heart and Vascular Institute's cardiovascular programs and will decompress CMC's campus. The project also supports provider growth in Central Charlotte. The project has a total budgeted cost of $75,000 and is expected to be complete in year 2020. $4,705 was incurred on this project during the year ended December 31, 2019.
- In 2018, Atrium Health approved the project to construct a new 8-story inpatient and surgical facility on Atrium Health Pineville's campus. The new acute care tower will include 108 inpatient beds and expand surgical services to accommodate current and future need for inpatient services. The project has a total budgeted cost of $160,100 and is expected to be complete in year 2022. $15,116 was incurred on this project during the year ended December 31, 2019.
- In 2018, Atrium Health approved the project to acquire multiple land tracts in several sub-markets in the Charlotte region that are of significant strategic value. This project has a total budgeted cost of $40,000 and is expected to be complete in year 2020. $25,365 was incurred on this project during the year ended December 31, 2019.
- In 2017, Atrium Health approved the project to construct a new Medical Office Building on the campus of Atrium Health Pineville. This project was approved to support market growth for key service lines. The project has a total budgeted cost of $100,000 and is expected to be complete in year 2020. $21,171 was incurred on this project during the year ended December 31, 2019.
- In 2016, Navicent approved the project to construct and renovate a 160,000 square foot space for the Children's Hospital in Macon, GA. This project was approved to serve pediatric communities in Central & South Georgia. The project has a total budgeted cost of $82,000 and was complete in year 2019. $20,833 was incurred on this project during the year ended December 31, 2019.
- In 2016, Atrium Health approved the project to construct a second outpatient center for oncology services on the CMC campus. This project was approved to enhance Levine Cancer Institute's existing outpatient operations and develop a new 32 bed inpatient hematologic unit at CMC. The project has a total budgeted cost of $150,000 and was complete in year 2019. $36,242 was incurred on this project during the year ended December 31, 2019.
- In 2014, Atrium Health approved the project to provide upgrades, renovations to existing areas within Atrium Health Cabarrus and new construction surrounding the cardiovascular service line. This project was divided into two phases. Phase I included renovation of Women's Service and was completed in year 2016. Phase II includes new construction of the tower for cardiology and the modernization of G, H and J wings. This project has a total budgeted cost of $141,400 and is expected to be complete in year 2021. $35,119 was incurred on this project during the year ended December 31, 2019.
- In 2013, Atrium Health approved the project to replace Revenue Cycle technology to consolidate to one common system for both the Acute and Ambulatory environments. The project has a total budgeted cost of $92,600 and is expected to be complete in year 2020. $4,180 was incurred on this project during the year ended December 31, 2019.

- Atrium Health utilizes interest rate swaps to manage interest rate risk exposure on certain series of bonds. Interest rate swaps necessarily involve counterparty credit risk and Atrium Health seeks to control this risk by entering into transactions with high quality counterparties and through the monitoring of exposure to each counterparty. Atrium Health is a party to 14 floating-to-fixed rate payer swap agreements tied to its Series 2005 B, C and D Refunding Revenue Bonds, Series 2007 B and C Refunding Revenue Bonds and Series 2007 D, E, F, G and H Revenue Bonds. Navicent is a party to two floating-to-fixed rate payer swap agreements tied to its Series 2017 B Revenue Anticipation Certificates. These agreements are used to create synthetic fixed rate bonds by converting the variable rates on those series to fixed rates. Therefore, cash flows on these agreements are recorded as interest expense. In January 2019, Atrium Health entered into a forward starting floating-to-fixed interest rate swap in connection with the planned synthetic fixed rate refunding of its Series 2011 A Refunding Revenue Bonds that are callable on January 15, 2021. For more information on these agreements, see note 5 of the notes to basic financial statements.
- In November 2019, S&P Global Ratings (S&P), affirmed its AA- Stable rating on previously issued Atrium Health bonds. In September and October 2018, Atrium Health completed updates with Moody's Investors Service (Moody's) and S&P, respectively. Moody's assigned a rating of Aa3 Stable on newly issued Series 2018 Revenue and Refunding Bonds and affirmed its Aa3 Stable rating on previously issued Atrium Health bonds. S&P assigned a rating of AA- on newly issued Series 2018 Revenue and Refunding Revenue Bonds and affirmed its AA- Stable rating on previously issued Atrium Health bonds.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to Atrium Health's basic financial statements and the notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

The Governmental Accounting Standards Board (GASB) requires three financial statements: the statement of net position (balance sheet); the statement of revenues, expenses and changes in net position; and the statement of cash flows.

The balance sheet; statement of revenue, expenses and changes in net position; and statement of cash flows are presented on an accrual basis, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). This information provides an indication of Atrium Health's financial health. The balance sheet includes all of Atrium Health's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants or other agreements. The statement of revenue, expenses, and changes in net position reports the revenue and expenses during the periods indicated. The statement of cash flows reports the cash provided and used by operating activities, as well as other cash sources, such as investment income, and other cash uses, such as repayment of debt and purchase of capital.

Because the Agreement and Member Substitution with Navicent constitutes a change in reporting entity, amounts presented herein for the year ended December 31, 2018 have been restated to include Navicent. For more information on the arrangement, see note 1 of the notes to basic financial statements.

In 2019, Atrium Health adopted GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and how those activities should be reported. As a result of the adoption of this Statement, the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary

(Dollars in thousands)

Net Position for all Atrium and Navicent defined benefit plans have been presented with the basic financial statements. Notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements. Required supplementary information relates to Atrium Health's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis and Results of Operations

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

Table 1 – Summary Balance Sheet

	2019	2018
Current assets	$ 1,618,103	$ 1,301,652
Capital assets – net	3,795,948	3,647,681
Other noncurrent assets	6,453,434	5,702,897
Total assets	11,867,485	10,652,230
Deferred outflows of resources	337,592	226,369
Total assets and deferred outflows of resources	$ 12,205,077	$ 10,878,599

	2019	2018
Current liabilities	$ 1,531,820	$ 1,432,262
Long-term liabilities	3,308,451	3,254,416
Total liabilities	4,840,271	4,686,678
Deferred inflows of resources	68,888	81,998
Net investment in capital assets	1,453,649	1,405,380
Restricted – by donor	78,658	62,998
Unrestricted	5,763,611	4,641,545
Total net position	7,295,918	6,109,923
Total liabilities, deferred inflows of resources and net position	$ 12,205,077	$ 10,878,599

Atrium Health classifies net position as net investment in capital assets, restricted – by donor, and unrestricted. The change in net investment in capital assets over the prior year were driven by debt principal payments and additional capital expenditures. The unrestricted net position increase for the year ended December 31, 2019 was driven primarily by a strong operating performance for the year and favorable investment returns.

The net position of Atrium Health at December 31, 2019 increased $1,185,995 from December 31, 2018. The increase in net position was due to positive results of operations of $386,433, nonoperating income of $774,793 and capital and other contributions of $24,769.

Atrium Health's cash and investment position at December 31, 2019 and 2018 was $6,308,424 and $5,079,138, respectively. Days cash on hand for the Atrium Health Combined Group, which consists of all entities that have either a direct obligation (Obligated Group) or indirect obligation (Designated Affiliates, of which there are currently none) to pay amounts due on Atrium Health's bonds, was 362 and 300 at December 31, 2019 and 2018, respectively.

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

(Dollars in thousands)

Revenue and Expenses

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

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

	2019	2018
Operating revenues:		
Net patient service revenue	$ 6,750,656	$ 6,359,859
Other revenue	729,696	659,208
Total operating revenue	7,480,352	7,019,067
Operating expenses:		
Personnel costs	4,197,447	4,017,874
Supplies	1,407,008	1,283,618
Purchased services	563,320	532,655
Other expenses	558,850	620,834
Depreciation and amortization	367,294	364,145
Total operating expenses	7,093,919	6,819,126
Operating income	386,433	199,941
Nonoperating (loss) income – net:		
Interest expense	(87,368)	(82,545)
Interest and dividend income	113,151	98,739
Net change in the fair value of investments	790,940	(383,738)
Other, net	(41,930)	(8,452)
Total nonoperating income (loss) – net	774,793	(375,996)
Revenue over (under) expenses before contributions	1,161,226	(176,055)
Capital contributions	24,385	37,782
Other contributions	384	(362)
Increase (decrease) in net position	1,185,995	(138,635)
Beginning net position	6,109,923	6,248,558
Ending net position	$ 7,295,918	$ 6,109,923

(Continued)

Operating Revenue

Operating revenues in 2019 increased 6.6% from 2018 largely due to increases in hospital patient volumes, growth of the Medical Group, and growth of other operating revenues. More detail of operating revenue can be found in notes 6 and 7 of the notes to basic financial statements.

Operating Expenses

Operating expenses in 2019 increased 4.0% from the prior year. Personnel costs, comprising 59.2% of the total Atrium Health operating expenses in 2019, increased due to volume growth at the acute facilities, increases in Medical Group providers and staffing support, and annual market adjustments across Atrium Health. Other operating expenses, consisting primarily of pharmaceutical and supply costs, professional fees, rent and purchased services, increased 3.8%, primarily due to growth in patient volumes and other operating revenues, and inflationary cost increases, including the cost of new technologies.

Nonoperating Income and Losses

Nonoperating income and losses, which consists primarily of realized and unrealized investment results, was impacted favorably in 2019 by the market value appreciation of Atrium Health's investments. As a governmental entity, Atrium Health is required to record all investment market value changes as a component of nonoperating income (loss).

Nonoperating activity from Atrium Health's equity, fixed income, and cash investments was a $904,091 gain in 2019 and a $284,999 loss in 2018.

Interest and dividend income on Atrium Health's investment portfolio in 2019 was $113,151 and net realized and unrealized gains on the portfolio were $790,940. The net realized / unrealized gains were due to positive performance of investments throughout 2019.

Management presents portfolio performance to the Investment Oversight Committee of Atrium Health as well as the Board of Commissioners, on a quarterly basis. Management meets regularly with Atrium Health's investment consultant to review portfolio and investment manager performance and to identify and recommend changes to the investment strategy for consideration by the Investment Oversight Committee. Investment expenses consist of fees paid to Atrium Health's investment managers, investment consultant, and custodian.

Other net nonoperating expenses were $41,930 and $8,452 for the years ended December 31, 2019 and 2018, respectively, due to capital disposals and donations and, in 2019, a one-time settlement resolution expense not related to ongoing operations.

(Dollars in thousands)

Capital Assets and Debt Administration

Capital Assets

Capital assets, net of depreciation and impairment at December 31, 2019 and 2018 are summarized in Table 3 and are discussed below.

Table 3 – Capital Assets, Net of Depreciation and Impairment

	2019	2018
Land	$ 259,443	$ 243,137
Buildings and land improvements	4,396,503	3,962,512
Equipment	2,776,806	2,652,932
Construction in progress	411,822	566,878
Subtotal	7,844,574	7,425,459
Accumulated depreciation	(4,048,626)	(3,777,778)
Total	$ 3,795,948	$ 3,647,681

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

Levine Cancer Institute	$ 36,242
Atrium Health Cabarrus Modernization	35,119
Navicent Children's Hospital	20,833
Strategic Land Investments	25,365
Atrium Health Pineville Medical Office Building	21,171
Lake Norman Area Land	19,785
CMC Campus Plan	17,319
Atrium Health Pineville New Tower	15,116

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

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

Ongoing capital requirements are funded from a combination of operating cash, debt proceeds, and contributions. Atrium Health's annual capital budget for 2019 and 2018 was $922,561 and $659,489, respectively. Cash outflows related to capital additions, net of retirements, for 2019 and 2018 totaled $513,301 and $ 530,234, respectively. Total depreciation expense on capital assets was $371,085 and $361,311 for 2019 and 2018, respectively. At December 31, 2019, Atrium Health had planned future capital spending of approximately

$4,241,504 for 2020-2024 for ongoing routine and significant strategic IT and facility expansion projects. More detailed information about Atrium Health's capital assets is presented in note 4 of the notes to the basic financial statements.

Long-Term Debt

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

Debt service for the Atrium Health Combined Group (scheduled principal and interest payments and net interest rate swap payments, excluding refinancing activity) for 2019 and 2018 totaled $121,608 and $126,070, respectively.

The actual annual debt service coverage ratio for the Atrium Health Combined Group, as defined in the Bond Order, for 2019 and 2018 was 9.55 and 9.10, respectively. The Bond Order requires an actual annual debt service coverage ratio of not less than 1.1.

In December 2019, Navicent utilized a mandatory tender process to change the holder of its Series 2017A and Series 2017B Revenue Anticipation Certificates aggregating $235,410 and its $60,000 taxable Variable Term Loan to another financial institution. As a result of this mandatory tender process, these certificates and loan were deemed extinguished and the remarketed debt was treated as a new issuance.

In November and December of 2018, Atrium Health issued $564,030 of Revenue and Refunding Revenue Bonds, a portion of which currently refunded $178,425 of the outstanding Series 2009A Revenue Bonds. The remainder of the funds have been and will be used to pay certain expenses of issuing the bonds and to fund future capital investments.

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

Events and Factors Expected to Impact Future Periods

Healthcare continues to be a capital-intensive industry that requires significant reinvestment to keep pace with patient care advancements and technology transformations occurring in the marketplace. An entity's ability to reinvest to meet its long-term capital and program needs hinges largely on its ability to perform well financially. We believe that Atrium Health, with its geographic dispersion; world-class providers and services; focus on growth, value and affordability; balanced with its mission *to provide health, hope and healing for all* is well positioned to meet the demands of the fast-changing industry in which we operate.

External pressures on revenue streams are not new to the industry as governmental payers have long tried to bend the growth curve in healthcare spending. Both Moody's Investor Services and S&P Global Ratings in their 2020 industry outlooks cite continuing stress on healthcare reimbursement in the future. Pressure continues at the state levels on certificate of need regulations. Additionally, North Carolina lawmakers in 2015 approved a Medicaid reform plan in which provider-led entities and commercial insurers will co-exist in a fully capitated system. While the go-live date, which was scheduled for 2020, has been postponed and a new date is yet to be released, we believe the State will not abandon this transition. It is further expected that the State will be working with North Carolina healthcare providers to restructure payment rates associated with the State Health Plan for Teachers and State Employees. We believe healthcare providers like Atrium Health who are leveraging technology, transforming care delivery and reducing the total cost of care will be more apt to withstand the future revenue pressures in a fully capitated Medicaid environment as well as provide affordable, high quality care to all that we serve.

From a Federal perspective, between CMS's proposed Medicare and Medicaid policy changes and the President's executive orders impacting hospitals, there is heightened uncertainty as to how regulatory policy will affect governmental payer reimbursements, as well as the potential periphery impacts with commercial payers. Expected Medicaid Disproportionate Share Hospital reimbursement cuts (originally part of the Affordable Care Act in 2014 and now delayed until 2021 with the passage of the Coronavirus Aid, Relief, and Economic Security Act), reductions in payments under the 340B drug discount program as well as site-neutral payment reductions, and the legal conflicts surrounding the President's *Hospital Price Transparency* rule have healthcare providers working diligently to educate lawmakers on the implications of these potential reimbursement cuts and policy changes as well as to accurately interpret and implement the rule requirements.

Healthcare consumers are more informed than ever before, and, as a result, the industry has continued to transform to improve pricing transparency, access, convenience, experience and value for the patient. Delivering near term value to individual patients, and increasingly, to the population as a whole with respect to cost and risk management, will be required for health systems in the future. Non-traditional and for-profit competitors are continuing to enter the healthcare market. Many of these market entrants are already consumer-focused and are already providing value to the patient through alternatives to traditional primary care and low acuity outpatient experiences. We believe traditional healthcare providers who, continue to accelerate transformation, are in the best position to connect care over the whole continuum, thereby meeting consumers' demands, but also significantly improving health for the population at large. We believe Atrium Health is poised to succeed in the value arena by transforming and delivering superior patient care in financially sustainable ways.

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

For information regarding COVID-19 and its impact on Atrium Health, please see note 11 of the notes to the basic financial statements.

Community Benefit

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

Atrium Health defines and measures Community Benefit consistent with the American Hospital Association guidelines and includes costs associated with:

- patient care provided to uninsured and underinsured patients, and those who are unable to pay their bills,
- patient care provided to Medicare and Medicaid patients where reimbursement is less than the cost to provide services,
- medical education provided to the next generation of healthcare professionals,
- medical research to stay on the "cutting edge" for new treatments and cost-effective care, volunteerism of Atrium Health teammates and contributions to community groups and local nonprofit organizations, and
- vital healthcare and community health improvement services as well as community building activities.

The community's uninsured and underinsured care constitutes both a challenge and an opportunity for Atrium Health. It is a challenge to ensure that the necessary clinical programs and facility infrastructures are in place to meet the demand for all patients. It is also an opportunity to provide access to needed healthcare services for the large uninsured and underinsured population. The cornerstone of Atrium Health's overall Community Benefit is its commitment to provide hospital and other healthcare services to all patients regardless of their ability to pay. Medicaid programs, while providing healthcare coverage for many of the poor, disabled, and elderly residents, do not cover all who are unable to pay for healthcare. Also, Medicaid reimburses healthcare providers at substantially less than actual cost and has not kept pace in recent years with the industry's rapidly rising cost of technology and enrollment. Within Mecklenburg, Cabarrus, Cleveland, Union, Lincoln, Stanly, and Anson counties, Atrium Health provides approximately 85% of the hospital services to the Medicaid and uninsured patient populations. In many cases, Atrium Health provides the only access to certain outpatient and physician specialty care for those in the community in need of financial assistance, as well as serving uninsured patients who are not eligible for financial assistance discounts, Medicaid, or other governmental funding. More detailed information about Atrium Health's net patient service revenue is presented in notes 1 and 6 of the notes to basic financial statements.

Due to high levels of uninsured and underinsured patients, certain Atrium Health services that are essential to the community are often operated at a deficit. In 1993, the federal government, in conjunction with pharmaceutical companies, began a program to provide lower cost pricing for pharmaceutical purchases by healthcare facilities with large numbers of Medicaid patients. Identified as the 340B program, Congress' objective with the program was to stretch scarce Federal resources as far as possible, reaching more eligible patients and providing more comprehensive services. Carolinas Medical Center was an original safety-net hospital in the program and since then, six other Atrium Health hospitals in the Charlotte service area, and three Atrium Health hospitals in the Georgia service area, have qualified for participation in the program. Those ten hospitals received a combined estimated value in excess of $230 million in cost savings during 2019 thereby allowing opportunities for Atrium Health to enhance services for uninsured, underinsured, and Medicaid patients in the community such as: operating Atrium Health community clinics, in which staff interpreters, dieticians, social workers, nurses and physicians provide free or nominally priced care for the most vulnerable in our community; providing dedicated pharmacists within these community clinics who offer medication assistance with education and treatment plans and operate clinic pharmacies where prescriptions can be filled for free or at a nominal price; operating in partnership with Cabarrus Health Alliance an obstetrics clinic for pregnant women without insurance; providing behavioral health services through multiple outlets including outreach and educational programs to the community, a call line available 24 hours a day at no charge to the client, quality services to patients across Atrium Health's multiple healthcare treatment locations; and numerous other community health improvement programs and community building activities as discussed below.

Atrium Health supports and subsidizes medical education and research, which benefits not only Atrium Health and the patients it serves, but the entire healthcare provider community. In the Charlotte market, Carolinas Medical Center is the sponsoring institution for 40 training programs with 355 residents and fellows. In 2019, approximately 45% of the 117 residents and fellows that completed the program stayed in the Carolinas. Atrium Health continues to provide clinical education for medical students completing their third and fourth years of medical school. During the 2019-2020 academic year, the Charlotte campus of the University of North Carolina School of Medicine will have 29 full-time third year students and 298 fourth year students who will take advantage of CMC's medical student rotation options. The Family Medicine Residency program, Union Track, trains physicians to provide full-scope primary care to all communities in small towns or rural settings. This program, which currently trains nine residents, is embedded in a local physician practice, and is designed as an "apprenticeship model" in which the residents learn by practicing side-by-side with private practice physicians. Atrium Health Cabarrus sponsors the Cabarrus Family Medicine Residency Program and a primary care sports medicine fellowship. These two programs, accredited by the Accreditation Council for Graduate Medical Education, train 24 family medicine residents, and one sports medicine fellow each year. Since its inception in 1996, the Cabarrus Family Medicine Residency Program has graduated 160 family medicine residents, with 73% staying in the Carolinas to practice. In the Georgia market, Navicent partners with Mercer University School of Medicine to support residency programs in Family Medicine, Internal Medicine, Pediatrics, Surgery, and Obstetrics/Gynecology as well as five fellowship programs in: Hospice Medicine/Palliative Care, Geriatrics, Infectious Diseases, Surgical Critical Care, and Micrographic Surgery/Dermatological Oncology. 113 residents and fellows are currently participating in these programs.

Through two of its hospitals, Atrium Health owns, operates and subsidizes two colleges that offer nursing and allied health programs culminating in certificates, diplomas and degrees at the associate, baccalaureate and master's degree levels. Carolinas College of Health Sciences, affiliated with Carolinas Medical Center, is in Mecklenburg County, while Cabarrus College of Health Sciences, affiliated with Atrium Health Cabarrus, is in Cabarrus County. In 2019, over 1,370 students were collectively enrolled in programs such as Nursing, Nurse Anesthesia, Surgical Technology, Pharmacy Technology, Clinical Laboratory Sciences, Interdisciplinary Health Studies, Radiation Therapy, Radiologic Sciences, Medical Assistant, and Occupational Therapy. With 393 graduates in 2019 alone, Atrium Health is one of the top producing nursing and allied health entities in North Carolina. Equally important, 80% of graduates accept positions in the Carolinas in their field of training providing a valuable workforce resource to alleviate projected clinical personnel shortages. In 2019, *RNCareers.org* recognized the associate degree nursing program at Carolinas College of Health Sciences as one of the top 15 programs in North Carolina.

The ability to develop and advance medical discovery is a critical component to Atrium Health's giving back to the community locally, nationally and globally. As scientific technologies and medical breakthroughs advance, more patients experience enriched, longer lasting quality of life standards. The Division of Therapeutic Research and Development cultivates patient-centered projects that are clinically relevant and fundamentally important to improving healthcare quality and effectiveness. Sponsored programs throughout Atrium Health, encompassing more than 285 investigators and more than 5,170 patients in clinical trials and almost 1,150 active research studies and programs, are focused on the development of new treatments, therapies, diagnostics, or devices as well as conducting population-based research, developing innovative care delivery models and analyzing healthcare economics. Atrium Health's research programs and initiatives leverage the scope and scale of the organization to provide patients with leading-edge treatments and therapies as well as attract nationally respected physicians to the community.

Atrium Health and its team members together are "improving Health, elevating Hope and advancing Healing – for all" by becoming actively involved with, or contributing to, various organizations that seek to improve the overall health and well-being of the community through positive impact on social determinants of health priorities such as education, food insecurity, and poverty.

- In 2019, Atrium Health teammates supported over 500 nonprofit organizations by volunteering over 35,000 workhours in service projects including but not limited to:
  - distributing gifts across nine counties to more than 3,000 low income individuals and families as part of the *Holiday Cheer* project
  - providing 5,232 backpacks of nutritious food to low income children and families across the region
  - sponsoring and delivering 3,500 holiday meal kits to low income families and elderly citizens
  - engaging local schools in Mecklenburg and Cabarrus counties in an educational and mentoring program designed to partner teammates with students through Big Brothers Big Sisters "Beyond School Walls" program, Tutor Charlotte, and Heart Math tutoring programs;
  - contributing over 12,000 items during our Share the Warmth drive to Crisis Assistance Ministry and other non-profit organizations directly impacting over 415 individuals in our communities.
- In addition to their time, Atrium Health teammates continue to donate millions of their own dollars to charitable organizations and other community-based entities. In the 2019 Community Giving Campaign, Atrium Health teammates contributed over $3.63 million (not included in costs in note 1 of the notes to basic financial statements) to United Way and Arts Councils in Anson, Cabarrus, Cleveland, Gaston, Lincoln, Mecklenburg, Stanly, Union and York Counties, Children's Miracle Network and to the Atrium Health Foundation.
- Atrium Health also donated over $347 thousand in medical equipment, computer equipment and materials to international nonprofit organizations to help people in need and $1.66 million was provided in community benefit sponsorships to local community partners such as the American Cancer Society, American Heart Association, NC MedAssist, and Second Harvest Food Bank of Metrolina.

To further improve the physical, mental, and spiritual health of our communities in 2019, Atrium Health:

- screened 2,642 athletes in Mecklenburg, Stanly, Union and Lincoln counties in North Carolina and York County in South Carolina during the annual Heart of a Champion Day. These screenings, staffed by 487 Atrium Health volunteers, included 1,560 Electrocardiograms (EKGs), 121 Echocardiograms, and 1,299 Registered Dietician consults from 31 schools; 85 student athletes were referred for further medical follow-up and evaluation.

- held 171 classes and trained 3,128 community members and Atrium Health teammates in the Mental Health First Aid program, a groundbreaking public education program that helps identify, understand, and respond to signs of mental illnesses and substance abuse disorders,
- supported 129 faith communities in 11 counties within the Atrium Health Faith Community Health Ministry (FCHM). This partnership program between Atrium Health and faith communities is designed to promote better health through education, access to healthcare and encouragement toward wellness and wholeness. In 2019, there were more than 42,000 FCHM encounters, 3,051 blood pressure screenings, 37,805 individuals addressed community concerning food security, and over 5,000 individuals assisted with access to care concerns.
- provided access to primary and specialty medical care to more than 11,100 eligible uninsured residents through Physician Reach Out in partnership with Care Ring and held MedAssist Mobile Pharmacies across 7 counties serving over 3,350 community members with Over-The-Counter free medications.
- increased awareness of health and health related issues by providing "Education Through Media" services, conducting health fairs, and hosting speaker's bureau events.
- participated in volunteer fundraising for the annual Relay for Life and Heart Walk.
- implemented and expanded the Healthy Together program to 45 schools across 5 counties where school leaders and staff committed to developing action plans to create policy, systems, and environmental changes. Atrium Health's efforts resulted in 25,608 students joining the 5-2-1-0 League and committing to the Healthy Together program focused on childhood obesity.
- addressed food insecurity through participation in Mobile Food Pantries that provided over 1,400 community members across 11 counties with access to fresh fruits and vegetables, protein, eggs, bakery items and staples and through participation in two Kids Eat Free programs that served 7,453 free meals to kids in Mecklenburg & Stanly counties.
- and continued the One Charlotte Health Alliance partnership with Novant Health and Mecklenburg County Public Health to improve the health in Mecklenburg County's most vulnerable populations.

Additional detail regarding Atrium Health's financial commitment to the community (21.2% of the Primary Enterprise's operating expenses in 2019) is presented in note 1 of the notes to basic financial statements.

Finance Contact

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

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

Balance Sheet

December 31, 2019

(Dollars in thousands)

Assets and Deferred Outflows of Resources	**2019 Primary Enterprise**	**2019 Component Units**
Current assets:		
Cash and cash equivalents	$ 370,103	$ 7,288
Short-term investments	—	9,301
Patient accounts receivable – net	918,280	959
Other accounts receivable	110,724	15,307
Assets limited as to use – investments	43,215	—
Inventories	84,329	—
Prepaid expenses	91,452	420
Total current assets	1,618,103	33,275
Capital assets	7,844,574	24,287
Accumulated depreciation	(4,048,626)	(11,372)
Total capital assets – net	3,795,948	12,915
Other noncurrent assets:		
Assets limited as to use:		
Bond proceeds held by trustee	133,701	—
Investments designated for capital improvements	5,886,313	—
Other long-term investments	52,008	298,127
Other assets limited as to use – investments	176,955	—
Other assets	204,457	35,113
Total other noncurrent assets	6,453,434	333,240
Total assets	11,867,485	379,430
Deferred outflows of resources	337,592	—
Total assets and deferred outflows of resources	$ 12,205,077	$ 379,430
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities:		
Accounts payable	$ 344,980	$ 203
Salaries and benefits payable	470,706	38
Other liabilities and accruals	249,816	2,354
Estimated third-party payer settlements	242,056	—
Current portion of long-term debt	224,262	400
Total current liabilities	1,531,820	2,995
Long-term debt – less current portion	2,242,930	5,935
Interest rate swap liability	272,329	—
Pension liability	286,084	—
Other liabilities	507,108	3,112
Total liabilities	4,840,271	12,042
Commitments and contingencies (notes 1, 2, 5 and 10)		
Deferred inflows of resources	68,888	—
Net position:		
Net investment in capital assets	1,453,649	2,088
Restricted – by donor	78,658	344,557
Unrestricted	5,763,611	20,743
Total net position	7,295,918	367,388
Total liabilities, deferred inflows of resources and net position	$ 12,205,077	$ 379,430

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses and Changes in Net Position

Year ended December 31, 2019

(Dollars in thousands)

	2019	
	Primary Enterprise	**Component Units**
Net patient service revenue	$ 6,750,656	$ 4,500
Other revenue	729,696	25,891
Total revenue	7,480,352	30,391
Operating expenses:		
Personnel costs	4,197,447	4,608
Supplies	1,407,008	986
Purchased services	563,320	85
Other expenses	558,850	33,597
Depreciation and amortization	367,294	958
Total operating expenses	7,093,919	40,234
Operating income (loss)	386,433	(9,843)
Nonoperating (loss) income:		
Interest expense	(87,368)	(234)
Interest and dividend income	113,151	4,208
Net change in the fair value of investments	790,940	44,642
Other – net	(41,930)	51
Total nonoperating income – net	774,793	48,667
Revenue over expenses before contributions	1,161,226	38,824
Capital contributions	24,385	(3,225)
Other contributions	384	1,410
Increase in net position	1,185,995	37,009
Net position:		
Beginning of year (note 1(a))	6,109,923	330,379
End of year	$ 7,295,918	$ 367,388

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended December 31, 2019

(Dollars in thousands)

	2019 Primary Enterprise	2019 Component Units
Cash flows from operating activities:		
Receipts from third-party payers and patients	$ 6,750,345	$ 4,776
Payments to suppliers	(2,585,188)	(6,782)
Payments to employees	(4,156,585)	(519)
Other receipts (payments) – net	774,827	(6,361)
Net cash provided by (used in) operating activities	783,399	(8,886)
Noncapital financing activities		
Proceeds from the issuance of commercial paper	395,000	—
Retirements of commercial paper	(425,000)	—
Other activities	(18,260)	—
Net cash used in noncapital financing activities	(48,260)	—
Cash flows from capital and related financing activities:		
Purchase of capital assets	(513,301)	(79)
Donated funds designated for building and equipment purchases	24,137	(2,648)
Principal payments, refunding and retirements on short- and long-term debt	(336,006)	(723)
Interest payments on short- and long-term debt	(94,716)	(234)
Proceeds from issuance of long-term debt	295,410	—
Other contributions (distributions)	—	(1,407)
Net cash used in capital and related financing activities	(624,476)	(5,091)
Cash flows from investing activities:		
Withdrawal from investments limited as to use	638,083	16,000
Contributions to investments limited as to use	(708,838)	—
Investment earnings	22,731	50
Purchase of investments	37,361	—
Net cash (used in) provided by investing activities	(10,663)	16,050
Net increase in cash and cash equivalents	100,000	2,073
Cash and cash equivalents:		
Beginning of year	403,804	5,215
End of year	$ 503,804	$ 7,288
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	$ 370,103	$ 7,288
Bond proceeds held by trustee	133,701	—
Total cash and cash equivalents	$ 503,804	$ 7,288
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ 386,433	$ (9,843)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	367,294	958
(Increase) decrease in patient accounts receivable – net	(52,878)	276
Decrease in inventories and other current assets	9,605	162
Decrease in other assets affecting operating activities	36,674	82
Increase (decrease) in accounts payable and other current liabilities	19,873	(10)
Decrease in other liabilities affecting operating activities	(21,846)	(511)
Increase in estimated third party payer settlements	38,244	—
Net cash provided by (used in) operating activities	$ 783,399	$ (8,886)

See accompanying notes to basic financial statements.

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

Statement of Fiduciary Net Position – Pension Trust Funds

December 31, 2019

(Dollars in thousands)

Assets		
Cash and cash equivalents	$	61,113
Investments at fair value:		
Fixed income:		
U.S. government treasuries and agencies		56,370
Corporate bonds		51,514
Fixed income – other		89,569
Asset-backed securities		7,273
Total fixed income		204,726
Equity:		
Domestic equities		383,417
International equities		226,945
Global equities		151,685
Total equity		762,047
Global asset allocation funds		34,623
Real asset funds		69,746
Investments at NAV		266,118
Total investments		1,337,260
Total assets	$	1,398,373
Liabilities		
Accounts payable and other liabilities		—
Total liabilities		—
Net position restricted for pension plans	$	1,398,373

See accompanying notes to basic financial statements.

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

Statement of Changes in Fiduciary Net Position – Pension Trust Funds

December 31, 2019

(Dollars in thousands)

Additions:	
Employer contributions	$ 49,660
Investment income:	
Net appreciation in fair value of investments	202,931
Interest and dividends	23,298
	226,229
Less investment expense	(1,370)
Net investment income	224,859
Total additions	274,519
Deductions:	
Benefit payments	(138,598)
Administrative expense	(2,986)
Total deductions	(141,584)
Net increase in fiduciary net position	132,935
Fiduciary net position restricted for pension plans:	
Beginning of year	1,265,438
End of year	$ 1,398,373

See accompanying notes to basic financial statements.

(1) Significant Accounting Policies

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

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

For financial reporting purposes, Atrium Health is divided into the “Primary Enterprise”, “Discrete Component Units,” and “Fiduciary Activities.” The Primary Enterprise consists of The Charlotte-Mecklenburg Hospital Authority (CMHA, d/b/a Atrium Health) and all affiliates whose assets and income Atrium Health controls without limitation. Discrete Component Units include Central Georgia PET, LLC, a joint venture which operates an outpatient radiology imaging center, Cowles Clinic Realty, LLC, a real estate joint venture which holds and leases medical office property, and The Atrium Health Foundation, Inc. (the Foundation), which raises and holds economic resources for the direct benefit of Atrium Health. The Foundation operates to raise funds to enhance, promote and support medical services, scientific education and research. It solicits contributions for Atrium Health entities, and, in the absence of donor restrictions, its Board of Directors has discretionary control over the amounts to be distributed. Net capital and operating contributions to Atrium Health from the Foundation included in the statement of revenues, expenses and changes in net position were $35,580 for the year ended December 31, 2019. Discrete Component Units are reported on a basis consistent with Atrium Health’s calendar year and are discretely presented. Transactions between Atrium Health and the Discrete Component Units resulting in intercompany receivables, payables, revenues and expenses are not eliminated.

In February 2018, Atrium Health signed a Letter of Intent with Navicent Health (Navicent), a nonprofit corporation headquartered in Macon, Georgia, to enter a strategic combination to enhance access, affordability, and equity of care for individuals and families in central and southern Georgia. In December 2018, Atrium Health and Navicent signed an Agreement and Member Substitution (Agreement), effective January 1, 2019, pursuant to which AHNH Georgia, Inc., a newly formed controlled affiliate of which Atrium Health is the sole member, became the sole corporate member of Navicent. Through this Agreement, Navicent became a regional hub in, and an integral part of, Atrium Health. Under the terms of the Agreement, Navicent retains and appoints a majority of its Board of Directors, but Atrium Health holds customary approval rights, including approving Navicent budgets and any borrowings or discharge of Navicent debt. In addition, Atrium Health agrees to ensure, but does not formally guarantee, that Navicent does not default under any indebtedness agreements, notes or bonds, or other debt-related liabilities. On the effective date of the Agreement, Navicent became a component unit of Atrium Health and, because a controlled subsidiary of Atrium Health is the sole member of Navicent, its financial information is blended with the Primary Enterprise as of and for the year ended December 31, 2019.

Because the impact of this transaction is considered a change in reporting entity, Atrium Health's net position as of December 31, 2018 has been restated to incorporate Navicent's net position within the Primary Enterprise. The inclusion of Navicent in the Primary Enterprise increased Atrium Health's net position by $1,025,793 as of January 1, 2019. As part of the Agreement, Atrium Health has committed to make certain capital expenditures at Navicent facilities. More information about this commitment is available in note 10.

In April 2019, Atrium Health, Wake Forest Baptist Health, an academic healthcare system headquartered in Winston-Salem, North Carolina, and Wake Forest University signed a Memorandum of Understanding to create a next-generation academic healthcare system. In October 2019, Atrium Health, Atrium Health, Inc., a newly formed not-for-profit corporation, and Wake Forest Baptist Health's members and affiliates, entered into a Health System Integration Agreement (Integration Agreement) to form a single, integrated healthcare delivery and academic system. The Integration Agreement's effective date has been delayed pending regulatory approval.

In November 2019, Atrium Health signed a Letter of Intent to combine with Floyd Health System (Floyd), a Georgia nonprofit corporation headquartered in Rome, Georgia, with the goal of bringing enhanced capabilities and new investments in skills and talent, facilities and technology to the communities served by Floyd. As of the date of issuance, an agreement had not been signed.

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

(b) The Combined Group

Atrium Health's Second Amended and Restated Bond Order authorizes the creation of a Combined Group, which consists of the Obligated Group and Designated Affiliates (there are no Designated Affiliates at this time). Only the Combined Group has a direct or indirect obligation to pay amounts due on bonds issued by CMHA. As of December 31, 2019, the members of the Combined Group were substantially all of the members of the Primary Enterprise, with the exception of Navicent, and the Foundation. There are some affiliates of the Primary Enterprise, including Navicent, which are not part of the Combined Group. The affiliates that are part of the Primary Enterprise, but not part of the Combined Group, made up approximately 12.9% of the total revenue and approximately 13.6% of the total assets of the Primary Enterprise for the year ended December 31, 2019. Supplemental financial information for the Combined Group as of and for the year ended December 31, 2019 is presented as Other Financial Information following the notes to basic financial statements. In February 2020, Atrium Health admitted an entity into the Combined Group whose total revenue and total assets are less than 1% and 1% of the Primary Enterprise, respectively.

(c) Recently Adopted Governmental Accounting Standards

In 2019, Atrium Health adopted Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*, which establishes the definition of asset retirement obligations and guidelines for the recognition and disclosure of liabilities associated with the retirement of a tangible capital asset. The adoption of this Statement had no material impact on the basic financial statements of Atrium Health.

In 2019, Atrium Health adopted GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and how those activities should be reported. As a result of the adoption of this Statement, the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position for all Atrium and Navicent defined benefit (DB) plans have been presented within the basic financial statements. Related disclosures have been included in the notes to basic financial statements.

In 2019, Atrium Health adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which provides guidance for additional disclosures in notes to government financial statements. The primary objective of this statement is to improve the information that is disclosed related to debt. The adoption of this Statement had no material impact on the basic financial statements of Atrium Health.

In 2019, Atrium Health adopted GASB Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and 61*, which provides updated guidance related to a government's majority equity interest in a legally separate organization. This Statement requires that a majority equity interest in a legally separate organization should be reported as an investment if the equity holding meets the definition of an investment. The adoption of this Statement had no material impact on the basic financial statements of Atrium Health.

(d) Basis of Accounting

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

(e) Cash Equivalents

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

(f) Patient Accounts Receivable – Net

Patient accounts receivable is recorded net of allowances for uncollectible accounts of approximately $556,000 at December 31, 2019. Net patient revenue is shown net of provision for uncollectible accounts of $734,000 for the year ended December 31, 2019.

(g) Other Accounts Receivable

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

(Continued)

(h) Capital Assets

Property, plant and equipment are stated at cost. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs and replacements are charged to expense when incurred. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets.

Property classification	Estimated lives (years)
Land improvements	5–25
Buildings	5–40
Equipment	3–15

Atrium Health evaluates long-lived assets regularly for impairment. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. No material impairment charges to long-lived assets were recorded for the fiscal year ended December 31, 2019.

(i) Cost of Borrowing

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

(j) Other Assets Limited as to Use – Investments

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

(k) Other Assets

Other assets consist of teammate benefit plan assets not subject to GASB Statements No. 68 and 84 and investments in certain healthcare-related businesses accounted for using the cost or equity method.

(Dollars in thousands)

(l) Deferred Outflows of Resources

Deferred outflows of resources consist of the unamortized amounts related to long-term debt refunding transactions, the aggregate change in fair value of swaps that are effective hedges, benefit plan differences between expected and actual investment earnings, benefit plan differences between expected and actual experience related to demographic factors, benefit plan assumption changes, and the excess cost of net position related to the acquisition of health-related businesses. The balance of the deferred outflows of resources at December 31, 2019 is composed of the following:

Refunding of debt	$	194,880
Aggregate change in fair value of swaps		68,674
Deferred outflows of resources related to Atrium Health DB Plan (note 8)		58,409
Deferred outflows of resources related to other plans (note 8)		4,722
Excess cost of net position acquired		10,907
	$	337,592

(m) Other Liabilities and Accruals

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

(n) Other Liabilities (Long-Term)

Other liabilities consist primarily of the long-term portions of self-insurance and benefit plan and incentive plan liabilities, a long-term liability payable to Union County (see note 10) and unearned rent. The provision for self-insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred, but not reported.

(o) Deferred Inflows of Resources

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

Sale-leaseback gain	$	17,595
Deferred inflows of resources related to Atrium Health DB Plan (note 8)		29,500
Deferred inflows of resources related to Navicent Health DB Plan (note 8)		16,912
Deferred inflows of resources related to other plans (note 8)		4,881
	$	68,888

(Continued)

(p) Net Position

The financial statements present net position at December 31, 2019. Net position is categorized as net investment in capital assets, restricted – by donor, and unrestricted.

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

(q) Operating Revenues and Expenses

For purposes of financial reporting, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses; otherwise, they are reported as nonoperating income and losses. For the year ended December 31, 2019 interest expense is reported as part of nonoperating income and losses. In prior years, interest expense was reflected as an operating expense.

(r) Financial Assistance and Community Benefit Costs

Atrium Health, under its coverage and financial assistance programs, provides care without charge or at discounted rates to certain uninsured patients as well as any patient, regardless of insurance coverage, who experiences financial hardship. Key elements used to determine eligibility for financial assistance include a patient's demonstrated inability to pay based on family size and household income relative to federal income poverty guidelines. Patients potentially eligible for other governmental programs, such as Medicaid, must pursue those options by fully cooperating in the eligibility process before receiving financial assistance from Atrium Health. Atrium Health's cost of care (estimated using applicable cost to charge ratios) extended to uninsured patients qualifying for financial assistance was $265,694 for the year ended December 31, 2019.

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

Unpaid Cost of Medicare and Medicaid Services – Represents the net unreimbursed cost, estimated using the applicable cost to charge ratios, of services provided to patients who qualify for federal and/or state government healthcare benefits.

Community Benefit Programs – Includes the unreimbursed cost of various medical education programs, and costs of various research programs, nonbilled medical services, in-kind donations and other services that meet a community need, but do not pay for themselves and would not be provided if based solely on financial considerations.

(Dollars in thousands)

Cost of care extended to uninsured and underinsured patients who do not qualify for financial assistance, estimated using applicable cost to charge ratios.

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

Cost of financial assistance to uninsured patients	$	265,694
Unpaid cost of Medicare and Medicaid services		875,703
Community benefit programs		110,761
Cost of care extended to uninsured and underinsured patients who do not qualify for financial assistance		272,663
Community benefit	$	1,524,821
Percentage of the Primary Enterprise's operating expenses, including interest expense		21.2 %

(s) Capital Contributions and Grants

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

(t) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Atrium Health considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenue; valuation of accounts receivable, including contractual allowances and provisions for bad debts; reserves for losses and expenses related to teammate healthcare, professional liabilities, workers' compensation and general liabilities; valuation of pension and other retirement obligations; and estimated third-party payer settlements. Actual results could differ from those estimates.

(u) Future Accounting and Reporting Requirements

In 2017, the GASB issued Statement No. 87, *Leases*, which requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are required to be adopted no later than the year ended December 31, 2020. The adoption of this Statement will require Atrium Health to record a lease liability measured at the present value of payments expected to be made during the lease term and a comparable lease asset, adjusted for certain other costs and payments. Atrium Health has not yet determined the lease liability and asset amount.

(Continued)

In 2019, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which provides updated accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost was incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of the related capital asset. The provisions of this Statement are required to be adopted no later than the year ended December 31, 2020. The adoption of this Statement will cause interest expense that is currently capitalized as part of the constructed cost of capital assets to be expensed in the period incurred (see note 4).

In 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which requires disclosure of general information about conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are required to be adopted no later than the year ended December 31, 2021. Atrium Health has not yet determined the impact of this Statement on the basic financial statements.

In 2020, the GASB issued Statement No. 92, *Omnibus 2020*, which addresses a variety of practice issues related to the application of certain GASB Statements. Those issues include leases, postemployment benefits, fiduciary activities, asset retirement obligations, fair value measurement, and derivative instruments. The requirements of this Statement are required to be adopted no later than the year ended December 31, 2021, with the exception of select provisions, which are effective immediately. Atrium Health has not yet determined the impact of this Statement on the basic financial statements, but the provisions that have been immediately adopted had no material impact on the basic financial statements.

In 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, which addresses accounting and financial reporting implications that result from the replacement of a London Interbank Offered Rate (LIBOR). The provision removing LIBOR as an appropriate benchmark interest rate must be adopted no later than the year ending December 31, 2022; all other requirements of this Statement are required to be adopted no later than the year ended December 31, 2021. Atrium Health has not yet determined the impact of this Statement on the basic financial statements.

In 2020, the GASB issued a proposal to delay the required implementation date of each of the aforementioned new standards by one year but, as of the date of issuance, has not yet approved this proposal.

(v) Business Combinations and Certain Other Affiliations

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

(2) Cash, Investments and Other Financial Instruments

(a) Cash and Cash Equivalents

As of December 31, 2019, Atrium Health had cash and cash equivalents and bond proceeds of $370,103 and $133,701, respectively, which includes amounts held at Navicent. All of the bond proceeds and a portion of the cash and cash equivalents were invested with the North Carolina Capital Management Trust's Government Portfolio, which has a rating of AAAm from S&P Global Ratings, and a portion of the cash and cash equivalents was invested with the North Carolina Capital Management Trust's Term Portfolio, which is not rated but has maintained a stable net asset value since 2011.

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

As of December 31, 2019, Navicent had uncollateralized cash and cash equivalents of $62,540 which consisted of cash on hand, deposits with banks and investments in highly liquid debt instruments with maturities of three months or less when purchased, excluding assets limited as to use.

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

Atrium Health may, for funds not required for immediate disbursement, make investments that are permissible for trustees, executors, and other fiduciaries under North Carolina and Georgia laws. Funds that are not needed for immediate operating needs and that have been designated by the governing boards for capital improvements, along with other trusteed assets, are invested in short term investments, fixed income securities, equity securities and limited partnerships. Investments included in the portfolio are reflected at fair value at the balance sheet date, as noted in the table below, with gains and losses reflected in nonoperating income (loss) in the accompanying statement of revenues, expenses and changes in net position.

Atrium Health operates a regional integrated healthcare system, which has significant capital needs arising from both changes in medical technology and a growing demand for healthcare services. At December 31, 2019, the fair value of investments designated for capital improvements of $5,886,313 is substantially less than the historical cost of property, plant and equipment of $7,844,574.

 (Continued)

(Dollars in thousands)

Atrium Health's investments designated for capital improvements and other assets limited as to use (Bond proceeds held by trustee, Other long-term investments and Assets limited as to use – current and noncurrent), based on fair value as of December 31, 2019, and organized by investment type to provide an indication of the level of investment and deposit risks assumed, are as follows:

	Ratings by nationally recognized agency	Effective duration in years	Atrium Health designated for capital improvements	Atrium Health other assets limited as to use	Navicent designated for capital improvements	Navicent other assets limited as to use
Short term Investments			$ 129,509	$ 147,069	$ 16,339	$ 5,469
Fixed income:						
U.S. government treasuries and agencies	AAA	5.01	—	—	—	2,234
	AA	10.67	121,095	3,260	12,456	8,934
Mortgage pass-throughs	AAA	3.41	17,727	1,032	1,823	700
	AA	4.18	54,348	2,426	5,590	5,796
	A	0.41	961	72	99	—
Collateralized mortgage obligations	AAA	2.74	1,935	—	199	702
	AA	2.60	—	—	—	4,084
	A	3.78	—	—	—	54
Corporate bonds	AAA	13.86	2,167	57	223	—
	AA	3.40	25,425	556	2,615	284
	A	3.37	134,859	4,625	13,872	6,087
	BBB	5.29	75,176	2,912	7,733	—
Municipal bonds	AAA	7.90	3,900	103	401	—
	AA	7.16	12,583	427	1,294	—
	A	5.27	1,999	17	206	—
	BBB	5.52	1,031	43	106	—
Asset-backed securities	AAA	2.13	17,497	826	1,800	42
	AA	3.51	8,346	780	859	—
	A	2.06	173	—	18	—
	BBB	3.82	1,167	—	120	—

(Dollars in thousands)

	Ratings by nationally recognized agency	Effective duration in years	Atrium Health designated for capital improvements	Atrium Health other assets limited as to use	Navicent designated for capital improvements	Navicent other assets limited as to use
Fixed income - funds	N/A	2.57	$ 893,566	$ 22,773	$ 91,913	$ 22,752
Long/short fixed income	N/A	N/A	347,063	1,138	58,570	—
Total fixed income (weighted-average duration)		3.65	1,721,018	41,047	199,897	51,669
Equity:						
Domestic equities			1,133,142	38,379	116,556	10,553
International equities			789,512	25,306	81,210	13,901
Global equities			886,026	17,080	91,137	—
Total equity			2,808,680	80,765	288,903	24,454
Global asset allocation funds			363,987	12,898	37,439	—
Real assets funds			210,952	10,788	21,698	—
Multi-strategy hedge funds			155	1,665	36,560	—
Private equity funds			14,070	30,055	37,106	—
Total reported value			$ 5,248,371	$ 324,287	$ 637,942	$ 81,592

The investments designated as capital improvements of $5,886,313 includes $637,942 of Navicent funds, $540,097 of which is invested alongside Atrium Health funds in a coordinated strategy under the terms of an Investment Coordination Agreement (ICA) between Atrium Health and Navicent in which Navicent retains beneficial ownership of its funds. Navicent funds invested under the ICA represent approximately 9.33% of the combined portfolio of $5,788,468. Navicent's funds also include $97,845 of investments separately held by Navicent.

(c) Custodial Credit Risk

Custodial credit risk is the risk that Atrium Health will not be able to recover the value of its bank deposits, which are exposed to custodial credit risk if they are uninsured and uncollateralized. As of December 31, 2019, all of Atrium Health's bank deposits were either insured by federal depository insurance or collateralized by the Pooling Method. From time to time Navicent deposits at banks exceed the federal deposit insurance corporation insurance limit. By policy, the amount of credit exposure to any one institution is limited.

Fixed income investments and equity securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of Atrium Health or Navicent and are held by either the counterparty or the counterparty's trust department or agent, but not in Atrium Health's or Navicent's name. As of December 31, 2019, all of Atrium Health's and Navicent's fixed income investments and equity securities are held by Atrium Health's or Navicent's custodial bank in Atrium Health's or Navicent's name and are, therefore, not exposed to custodial credit risk.

(d) Credit Risk

With respect to fixed income investments, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations as required by the fixed income security. Atrium Health's investment policy requires that the overall average credit quality of the non-core fixed income portfolios must be maintained at AA or higher, and the overall average credit quality of the core fixed income portfolios must be maintained at A or higher. As of December 31, 2019, Atrium Health's fixed income portfolio met these overall average requirements. The quality ratings of Atrium Health's investments in fixed income securities (excluding long/short fixed income), as determined by nationally recognized statistical rating organizations, are disclosed in the preceding tables.

(e) Concentration of Credit Risk

Credit concentration risk results from not adequately diversifying investments. Per Atrium Health's investment policy, equity and fixed income restrictions include, (1) no more than 7% of any investment manager's equity portfolio may be invested in securities of any one issuing corporation, and (2) fixed income investments in any single issuer (excluding obligations of the U.S. government and its agencies) may not exceed 5% of any investment manager's portfolio market value at the time of purchase. Although exceptions to these policy restrictions are at times granted to investment managers, at no time may an investment in any one corporation exceed 5% of that corporation's outstanding shares while fixed income investments in any single issuer (excluding obligations of the U.S. government and its agencies) may not exceed 5% of the total issue at the time of purchase. At December 31, 2019, no investment in any one corporation or single issuer exceeded allowable thresholds.

(f) Interest Rate Risk

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

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

As noted in the December 31, 2019 table above, the effective duration in years of Atrium Health's total core and non-core fixed income portfolios was 3.65 years while the Bloomberg Barclays U.S. Aggregate Bond Index's effective duration for core fixed income was 5.9 years and Barclay's Capital U.S. Government/Credit Bond Index for non-core fixed income was 6.9 years.

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

(g) Foreign Currency Risk

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

At December 31, 2019, Atrium Health had $391,802 of exposure to foreign currency risk in the form of short term investments of $1,708, mutual funds of $112,140 (including approximately 97% in the British Pound and approximately 3% in the Canadian Dollar) and common stock in foreign currencies of $277,954 (including approximately 32% in the Euro, approximately 29% in the British Pound approximately 12% in the Japanese Yen, and the remaining 27% spread over other common stock in foreign currencies, none of which exceed 10%).

The deposit and investment risks for Atrium Health's Discrete Component Units and Fiduciary Activities are not significantly different than those of the Primary Enterprise.

(3) Fair Value Measurements

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

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

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

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

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

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

The fair value hierarchy classification of Atrium Health's assets measured at fair value as of December 31, 2019 is summarized in the table below:

(Dollars in thousands)

	Atrium Health Designated for capital improvements	Atrium Health Other assets limited as to use	Navicent Designated for capital improvements	Navicent Other assets limited as to use	Fair value at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:							
Short term investments	$ 129,509	$ 147,069	$ 16,339	$ 5,469	$ 298,386	$ —	$ —
Fixed income:							
U.S. government treasuries and agencies	121,095	3,260	12,456	11,168	—	147,979	—
Mortgage pass-throughs	73,036	3,530	7,512	6,496	—	90,574	—
Collateralized mortgage obligations	1,935	—	199	4,840	—	6,974	—
Corporate bonds	237,627	8,150	24,443	6,371	—	276,591	—
Municipal bonds	19,513	590	2,007	—	—	22,110	—
Asset-backed securities	27,183	1,606	2,797	42	—	31,628	—
Fixed income – mutual funds	574,500	16,459	59,093	15,089	665,141	—	—
Total fixed income	1,054,889	33,595	108,507	44,006	665,141	575,856	—
Equity:							
Domestic equities	1,133,142	38,379	116,556	10,553	1,298,630	—	—
International equities	789,512	25,306	81,210	13,901	909,929	—	—
Global equities	886,026	17,080	91,137	—	994,243	—	—
Total equity	2,808,680	80,765	288,903	24,454	3,202,802	—	—
Global asset allocation funds	184,064	6,405	18,933	—	209,402	—	—
Real asset funds	210,952	10,788	21,698	—	243,438	—	—
Total investments by fair value level	4,388,094	278,622	454,380	73,929	$ 4,619,169	$ 575,856	$ —

(Continued)

(Dollars in thousands)

	Atrium Health Designated for capital improvements	Atrium Health Other assets limited as to use	Navicent Designated for capital improvements	Navicent Other assets limited as to use	Fair value at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments measured at NAV:							
Fixed income – other funds	$ 319,066	$ 6,314	$ 32,820	$ 7,663			
Global asset allocation funds	179,923	6,493	18,506	—			
Lo ng/short fixed income	347,063	1,138	58,570	—			
Multi-strategy hedge funds	155	1,665	36,560	—			
Private equity funds	14,070	30,055	37,106	—			
Total investments measured at NAV	860,277	45,665	183,562	7,663			
Total investments measured at fair value	$ 5,248,371	$ 324,287	$ 637,942	$ 81,592			

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

(Continued)

(Dollars in thousands)

The table below discloses the unfunded commitments, redemption frequency and redemption notice period for investments measured at net asset value as of December 31, 2019:

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

	2019	Unfunded commitments as of December 31, 2019	Redemption frequency	Redemption notice period
Fixed income – other	365,863	—	Monthly	30 days
Global asset allocation funds	204,922	—	Daily	2 days
Long/short fixed income	406,771	—	Quarterly	45–90 days
Multi-strategy hedge funds	38,380	—	n/a	n/a
Private equity funds	81,231	1,545	n/a	n/a
Total	$ 1,097,167	$ 1,545		

Fixed income – Other investments offer a flexible approach which allows for investments into multiple types of investment grade securities, emerging markets debt, global bonds, and/or other fixed income sectors. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Global asset allocation funds investments offer diversified asset class exposure and can be segmented among several categories, asset classes, sectors, and countries. The fair values of the investments in this type have been determined using the NAV per share of the investments.

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

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

Private equity fund of funds partnerships are strategies that invest primarily in domestic and international public and private companies. Fund managers of each strategy have the ability to shift investments among geographies, sectors, industries, and the stage in the company's life cycle. The fair values of the investments in this type have been determined using the NAV per share of Atrium Health's ownership interest in partners' capital. Investments of this type do not allow for redemptions. Instead, investments in the strategies are returned through partnership distributions that generally coincide with liquidations of the underlying assets of the funds. It is estimated that the current liquidation period for these investments was five to ten years at December 31, 2019.

The fair values of Atrium Health's interest rate swaps (see note 5) were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The spot rates used for discounting are further adjusted for the credit (nonpayment) risk associated with the party that is a net debtor as of the measurement date. The swap valuations are considered Level 2 liabilities and were valued at $272,329 at December 31, 2019.

(Continued)

(Dollars in thousands)

The Atrium Health Foundation's Investments

The Foundation's investments at December 31, 2019 are as follows:

		2019		Fair value at reporting date using: Quoted prices in active markets for identical assets (Level 1)		Significant other observable inputs (Level 2)		Significant unobservable inputs (Level 3)
Short term investments	$	15,602	$	15,602	$	—	$	—
Fixed income		—						
U.S. government treasuries and agencies		3,953		—		3,953		—
Corporate Bonds		7,244		—		7,244		—
Fixed income-Other		13,917		13,917		—		—
Domestic equities		70,054		70,054		—		—
International equities		48,199		48,199		—		—
Global equities		49,545		49,545		—		—
Global asset allocation funds		11,733		11,733		—		—
Real asset funds		11,478		11,478		—		—
Total by fair value level		231,725	$	220,528	$	11,197	$	—
Investments measured at NAV:								
Fixed income – other		14,732						
Global asset allocation funds		11,765						
Long/short fixed income		29,256						
Multi-strategy hedge funds		28						
Private equity funds		19,922						
Total assets measured at NAV		75,703						
Total assets measured at fair value	$	307,428						

(Dollars in thousands)

(4) Capital Assets

The beginning balances include $1,024,738 of gross depreciable capital assets, $724,236 of accumulated depreciation, and $180,867 of gross nondepreciable capital assets of Navicent which joined the Primary Enterprise January 1, 2019 (see note 1).

Capital assets activity for the year ended December 31, 2019, was as follows:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable capital assets:					
Land improvements	$ 126,326	$ 108	$ 1,652	$ (86)	$ 128,000
Buildings	3,836,186	8,054	432,570	(8,307)	4,268,503
Equipment	2,652,932	46,464	173,559	(96,149)	2,776,806
Depreciable capital assets – gross	6,615,444	54,626	607,781	(104,542)	7,173,309
Accumulated depreciation	(3,777,778)	(371,085)	—	100,237	(4,048,626)
Depreciable capital assets – net	2,837,666	(316,459)	607,781	(4,305)	3,124,683
Nondepreciable capital assets:					
Land	243,137	—	16,357	(51)	259,443
Construction in progress	566,878	469,082	(624,138)	—	411,822
Net capital assets	$ 3,647,681	$ 152,623	$ —	$ (4,356)	$ 3,795,948

Net capitalized interest expense of $7,081 for the year ended December 31, 2019, was included in the cost of projects. The cost of capital expenditures included in accounts payable was $36,619 as of December 31, 2019.

(5) Long-Term Debt

For disclosures related to Long-term debt, Atrium Health refers to instruments and activity of the Charlotte-Mecklenburg Hospital Authority (d/b/a Atrium Health), its Combined Group and Bond Order. Navicent refers to instruments and activity of Macon-Bibb Hospital Authority, Navicent, its Obligated Group and Master Trust Indenture.

Long-term debt, including related issuance premiums and unamortized gains on debt-related derivative instrument agreements, consists of the following as of December 31, 2019:

(Dollars in thousands)

Atrium Health:

Series 2005 B, C, and D Variable Rate Refunding Revenue Bonds, maturing 2020 through 2026, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 2.18%)	$	44,880
Series 2007 B Variable Rate Refunding Revenue Bonds, maturing 2020 through 2038, bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2019 was 1.43%)		79,960
Series 2007 C Variable Rate Refunding Revenue Bonds, maturing 2027 through 2037, bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2019 was 1.43%)		87,635
Series 2007 D Variable Rate Revenue Bonds, maturing 2041 through 2043, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 2.28%)		67,140
Series 2007 E Variable Rate Revenue Bonds, maturing 2041 through 2044, bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2019 was 1.40%)		77,220
Series 2007 F Variable Rate Revenue Bonds, maturing 2030 through 2042, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 2.28%)		57,055
Series 2007 G Variable Rate Revenue Bonds, maturing 2031 through 2041, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 2.18%)		113,825
Series 2007 H Variable Rate Revenue Bonds, maturing 2027 through 2045, bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 1.94%)		166,050
Series 2011 A Revenue Bonds, maturing 2020 through 2042 bearing interest at 4.0% to 5.25%		130,010
Series 2012 A Revenue and Refunding Revenue Bonds, maturing 2020 through 2043 bearing interest at 3.0% to 5.0%		146,790

(Dollars in thousands)

Atrium Health (continued):

Series 2013 A Revenue and Refunding Revenue Bonds, maturing 2020 through 2039 bearing interest at 3.0% to 5.0%	114,735
Series 2015 A Taxable Refunding Revenue Bonds, maturing 2020 through 2024 bearing interest at 2.64%	7,675
Series 2015 B Taxable Commercial Paper Revenue Bonds (weighted average interest rate for the year ended December 31, 2019 was 2.44%)	—
Series 2016 A Refunding Revenue Bonds, maturing 2020 through 2047 bearing interest at 3.0% to 5.0%	361,310
Series 2018 A Refunding Revenue Bonds, maturing 2020 through 2039 bearing interest at 4.0% to 5.0%	164,030
Series 2018 B Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at 5.0% through the initial long-term rate period ending February 28, 2022	50,000
Series 2018 C Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at 5.0% through the initial long-term rate period ending February 28, 2023	50,000
Series 2018 D Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates plus 0.60% through the initial index floating rate period ending November 30, 2023, which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 2.06%)	50,000
Series 2018 E Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates plus 0.45% through the initial index floating rate period ending November 30, 2021, which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 1.91%)	50,000
Series 2018 F Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 1.46%)	100,000
Series 2018 G Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2019 was 1.43%)	50,000

(Dollars in thousands)

Atrium Health (continued):		
Series 2018 H Variable Rate Revenue Bonds, maturing 2040 through 2048 bearing interest at variable rates which are adjusted daily (weighted average rate for the year ended December 31, 2019 was 1.43%)		50,000
Other long-term debt		64,078
		2,082,393
Commercial paper and current portion		(219,442)
		1,862,951
Net unamortized premiums		87,040
Unamortized gains on debt-related derivative agreements		2,349
		1,952,340
Navicent:		
Series 2017 A Revenue Anticipation Certificates, maturing 2042 through 2045 bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 2.42%)		40,000
Series 2017 B Revenue Anticipation Certificates, maturing 2020 through 2042 bearing interest at variable rates which are adjusted weekly (weighted average rate for the year ended December 31, 2019 was 2.27%)		195,410
Taxable Variable Term Loan, maturing 2038 through 2048 bearing interest at variable rates which are adjusted weekly (weighted average rate for the year eneded December 31, 2019 was 2.95%)		60,000
		295,410
Current portion		(4,820)
		290,590
Combined total	$	2,242,930

(Dollars in thousands)

A summary of changes in long-term debt during 2019 is as follows:

	Beginning balance	Additions	Retirements	Ending balance
Atrium Health:				
Fixed rate revenue bonds	$ 942,360	$ —	$ (25,485)	$ 916,875
Variable rate revenue bonds	645,765	—	(950)	644,815
Commercial paper revenue bonds	30,000	395,000	(425,000)	—
Direct placement revenue bonds	463,910	—	(7,285)	456,625
Notes from direct borrowings	66,364	—	(2,286)	64,078
	2,148,399	395,000	(461,006)	2,082,393
Navicent:				
Direct placement revenue anticipation certificates	240,000	235,410	(240,000)	235,410
Note from direct borrowings	60,000	60,000	(60,000)	60,000
	300,000	295,410	(300,000)	295,410
Combined total	$ 2,448,399	$ 690,410	$ (761,006)	$ 2,377,803

Debt service requirements for long-term debt in future years, excluding commercial paper but including the impact of other long-term debt (note payable to a financial services company, note payable to Cleveland County and note payable to a financial institution) and interest rate swap transactions discussed later in this note, are shown in the table below. Debt service requirements, as reflected in the table, assume current interest rates on unhedged variable rate debt while net swap payments, are projected using the December 31, 2019 relationship between the Securities Information and Financial Markets Association (SIFMA) Municipal Swap Index and the one-month London InterBank Offered Rate (LIBOR) of approximately 91%, which is higher than interest projected using the 64% average relationship between SIFMA and LIBOR over the past 10 years. Regulators in the United Kingdom have called for LIBOR to be abandoned by the end of 2021. Modifications to LIBOR or the replacement of LIBOR with an alternative reference rate such as the Secured Overnight Financing Rate could produce different results than the current average relationship between SIFMA and LIBOR.

(Dollars in thousands)

	Fixed Rate and Variable Rate Revenue Bonds		Notes from Direct Borrowings and Direct Placements		Total	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2020	$ 27,225	$ 63,364	$ 14,856	$ 27,781	$ 42,081	$ 91,145
2021	28,385	62,203	15,585	27,170	43,970	89,373
2022	36,365	60,164	9,418	26,933	45,783	87,097
2023	30,950	56,844	17,179	26,274	48,129	83,118
2024	33,755	54,263	18,035	25,561	51,790	79,824
2025–2029	199,410	243,520	88,920	117,930	288,330	361,450
2030–2034	259,375	188,911	105,950	102,775	365,325	291,686
2035–2039	291,475	121,935	171,970	82,114	463,445	204,049
2040–2044	235,475	68,188	305,545	30,641	541,020	98,829
2045–2049	419,275	13,780	68,655	3,681	487,930	17,461
	$ 1,561,690	$ 933,172	$ 816,113	$ 470,860	$ 2,377,803	$ 1,404,032

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

Navicent's tax-exempt Revenue Anticipation Certificates and taxable Variable Term Loan are secured on a parity basis by and payable from Navicent's revenues as defined in its Master Trust Indenture, the money and securities held in certain funds and accounts created by the applicable bond agreements and held by the bond trustee. The Series 2017A and Series 2017B Certificates and taxable Variable Term Loan are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount of each Bond to be redeemed plus accrued interest to the date fixed for redemption. The Variable Term Loan is also subject to mandatory prepayment in whole, without penalty, on January 29, 2021.

There are various financial covenants and restrictions contained in Atrium Health's Bond Order, Series Resolutions, liquidity facilities, direct pay letter of credit and continuing covenants agreements for direct placements and Navicent's Master Trust Indenture and continuing covenant and credit agreement for direct placements and term loan, including maintenance of a defined minimum level of annual long-term debt service coverage. As of December 31, 2019, Atrium Health and Navicent were in compliance with these financial covenants.

Atrium Health's parity obligation revenue bonds totaling $2,018,315 contain terms related to significant events of default with finance-related consequences. The principal of and accrued interest on all parity obligations may be accelerated if certain events of default under the Bond Order or the individual Series Resolutions occur, including: (i) failure to pay the principal of or interest on parity obligations when due and payable; (ii) failure to comply with any of the covenants, agreements, conditions or provisions of the Bond Order or any Series Resolution for a period of 30 days after receipt by Atrium Health of a written notice from the Trustee specifying such default and requesting it be corrected; or (iii) any member of the Combined Group becomes insolvent, or the subject of insolvency proceedings, is unable or admits in writing its inability to pay its debts as they mature, makes a general assignment for the benefit of creditors to an authorized agent to liquidate any substantial amount of property or files a petition or other pleading seeking reorganization, composition, readjustment or liquidation of assets or requesting similar relief or applies to a court for the appointment of a receiver for any of its assets**.**

With respect to Atrium Health's parity obligation variable rate revenue bonds totaling $644,815 certain agreements contain terms related to significant termination events with finance-related consequences. For revenue bonds totaling $267,595 that are supported by liquidity facilities, if certain events occur (event of insolvency, payment default, contest of validity, invalidity and ratings downgrade below Baa3 and or BBB-), the financial institution's obligation to purchase tendered bonds of a series may be terminated immediately and without prior written notice to the owners of the bonds of that series or the Trustee. Atrium Health will then be obligated to pay the purchase price of any bonds of a series tendered for purchase after an immediate termination of the liquidity facility for that series. In the event funds are not otherwise available on a purchase date for that series, Atrium Health will have 90 days in which to arrange for the purchase of the tendered bonds. Atrium Health's failure to arrange for purchase of the tendered bonds by the end of that 90-day period is an event of default under the Series Resolution for the applicable series. For revenue bonds totaling $77,220 that are supported by a direct pay letter of credit, the related reimbursement agreement sets forth a number of events of default (including but not limited to failure to pay amounts due under the reimbursement agreement, failure to perform any covenant, restriction or agreement contained in the reimbursement agreement, ratings downgrade below A3 and A-, an involuntary case or other proceeding commenced against Atrium Health seeking liquidation, reorganization or other relief with respect to bankruptcy or insolvency). If an event of default under the reimbursement agreement occurs and is continuing, the financial institution may: (i) terminate the letter of credit on a date at least 40 days after giving written notice to the Trustee that an event of default has occurred and is continuing, which will result in a mandatory purchase date; and (ii) declare all amounts due under the reimbursement agreement and all interest accrued thereon (other than payments of principal and redemption price and interest on bonds purchased with money furnished by the financial institution pursuant to the letter of credit) to be immediately due and payable.

With respect to Atrium Health's parity obligation direct placement revenue bonds totaling $456,625, the continuing covenants agreements contain terms related to significant events of default with finance-related consequences. The principal of and accrued interest on such parity obligations may be accelerated and immediately due if certain events of default under the continuing covenants agreements occur as follows: (i) failure to pay the principal of or interest on parity obligations when due or failure to purchase the parity obligations from the financial institution on the purchase date; (ii) an event of default as defined in the Bond Order or Series Resolutions occurs and is continuing; (iii) default in the payment of any material debt when due; (iv) the credit ratings of Atrium Health are withdrawn for reduced below Baa3 and BBB-; (iv) commencement of a voluntary case of other proceeding seeking liquidation, reorganization, arrangement, adjustment, winding-up, dissolution, composition or similar relief with respect to its debts; or (v) a representation or warranty proves to have been untrue or incomplete in any material respect**.** Other events of default such as the failure to observe or perform any covenant, restriction or agreement contained in the continuing covenants agreements for 30 days after receipt of written notice from the financial institutions do not allow the acceleration of parity obligations prior to a period of 180 days after notice is given by the financial institutions.

Navicent's parity obligation revenue anticipation certificates and taxable variable term loan totaling $295,410 contain terms related to significant events of default with finance-related consequences. The principal of and accrued interest on all parity obligations may be accelerated if certain events of default under the Navicent Master Trust Indenture occur, including: (i) failure to make due and punctual payment of principal and interest on parity obligations; (ii) income available for debt service is less than 1.00 times annual debt service for any two consecutive years; (iii) failure to observe or perform any covenants or agreement under the Master Trust Indenture for a period of 60 days after receipt by Navicent of a written notice from the Master Trustee requiring the failure to be remedied; (iv) default in the payment of other indebtedness whose grace, notice and / or cure period for such payments has expired; (v) a court decree or order for relief in an involuntary cased under applicable federal / state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, or the winding up or liquidation of its affairs; (vi) commencement of a voluntary case under any applicable federal / state bankruptcy, insolvency or other similar law or consent to an order for relief in an involuntary case under such law; or (vii) an event of default under the Lease and Transfer Agreement with the Macon-Bibb County Hospital Authority**.**

With respect to Navicent's direct placement revenue anticipation certificates and note from direct borrowings totaling $295,410, the continuing covenant and credit agreement contains terms related to significant events of default with finance-related consequences. The principal of and accrued interest on such parity obligations may be accelerated and due within 7 days if certain events of default under the continuing covenant and credit agreement occurs including but not limited to the following: (i) failure to pay the principal of or interest on parity obligations when due or failure to purchase the parity obligations from the financial institution on the purchase date; (ii) default on parity debt and senior debt; (iii) invalidity of the obligations or pledge of gross revenues; (iv) an event of insolvency; or (v) termination of the Agreement and Member Substitution with Atrium Health. Other events of default such as the failure to perform any term, covenant, condition or provision contained in the continuing covenant and credit agreement for 30 days or more do not allow the acceleration of the parity obligations prior to a period of 30 days after notice is given by the financial institution.

There are no subjective acceleration clauses included in the debt agreements of Atrium Health and Navicent.

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

Series 2005 B, C and D to direct placements. As a result of this mandatory tender process, these bonds were deemed extinguished and the remarketed bonds were treated as a new issuance.

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

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

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

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

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

(Continued)

the Series 2012 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

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

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

In October 2015, Atrium Health established a taxable commercial paper program providing for the issuance of up to $200,000 in aggregate taxable commercial paper revenue bonds. In November 2018, the issuance limit was increased to $400,000. The bonds issued under the commercial paper program currently carry short-term credit ratings of A-1+ from S&P Global Ratings and P-1 from Moody's Investors Service. Proceeds from the sale of commercial paper are used to pay for additional healthcare facilities or the costs of operating healthcare facilities, including general operating costs, routine capital expenditures and the acquisition and installation of healthcare equipment. Atrium Health has established a self-liquidity program that will be used to repurchase any commercial paper that is not remarketed. Commercial paper may be issued with maturity dates from one to 270 days from the date of issuance. While management may elect to continuously roll over all or portions of the commercial paper, the principal amount of all commercial paper must be repaid by October 2055. At December 31, 2019, Atrium Health had $0 commercial paper outstanding. When a balance exists, it is included within current portion of debt. In addition, in early 2020, Atrium Health sold $375,000 of new commercial paper under the program ($25,000 of which has since been repaid) with various maturities through 2020.

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

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

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

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

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

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

In December 2017, the Macon-Bibb County Hospital Authority issued Series 2017 A and Series 2017 B Revenue Anticipation Certificates, the proceeds of which were loaned to The Medical Center of Central Georgia, Inc. to refund various series of Macon-Bibb County Hospital Authority Revenue Anticipation Certificates and to finance and reimburse capital expenditures. Interest on the Series 2017 A and 2017 B Certificates is payable monthly in arrears and principal is payable on August 1 of each year. The Series 2017 A and Series 2017 B certificates were initially directly placed with a financial institution with holding periods that expire on December 31, 2027 and December 31, 2019, respectively. In December 2019, Navicent utilized a mandatory tender process to change the holder of the Series 2017 A and Series 2017 B certificates to another financial institution. As a result of this mandatory tender process, these certificates were deemed extinguished and the remarketed certificates were treated as a new issuance.

In December 2017, The Medical Center of Georgia, Inc. entered into a taxable Variable Term Loan with a financial institution, the proceeds of which were used to pay off the remaining balances of taxable loans executed in 2012 and 2017. Interest on the Variable Term Loan is payable monthly in arrears and principal is payable on August 1 of each year. The Variable Term Loan was initially directly placed with a financial institution with a holding period that expires on December 31, 2027. In December 2019, Navicent changed the holder of the Variable Term Loan to another financial institution. As a result, the Variable Term Loan was deemed extinguished and new Variable Term Loan was treated as a new issuance. The current holding period expires January 29, 2021.

(Dollars in thousands)

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

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

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

Series	Facility type	Expiration year
2005 BCD	Direct placement	2026
2007 D	Direct placement	2023
2007 F	Direct placement	2023
2007 G	Direct placement	2026
2007 H	Direct placement	2022

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

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

(Dollars in thousands)

Navicent's Series 2017 A and Series 2017 B Revenue Anticipation Certificates have been purchased by one financial institution with holding periods noted in the table below that expire prior to the maturity of the respective obligations.

Series	Facility type	Expiration year
2017 A	Direct placement	2021
2017 B	Direct placement	2021

For the Atrium Health Primary Enterprise, interest expense, exclusive of amounts capitalized, was $87,368 for the year ended December 31, 2019. Interest paid to bond holders and other lenders totaled $94,716 for the year ended December 31, 2019.

In October 2014, Atrium Health became the sole member of Pineville LTACH/Rehab Hospital, LLC (the LLC), which owns and leases a facility to Atrium Health. Previously, the LLC was a joint venture between Atrium Health and an unaffiliated entity. The facility was constructed with the proceeds from a $30,101 loan to the LLC from a financial services company that is payable beginning September 2013 through August 2038 at an interest rate of 3.84%. The loan, which was not issued under Atrium Health's Bond Order, is secured by a leasehold deed of trust and assignment of facility leases and rents. The balance of $24,952 at December 31, 2019 is included in other long-term debt.

In March 2013, Atrium Health entered into an Amended and Restated Interlocal Agreement with Cleveland County, North Carolina for the purpose of more fully integrating CHS Cleveland with Atrium Health and enhancing Atrium Health's ability to provide services to the residents of Cleveland County. Atrium Health's payment to Cleveland County included an unsecured, noninterest bearing note in the original amount of $77,000 payable through 2038 which is recorded as long-term debt at its net present value of $39,126 at December 31, 2019.

In connection with the reorganization of its skilled nursing facility service line into a newly created North Carolina nonprofit corporation, in February 2020 Atrium Health cash defeased / redeemed principal amounts of its Series 2007 B, Series 2011 A, Series 2012 A, Series 2013 A, Series 2016 A and Series 2018 A bonds aggregating $18,310.

Atrium Health Interest Rate Swaps

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

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

(Dollars in thousands)

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

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

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

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

The significant terms and features of the above transactions as of and for the year ended December 31, 2019, are summarized in the below table. The notional amounts of the swaps effectively match the principal amounts of the associated debt. The swaps contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds.

Associated bonds	**2005 BCD**	**2007 B**	**2007 C**
Notional amount	$ 44,880	$ 79,960	$ 87,635
Swap type	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed
Origination date	January 15, 2006	August 28, 2007	August 28, 2007
Final bond maturity	January 15, 2026	January 15, 2038	January 15, 2037
Atrium Health pays	5.52 %	4.36 %	4.36 %
Atrium Health receives	75% of LIBOR	SIFMA	SIFMA
Fair value at December 31, 2019	$ (6,439)	$ (28,003)	$ (29,579)
Change in fair value during the year	377	(7,147)	(7,167)

(Dollars in thousands)

Associated bonds	2007 D	2007 E	2007 F
Notional amount	$ 67,140	$ 77,220	$ 57,055
Swap type	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed
Origination date	September 19, 2007	September 19, 2007	September 19, 2007
Final bond maturity	January 15, 2043	January 15, 2044	January 15, 2042
Atrium Health pays	3.88 %	3.89 %	3.89 %
Atrium Health receives	62.97% of LIBOR plus 0.29%	62.97% of LIBOR plus 0.29%	62.97% of LIBOR plus 0.29%
Fair value at December 31, 2019	$ (28,885)	$ (33,887)	$ (23,749)
Change in fair value during the year	(7,567)	(8,894)	(6,113)

Associated bonds	2007 G	2007 H	N/A
Notional amount	$ 113,825	$ 166,050	$ 126,010
Swap type	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed
Origination date	September 19, 2007	September 19, 2007	January 15, 2021
Final bond maturity	January 15, 2041	January 15, 2045	January 15, 2042
Atrium Health pays	3.90 %	3.88 %	1.97 %
Atrium Health receives	62.97% of LIBOR plus 0.29%	62.97% of LIBOR if LIBOR is equal to or greater than 3.5%; 77.5% of LIBOR if LIBOR is less than 3.5%	70% of LIBOR
Fair value at December 31, 2019	$ (43,615)	$ (58,542)	$ (9,790)
Change in fair value during the year	(10,949)	(15,989)	(9,790)

The swaps' aggregate negative fair value of $262,489, as of December 31, 2019, is reported as a long-term liability on the balance sheet. Certain of the mandatory tender processes discussed above resulted in the termination of the related hedging relationships. Although hedging relationships have been subsequently re-established, the swaps are considered off-market swaps because the fixed rates of the swaps differed from the market rates for similar swaps at the time the hedging relationship was re-established. The negative fair value of the off-market swaps are being amortized using straight-line amortization. As of December 31, 2019, Atrium Health has determined that its 15 interest rate swaps are effective hedging derivative instruments. Because the swaps are effective hedges, aggregate changes in their fair value, including

$63,449 for the year ended December 31, 2019, are deferred and are reported on the balance sheet as a deferred outflow of resources. See note 3 for further discussion of the measurement techniques and inputs utilized in the measurement of the swaps' fair value. For the year ended December 31, 2019, the swaps produced annual net cash outflows of approximately $16,850. Cash flows associated with the swaps are treated as interest expense.

As of December 31, 2019, all swaps had a negative fair value. The negative fair value may be countered by a reduction in total interest payments required under Atrium Health's associated variable rate revenue bonds, creating a lower synthetic interest rate. Because the coupons on the variable rate revenue bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases.

As of December 31, 2019, Atrium Health was not exposed to credit risk because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Atrium Health would be exposed to credit risk in the amount of the swaps' fair value.

Atrium Health's 15 interest rate swaps are executed under seven swap agreements with various counterparties. Seven swaps, approximating 48% of the notional amount of swaps outstanding, are provided by one counterparty that was rated A+ and Aa2 by S&P Global Ratings and Moody's Investors Service, respectively, as of December 31, 2019. Five additional swaps, approximating 40% of the outstanding notional value, are provided by another counterparty rated A+ and Aa2. The remaining two swaps and the forward starting swap are provided by a third counterparty rated A+ and Aa3 as of December 31, 2019.

In the event Atrium Health's credit ratings, as determined by S&P Global Ratings and Moody's Investors Service, fall below a level of A+ or A1, respectively, and the three uninsured swap agreements associated with Series 2005 B, C and D bonds and Series 2007 B, C and H bonds (with one counterparty) and with Series 2007 B and C bonds (with a different counterparty) each has a negative fair value of $25,000 or more, then Atrium Health must post collateral on these swap agreements equal to the amount of fair value in excess of $25,000. As of December 31, 2019, the fair values of these swap agreements were ($6,439), ($58,062), and ($28,791). No collateral was required to be posted by Atrium Health for these swap agreements.

In the event Atrium Health's credit ratings, as determined by S&P Global Ratings and Moody's Investors Service, fall below a level of A+ or A1, respectively, and the uninsured swap agreement associated with Series 2007 H bonds has a negative fair value of $50,000 or more, then Atrium Health must post collateral on this swap agreement equal to the amount of fair value in excess of $50,000. As of December 31, 2019, the fair value of this swap agreement was ($29,271). No collateral was required to be posted by Atrium Health for this swap agreement.

With respect to the AGMC-insured swap agreement associated with Series 2007 E, F and G bonds, should the financial strength ratings of AGMC, as determined by S&P Global Ratings and Moody's Investors Service, fall below A– or A3, respectively, upon the request of the counterparty, Atrium Health, at its option, must either procure replacement swap insurance policies from counterparties rated at least AAA by S&P Global Ratings and Aaa by Moody's Investors Service, respectively, or agree to post collateral on those swap agreements equal to the amount of negative fair value in excess of $25,000 if Atrium Health's credit ratings, as determined by S&P Global Ratings and Moody's Investors Services, fall below a level of A+ or A1, respectively. As of December 31, 2019, the fair value of this swap agreement was ($50,627). No collateral was required to be posted by Atrium Health for this swap agreement given AGMC's ratings of AA and A2.

With respect to the AGMC-insured swap agreement associated with Series 2007 D, E, F and G bonds, should the financial strength ratings of AGMC, as determined by S&P Global Ratings and Moody's Investors Service, fall below A– or A3, respectively, upon the request of the counterparty Atrium Health, at its option, must either procure replacement swap insurance policies from counterparties rated at least AAA by S&P Global Ratings and Aaa by Moody's Investors Service, respectively, or agree to post collateral on this swap agreement equal to the amount of negative fair value in excess of $50,000 if Atrium Health's credit ratings, as determined by S&P Global Ratings and Moody's Investors Service, fall below a level of A+ or A1, respectively. As of December 31, 2019, the fair value of this insured swap agreement was ($79,509). No collateral was required to be posted by Atrium Health for this swap agreement given AGMC's ratings of AA and A2.

In the event Atrium Health's credit ratings, as determined by S&P Global Ratings and Moody's Investors Service, fall below a level of A+ or A1, respectively, and the uninsured forward starting swap agreement expected to be associated with the refunding of the Series 2011 A bonds has a negative fair value of $55,000 or more, then Atrium Health must post collateral on this swap agreement equal to the amount of fair value in excess of $55,000. As of December 31, 2019, the fair value of this swap agreement was ($9,790). No collateral was required to be posted by Atrium Health for this swap agreement.

Atrium Health's Series 2007 B, C and E bonds bear interest at a rate that is equivalent to the SIFMA rate while the Series 2005 B, C and D bonds and Series 2007 D, F, G and H bonds bear interest at LIBOR plus a spread. For those swaps on the SIFMA-based variable rate revenue bonds for which it receives a variable rate based on LIBOR, Atrium Health is exposed to basis risk depending upon the relationship between SIFMA and LIBOR. If that relationship changes, the effective synthetic rate on the SIFMA-based variable rate revenue bonds may be higher than the intended synthetic rate. As of December 31, 2019, the SIFMA rate was 1.61% and LIBOR was 1.76%, resulting in a SIFMA to LIBOR relationship of approximately 91%.

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

(Dollars in thousands)

Navicent Interest Rate Swaps

In October, 2001, Central Georgia Senior Health, Inc. entered into an uninsured floating-to-fixed interest rate swap agreement on its Series 2000 Revenue Anticipation Certificates, with an initial notional amount of $23,000. Although the Series 2000 Certificates were refinanced in 2015 and 2017, the interest rate swap agreement remains in place and are to create synthetic fixed rate debt on a portion of the Series 2017 B Revenue Anticipation Certificates.

In August 2005, The Medical Center of Central Georgia, Inc. entered into an Ambac-insured floating-to-fixed interest rate swap agreement on its Series 2005 Revenue Anticipation Certificates, with an initial notional amount of $52,000. Although the Series 2005 Certificates were refinanced in 2009, the insured interest rate swap agreement remains in place and are to create synthetic fixed rate debt on a portion of the Series 2017 B Revenue Anticipation Certificates.

The significant terms and features of the above transactions, which were amended in April 2018, as of and for the year ended December 31, 2019, are summarized in the below table. The notional amounts of the swaps neither effectively match the principal amounts of the associated debt nor contain scheduled reductions to outstanding notional amounts that follow scheduled or anticipated reductions in the associated debt.

Associated certificates	2017 B	2017 B
Notional amount	$ 9,350	$ 52,000
Swap type	Floating-to-fixed	Floating-to-fixed
Origination date	October 1, 2001	August 1, 2005
Final swap maturity	September 1, 2021	May 1, 2021
Navicent Health pays	4.12 %	3.21 %
Navicent Health receives	67% of LIBOR	67% of LIBOR
Fair value at December 31, 2019	$ (366)	$ (9,474)
Change in fair value during the year	128	(1,876)

The swaps' aggregate negative fair value of ($9,840), as of December 31, 2019, is reported as a long-term liability on the balance sheet. As of December 31, 2019, Navicent has determined that its interest rate swaps are not effective hedging derivative instruments, resulting in changes in their fair value, including ($1,748) for the year ended December 31, 2019, reported in nonoperating income (loss). See note 3 for further discussion of the measurement techniques and inputs utilized in the measurement of the swaps' fair value. For the year ended December 31, 2019, the swaps produced annual net cash outflows of approximately $1,110. Cash flows associated with the swaps are treated as interest expense.

As of December 31, 2019, these swaps had a negative fair value. The negative fair value may be countered by a reduction in total interest payments required under Navicent's associated variable rate revenue anticipation certificates, creating a lower synthetic interest rate. Because the coupons on the variable rate revenue anticipation certificates adjust to changing interest rates, the revenue anticipation certificates do not have corresponding fair value increases.

As of December 31, 2019, Navicent was not exposed to credit risk because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Navicent would be exposed to credit risk in the amount of the swaps' fair value. Navicent's two interest rate swaps are executed under one swap agreement with a counterparty that was rated A- and A1 by S&P Global Ratings and Moody's Investors Service, respectively, as of December 31, 2019.

In the event the swap agreement has a negative fair value of $15,000 or more, then Navicent must post collateral on the swap agreement equal to the amount of fair value in excess of $15,000. As of December 31, 2019, the fair value of this swap agreement was ($9,840). No collateral was required to be posted by Navicent for this swap agreement.

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

(Dollars in thousands)

Debt service requirements of Atrium Health's outstanding hedged variable rate revenue bonds and related net swap payments and Navicent Health's outstanding revenue anticipation certificates with a synthetic fixed rate and related net swap payments, assuming current SIFMA and LIBOR interest rates and the SIFMA to LIBOR relationship remain the same, as of December 31, 2019, were as follows:

	Variable rate bonds and revenue anticipation certificates			
	Principal	**Interest**	**Interest rate swap – net**	**Total**
2020	$ 12,075	$ 15,400	$ 19,596	$ 47,071
2021	15,770	15,130	19,211	50,111
2022	625	11,986	17,843	30,454
2023	9,155	11,823	17,499	38,477
2024	7,785	11,675	17,170	36,630
2025–2029	53,500	55,648	80,607	189,755
2030–2034	103,855	49,301	70,566	223,722
2035–2039	183,490	36,436	50,305	270,231
2040–2044	310,565	13,043	17,899	341,507
2045–2049	6,825	5	7	6,837
	$ 703,645	$ 220,447	$ 310,703	$ 1,234,795

(6) Net Patient Service Revenue

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

Under the Medicare and Medicaid programs, Atrium Health is entitled to reimbursements for certain patient charges at rates determined by federal and state governments. Differences between established billing rates and reimbursements from these programs are recorded as contractual adjustments to arrive at net patient service revenue. Final determination of amounts due from Medicare and Medicaid programs is subject to review by these programs. Changes resulting from final determination are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for adjustments, if any, that may result from such reviews. Net patient service revenue increased approximately $19,400 for the year ended December 31, 2019, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits and reviews.

(Continued)

(Dollars in thousands)

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

Gross patient charges at established rates, net of contractual adjustments – including charges forgone for patients qualifying for financial assistance	$	8,879,113
Adjustments for uninsured and underinsured patients both qualifying and not qualifying for financial assistance		(2,128,457)
Net patient service revenue	$	6,750,656

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

Medicare	41.5 %
Commercial	31.4
Medicaid	16.4
Direct from patient/other	10.7
	100.0 %

Medicare

Hospital inpatient and outpatient services for Medicare patients, with limited exceptions, are based on a prospective reimbursement methodology referred to as the Prospective Payment System ("PPS") for inpatients, and Ambulatory Payment Classifications ("APCs") for outpatients. Under PPS, a hospital is reimbursed for inpatients at predetermined rates for an episode of care based on diagnosis-related groups ("DRGs") that are further adjusted for severity. Under APCs, payment is based on the classification of services into categories with similar expected costs. Teaching hospitals receive payments for training physicians (graduate medical education or "GME") and other medical professionals (allied health payments). GME payments are in two different forms. Direct medical education ("DME") payments support the direct costs of training, while indirect medical education ("IME") payments support the higher infrastructure costs that teaching hospitals incur relating to training physicians, and higher patient acuity. Hospitals that serve a disproportionate share of low-income patients (Medicare and Medicaid patients eligible to receive supplemental Social Security income), receive additional payments (disproportionate share or "DSH" payments).

For services and items reimbursed at cost, hospitals are paid using a tentative rate with final settlement determined after submission of an annual cost report and subsequent audit by the Medicare Administrative Contractor ("MAC "). The period of time between when patient services are rendered, and the final settlement for these payments is typically several years. Medicare claims may also be subject to an independent post-payment review in subsequent periods.

Medicaid

Atrium Health receives Medicaid supplemental payments commonly referred to as Disproportionate Share ("DSH") and Upper Payment Limit ("UPL") payments that are intended to offset a portion of the cost incurred for delivering care to Medicaid and Uninsured patients. Atrium Health provides a portion of the state contribution needed to draw down the federal match needed to make these payments. The state share consists of multiple sources including Certified Public Expenditures ("CPE's"), Intergovernmental Transfers ("IGT's"), and state legislated assessment payments. Atrium Health reports assessments and receipts within other expenses and net patient service revenue, respectively, in the accompanying statement of revenues, expenses, and changes in net position. The following is a summary of the funds received and assessments paid under these programs for the year ended December 31:

Net funds recognized	$	281,926
Less assessments paid		(55,234)
Net amounts recognized	$	226,692

(Dollars in thousands)

(7) Other Revenue

Other revenue is composed of the following amounts for the year ended December 31, 2019:

Medical education and research grants and contracts	$	74,886
Reimbursed services provided to affiliates		143,100
Pharmacy sales		266,233
Rental and other revenue		245,477
	$	729,696

(8) Benefit Plans

Defined Contribution Plans

Retirement benefits for both Atrium Health and Navicent are provided to teammates using both defined contribution plans and defined benefit plans.

Both Atrium Health and Navicent offer several defined contribution plans with the largest plan for Atrium Health being a Section 401(k) defined contribution plan (the Atrium Health DC Plan) and the largest plan for Navicent being a Section 403(b) defined contribution plan (the Navicent DC Plan). These plans cover all full-time teammates of Atrium Health and Navicent and are funded by voluntary teammate contributions and certain matching contributions by Atrium Health and Navicent to their respective plans. Defined contribution plan assets are not recorded in Atrium Health's balance sheet but are held in participant-directed individual accounts and were $3,360,392 for the Atrium Health DC Plans and $372,639 for the Navicent DC Plan at December 31, 2019. Total matching contribution expense for the Atrium Health DC Plan was $164,275 and $6,645 for the Navicent DC Plan for the year ended December 31, 2019.

Atrium Health Defined Benefit Plans

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

Atrium Health DB Plan Description and Benefits Provided – The Atrium Health DB Plan provides pension benefits to all Atrium Health teammates hired before January 1, 2014 and who have attained five or more years of service. These benefits are based on years of service and the teammates' compensation. Effective January 1, 2009, the Atrium Health DB Plan became a cash balance plan and a small group of teammates meeting specified employment, age, and service criteria were grandfathered and accrued benefits under the

(Dollars in thousands)

Atrium Health pre-cash balance formula. The Board of Commissioners of Atrium Health (the Board) or an authorized committee of the Board has the authority to amend benefit provisions.

The actuarial valuation establishing the net pension liability for the purposes of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was based on the Atrium Health DB Plan membership data as of January 1, 2019 and rolled forward to the measurement date of July 1, 2019. The Atrium Health DB Plan participant data as of July 1, 2019 is as follows:

	2019
Retirees and beneficiaries receiving benefits	1,722
Previously employed plan members entitled to but not yet receiving benefits	6,142
Employed plan members	17,816
Total	25,680

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

Atrium Health's funding policy is to contribute such actuarially determined amounts as are necessary to provide assets sufficient to meet the benefits to be paid to Atrium Health DB Plan participants. In addition, with the freezing of the Atrium Health DB Plan, Atrium Health has periodically made contributions to the Atrium Health DB Plan in addition to the annual actuarially determined amounts in an effort to reduce the unfunded actuarially accrued liability in a systematic manner. Atrium Health's contribution rate for the year ended December 31, 2019 equaled 2.3% of covered payroll. This contribution rate was determined based on a measurement date of January 1, 2019.

Atrium Health DB Plan Actuarial Assumptions – The total Atrium Health DB Plan pension liability on the July 1, 2019 measurement date was determined using the following actuarial assumptions:

	2019
Inflation rate	2.5 %
Investment rate of return (net of investment expenses, including inflation)	7.5
Lump sum interest rate	5.0

(Dollars in thousands)

Actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience study that is conducted every four years, most recently in 2016. Mortality rates were based on the RP-2014 table with MP-2018 Generational Projections. The long-term investment rate of return on pension assets was determined using a combination of benchmark return information and a building-block method in which best-estimated expected real rates of return are developed for each major asset class. These expected real rates of return are weighted by the target asset allocation percentage to produce an overall expected real rate of return which is then increased by expected inflation to produce a long-term investment rate of return on pension assets of 7.5%.

The target allocation, expected nominal return (which includes inflation) and the best estimates of geometric or compounded real rates of return (which are net of inflation) for each major asset class were established as of July 1, 2018, the beginning of the measurement period, and are summarized in the following table:

Asset class	Target allocation	Expected nominal return	Expected real rate of return
Fixed income	17.0 %	3.5%	0.1%
Long/short fixed income	10.0	5.0	3.0
Domestic equities	25.5	6.0–7.3	4.0–4.4
International equities	17.0	7.3	4.4
Global equities	17.0	7.3	4.4
Commodity funds	3.0	5.6	2.8
Private equity funds	7.5	8.3	5.3
Real asset funds	3.0	7.3	4.4
Total target allocation	100.0 %		

Rate of return – For the Atrium Health Plan fiscal year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 3.8%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Atrium Health DB Plan Discount rate – The discount rate used to measure the total Atrium Health DB Plan pension liability as of July 1, 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on those assumptions, the Atrium Health DB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive teammates. Therefore, the long-term expected rate of return on pension assets of 7.5% was applied to all periods of projected benefit payments to determine the total pension liability.

(Dollars in thousands)

Changes in the Atrium Health DB Plan Net Pension Liability

Changes in the Atrium Health DB Plan net pension liability for the year ended December 31, 2019, are as follows:

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at December 31, 2018 (based on July 1, 2018 measurement date)	$ 1,291,461	$ 991,368	$ 300,093
Changes for the fiscal year:			
Service cost	—	—	—
Interest cost	91,210	—	91,210
Differences between expected and actual experience	25,325	—	25,325
Changes of assumptions	5,138	—	5,138
Contributions – employer	—	37,473	(37,473)
Investment gains and other, net	—	31,478	(31,478)
Benefit payments	(150,638)	(150,638)	—
Administrative expense	—	(162)	162
Net changes	(28,965)	(81,849)	52,884
Balances at December 31, 2019 (based on July 1, 2019 measurement date)	1,262,496	909,519	352,977
Cleveland DB Plan and Stanly DB Plan combined	130,456	130,616	(160)
Combined Atrium Health DB Plan balances at December 31, 2019	1,392,952	1,040,135	352,817
Navicent Health DB Plan	275,098	341,831	(66,733)
Combined balances at December 31, 2019 (based on July 1, 2019 measurement date)	$ 1,668,050	$ 1,381,966	$ 286,084

(Dollars in thousands)

Sensitivity of the Atrium Health DB Plan net pension liability to changes in the discount rate – The following table presents the net Atrium Health DB Plan pension liability as of July 1, 2019 calculated using the discount rate of 7.5% and alternatively, as required by GASB 68, what the net pension liability would be under different scenarios assuming it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%):

	1% Decrease 6.50%	Current rate 7.50%	1% Increase 8.50%
Net pension liability at July 1, 2019	$ 446,149	$ 352,977	$ 271,696

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

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

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

(Dollars in thousands)

Atrium Health DB Plan assets were invested as follows as of July 1, 2019:

	Defined benefit plan assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short term investments	$ 39,416	$ 39,416	$ —	$ —
Fixed income:				
U.S. government treasuries and agencies	15,112	—	15,112	—
Corporate bonds	25,636	—	25,636	—
Fixed income – other	44,497	44,497	—	—
Total fixed income	85,245	44,497	40,748	—
Equity:				
Domestic equities	215,546	215,546	—	—
International equities	143,311	143,311	—	—
Global equities	151,679	151,679	—	—
Total equity	510,536	510,536	—	—
Global asset allocation funds	35,712	35,712	—	—
Real asset funds	35,304	35,304	—	—
Total investments by fair value level	706,213	$ 665,465	$ 40,748	$ —
Investments measured at NAV:				
Fixed income – other	44,947			
Global asset allocation funds	35,167			
Long/short fixed income	72,311			
Multi-strategy hedge funds	98			
Private equity funds	50,783			
Total investments measured at NAV	203,306			
Total investments measured at fair value	$ 909,519			

(Dollars in thousands)

The table below discloses the unfunded commitments, redemption frequency and redemption notice period for investments measured at net asset value as of July 1, 2019:

	Defined benefit plan assets			
	2019	Unfunded commitments as of July 1 2019	Redemption Frequency	Redemption notice period
Fixed income-other	$ 44,947	$ —	Monthly	15 days
Global asset allocation funds	35,167	—	Daily	2 days
Long/short fixed income	72,311	—	Quarterly	45–90 days
Multi-strategy hedge funds	98	—	N/A	N/A
Private equity funds	50,783	10,461	N/A	N/A
Total	$ 203,306	$ 10,461		

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

Pension expense and deferred outflows of resources and deferred inflows of resources related to the Atrium Health DB Plan – For the year ended December 31, 2019, Atrium Health recognized pension expense of $45,447 for the Atrium Health DB Plan. At December 31, 2019, Atrium Health reported deferred outflows and inflows of resources as follows based on July 1, 2019 measurement date:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience related to demographic factors	$ 24,411	$ (24,915)
Assumption changes	13,838	(4,585)
Difference between expected and actual investment earnings	20,160	—
Total	$ 58,409	$ (29,500)

(Continued)

(Dollars in thousands)

Amounts reported above as deferred outflows of resources and deferred inflows of resources related to the Atrium Health DB Plan at December 31, 2019 will be recognized in pension expense for the year ended December 31, as follows:

		Amount
2020	$	14,705
2021		(4,895)
2022		7,213
2023		8,831
2024		3,055
Thereafter		—
	$	28,909

Cleveland DB Plan and Stanly DB Plan Actuarial Assumptions and Reporting – The actuarial assumptions used for the Cleveland DB Plan and the Stanly DB Plan are similar to assumptions used for the Atrium Health DB Plan described above. The Cleveland DB Plan had a net pension liability of $10,614 and reported net deferred inflows of $802 at December 31, 2019. The Cleveland DB Plan had actuarially valued assets of $84,814 at December 31, 2019. The Stanly DB Plan had a net pension asset of $10,774 and reported net deferred outflows of $643 at December 31, 2019. The Stanly DB Plan had actuarially valued assets of $45,642 at December 31, 2019.

Navicent Defined Benefit Plan

Navicent Defined Benefit plan (the Navicent DB Plan) provides pension benefits to all Navicent teammates hired before December 31, 2007 who have attained more than five years of service. Effective January 1, 2008, Plan participants under the age of 40 no longer accrue benefits under the Navicent DB Plan. As of December 31, 2013, the Navicent DB Plan was frozen for all teammates such that additional benefits no longer accrue after that date.

(Dollars in thousands)

The actuarial valuation establishing the net pension liability for the purposes of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was based on the Navicent DB Plan membership data as of January 1, 2019 and rolled forward to the measurement date of July 1, 2019. The Navicent DB Plan participant data as of July 1, 2019 is as follows:

	2019
Retirees and beneficiaries receiving benefits	1,063
Previously employed plan members entitled to but not yet receiving benefits	1,299
Employed plan members	1,815
Total	4,177

Contributions to the Navicent DB Plan – Annual contributions to the Navicent DB Plan are based upon actuarial calculations and the Navicent DB Plan utilizes the entry age normal method to determine annual contributions. There are no teammate contributions to the Navicent DB Plan.

Navicent's funding policy is to contribute such actuarially determined amounts as are necessary to provide assets sufficient to meet the benefits to be paid to Navicent DB Plan participants, in addition to meeting the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA). With the freezing of the Navicent DB Plan, Navicent has made contributions to the Navicent DB Plan in addition to the ERISA minimum required contribution in an effort to reduce the unfunded actuarially accrued liability. In 2019, Navicent elected to contribute $10,952, which exceeded the ERISA minimum required contribution by $6,229. Navicent's contribution rate for the year ended December 31, 2019 equaled 7.9% of covered payroll. These contribution rates are determined based on a measurement date of January 1, 2019.

Navicent DB Plan Actuarial Assumptions – The total Navicent DB Plan pension liability (asset) on the July 1, 2019 measurement date was determined using the following actuarial assumptions:

	2019
Inflation rate	2.5 %
Investment rate of return (net of investment expenses, including inflation)	7.5

Actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience study that is conducted every five years, most recently in 2016. The actuarial assumptions with regard to mortality rates and the long-term investment rate of return on pension assets used in the July 1, 2019 valuation for the Navicent DB Plan are consistent with the actuarial assumptions used in the valuation of the Atrium DB Plan.

(Dollars in thousands)

The target allocation, expected nominal return (which includes inflation) and the best estimates of geometric or compounded real rates of return (which are net of inflation) for each major asset class were established as of January 1, 2019, the beginning of the measurement period, and are summarized in the following table:

Asset class	Target allocation	Expected nominal return	Expected real rate of return
Fixed income	22.0 %	2.3 - 4.0%	(0.4) - 1.3%
Long/short fixed income	7.5	5.9	3.1
Domestic equities	31.0	6.9 – 7.3	4.0 – 4.4
International equities	16.0	7.2	4.4
Global equities	16.0	7.2 - 7.7	4.4 - 4.9
Private equity funds	7.5	8.3	5.4
Total target allocation	100.0 %		

Rate of return – As of June 30, 2019, the money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 5.4%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Navicent DB Plan Discount rate – The discount rate used to measure the total Navicent DB Plan pension liability (asset) as of July 1, 2019 was 7.5% and is consistent with the Atrium DB Plan. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on those assumptions, the Navicent DB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive teammates. Therefore, the long-term expected rate of return on pension assets of 7.5% was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

(Dollars in thousands)

Changes in the Navicent DB Plan Net Pension Liability (Asset) - Changes in the Navicent DB Plan net pension liability (asset) for the year ended December 31, 2019, are as follows:

		Increase (decrease)		
		Total pension liability (a)	**Plan fiduciary net position (b)**	**Net pension liability (asset) (a) – (b)**
Balances at January 1, 2019	$	272,952	306,478	(33,526)
Changes for the fiscal year:				
Service cost		—	—	—
Interest cost		10,087	—	10,087
Differences between expected and actual experience		—	—	—
Changes of assumptions		—	—	—
Contributions – employer		—	10,952	(10,952)
Investment gains and other, net		—	32,493	(32,493)
Benefit payments		(7,941)	(7,941)	—
Administrative expense		—	(151)	151
Net changes		2,146	35,353	(33,207)
Balances at December 31, 2019 (based on July 1, 2019 measurement date)	$	275,098	341,831	(66,733)

Sensitivity of the Navicent DB Plan net pension liability(asset) to changes in the discount rate – The following table presents the net Navicent DB Plan pension liability (asset) as of July 1, 2019, calculated using the discount rate of 7.5% and alternatively, as required by GASB 68, what the net pension liability (asset) would be under different scenarios assuming it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%):

		1% Decrease 6.50%	**Current rate 7.50%**	**1% Increase 8.50%**
Net pension liability at July 1, 2019	$	(36,323)	(66,733)	(92,324)

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

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

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

(Dollars in thousands)

Navicent DB Plan assets were invested as follows as of July 1, 2019:

	Defined benefit plan assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short term investments	$ 37,649	$ 37,649	$ —	$ —
Fixed income:				
U.S. government treasuries and agencies	34,158	13,668	20,490	—
Corporate bonds	16,303	1,808	14,495	—
Asset-backed securities	6,964	—	6,964	—
Fixed income – other	14,045	14,045	—	—
Total fixed income	71,470	29,521	41,949	—
Equity:				
Domestic equities	113,472	113,472	—	—
International equities	52,701	52,701	—	—
Total equity	166,173	166,173	—	—
Total investments by fair value level	275,292	$ 233,343	$ 41,949	$ —
Investments measured at NAV:				
Multi-strategy hedge funds	47,779			
Private equity funds	18,760			
Total investments measured at NAV	66,539			
Total investments measured at fair value	$ 341,831			

(Dollars in thousands)

The table below discloses the unfunded commitments, redemption frequency and redemption notice period for investments measured at net asset value as of July 1, 2019:

	Defined benefit plan assets			
	2019	**Unfunded commitments as of July 1, 2019**	**Redemption Frequency**	**Redemption notice period**
Multi-strategy hedge funds	$ 47,779	$ —	N/A	N/A
Private equity funds	18,760	5,425	N/A	N/A
Total	$ 66,539	$ 5,425		

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

Pension expense and deferred inflows of resources related to the Navicent DB Plan – For the year ended December 31, 2019, Navicent recognized pension surplus of $5,343 for the Navicent DB Plan. At December 31, 2019, Navicent reported deferred inflows of resources of $16,912 based on July 1, 2019 measurement date resulting from the net difference between projected and actual earnings on pension plan investments.

Amounts reported above as deferred inflows of resources related to the Navicent DB Plan at December 31, 2019 will be recognized as a reduction of pension expense for the years ended December 31, as follows:

	Amount
2020	$ (4,228)
2021	(4,228)
2022	(4,228)
2023	(4,228)
2024	—
Thereafter	—
	$ (16,912)

Other Benefit Plans
Navicent also sponsors an unfunded postretirement health and dental plan which has a liability of $25,238 as December 31, 2019 (based on July 1, 2019 measurement date).

(Dollars in thousands)

(9) Fiduciary Pension Trust Funds

The Atrium Health DB Plan, the Cleveland DB Plan, the Stanly DB Plan and the Navicent DB plan are considered fiduciary pension trust funds. The following fiduciary fund information is provided as of December 31, 2019, the fiscal year end for these four plans, in addition to information previously provided for these four plans as of July 1, 2019 regarding plan administration, membership, benefit terms, contributions, investment policy and actuarial assumptions. This information is presented here per GASB Statement No. 67, *Financial Reporting for Pension Plans*, as no separate financial statements for these plans are issued.

Atrium Health DB Plan net pension liability as of plan fiscal year end

The Atrium Health plan fiscal year end is December 31. The components of the net pension liability of the Atrium Health DB Plan on December 31, 2019 were as follows:

Total pension liability	$	1,256,022
Plan fiduciary net position		913,579
Atrium Health net pension liability	$	342,443
Plan fiduciary net position as a percentage of total pension liability		72.7 %

Sensitivity of the Atrium Health DB Plan net pension liability to changes in the discount rate – The following table presents the net Atrium Health DB Plan pension liability as of December 31, 2019 calculated using the discount rate of 7.5% and alternatively, what the net pension liability would be under different scenarios assuming it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%):

	1% Decrease 6.50%	Current rate 7.50%	1% Increase 8.50%
Atrium Health net pension liability at December 31, 2019	$ 432,763	$ 342,443	$ 263,576

Atrium Health DB Plan Investments

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

(Dollars in thousands)

Atrium Health DB Plan assets were invested as follows as of December 31, 2019:

	Defined benefit plan assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short term investments	$ 19,110	$ 19,110	$ —	$ —
Fixed income:				
U.S. government treasuries and agencies	10,974	—	10,974	—
Corporate bonds	21,788	—	21,788	—
Fixed income – other	43,305	43,305	—	—
Total fixed income	76,067	43,305	32,762	—
Equity:				
Domestic equities	216,608	216,608	—	—
International equities	146,315	146,315	—	—
Global equities	151,685	151,685	—	—
Total equity	514,608	514,608	—	—
Global asset allocation funds	34,623	34,623	—	—
Real asset funds	35,974	35,974	—	—
Total investments by fair value level	680,382	$ 647,620	$ 32,762	$ —
Investments measured at the NAV:				
Fixed income - other	45,064			
Global asset allocation funds	37,552			
Long/short fixed income	94,899			
Multi-strategy hedge funds	80			
Private equity funds	55,602			
Total investments measured at the NAV	233,197			
Total investments measured at fair value	$ 913,579			

(Dollars in thousands)

The table below discloses the unfunded commitments, redemption frequency, and redemption notice period for investments measure at net asset value as of December 31, 2019:

	Defined benefit plan assets			
	2019	**Unfunded commitments as of December 31, 2019**	**Redemption Frequency**	**Redemption notice period**
Fixed income-other	$ 45,064	$ —	Monthly	15 days
Global asset allocation funds	37,552	—	Daily	2 days
Long/short fixed income	94,899	—	Quarterly	45–90 days
Multi-strategy hedge funds	80	—	N/A	N/A
Private equity funds	55,602	9,085	N/A	N/A
Total	$ 233,197	$ 9,085		

Cleveland DB Plan and Stanly DB Plan fiscal year end reporting – As of the plan fiscal year end December 31, 2019, the Cleveland DB Plan had a net pension liability of $8,936 and plan assets with a fair market value of $76,341. The Stanly DB Plan as of the plan fiscal year end December 31, 2019 had a net pension asset of $12,712 and plan assets with a fair market value of $58,865.

Navicent DB Plan net pension asset as of plan fiscal year end

The Navicent plan fiscal year end is December 31. The components of the net pension asset of the Navicent DB Plan on December 31, 2019 were as follows:

Total pension liability	$ 276,648
Plan fiduciary net position	349,588
Navicent net pension asset	$ (72,940)
Plan fiduciary net position as a percentage of total pension liability	126.4 %

(Dollars in thousands)

Sensitivity of the Navicent DB Plan net pension asset to changes in the discount rate – The following table presents the net Navicent DB Plan pension asset as of December 31, 2019 calculated using the discount rate of 7.5% and alternatively, what the net pension asset would be under different scenarios assuming it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%):

	6.50%	7.50%	8.50%
Navicent net pension asset at December 31, 2019	$ (42,835)	$ (72,940)	$ (98,326)

Navicent DB Plan Investments –

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

(Dollars in thousands)

Navicent DB Plan assets were invested as follows as of December 31, 2019:

	Defined benefit plan assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short term investments	$ 42,003	$ 42,003	$ —	$ —
Fixed income:				
U.S. government treasuries and agencies	45,396	13,903	31,493	—
Corporate bonds	18,488	1,193	17,295	—
Asset-backed securities	7,273	—	7,273	—
Fixed income – other	17,486	17,486	—	—
Total fixed income	88,643	32,582	56,061	—
Equity:				
Domestic equities	130,026	130,026	—	—
International equities	55,995	55,995	—	—
Total equity	186,021	186,021	—	—
Total investments by fair value level	$ 316,667	$ 260,606	$ 56,061	$ —
Investments measured at NAV:				
Multi-strategy hedge funds	15,292			
Private equity funds	17,629			
Total investments measured at NAV	32,921			
Total investments measured at fair value	$ 349,588			

(Dollars in thousands)

The table below discloses the unfunded commitments, redemption frequency, and redemption notice period for investments measured at net asset value as of December 31, 2019:

	Defined benefit plan assets			
	2019	**Unfunded commitments as of December 31, 2019**	**Redemption Frequency**	**Redemption notice period**
Multi-strategy hedge funds	$ 15,292	$ —	N/A	N/A
Private equity funds	17,629	5,425	N/A	N/A
Total	$ 32,921	$ 5,425		

(10) Commitments and Contingencies

Compliance and Accounting

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

Atrium Health is subject to legal proceedings and claims that arise in the course of providing healthcare services. Atrium Health, excluding Navicent, has instituted a limited self-insurance program for professional liability and general liability claims. Self-insurance is limited to $10 million per occurrence, with no aggregate limit for the year end December 31, 2019. General liability and professional liability are also covered by umbrella liability insurance policies. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for asserted and unasserted claims not covered by the policy and any other uninsured liability.

Navicent is currently insured for commercial general liability on an occurrence basis and professional liability on a claims-made basis by Centra Professional Indemnity (SPC), Ltd. or CPI, a wholly owned subsidiary of Navicent, and excess coverage by commercial insurance carriers through CPI. The excess coverage limits are $40 million for 2019. The coverage for professional liability is limited to claims incurred and reported during its term. Actuarially determined funding is provided for losses.

CPI also insures Navicent on an occurrence basis for workers' compensation insurance, which has a limit of $500 per occurrence, with no aggregate limit per year and insures equipment maintenance and repairs with limits of liability of $2,500 per claim and annual aggregate.

Litigation Cases

In June 2016, the federal government and the State of North Carolina filed a civil antitrust lawsuit against Atrium Health alleging that Atrium Health violated Section 1 of the Sherman Act by imposing steering restrictions in negotiated agreements with four insurance companies in the Charlotte, North Carolina area (the "2016 lawsuit"). In November 2018, Atrium Health reached a settlement with the government plaintiffs that includes no financial penalty or fine and does not include any admission of wrongdoing. The settlement enjoins Atrium Health from seeking or enforcing certain limited managed care contract terms, but it does not require the payment of any monetary amount. The federal court entered the final order resolving this case on April 24, 2019. In September 2016, an individual filed a proposed class action lawsuit in state court making similar allegations against Atrium Health. This lawsuit seeks treble damages for an unspecified amount, but no class has been certified. In March 2019, the court granted Atrium Health's motion to dismiss the state anti-trust claim. The entire matter is currently stayed pending appeal to the North Carolina Supreme Court. In February 2018, another individual filed a separate federal lawsuit on behalf of an additional proposed class of plaintiffs. This second lawsuit makes similar allegations and seeks treble damages for an unspecified amount. In March 2019, the court dismissed all claims for monetary relief in this federal lawsuit and stayed the claims for injunctive relief pending resolution of the 2016 lawsuit. The federal lawsuit is currently on appeal at the Fourth Circuit Court of Appeals. The ultimate resolutions of these lawsuits could have a material adverse effect on Atrium Health's condition (financial or otherwise) or operations. It is impossible to estimate the likelihood of an unfavorable outcome or the risk of exposure facing Atrium Health.

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

In August 2019, a plaintiff filed several claims regarding the termination of plaintiff's professional services contract. The claims are breach of contract for unpaid invoices, wrongful termination, and for sharing information with third parties; fraudulent inducement of plaintiff to enter into contract amendments which plaintiff contends Navicent had no intent to perform; and tortious interference. In November 2019 Atrium Health filed a Motion to Dismiss. Navicent contemporaneously filed a Partial Motion to Dismiss based on legal deficiencies in several of plaintiffs' complaints. A decision on these motions is pending. It is impossible to estimate the likelihood of an unfavorable outcome or the risk of exposure facing Atrium Health and Navicent. Atrium Health and Navicent intend to vigorously defend claims against them.

(Dollars in thousands)

In March 2018, plaintiffs filed a case in the North Carolina Business Court. Plaintiffs are an anesthesiology service provider and affiliates that previously provided services to Atrium Health until the parties' contract terminated by its terms on June 30, 2018. Plaintiffs have asserted claims against Atrium Health and the replacement anesthesiology services provider (and its affiliates) including breach of contract, trade secret, fraud, monopolization, restraint of trade, and unfair competition claims. Atrium Health has asserted counterclaims against plaintiffs for breach of contract and tortious interference with contract. In June 2018, the court denied plaintiffs' motion to enjoin Atrium Health from commencing its contract with its new provider. The court concluded plaintiffs failed to demonstrate a likelihood of success on their trade secrets claims. The court further concluded plaintiffs demonstrated a likelihood of success on the merits of their breach of contract claims, and the court entered an injunction prohibiting Atrium Health and co-defendants from violating non-solicitation provisions in agreements between Atrium Health and plaintiffs. On December 13, 2019, the court denied Atrium's motion to dismiss and allowed all claims against it to proceed. It is impossible to estimate the likelihood of an unfavorable outcome or the risk of exposure facing Atrium Health. Atrium Health intends to vigorously defend claims against it and pursue its counterclaims against plaintiffs.

Future Obligations

Obligations under noncancelable operating leases with remaining terms of more than one year, principally real estate leases for medical office space, as of December 31, 2019, were as follows:

2020	$	76,086
2021		70,246
2022		61,756
2023		53,465
2024		34,247
2025–2029		109,910
2030–2034		72,160
2035–2039		16,676
2040 – Thereafter		9,955
	$	504,501

Atrium Health has entered into contracts for various construction and capital projects, for which remaining commitments totaled approximately $157,131 at December 31, 2019.

Effective January 1, 2012, under the terms of a Lease Agreement between Atrium Health and Union County, Atrium Health leases hospital real estate from, and makes annual lease payments to, Union County. The initial term of the Lease Agreement remains in effect until December 31, 2061, unless earlier terminated, extended or renewed in accordance with the provisions of the Lease Agreement. Upon the expiration of the initial term, unless certain events of default exist, Atrium Health has the option to extend and renew the Lease Agreement for an initial renewal term of 25 years. During the term of the Lease Agreement, Union County has the right to require Atrium Health to purchase the hospital real estate at a stated price determined in accordance with the Lease Agreement. If Union County elects to require Atrium Health to purchase the hospital real estate, Atrium Health will have no further obligations under the Lease Agreement. As of December 31, 2019, the purchase price as stated in the Lease Agreement was $127,882. The present value of Atrium Health's obligation for the annual lease payments, discounted using an effective interest rate of 4.34%, was $121,936 as of December 31, 2019, and is recorded on the balance sheet as a long-term liability. The liability and related interest are payable in annual installments of approximately $6,000 per year through 2061.

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

Atrium Health committed to invest $70,000 in Atrium Health Stanly and its subsidiaries over a period of 12 years, through 2025, which included a five-year commitment of $48,830 before the end of 2018. Of those totals, Atrium Health committed to approximately $62,000 of specifically identified projects by the end of 2019. As of December 31, 2019, Atrium Health has spent and/or approved the full $70,000 commitment.

In connection with the Agreement and Member Substitution between Atrium Health and Navicent (see Note 1), Atrium Health has committed to make capital, strategic and other expenditures at Navicent facilities totaling at least $1 billion over a period of 10 years beginning in 2019.

(11) Subsequent Events

In February and March of 2020, the United States and, more specifically, the service area of Atrium Health began to experience the impact of coronavirus disease 2019 (COVID-19). In March, the World Health Organization declared COVID-19 a pandemic and, days later, President Trump declared it a national emergency. Subsequent to that, in order to limit the spread of the virus, the President imposed social distancing guidelines that restrict non-essential travel and limit gatherings of individuals. States and counties within the Atrium Health service area, including North Carolina and Mecklenburg County, have imposed more severe restrictions, including “shelter in place” or “stay at home” orders.

Along with national and state agencies, Atrium Health infectious disease specialists have been monitoring the rapidly evolving situation. In addition to implementing guidelines to protect patients and teammates and prevent the spread of the disease within its facilities, Atrium Health has also taken steps to prepare for a potential substantial increase in COVID-19 patients, which includes the training and redeployment of personnel, acquisition of necessary personal protective equipment and supplies, and the postponement of certain non-urgent healthcare services. The potential operational or financial impact of this pandemic to Atrium Health, including the volatility of capital markets, is difficult to predict, but it could have a material adverse impact on the results of operations or financial condition of Atrium Health As of the date of issuance, Atrium Health has experienced operating losses as a result of service disruptions during the pandemic, but in late April 2020 announced a plan for expanding its delivery of care services, guided by Centers for Disease Control safety recommendations.

Atrium Health typically funds its working capital needs through operating cash flows and the issuance of commercial paper under its $400,000 commercial paper program. Effective May 7, 2020, Atrium Health has secured additional liquidity in the form of LIBOR-based taxable revolving bank lines of credit with terms of 364 days from five financial institutions in an aggregate amount of $500,000 should the spread of COVID-19 produce extended cash flow disruptions. Additionally, as of May 5, 2020, Atrium Health had received approximately $429,000 of advanced Medicare payments under Division A, Title III of the Coronavirus Aid, Relief and Economic Security (CARES) Act (repayment of these funds is through recoupment of future Medicare claims over the 12-month period following receipt, with no amounts recouped for the first 120 days after receipt of the funds) and $120,000 of Division B emergency supplemental appropriations of the CARES Act.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Changes in Net Pension Liability and Related Ratios – Atrium Health Defined Benefit Plan (unaudited)

(Dollars in thousands)

	December 31					
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Total pension liability:						
Service cost	$ —	$ —	$ 46,519	$ 53,214	$ 55,197	$ NA
Interest cost	91,210	96,417	100,609	95,929	93,442	NA
Differences between expected and actual experiences	25,325	(14,720)	(23,718)	7,092	(4,091)	NA
Changes of assumptions	5,138	(2,402)	(5,217)	20,252	—	NA
Benefit payments	(150,638)	(146,796)	(108,339)	(106,420)	(112,417)	NA
Net change in total pension liability	(28,965)	(67,501)	9,854	70,067	32,131	NA
Total pension liability – beginning	1,291,461	1,358,962	1,349,108	1,279,041	1,246,910	NA
Total pension liability – ending (a)	1,262,496	1,291,461	1,358,962	1,349,108	1,279,041	1,246,910
Plan fiduciary net position:						
Contributions – employer	37,473	78,526	124,181	132,884	92,405	NA
Investment gains and other, net	31,478	76,644	118,972	(36,909)	20,481	NA
Benefit payments	(150,638)	(146,796)	(108,339)	(106,420)	(112,417)	NA
Administrative expense	(162)	(312)	(217)	(364)	(696)	NA
Net change in plan fiduciary net position	(81,849)	8,062	134,597	(10,809)	(227)	NA
Plan fiduciary net position – beginning	991,368	983,306	848,709	859,518	859,745	NA
Plan fiduciary net position – ending (b)	909,519	991,368	983,306	848,709	859,518	859,745
Net pension liability – ending (a) – (b)	$ 352,977	$ 300,093	$ 375,656	$ 500,399	$ 419,523	$ 387,165
Plan fiduciary net position as a percentage of the total pension liability	72.0 %	76.8 %	72.4 %	62.9 %	67.2 %	69.0 %
Covered-employee payroll	$ 1,642,381	$ 1,804,814	$ 1,796,876	$ 1,959,073	$ 1,995,117	$ 1,909,014
Net pension liability as a percentage of covered-employee payroll	21.5 %	16.6 %	20.9 %	25.5 %	21.0 %	20.3 %

Note to schedule:

Measurement date is July 1 of each fiscal year presented.

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

See accompanying independent auditors' report.

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

Schedule of Pension Contributions – Atrium Health Defined Benefit Plan (unaudited)

(Dollars in thousands)

December 31	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	$ 37,473	$ 37,473	$ —	$ 1,642,381	2.3 %
2018	36,326	78,526	(42,200)	1,804,814	4.4 %
2017	81,981	124,181	(42,200)	1,796,876	6.9 %
2016	90,684	132,884	(42,200)	1,959,073	6.8 %
2015	92,405	92,405	—	1,995,117	4.6 %
2014	79,015	79,015	—	1,909,014	4.1 %

Notes to schedule:

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

Methods and assumptions used to determine contribution rate for 2019:

Actuarial cost method	Entry age normal with 20-year as level percent of pay, closed
Asset valuation method	5-year smoothed market
Cash balance interest credits	5.00%
Salary increases	Not applicable after 12/31/2017 due to benefit accrual freeze.
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement rates	Age-graded rates from 55 to 70
Mortality	RP-2014 with generational projection using scale MP-2018

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

See accompanying independent auditors' report.

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

Schedule of Pension Plan Investment Returns – Atrium Health Defined Benefit Plan (unaudited)

Atrium Health Defined Benefit Plan measurement date	Annual money-weighted rate of return net of investment expenses
July 1, 2019	3.8 %
July 1, 2018	8.0 %
July 1, 2017	15.0 %
July 1, 2016	(4.8)%
July 1, 2015	2.4 %
July 1, 2014	15.8 %

Notes to schedule:

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

See accompanying independent auditors' report.

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

Schedule of Changes in Net Pension Liability and Related Ratios – Navicent Health Defined Benefit Plan (unaudited)

(Dollars in thousands)

		December 31, 2019
Total pension liability:		
Service cost	$	—
Interest cost		10,087
Differences between expected and actual experiences		—
Changes of assumptions		—
Benefit payments		(7,941)
Net change in total pension liability		2,146
Total pension liability – beginning		272,952
Total pension liability – ending (a)		275,098
Plan fiduciary net position:		
Contributions – employer		10,952
Investment gains and other, net		32,493
Benefit payments		(7,941)
Administrative expense		(151)
Net change in plan fiduciary net position		35,353
Plan fiduciary net position – beginning		306,478
Plan fiduciary net position – ending (b)		341,831
Net pension asset – ending (a) – (b)	$	(66,733)
Plan fiduciary net position as a percentage of the total pension asset		124.3 %
Covered-employee payroll	$	138,664
Net pension asset as a percentage of covered-employee payroll		(48.1)%

Note to schedule:

Measurement date is July 1 of each fiscal year presented.

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

See accompanying independent auditors' report.

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

Schedule of Pension Contributions – Navicent Health Defined Benefit Plan (unaudited)

(Dollars in thousands)

December 31	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	$ 4,723	$ 10,952	$ (6,229)	$ 138,664	7.9 %

Notes to schedule:

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

Methods and assumptions used to determine contribution rate for 2019:

Actuarial cost method	Traditional unit credit
Asset valuation method	2-year smoothed market
Salary increases	Not applicable after 12/31/2013 due to benefit accrual freeze.
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement rates	Age-graded rates from 55 to 70
Mortality	RP-2014 with generational projection using scale MP-2018

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

See accompanying independent auditors' report.

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

Schedule of Pension Plan Investment Returns – Navicent Health Defined Benefit Plan (unaudited)

Navicent Health Defined Benefit Plan measurement date	Annual money-weighted rate of return net of investment expenses
July 1, 2019	5.4 %

Notes to schedule:

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

See accompanying independent auditors' report.

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

Schedule of Changes in Net Pension Liability and Related Ratios – Atrium Health Defined Benefit Plan (unaudited)

(Dollars in thousands)

		December 31, 2019
Total pension liability:		
Service cost	$	—
Interest cost		91,660
Differences between expected and actual experiences		—
Changes of assumptions		—
Benefit payments		(115,531)
Net change in total pension liability		(23,871)
Total pension liability – beginning		1,279,893
Total pension liability – ending (a)		1,256,022
Plan fiduciary net position:		
Contributions – employer		37,473
Investment gains and other, net		151,549
Benefit payments		(115,531)
Administrative expense		(82)
Net change in plan fiduciary net position		73,409
Plan fiduciary net position – beginning		840,170
Plan fiduciary net position – ending (b)		913,579
Net pension liability – ending (a) – (b)	$	342,443
Plan fiduciary net position as a percentage of the total pension liability		72.7 %
Covered-employee payroll	$	1,642,381
Net pension liability as a percentage of covered-employee payroll		20.9 %

Note to schedule:

Measurement date is December 31, 2019.

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

See accompanying independent auditors' report.

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

Schedule of Pension Contributions – Atrium Health Defined Benefit Plan (unaudited)

(Dollars in thousands)

December 31	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	$ 37,473	$ 37,473	$ —	$ 1,642,381	2.3 %

Notes to schedule:

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

Methods and assumptions used to determine contribution rate for 2019:

Actuarial cost method	Entry age normal with 20-year as level percent of pay, closed
Asset valuation method	5-year smoothed market
Cash balance interest credits	5.00%
Salary increases	Not applicable after 12/31/2017 due to benefit accrual freeze.
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement rates	Age-graded rates from 55 to 70
Mortality	RP-2014 with generational projection using scale MP-2018

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

See accompanying independent auditors’ report.

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

Schedule of Pension Plan Investment Returns - Atrium Health Defined Benefit Plan (unaudited)

Atrium Health Defined Benefit Plan measurement date	Annual money-weighted rate of return net of investment expenses
December 31, 2019	19.0 %

Notes to schedule:

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

See accompanying independent auditors' report.

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

Schedule of Changes in Net Pension Liability and Related Ratios - Navicent Health Defined Benefit Plan (unaudited)

(Dollars in thousands)

		December 31, 2019
Total pension liability:		
Service cost	$	—
Interest cost		19,866
Differences between expected and actual experiences		—
Changes of assumptions		—
Benefit payments		(16,170)
Net change in total pension liability		3,696
Total pension liability – beginning		272,952
Total pension liability – ending (a)		276,648
Plan fiduciary net position:		
Contributions – employer		11,100
Investment gains and other, net		51,045
Benefit payments		(16,170)
Administrative expense		(2,865)
Net change in plan fiduciary net position		43,110
Plan fiduciary net position – beginning		306,478
Plan fiduciary net position – ending (b)		349,588
Net pension asset – ending (a) – (b)	$	(72,940)
Plan fiduciary net position as a percentage of the total pension asset		126.4 %
Covered-employee payroll	$	138,664
Net pension asset as a percentage of covered-employee payroll		(52.6)%

Note to schedule:

Measurement date is December 31, 2019.

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

See accompanying independent auditors’ report.

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

Schedule of Pension Contributions – Navicent Health Defined Benefit Plan (unaudited)

(Dollars in thousands)

December 31	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	$ 4,723	$ 11,100	$ (6,377)	$ 138,664	8.0 %

Notes to schedule:

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

Methods and assumptions used to determine contribution rate for 2019:

Actuarial cost method	Traditional unit credit
Asset valuation method	2-year smoothed market
Salary increases	Not applicable after 12/31/2013 due to benefit accrual freeze.
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement rates	Age-graded rates from 55 to 70
Mortality	RP-2014 with generational projection using scale MP-2018

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

See accompanying independent auditors’ report.

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

Schedule of Pension Plan Investment Returns - Navicent Health Defined Benefit Plan (unaudited)

(Dollars in thousands)

Navicent Health Defined Benefit Plan measurement date	Annual money-weighted rate of return net of investment expenses
December 31, 2019	17.0 %

Notes to schedule:

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

See accompanying independent auditors’ report.

OTHER FINANCIAL INFORMATION

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

Combining Balance Sheet – Atrium Health Combined Group

December 31, 2019

(Dollars in thousands)

	2019							
Assets and Deferred Outflows of Resources	**Primary Enterprise**	**Atrium Health Foundation**	**Eliminations**	**Subtotal**	**Exclude Navicent Health, Inc.**	**Exclude Non-Obligated Group Affiliates**	**Exclude Consolidating Eliminations**	**Total Combined Group**
Current assets:								
Cash and cash equivalents	$ 370,103	$ 5,465	$ —	$ 375,568	$ 62,540	$ 6,502	$ —	$ 306,526
Short-term investments	—	9,301	—	9,301	—	—	—	9,301
Patient accounts receivable – net	918,280	—	—	918,280	160,629	2,729	—	754,922
Other accounts receivable	110,724	15,307	(2,132)	123,899	23,519	7,932	(11,226)	103,674
Assets limited as to use – investments	43,215	—	—	43,215	—	—	—	43,215
Inventories	84,329	—	—	84,329	18,931	9	—	65,389
Prepaid expenses	91,452	404	—	91,856	12,797	96	—	78,963
Total current assets	1,618,103	30,477	(2,132)	1,646,448	278,416	17,268	(11,226)	1,361,990
Capital assets	7,844,574	11,673	—	7,856,247	1,260,114	42,192	—	6,553,941
Accumulated depreciation	(4,048,626)	(7,181)	—	(4,055,807)	(761,211)	(10,772)	—	(3,283,824)
Total capital assets – net	3,795,948	4,492	—	3,800,440	498,903	31,420	—	3,270,117
Other noncurrent assets:								
Assets limited as to use:								
Bond proceeds held by trustee	133,701	—	—	133,701	—	—	—	133,701
Investments designated for capital improvements	5,886,313	—	—	5,886,313	637,942	—	—	5,248,371
Other long-term investments	52,008	298,127	—	350,135	—	48,065	—	302,070
Other assets limited as to use – investments	176,955	—	—	176,955	81,592	—	—	95,363
Other assets	204,457	35,055	(4,455)	235,057	72,991	444	(17,991)	179,613
Total other noncurrent assets	6,453,434	333,182	(4,455)	6,782,161	792,525	48,509	(17,991)	5,959,118
Total assets	11,867,485	368,151	(6,587)	12,229,049	1,569,844	97,197	(29,217)	10,591,225
Deferred outflows of resources	337,592	—	—	337,592	635	—	—	336,957
Total assets and deferred outflows of resources	$ 12,205,077	$ 368,151	$ (6,587)	$ 12,566,641	$ 1,570,479	$ 97,197	$ (29,217)	$ 10,928,182

(Continued)

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

Combining Balance Sheet – Atrium Health Combined Group (continued)

December 31, 2019

(Dollars in thousands)

Liabilities, Deferred Inflows of Resources and Net Position	Primary Enterprise (2019)	Atrium Health Foundation	Eliminations	Subtotal	Exclude Navicent Health, Inc.	Exclude Non-Obligated Group Affiliates	Exclude Consolidating Eliminations	Total Combined Group
Current liabilities:								
Accounts payable	$ 344,980	$ 156	$ (2,500)	$ 342,636	$ 35,354	$ 4,431	$ —	$ 302,851
Salaries and benefits payable	470,706	—	—	470,706	35,605	1,081	—	434,020
Other liabilities and accruals	249,816	2,278	(2,132)	249,962	9,166	8,892	(1,937)	233,841
Estimated third-party payer settlements	242,056	—	—	242,056	(13,326)	—	—	255,382
Current portion of long-term debt	224,262	—	—	224,262	4,820	1,835	—	217,607
Total current liabilities	1,531,820	2,434	(4,632)	1,529,622	71,619	16,239	(1,937)	1,443,701
Long-term debt – less current portion	2,242,930	—	—	2,242,930	290,590	13,828	(9,289)	1,947,801
Interest rate swap liability	272,329	—	—	272,329	9,840	—	—	262,489
Pension liability	286,084	—	—	286,084	(66,733)	—	—	352,817
Other liabilities	507,108	3,112	(1,955)	508,265	133,739	185	—	374,341
Total liabilities	4,840,271	5,546	(6,587)	4,839,230	439,055	30,252	(11,226)	4,381,149
Commitments and contingencies								
Deferred inflows of resources	68,888	—	—	68,888	16,912	—	—	51,976
Net position:								
Net investment in capital assets	1,453,649	—	—	1,453,649	193,653	6,468	—	1,253,528
Restricted – by donor	78,658	344,557	—	423,215	47,397	—	—	375,818
Unrestricted	5,763,611	18,048	—	5,781,659	873,462	60,477	(17,991)	4,865,711
Total net position	7,295,918	362,605	—	7,658,523	1,114,512	66,945	(17,991)	6,495,057
Total liabilities, deferred inflows of resources and net position	$ 12,205,077	$ 368,151	$ (6,587)	$ 12,566,641	$ 1,570,479	$ 97,197	$ (29,217)	$ 10,928,182

The Total Combined Group column presented above represents the Combined Group, which consists of the Obligated Group and its Designated Affiliates, as such terms are defined in Section 101 of the Charlotte-Mecklenburg Hospital Authority's Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended. Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

See accompanying independent auditors' report.

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

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

Year ended December 31, 2019

(Dollars in thousands)

	2019							
	Primary Enterprise	**Atrium Health Foundation**	**Elims**	**Subtotal**	**Exclude Navicent Health, Inc.**	**Exclude Non-Obligated Group Affiliates**	**Exclude Consolidating Eliminations**	**Total Combined Group**
Net patient service revenue	$ 6,750,656	$ —	$ —	$ 6,750,656	$ 855,958	$ 18,738	$ (10)	$ 5,875,970
Other revenue	729,696	25,050	(32,998)	721,748	42,499	28,431	(14,990)	665,808
Total revenue	7,480,352	25,050	(32,998)	7,472,404	898,457	47,169	(15,000)	6,541,778
Operating expenses:								
Personnel costs	4,197,447	4,087	—	4,201,534	511,707	19,769	—	3,670,058
Supplies	1,407,008	—	—	1,407,008	178,564	2,491	—	1,225,953
Purchased services	563,320	—	—	563,320	86,755	471	—	476,094
Other expenses	558,850	32,594	(30,498)	560,946	79,992	23,718	(15,000)	472,236
Depreciation and amortization	367,294	268	—	367,562	37,670	2,406	—	327,486
Total operating expenses	7,093,919	36,949	(30,498)	7,100,370	894,688	48,855	(15,000)	6,171,827
Operating income (loss)	386,433	(11,899)	(2,500)	372,034	3,769	(1,686)	—	369,951
Nonoperating (loss) income:								
Interest expense	(87,368)	—	—	(87,368)	(7,240)	(1,167)	—	(78,961)
Interest and dividend income	113,151	4,201	—	117,352	13,828	604	—	102,920
Net change in the fair value of investments	790,940	44,642	—	835,582	73,589	3,489	—	758,504
Other – net	(41,930)	—	2,500	(39,430)	(6,027)	223	—	(33,626)
Total nonoperating income – net	774,793	48,843	2,500	826,136	74,150	3,149	—	748,837
Revenue over expenses before contributions	1,161,226	36,944	—	1,198,170	77,919	1,463	—	1,118,788
Capital contributions	24,385	(3,225)	—	21,160	10,800	497	—	9,863
Other contributions	384	3,204	—	3,588	—	—	—	3,588
Increase in net position	1,185,995	36,923	—	1,222,918	88,719	1,960	—	1,132,239
Net position:								
Beginning of year (note 1(a))	6,109,923	325,682	—	6,435,605	1,025,793	64,985	(17,991)	5,362,818
End of year	$ 7,295,918	$ 362,605	$ —	$ 7,658,523	$ 1,114,512	$ 66,945	$ (17,991)	$ 6,495,057

The Total Combined Group column presented above represents the Combined Group, which consists of the Obligated Group and its Designated Affiliates, as such terms are defined in Section 101 of the Charlotte-Mecklenburg Hospital Authority's Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended. Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

See accompanying independent auditors' report.

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

Combining Schedule of Cash Flows – Atrium Health Combined Group

Year ended December 31, 2019

(Dollars in thousands)

	2019							
	Primary Enterprise	**Atrium Health Foundation**	**Eliminations**	**Subtotal**	**Exclude Navicent Health, Inc.**	**Exclude Non-Obligated Group Affiliates**	**Exclude Consolidating Eliminations**	**Total Combined Group**
Cash flows from operating activities:								
Receipts from third-party payers and patients	$ 6,750,345	$ —	$ —	$ 6,750,345	$ 852,510	$ 18,493	$ —	$ 5,879,342
Payments to suppliers	(2,585,188)	(5,695)	—	(2,590,883)	(383,790)	(23,053)	—	(2,184,040)
Payments to employees	(4,156,585)	—	—	(4,156,585)	(539,728)	(19,895)	—	(3,596,962)
Other receipts (payments) – net	774,827	(6,190)	(2,500)	766,137	34,928	28,433	—	702,776
Net cash provided by (used in) operating activities	783,399	(11,885)	(2,500)	769,014	(36,080)	3,978	—	801,116
Noncapital financing activities								
Proceeds from the issuance of commercial paper	395,000	—	—	395,000	—	—	—	395,000
Retirements of commercial paper	(425,000)	—	—	(425,000)	—	—	—	(425,000)
Other activities	(18,260)	—	2,500	(15,760)	—	(760)	—	(15,000)
Net cash used in noncapital financing activities	(48,260)	—	2,500	(45,760)	—	(760)	—	(45,000)
Cash flows from capital and related financing activities:								
Purchase of capital assets	(513,301)	(11)	—	(513,312)	(54,569)	(1,463)	—	(457,280)
Donated funds designated for building and equipment purchases	24,137	(2,648)	—	21,489	10,800	497	—	10,192
Principal payments, refunding and retirements on short- and long-term debt	(336,006)	—	—	(336,006)	(300,000)	(898)	—	(35,108)
Interest payments on short- and long-term debt	(94,716)	—	—	(94,716)	(7,240)	(976)	—	(86,500)
Proceeds from issuance of long-term debt	295,410	—	—	295,410	295,410	—	—	—
Other contributions	—	331	—	331	—	—	—	331
Net cash used in capital and related financing activities	(624,476)	(2,328)	—	(626,804)	(55,599)	(2,840)	—	(568,365)
Cash flows from investing activities:								
Withdrawal from investments limited as to use	638,083	16,000	—	654,083	637,073	905	—	16,105
Contribution to investments limited as to use	(708,838)	—	—	(708,838)	(510,620)	(1,000)	—	(197,218)
Investment earnings	22,731	50	—	22,781	11,286	218	—	11,277
Purchase of investments	37,361	—	—	37,361	—	—	—	37,361
Net cash (used in) provided by investing activities	(10,663)	16,050	—	5,387	137,739	123	—	(132,475)
Net increase in cash and cash equivalents	100,000	1,837	—	101,837	46,060	501	—	55,276
Cash and cash equivalents:								
Beginning of year	403,804	3,628	—	407,432	16,480	6,001	—	384,951
End of year	$ 503,804	$ 5,465	$ —	$ 509,269	$ 62,540	$ 6,502	$ —	$ 440,227
Reconciliation of cash and cash equivalents to the balance sheet:								
Cash and cash equivalents in current assets	$ 370,103	$ 5,465	$ —	$ 375,568	$ 62,540	$ 6,502	$ —	$ 306,526
Bond proceeds held by trustee	133,701	—	—	133,701	—	—	—	133,701
Total cash and cash equivalents	$ 503,804	$ 5,465	$ —	$ 509,269	$ 62,540	$ 6,502	$ —	$ 440,227
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	$ 386,433	$ (11,899)	$ (2,500)	$ 372,034	$ 3,769	$ (1,686)	$ —	$ 369,951
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	367,294	268	—	367,562	37,670	2,406	—	327,486
Increase in patient accounts receivable – net	(52,878)	—	—	(52,878)	(15,602)	(245)	—	(37,031)
Decrease in inventories and other current assets	9,605	178	2,742	12,525	(10,998)	12,451	(11,226)	22,298
Decrease in other assets affecting operating activities	36,674	79	—	36,753	(1,670)	(4)	—	38,427
Increase in accounts payable and other current liabilities	19,873	—	(2,742)	17,131	(17,755)	(8,964)	11,226	32,624
(Decrease) in other liabilities affecting operating activities	(21,846)	(511)	—	(22,357)	(34,391)	20	—	12,014
Increase in estimated third party payer settlements	38,244	—	—	38,244	2,897	—	—	35,347
Net cash provided by (used in) operating activities	$ 783,399	$ (11,885)	$ (2,500)	$ 769,014	$ (36,080)	$ 3,978	$ —	$ 801,116

The Total Combined Group column presented above represents the Combined Group, which consists of the Obligated Group and its Designated Affiliates, as such terms are defined in Section 101 of the Charlotte-Mecklenburg Hospital Authority's Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended. Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

See accompanying independent auditors' report.

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

Combining Balance Sheet – Navicent Health

December 31, 2019

(Dollars in thousands)

	2019			
Assets and Deferred Outflows of Resources	**Carlyle Place**	**All Other Navicent**	**Elims**	**Total Navicent Health, Inc.**
Current assets:				
Cash and cash equivalents	$ 334	$ 62,206	$ —	$ 62,540
Short-term investments	—	—	—	—
Patient accounts receivable – net	195	160,434	—	160,629
Other accounts receivable	592	27,434	(4,507)	23,519
Assets limited as to use – investments	—	—	—	—
Inventories	13	18,918	—	18,931
Prepaid expenses	4	12,793	—	12,797
Total current assets	1,138	281,785	(4,507)	278,416
Capital assets	74,829	1,185,285	—	1,260,114
Accumulated depreciation	(44,670)	(716,541)	—	(761,211)
Total capital assets – net	30,159	468,744	—	498,903
Other noncurrent assets:				
Assets limited as to use:				
Bond proceeds held by trustee	—	—	—	—
Investments designated for capital improvements	91,052	546,890	—	637,942
Other long-term investments	—	—	—	—
Other assets limited as to use – investments	2,091	79,501	—	81,592
Other assets	—	94,926	(21,935)	72,991
Total other noncurrent assets	93,143	721,317	(21,935)	792,525
Total assets	124,440	1,471,846	(26,442)	1,569,844
Deferred outflows of resources	199	436	—	635
Total assets and deferred outflows of resources	$ 124,639	$ 1,472,282	$ (26,442)	$ 1,570,479
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Accounts payable	$ 5,124	$ 34,737	$ (4,507)	$ 35,354
Salaries and benefits payable	643	34,962	—	35,605
Other liabilities and accruals	779	8,387	—	9,166
Estimated third-party payer settlements	—	(13,326)	—	(13,326)
Current portion of long-term debt	859	3,961	—	4,820
Total current liabilities	7,405	68,721	(4,507)	71,619
Long-term debt – less current portion	33,959	256,631	—	290,590
Interest rate swap liability	366	9,474	—	9,840
Pension liability	—	(66,733)	—	(66,733)
Other liabilities	39,153	94,586	—	133,739
Total liabilities	80,883	362,679	(4,507)	439,055
Commitments and contingencies				
Deferred inflows of resources	—	16,912	—	16,912
Net position:				
Net investment in capital assets	(5,025)	198,678	—	193,653
Restricted – by donor	4,115	43,282	—	47,397
Unrestricted	44,666	850,731	(21,935)	873,462
Total net position	43,756	1,092,691	(21,935)	1,114,512
Total liabilities, deferred inflows of resources and net position	$ 124,639	$ 1,472,282	$ (26,442)	$ 1,570,479

See accompanying independent auditors' report.

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

Combining Schedule of Revenues, Expenses and Changes in Net Position – Navicent Health

Year ended December 31, 2019

(Dollars in thousands)

	2019			
	Carlyle Place	**All Other Navicent**	**Elims**	**Total Navicent Health, Inc.**
Net patient service revenue	$ 2,748	$ 853,210	$ —	$ 855,958
Other revenue	14,238	43,786	(15,525)	42,499
Total revenue	16,986	896,996	(15,525)	898,457
Operating expenses:				
Personnel costs	8,494	504,971	(1,758)	511,707
Supplies	1,623	176,941	—	178,564
Purchased services	651	87,765	(1,661)	86,755
Other expenses	3,102	88,820	(11,930)	79,992
Depreciation and amortization	2,406	35,264	—	37,670
Total operating expenses	16,276	893,761	(15,349)	894,688
Operating income (loss)	710	3,235	(176)	3,769
Nonoperating (loss) income:				
Interest expense	(1,206)	(6,210)	176	(7,240)
Interest and dividend income	1,742	12,086	—	13,828
Net change in the fair value of investments	15,119	58,470	—	73,589
Other – net	(934)	(5,093)	—	(6,027)
Total nonoperating income – net	14,721	59,253	176	74,150
Revenue over expenses before contributions	15,431	62,488	—	77,919
Capital contributions	—	10,800	—	10,800
Other contributions	—	—	—	—
Increase in net position	15,431	73,288	—	88,719
Net position:				
Beginning of year	28,323	997,470	—	1,025,793
End of year	$ 43,754	$ 1,070,758	$ —	$ 1,114,512

See accompanying independent auditors' report.

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

Combining Schedule of Cash Flows – Navicent Health

Year ended December 31, 2019

(Dollars in thousands)

	2019			
	Carlyle Place	**All Other Navicent**	**Elims**	**Total Navicent Health, Inc.**
Cash flows from operating activities:				
Receipts from third-party payers and patients	$ 2,554	849,956	$ —	$ 852,510
Payments to suppliers	(4,599)	(379,191)	—	(383,790)
Payments to employees	(8,598)	(531,130)	—	(539,728)
Other receipts – net	17,626	17,302	—	34,928
Net cash provided by (used in) operating activities	6,983	(43,063)	—	(36,080)
Noncapital financing activities				
Proceeds from the issuance of commercial paper	—	—	—	—
Retirements of commercial paper	—	—	—	—
Other activities	—	—	—	—
Net cash used in noncapital financing activities	—	—	—	—
Cash flows from capital and related financing activities:				
Purchase of capital assets	(4,506)	(50,063)	—	(54,569)
Donated funds designated for building and equipment purchases	—	10,800	—	10,800
Principal payments, refunding and retirements on short- and long-term debt	(34,777)	(265,223)	—	(300,000)
Interest payments on short- and long-term debt	(1,206)	(6,034)	—	(7,240)
Proceeds from issuance of long-term debt	33,959	261,451	—	295,410
Net cash used in capital and related financing activities	(6,530)	(49,069)	—	(55,599)
Cash flows from investing activities:				
Withdrawal from investments limited as to use	86,113	550,960	—	637,073
Contribution to investments limited as to use	(86,465)	(424,155)	—	(510,620)
Investment earnings	(119)	11,405	—	11,286
Net cash (used in) provided by investing activities	(471)	138,210	—	137,739
Net (decrease) increase in cash and cash equivalents	(18)	46,078	—	46,060
Cash and cash equivalents:				
Beginning of year	352	16,128	—	16,480
End of year	$ 334	$ 62,206	$ —	$ 62,540
Reconciliation of cash and cash equivalents to the balance sheet:				
Cash and cash equivalents in current assets	$ 334	62,206	$ —	$ 62,540
Bond proceeds held by trustee	—	—	—	—
Total cash and cash equivalents	$ 334	$ 62,206	$ —	$ 62,540
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income	$ 710	3,235	$ (176)	$ 3,769
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization	2,406	35,264	—	37,670
Increase in patient accounts receivable – net	(195)	(15,407)	—	(15,602)
Decrease (increase) in inventories and other current assets	2,139	(13,137)	—	(10,998)
Decrease (increase) in other assets affecting operating activities	88	(1,758)	—	(1,670)
Increase (decrease) in accounts payable and other current liabilities	679	(18,610)	176	(17,755)
Increase (decrease) in other liabilities affecting operating activities	1,156	(35,547)	—	(34,391)
Increase in estimated third party payer settlements	—	2,897	—	2,897
Net cash provided by (used in) operating activities	$ 6,983	$ (43,063)	$ —	$ (36,080)

See accompanying independent auditors' report.

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

Combining Balance Sheet – Discrete Component Units

December 31, 2019

(Dollars in thousands)

	2019			
Assets and Deferred Outflows of Resources	**Atrium Health Foundation**	**Cowles Clinic Realty, LLC**	**Central Georgia PET, LLC**	**Total Component Units**
Current assets:				
Cash and cash equivalents	$ 5,465	$ 107	$ 1,716	$ 7,288
Short-term investments	9,301	—	—	9,301
Patient accounts receivable – net	—	—	959	959
Other accounts receivable	15,307	—	—	15,307
Assets limited as to use – investments	—	—	—	—
Inventories	—	—	—	—
Prepaid expenses	404	—	16	420
Total current assets	30,477	107	2,691	33,275
Capital assets	11,673	8,242	4,372	24,287
Accumulated depreciation	(7,181)	(592)	(3,599)	(11,372)
Total capital assets – net	4,492	7,650	773	12,915
Other noncurrent assets:				
Assets limited as to use:				
Bond proceeds held by trustee	—	—	—	—
Investments designated for capital improvements	—	—	—	—
Other long-term investments	298,127	—	—	298,127
Other assets limited as to use – investments	—	—	—	—
Other assets	35,055	58	—	35,113
Total other noncurrent assets	333,182	58	—	333,240
Total assets	368,151	7,815	3,464	379,430
Deferred outflows of resources	—	—	—	—
Total assets and deferred outflows of resources	$ 368,151	$ 7,815	$ 3,464	$ 379,430
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Accounts payable	$ 156	$ —	$ 47	$ 203
Salaries and benefits payable	—	—	38	38
Other liabilities and accruals	2,278	22	54	2,354
Estimated third-party payer settlements	—	—	—	—
Current portion of long-term debt	—	160	240	400
Total current liabilities	2,434	182	379	2,995
Long-term debt – less current portion	—	5,041	894	5,935
Interest rate swap liability	—	—	—	—
Pension liability	—	—	—	—
Other liabilities	3,112	—	—	3,112
Total liabilities	5,546	5,223	1,273	12,042
Commitments and contingencies				
Deferred inflows of resources	—	—	—	—
Net position:				
Net investment in capital assets	—	2,450	(362)	2,088
Restricted – by donor	344,557	—	—	344,557
Unrestricted	18,048	142	2,553	20,743
Total net position	362,605	2,592	2,191	367,388
Total liabilities, deferred inflows of resources and net position	$ 368,151	$ 7,815	$ 3,464	$ 379,430

See accompanying independent auditors' report.

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

Combining Schedule of Revenues, Expenses and Changes in Net Position – Discrete Component Units

Year ended December 31, 2019

(Dollars in thousands)

	2019			
	Atrium Health Foundation	**Cowles Clinic Realty, LLC**	**Central Georgia PET, LLC**	**Total Component Units**
Net patient service revenue	$ —	$ —	$ 4,500	$ 4,500
Other revenue	25,050	841	—	25,891
Total revenue	25,050	841	4,500	30,391
Operating expenses:				
Personnel costs	4,087	13	508	4,608
Supplies	—	3	983	986
Purchased services	—	58	27	85
Other expenses	32,594	199	804	33,597
Depreciation and amortization	268	183	507	958
Total operating expenses	36,949	456	2,829	40,234
Operating (loss) income	(11,899)	385	1,671	(9,843)
Nonoperating income:				
Interest expense	—	(184)	(50)	(234)
Interest and dividend income	4,201	—	7	4,208
Net change in the fair value of investments	44,642	—	—	44,642
Other – net	—	—	51	51
Total nonoperating income (loss) – net	48,843	(184)	8	48,667
Revenue over expenses before contributions	36,944	201	1,679	38,824
Capital contributions	(3,225)	—	—	(3,225)
Other contributions	3,204	(180)	(1,614)	1,410
Increase in net position	36,923	21	65	37,009
Net position:				
Beginning of year	325,682	2,571	2,126	330,379
End of year	$ 362,605	$ 2,592	$ 2,191	$ 367,388

See accompanying independent auditors' report.

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

Combining Schedule of Cash Flows – Discrete Component Units

Year ended December 31, 2019

(Dollars in thousands)

	2019			
	Atrium Health Foundation	**Cowles Clinic Realty, LLC**	**Central Georgia PET, LLC**	**Total Component Units**
Cash flows from operating activities:				
Receipts from third-party payers and patients	$ —	$ —	$ 4,776	$ 4,776
Payments to suppliers	(5,695)	(61)	(1,026)	(6,782)
Payments to employees	—	(13)	(506)	(519)
Other receipts – net	(6,190)	648	(819)	(6,361)
Net cash (used in) provided by operating activities	(11,885)	574	2,425	(8,886)
Noncapital financing activities				
Proceeds from the issuance of commercial paper	—	—	—	—
Retirements of commercial paper	—	—	—	—
Other activities	—	—	—	—
Net cash used in noncapital financing activities	—	—	—	—
Cash flows from capital and related financing activities:				
Purchase of capital assets	(11)	(49)	(19)	(79)
Donated funds designated for building and equipment purchases	(2,648)	—	—	(2,648)
Principal payments, refunding and retirements on short – and long-term debt	—	(158)	(565)	(723)
Interest payments on short- and long-term debt	—	(184)	(50)	(234)
Proceeds from issuance of long-term debt	—	—	—	—
Other contributions (distributions)	331	(184)	(1,554)	(1,407)
Net cash used in capital and related financing activities	(2,328)	(575)	(2,188)	(5,091)
Cash flows from investing activities:				
Withdrawal from investments limited as to use	16,000	—	—	16,000
Contribution to investments limited as to use	—	—	—	—
Investment earnings	50	—	—	50
Purchase of investments	—	—	—	—
Net cash provided by investing activities	16,050	—	—	16,050
Net increase (decrease) in cash and cash equivalents	1,837	(1)	237	2,073
Cash and cash equivalents:				
Beginning of year	3,628	108	1,479	5,215
End of year	$ 5,465	$ 107	$ 1,716	$ 7,288
Reconciliation of cash and cash equivalents to the balance sheets:				
Cash and cash equivalents in current assets	$ 5,465	107	$ 1,716	$ 7,288
Bond proceeds held by trustee	—	—	—	—
Total cash and cash equivalents	$ 5,465	$ 107	$ 1,716	$ 7,288
Reconciliation of operating (loss) income to net cash provided by (used in) operating activities:				
Operating (loss) income	$ (11,899)	$ 385	$ 1,671	$ (9,843)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:				
Depreciation and amortization	268	183	507	958
Increase in patient accounts receivable – net	—	—	276	276
Decrease (increase) in inventories and other current assets	178	—	(16)	162
Decrease (increase) in other assets affecting operating activities	79	3	—	82
Increase (decrease) in accounts payable and other current liabilities	—	3	(13)	(10)
(Decrease) increase in other liabilities affecting operating activities	(511)	—	—	(511)
Increase (decrease) in estimated third party payer settlements	—	—	—	—
Net cash (used in) provided by operating activities	$ (11,885)	$ 574	$ 2,425	$ (8,886)

See accompanying independent auditors' report.