



## **QUARTERLY DISCLOSURE STATEMENT (UNAUDITED)**

For the Period Ended June 30, 2016

This quarterly statement is being filed in accordance with the disclosure and compliance obligation related to the issuance of the series listed below.

Issuer	Bonds	Series
North Carolina Medical Care Commission	Hospital Revenue Refunding Bonds (Fixed)	2010
	Health Care Facilities Revenue Bonds (Fixed)	2012A
	Health Care Facilities Revenue Refunding Bonds (Fixed)	2012B
	Health Care Facilities Revenue Refunding Bonds (FRNs)	2012C
	Health Care Facilities Revenue Bonds (DP)	2012D

**QUARTERLY DISCLOSURE**  
**June 30, 2016**

*Comments below are based on combined results of Wake Forest Baptist Medical Center (“Wake Forest Baptist” or “WFB”) (including those entities not obligated on the Bonds) for the twelve months ended June 30, 2016. Effective March 26, 2011, North Carolina Baptist Hospital, Wake Forest University Health Sciences, and Wake Forest University Baptist Medical Center formed a single obligated group under the North Carolina Baptist Hospital Master Trust Indenture. As of June 30, 2016, the Combined Group generated in the aggregate 98.2% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 96.8% of Wake Forest Baptist’s unrestricted net assets.*

## **QUARTERLY HIGHLIGHTS**

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Wake Forest Baptist is an integrated clinical and academic enterprise that includes a tertiary and quaternary acute care regional referral center, three hospital facilities with more than 1,000 acute care, rehab and psych beds, more than 900 medical faculty members and major teaching and research operations. Wake Forest Baptist is honored to have received the following accolades over the prior quarter:

- Wake Forest Baptist Medical Center has been recognized in U.S. News & World Report’s “Best Hospitals” rankings for the 24<sup>th</sup> consecutive year with five specialties listed among the nation’s finest. The specialties earning top-50 spots in the 2016-2017 report were Cancer (No. 19), Nephrology (No. 25), Ear, Nose, and Throat (No. 35), Diabetes & Endocrinology (No. 36), and Neurology and Neurosurgery (No. 46).

Additionally, six specialties – Gastroenterology & GI Surgery, Geriatrics, Gynecology, Orthopedics, Pulmonology and Urology – were listed as “High Performing” by U.S. News, meaning that Wake Forest Baptist received recognition in 11 of the 16 adult specialties assessed by the publication. Overall, Wake Forest Baptist ranked No. 1 in the Piedmont Triad region and No. 3 in the state.

In fiscal year 2016, Wake Forest Baptist reported a gain in unrestricted net assets of \$10.9 million. This gain is comprised of operating income of \$63.6 million (2.7% operating margin) and net non-operating losses of \$52.8 million.

The sections below provide context regarding underlying financial performance for the twelve months ending June 30, 2016.

### Revenues and Operating Performance

- **Net Revenues:** Total net revenues were \$2.4 billion, 10.5% higher than the prior year. Underlying patient revenues improved 11.0% over the same period last year due to growth in clinical volumes and yield improvements.
- **Operating Performance:** Operating income through the fiscal year ending June 30, 2016, was \$63.6 million or 2.7% compared to prior year of \$39.8 million or 1.8%. Year-to-date operating EBIDA Margin was \$208.4 million or 8.7% compared to prior year of \$187.0 million, also 8.7%. Operating results were driven by revenue cycle performance and increased labor productivity coupled with volume growth in the clinical enterprise. Cornerstone Health Care, the multi-specialty practice acquired in early May, contributed an operating loss of \$9.7 million in the fourth quarter.

### Utilization

Wake Forest Baptist generated overall clinical volume growth with a 9.0% year over year growth in case mix adjusted equivalent discharges (CMAEDs). This increase reflects a combined increase in discharges, acuity levels, outpatient volumes, and OR cases. Improving patient access and enhancing provider throughput has continued to be an ongoing focus.

**QUARTERLY DISCLOSURE**  
**June 30, 2016**

- **Inpatient Utilization:** System inpatient case mix adjusted discharges increased by 1.6% compared to prior year. This was driven by growth in emergency department visits and ambulatory clinic visits. Additionally, with an increased focus on access, clinic visits increased 5.0% compared to last fiscal year.
- **Surgical Volumes:** Operating room cases across the health system increased by 2.8% over prior year. Consistent with the strategy to migrate operating room volume from inpatient to outpatient, growth in the outpatient setting was 4.5% while inpatient operating cases softened by 0.4%. Higher case volume was primarily driven by the growth of the new Davie Medical Center, the expansion of ambulatory facilities and operating room capacity management strategies.
- **Emergency Department:** System Emergency Department visits of 161,690 represented a 1.7% increase over prior year. The expansion of Wake Forest Baptist multi-specialty clinics and urgent care centers (Clemmons, Davie, etc.) increased access points for care and provided appropriate care settings, while supporting growth. The Emergency department is a key driver of inpatient volumes. During the period, 56.6% of inpatient admissions began in the ED compared with 55.2% during the same period in the prior year.
- **Outpatient Volumes:** Outpatient volumes continued to show strong growth with an 11.0% increase over the prior year. This growth is attributable to the acquisition of Cornerstone, improvements in ambulatory and diagnostics access, clinician and staff productivity, expansion of outpatient facilities, and pricing strategies.

*Operational Performance / Efficiency*

- **Length of Stay:** Average Length of Stay increased 1.4% during the fiscal year ending June 30th compared to the prior year. This increase is primarily driven by an increase in the Case Mix. Case Mix Adjusted Average Length of Stay was 2.99 days, compared to 2.97 days during the same period in the prior year. Overall case mix index increased .9% growing from 1.9563 to 1.9748.
- **Productivity:** Staffing productivity for system hospitals improved 5.0% during the period compared to the prior year. Labor hours per CMAED were 90.3 paid hours, compared to 95.5 paid hours per CMAED during the same period prior year.

*Balance Sheet*

- **Liquidity:** Balance sheet remains solid with Days Cash on Hand of 249 and Debt-to-Capitalization of 33.6%.
- **Investment Performance:** WFB had investment gains of \$15.3 million in the fourth quarter bringing the total fiscal year investment loss to \$27.4 million. WFB maintains a broadly diversified investment portfolio and continues to have a long-term perspective with regard to its investment activities.
- **Debt Structure/Line of Credit:** Wake Forest Baptist has an unsecured line of credit to provide up to \$125 million for the working capital needs of the organization. As of June 30th, the facility had an outstanding balance of \$26.0 million.
- **Capital Expenditures:** Capital expenditures through June 30th were \$140.7 million and included the Davie inpatient bed tower, the development of the Medical Plaza – North Elm, a multi-specialty clinic in Greensboro, main campus facility renovations, and other IT network and data center infrastructure upgrades.

*Key Strategic Investments*

- The Board of Commissioners of the Town of North Wilkesboro, the Board of WRMC Hospital Operating Corporation, and Wake Forest Baptist Medical Center entered into a non-binding, letter of intent (LOI) toward a long-term lease of Wilkes Regional Medical Center (WRMC) on August 2, 2016. The agreement is expected to close by July 1, 2017.

**QUARTERLY DISCLOSURE**  
**June 30, 2016**

- On July 19<sup>th</sup>, The Bowman Gray Center for Medical Education opened in Wake Forest Innovation Quarter in downtown Winston-Salem after an 18-month renovation of a former Reynolds American tobacco manufacturing plant. The facility is designed with the next generation of physician-leaders in mind; the new building consists of five floors and includes a tiered classroom, large and small group classrooms, as well as dedicated areas for quiet, individual study.

**QUARTERLY DISCLOSURE**  
**June 30, 2016**

## FINANCIAL RATIOS

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The following ratio calculations are based on numbers for the **Combined Group** (i.e., Obligated Group Members and Designated Members). These numbers will differ slightly from total Wake Forest Baptist (discussed on prior pages). A breakout of the Combined Group balance sheet and income statement can be found on pages FS-20 to FS-22 of the attached financial statements.

### Liquidity – Combined Group

The following table sets forth, as of June 30, 2016 and 2015, the Combined Group's operating cash, Board-designated funds for capital expansion and short-term investments. Excluded are trustee-held funds, donor restricted funds, and pension assets. All investments are shown at market value.

	<u>6/30/2016</u>	<u>6/30/2015</u>
Unrestricted Cash & cash equivalents	\$ 227,981	\$ 339,096
Investments and assets whose use is limited	1,232,123	1,163,041
Total cash and investments	<u>\$ 1,460,104</u>	<u>\$ 1,502,137</u>
 Bonds payable	 \$ 646,627	 \$ 662,876
Notes payable and capital leases	101,214	98,597
Less: Short-term debt	-	-
Long-term Indebtedness	<u>\$ 747,841</u>	<u>\$ 761,473</u>
 <b>Unrestricted Cash-to-Debt</b>	 <b>195%</b>	 <b>197%</b>
 <b>Days Cash on Hand</b>	 <b>249</b>	 <b>275</b>

*\*Note: Long-term indebtedness excludes debt with a maturity of less than one year.*

The following table summarizes the current allocation of board designated and other unrestricted fund investments (as of June 30, 2016) for the Combined Group.

	<u>Actual</u>
Equity	30.6%
Fixed Income	40.1%
Absolute Return	22.8%
Real Assets	6.5%
<b>Total</b>	<b>100.0%</b>

*\*Please note the allocations may not total due to rounding.*

**QUARTERLY DISCLOSURE**  
**June 30, 2016**

**Capitalization – Combined Group**

The capitalization for the Combined Group for the periods ended June 30, 2016 and 2015 is set forth in the following table.

	<u>6/30/2016</u>	<u>6/30/2015</u>
Revenue Bonds	646,627	662,876
Other Notes Payable	93,762	89,039
Capital Leases	7,452	9,558
Total Debt	747,841	761,473
Unrestricted Net Assets	1,430,931	1,435,506
Total Capitalization	<u>2,178,772</u>	<u>2,196,979</u>
Total Debt as a % of Total Capitalization	34.3%	34.7%

**Debt Service Coverage Ratio – Combined Group**

The Coverage Ratio (calculated upon actual annual debt service) reported below is for the 12-month period ended June 30, 2016 (i.e., trailing four quarter calculation). The Coverage Ratio is the ratio determined by dividing Income Available for Debt Service for such annual period by the debt service requirement for such period. The Combined Group does not have a quarterly Coverage Ratio reporting requirement, but voluntarily provides this information on a rolling 12-month basis.

	12 months ending <u>6/30/2016</u>
Operating Income	75,286
Unrestricted Contributions	58
Interest & Dividend Income	9,670
Depreciation and Amortization	118,516
Financing Costs	24,198
Income Available for Debt Service	<u>227,728</u>
Actual Debt Service	51,142
Debt Service Coverage Ratio	4.5

**QUARTERLY DISCLOSURE**  
**June 30, 2016**

## UTILIZATION STATISTICS

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### Utilization Statistics – Combined Group

	<b>Twelve Months Ended</b>		% Chg from Prior Year
	<u>6/30/2016</u>	<u>6/30/2015</u>	
Case Mix Adjusted Equivalent Discharges	197,860	181,525	9.0%
Patient Days	260,204	254,875	2.1%
Inpatient Admissions	44,095	43,800	0.7%
Average Length of Stay	5.90	5.82	1.4%
Average Length of Stay (Case Mix Adjusted)	2.99	2.97	0.5%
Inpatient Operating Room Cases	15,249	15,314	-0.4%
Outpatient Operating Room Cases	29,549	28,280	4.5%
Total Operating Room Cases	44,798	43,594	2.8%
Emergency Department Visits	161,690	158,946	1.7%
Case Mix Index ( <i>all payors using Medicare weights</i> )	1.9748	1.9563	0.9%
RVUs	6,033,661	5,545,900	8.8%

## CURRENT OPERATING PROFILE

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The information within this disclosure describes an integrated academic medical center based in Winston-Salem, North Carolina, commonly known as Wake Forest Baptist. The term “*Wake Forest Baptist*” refers to, collectively:

- Wake Forest University Baptist Medical Center (“WFBMC”), North Carolina Baptist Hospital (“NCBH”) and Wake Forest University Health Sciences (“WFUHS” and with WFBMC and NCBH, collectively, the “*Members of the Obligated Group*”);
- the Designated Members are all wholly controlled subsidiaries and include Lexington Medical Center, Davie Medical Center, 17 dialysis center corporations, and various corporations and other legal entities (such Designated Members and the Members of the Obligated Group are, collectively, referred to as the “*Combined Group*”), and
- all other entities and operations that are consolidated into the combined financial statements

Wake Forest Baptist is an integrated clinical and academic enterprise that includes a tertiary and quaternary acute care regional referral center, three hospital facilities with more than 1,000 acute care, rehab and psych beds, more than 900 medical faculty members and major teaching and research operations, including:

- a medical center currently licensed for 885 acute care beds, which is a tertiary and quaternary acute care regional referral center with a service area population of over 2,500,000 (“WFB - Main Campus”)
- a hospital facility located approximately 26 miles south of WFB – Main Campus in Lexington, North Carolina, currently licensed for 94 acute care beds
- a hospital facility located approximately 25 miles southwest of WFB – Main Campus in Mocksville, North Carolina, currently licensed for 81 acute care beds

**QUARTERLY DISCLOSURE**  
**June 30, 2016**

Wake Forest Baptist handles over 1.1 million patient visits annually and employs over 1,000 physicians. Its degree-granting educational programs annually train over 1,800 students in health care-related fields and it receives nearly \$200 million annually in research funding from federal and state agencies, industry and other sources. Wake Forest Baptist also has extensive decentralized ambulatory operations as well as a renal dialysis program with 17 locations and \$60 million of annual revenue.

***The Obligated Group***

The following entities are currently Members of the Obligated Group:

North Carolina Baptist Hospital. NCBH owns the hospital component of WFB - Main Campus, known as North Carolina Baptist Hospital, located in Winston-Salem, North Carolina, serving patients from the northwest North Carolina region and from across North Carolina, as well as attracting patients nationally and internationally for services.

Wake Forest University Health Sciences. WFUHS is a private nonprofit corporation whose sole member is Wake Forest University (the “University”). WFUHS owns and operates the University’s School of Medicine (the “School of Medicine”). The School of Medicine employs the vast majority of Wake Forest Baptist’s faculty; provides graduate and post-graduate education, including Medical Doctor, Nurse Anesthesia and Medical Laboratory Science programs; and has a large research portfolio.

Wake Forest University Baptist Medical Center. In 1975, NCBH and the University, acting for the School of Medicine, established WFBMC for the purpose of coordinating the activities of NCBH and the School of Medicine through the formulation of joint general policies, fundraising activities, strategic planning, program development, marketing and community communications. In 2002, the University transferred its medical assets, including the School of Medicine, to WFUHS. To establish Wake Forest Baptist as a top-tier academic medical center of distinction and align the strategic missions and operations, WFBMC, NCBH, WFUHS, and the University entered into a Medical Center Integration Agreement, effective July 1, 2010 and amended and restated on July 1, 2013, to create a fully integrated governance, operational and financial structure with WFBMC serving as the coordinating entity.

***The Combined Group***

As of June 30, 2016, the Combined Group generated in the aggregate 98.2% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 96.8% of Wake Forest Baptist’s unrestricted net assets.

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**The University is not a Member of the Obligated Group under the Master Indenture and does not have any liability or obligation for the payment of debt service on the outstanding bonds nor is the University part of the Combined Group or Wake Forest Baptist.**



## **WAKE FOREST BAPTIST**

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**Combined Financial Statements for  
North Carolina Baptist Hospital and Affiliates,  
Wake Forest University Health Sciences and Affiliates, and  
Wake Forest University Baptist Medical Center and Affiliates**

**For the Year Ended June 30, 2016  
(Unaudited)**

# **WAKE FOREST BAPTIST**

## **Combined Financial Statements**

**Year Ended June 30, 2016**

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# WAKE FOREST BAPTIST

## Combined Balance Sheets

*Dollars in thousands.*

	<b>(Unaudited) June 30, 2016</b>	<b>(Audited) June 30, 2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 236,367	\$ 341,756
Patient receivables, net	243,531	211,512
Estimated third-party payer settlements	30,355	22,288
Accounts, grants, and notes receivable, net	89,931	100,106
Other current assets	51,428	51,763
Total current assets	<u>651,612</u>	<u>727,425</u>
Accounts, grants, and notes receivable, net	32,560	40,640
Investments and assets whose use is limited	1,501,180	1,433,241
Property and equipment, net	1,043,916	1,024,943
Goodwill	71,863	-
Other assets	22,562	30,809
Total assets	<u>\$ 3,323,693</u>	<u>\$ 3,257,058</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accruals	\$ 175,425	\$ 224,253
Accrued employee compensation	176,741	132,766
Estimated third-party payer settlements	120,614	106,257
Deferred revenue	71,430	57,834
Current portion of long-term debt	26,155	25,590
Other current liabilities	55,808	40,207
Total current liabilities	<u>626,173</u>	<u>586,907</u>
Notes payable and capital leases, net of current portion	91,390	88,617
Bonds payable, net of current portion	630,907	647,835
Retirement benefits	131,983	96,274
Other long-term liabilities	118,082	122,729
Total liabilities	<u>1,598,535</u>	<u>1,542,362</u>
Net assets:		
Unrestricted		
Wake Forest Baptist	1,478,842	1,476,345
Noncontrolling interests in subsidiaries	8,432	-
Temporarily restricted	70,894	77,787
Permanently restricted	166,990	160,564
Total net assets	<u>1,725,158</u>	<u>1,714,696</u>
Total liabilities and net assets	<u>\$ 3,323,693</u>	<u>\$ 3,257,058</u>

# WAKE FOREST BAPTIST

## Combined Statements of Operations and Changes in Net Assets (Unaudited)

*Dollars in thousands.*

	Year Ended June 30,	
	<b>2016</b>	<b>2015</b>
<b>Operating revenues and support</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 2,106,160	\$ 1,947,271
Provision for bad debts	<u>(62,911)</u>	<u>(105,680)</u>
Net patient service revenue	2,043,249	1,841,591
Gifts, grants, and contracts	174,401	182,821
Net student tuition and fees	35,247	29,373
Investment return designated for current operations	24,548	24,445
Other sources	73,802	50,449
Net assets released from restrictions	<u>32,401</u>	<u>27,955</u>
Total operating revenues and support	<u>2,383,648</u>	<u>2,156,634</u>
<b>Operating expenses</b>		
Salaries and wages	1,061,209	950,227
Employee benefits	248,223	199,112
Purchased services	300,177	293,241
Clinical and laboratory supplies	385,078	354,679
Other operating expenses	180,567	172,355
Depreciation and amortization	120,359	121,708
Financing costs	<u>24,392</u>	<u>25,492</u>
Total operating expenses	<u>2,320,005</u>	<u>2,116,814</u>
<b>Operating excess of revenues and support over expenses</b>	63,643	39,820
<b>Nonoperating gains (losses)</b>		
Gains from equity-method affiliates	21,202	1,526
Net investment losses	<u>(51,978)</u>	<u>(6,702)</u>
Net loss on interest rate swap valuation	<u>(1,468)</u>	<u>(613)</u>
Other	<u>949</u>	<u>(2,464)</u>
<b>Excess of revenues and gains over expenses and losses</b>	<u>32,348</u>	<u>31,567</u>

## WAKE FOREST BAPTIST

Combined Statements of Operations and Changes in Net Assets, continued (Unaudited)

*Dollars in thousands.*

	Year Ended June 30,	
	2016	2015
<b>Excess of revenues and gains over expenses and losses</b>	32,348	31,567
Equity transfer of affiliate	8,050	-
Pension and postretirement-related losses other than net periodic cost	(32,776)	(6,943)
Other	3,241	816
<b>Change in unrestricted net assets</b>	10,863	25,440
 <b>Temporarily restricted net assets</b>		
Contributions	27,446	36,884
Investment return designated for restricted purposes	7,414	6,058
Net assets released from restrictions	(32,401)	(27,955)
Net investment losses	(9,268)	(5,178)
Other	(18)	5,649
<b>Change in temporarily restricted net assets</b>	(6,827)	15,458
 <b>Permanently restricted net assets</b>		
Contributions	8,057	10,657
Investment return reinvested in principal	308	565
Net investment losses	(2,074)	(1,104)
Other	135	(601)
<b>Change in permanently restricted net assets</b>	6,426	9,517
 <b>Change in net assets</b>		
Net assets at beginning of period	10,462	50,415
Net assets at end of period	\$ 1,725,158	\$ 1,714,696

# WAKE FOREST BAPTIST

## Combined Statements of Cash Flows (Unaudited)

*Dollars in thousands.*

	<b>Year Ended June 30, 2016</b>	<b>2015</b>
<b>Operating activities and gains and losses</b>		
Change in net assets	\$ 10,462	\$ 50,415
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	120,359	121,708
Amortization of bond premium	(1,140)	(1,382)
Losses in value of interest rate swaps, net	1,468	613
Gains from equity-method affiliates	(21,202)	(1,526)
Loss (gains) on disposal of property and equipment	1,399	(70)
Gifts and other revenue restricted for long-term investing	(9,144)	(11,084)
Investment losses, net	63,320	6,361
Changes in operating assets and liabilities:		
Patient receivables, net	(32,019)	346
Estimated third-party payer settlements, net	6,290	53,651
Accounts, grants, and notes receivable, net	18,255	238,792
Other current assets	335	(9,646)
Other assets	8,247	(11,841)
Accounts payable and accruals	(48,828)	82,428
Accrued employee compensation	43,975	6,206
Deferred revenues	13,596	9,807
Other current liabilities	15,601	(7,219)
Retirement benefits	35,709	10,539
Other long-term liabilities	(6,115)	(101,078)
Net cash provided by operating activities	<u>220,568</u>	<u>437,020</u>
<b>Investing activities</b>		
Net sales and purchases of investments	(111,982)	(91,168)
Goodwill from acquisitions	(69,938)	-
Net additions to property and equipment	<u>(140,731)</u>	<u>(65,313)</u>
Net cash used in investing activities	<u>(322,651)</u>	<u>(156,481)</u>
<b>Financing activities</b>		
Principal payments on debt	(33,896)	(70,681)
Proceeds from issuance of debt	21,446	13,762
Proceeds from private gifts restricted for long-term investing	8,557	11,084
Other financing activities	<u>587</u>	<u>241</u>
Net cash used in financing activities	<u>(3,306)</u>	<u>(45,594)</u>
(Decrease) increase in cash and cash equivalents	(105,389)	234,945
Cash and cash equivalents at the beginning of year	<u>341,756</u>	<u>106,811</u>
Cash and cash equivalents at end of year	<u>\$ 236,367</u>	<u>\$ 341,756</u>

# **WAKE FOREST BAPTIST**

## Selected Notes to Combined Financial Statements

June 30, 2016

*Dollars in thousands.*

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### **1. Organization and Summary of Significant Accounting Policies**

#### **a. *Description of the Organization***

The combined financial statements of the entities collectively known as Wake Forest Baptist (WFB) were prepared to comply with the terms of a Master Trust Indenture (MTI) as well as to capture the entirety of WFB's financial position and results of operations.

Effective July 1, 2010, the Boards of Wake Forest University Health Sciences (WFUHS), North Carolina Baptist Hospital (NCBH), Wake Forest University Baptist Medical Center (WFUBMC) and Wake Forest University (WFU) approved the Medical Center Integration Agreement (the Integration Agreement or MCIA). The Integration Agreement allows for the leveraging of the combined resources of NCBH and WFUHS to fulfill a single mission: improve health, and optimize performance of the combined organizations, while balancing patient care, education and research. NCBH and WFU are the members of WFUBMC.

The Integration Agreement created an integrated academic medical center that combines clinical care, education and research under a single management and debt structure, collectively referred to as WFB, which is governed by the board of WFUBMC. One of the nation's preeminent academic medical centers, WFB is an integrated health care system that operates over 40 subsidiaries. It provides a continuum of care that includes primary care centers, outpatient rehabilitation, and dialysis centers. To ensure alignment across the organization, NCBH and WFUHS unrestricted operating income is shared equally between the entities. Although the entities will be operated to maximize value at the total WFB level, revenues, expenses, existing and new assets and debt will continue to be accounted for generally at the individual entity levels.

Effective March 26, 2011, NCBH, WFUHS, and WFUBMC formed a single obligated group (Obligated Group) under the existing MTI. The separate WFUHS master trust indenture was discharged and new obligations were issued to WFUHS obligation holders under the MTI. In addition, substantially all of the subsidiaries of NCBH, WFUHS, and WFUBMC were included in the single credit group (Combined Group) as Designated Members. Under the new credit structure, each member of the Obligated Group is joint and severally liable for all debt and other obligations that are evidenced and secured under the MTI.

North Carolina Baptist Hospital (NCBH) is a private, non-profit institution dedicated to the provision of healthcare. NCBH, which is based in Winston-Salem, North Carolina, consists of entities that provide services directly to patients and entities that support ancillary functions. NCBH consists of North Carolina Baptist Hospital, Davie County Emergency Health Corporation (DCH), CareNet, Inc. (CareNet), The Hawthorne Inn and Conference Center, Inc. (Hawthorne Inn), North Carolina Baptist Hospital Foundation (the Foundation), and Clemmons Medical Park LLC (CMP). NCBH owns a 50% equity interest in MedCost LLC (MedCost), a preferred provider organization which through the shared ownership agreements is accounted for as equity-method investments in the combined financial statements. As of June 30, 2016, NCBH owns a 69.85% interest in Cornerstone Health Enablement Strategic Solutions, LLC (CHESS), which has been consolidated in the combined financial statements.

## **WAKE FOREST BAPTIST**

Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

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WFUHS, a wholly-owned affiliate of WFU, based in Winston-Salem, North Carolina, is a private, coeducational, non-profit institution of higher education and research dedicated to medical and health education, healthcare, and biomedical research. WFUHS' consolidated financial statements include the financial statements of WFUHS and its wholly owned affiliates, which are The Dialysis Centers of Wake Forest University; Wake Forest University Baptist Medical Center Community Physicians (CP); Wake Forest Ambulatory Ventures LLC; Wake Forest Innovation Quarter Development Co.; Wake Forest Innovation Quarter CDC; Wake Forest Innovation Quarter Management Co.; WFIQ Holdings, LLC; WFIQ Holdings II, LLC; WFIQ Holdings III, LLC; Seed Stage Associates, LLC; BRF – A 1, LLC; BRF Deck 1, LLC; and BRF – A 1a, LLC; and Childress Institute for Pediatric Trauma; North District Owners Association; and Verger Fund II, LLC. NCBH and WFUHS each own a 50% equity interest in Dialysis Access Group of Wake Forest University, LLC (DAG) and in NCBH Outpatient Endoscopy Center, LLC, and The Medical Foundation of WFUHS & NCBH, and each own a 37.5% equity interest in Wake Forest Baptist Imaging, LLC (WFB).

WFUBMC is the sole member of Lexington Medical Center (LMC), Northwest Community Care Network (NCCN), FaithHealthInnovations, Inc., and Cornerstone Health Care LLC (CHC).

b. ***Basis of Presentation***

The combined financial statements for WFB have been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles (GAAP). In accordance with Financial Accounting Standards Board (FASB) accounting standards for consolidated and combined financial statements, the financial statements and related notes are presented as combined statements due to the Integration Agreement. Net assets and revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of WFB and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets that are not subject to donor imposed stipulations.

*Temporarily Restricted Net Assets* – Net assets subject to donor imposed stipulations that will be met by actions of WFB and/or by the passage of time.

*Permanently Restricted Net Assets* – Net assets subject to donor imposed stipulations that the assets be maintained permanently by WFB. Generally, the donors of these assets permit WFB to use all, or part of, the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases, respectively, in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

## **WAKE FOREST BAPTIST**

### Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

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#### c. ***Cash Equivalents***

Cash equivalents include highly liquid investments with original maturities at the date of purchase of three months or less and primarily consist of money market funds and bank accounts.

#### d. ***Investments and Assets Limited as to Use***

Investments in debt and equity securities, inclusive of assets limited as to use, are reported at fair value. Investments in joint ventures are accounted for using the equity method. Direct real estate investments are recorded at cost less accumulated depreciation.

Gains, losses, and investment income are included in excess (deficiency) of revenues and gains over expenses and losses unless their use is restricted by donor or law.

Investments in alternative investments may include derivative products that are reported at fair value. The investments may individually expose WFB to securities lending, short sales, and trading in futures and forward contract options, and other derivative products. WFB's risk is limited to its carrying value of the instruments. These instruments can only be divested at specific times or based on specific triggering events.

WFB's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuities for which WFB serves as trustee. Assets held in these trusts are stated at fair value and are included in investments and assets limited as to use in the combined balance sheet. Contribution revenues are recognized at the dates the trusts are established. WFB records the change in value of split-interest agreements according to the fair value of assets that are associated with each trust and recalculates the liability for the present value of annuity obligations. Any change in fair value is recognized in the combined statement of operations and changes in net assets.

WFB is the beneficiary of certain trusts and other assets held and administered by others. WFB's share of these assets is recorded at fair value as investments with carrying values adjusted annually for changes in fair value.

## **WAKE FOREST BAPTIST**

Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

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e. ***Property and Equipment***

Property and equipment are recorded at cost at the date of acquisition, or estimated fair market value on the date received for donated items. Depreciation is recorded on the straight line method over the estimated useful life of each class or component of depreciable asset. Estimated lives range from 3 to 50 years. Depreciation is not recorded on land and construction in progress. Gains or losses on the disposal of property and equipment are included in other operating expenses in the combined statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring these assets.

f. ***Asset Retirement Obligations***

WFB has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings and equipment are disposed of or renovated. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long lived asset and depreciated over the asset's useful life.

WFB reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. WFB recognizes an impairment charge when the fair value of the asset or group of assets is less than the carrying value.

g. ***Defined Benefit Plans***

WFB records annual amounts relating to its defined benefit plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, turnover rates, and healthcare cost trend rates. Management reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in other changes in net assets and amortized to net periodic benefit (costs) over future periods using the corridor method. Management believes that the assumptions used in recording its obligations under the plan are reasonable based on its experience and market conditions.

The net periodic benefit costs are recognized as employees render the services necessary to earn the benefits.

h. ***Derivative Instruments***

WFB records all derivative instruments in investments and assets limited as to use on the combined balance sheets at their respective fair values. All changes in fair value are reflected in the combined statements of operations and changes in net assets.

# **WAKE FOREST BAPTIST**

## Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

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### i. ***Revenue Recognition***

WFB's revenue recognition policies are:

*Net Patient Service Revenue* – Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and contractual adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and will be adjusted in future periods as interim or final settlements are determined.

*Charity Care* – WFB cares for patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. WFB does not pursue collection of amounts determined to qualify as charity care and, accordingly, such amounts are not reported in net patient service revenue.

*Gifts, Grants and Contracts* – Revenues under grants and contracts with private and governmental sponsoring organizations are deferred until expenses are incurred. The revenues include recoveries of direct and indirect costs, which are generally determined as a negotiated or agreed-upon percentage of direct costs with certain exclusions.

*Net Student Tuition and Fees* – Net student tuition and fees are recorded as revenue during the year that the related services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid provided by WFB is reflected as a reduction of student tuition and fee revenue. Student aid does not include payments made to students for services rendered to WFB.

### j. ***Contributions***

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions restricted for capital projects or other purposes, permanent endowment funds and contributions under split-interest agreements or perpetual trusts are reported as nonoperating activities. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year, net of an allowance for uncollectible contributions receivable, are discounted to their present value at a risk-adjusted rate, which approximates fair value (Level 3). Amortization of discounts is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is accrued based on management's judgment, including such factors as prior collection history, type of contribution, relationship with the donor, and nature of fundraising activity.

## **WAKE FOREST BAPTIST**

Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

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**k. *HITECH Incentive Funding for Meaningful Use of Electronic Health Records (EHR)***

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified EHR technology. The program is commonly referred to as the Health Information Technology for Economic and Clinical Health (HITECH) Act. To qualify for incentives under the HITECH Act, healthcare providers must meet designated EHR meaningful use criteria as defined by the Centers for Medicare and Medicaid Services (CMS). Incentive payments are awarded to healthcare providers who have attested to CMS that applicable meaningful use criteria have been met. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period.

WFB recognizes revenue for EHR incentive payments in the period in which it has obtained reasonable assurance that it is in compliance with the applicable EHR meaningful use requirements. Accordingly, for the years ended June 30, 2016 and 2015, WFB recognized EHR incentives of approximately \$3,980 and \$5,595, respectively, which are included in other sources of revenue (separate from net patient service revenue) in the combined statements of operations and changes in net assets.

**l. *Excess (Deficiency) of Revenues and Gains Over Expenses and Losses***

The combined statements of operations and changes in net assets include excess (deficiency) of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from excess (deficiency) of revenue and gains over expenses and losses, consistent with industry practice, include transfers of assets to and from affiliates for other than goods and services, change in pension liability, and capital contributions.

WFB differentiates its operating activities through the use of operating excess (deficiency) of revenues and support over expenses as an intermediate measure of performance. Items that management does not consider to be components of WFB's operating activities are excluded from operating excess (deficiency) and reported as nonoperating items in the combined statements of operations. These include investment returns (realized and unrealized net gains and losses on investments, interest, and dividends) in excess of or less than WFB's approved endowment distribution, other than designated returns on assets held for self-insurance purposes; net gains and losses on interest rate swaps; losses on extinguishment of debt; gains and losses from equity method affiliates; goodwill impairment; and other incidental transactions.

**m. *Income Taxes***

WFB includes two primary organizations, NCBH and WFUHS, both of which are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the combined financial statements. If applicable, unrelated business income is reported by all member and subsidiary organizations on IRS Form 990-T. Fiscal years ending on or after June 30, 2012 remain subject to examination

## **WAKE FOREST BAPTIST**

### Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

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by federal and state tax authorities. WFB has evaluated uncertain tax positions for its fiscal years ended June 30, 2016 and 2015, including a quantification of tax risks in areas such as unrelated business income and taxation of its for-profit subsidiaries. This evaluation did not have a material effect on WFB's combined financial statements for the years ended June 30, 2016 and 2015.

n. ***Use of Estimates***

WFB prepares its combined financial statements in accordance with GAAP, which requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of land, buildings, and equipment, valuation allowances for receivables, environmental liabilities, fair value of investments and assets whose use is limited, obligations related to employee benefits, third-party payer settlements, and the ultimate cost of asserted and unasserted malpractice claims. Actual results could differ from those estimates.

o. ***Reclassifications***

Certain reclassifications have been made to the financial statement presentation of the years ended June 30, 2016 and 2015 to correspond to the current year's format. Net assets are unchanged due to these reclassifications.

p. ***Limitations on Disclosures in Interim Reporting***

Many disclosures ordinarily included in financial statements prepared in accordance with GAAP have been omitted. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the organization's assets, liabilities, net assets, revenues, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

# WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

## 2. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited consist of the following:

	June 30, 2016	June 30, 2015
Short-term investments <sup>(a)</sup>	\$ 73,652	\$ 80,042
Absolute return <sup>(b)</sup>	441,488	428,667
Commodities <sup>(c)</sup>	30,108	39,293
Fixed income <sup>(d)</sup>	430,367	342,400
Private equity <sup>(e)</sup>	959	694
Public equity <sup>(f)</sup>	371,528	394,064
Real estate <sup>(g)</sup>	17,686	12,335
Pooled investments held at WFU <sup>(h)</sup>	7,816	10,443
Beneficial interest in perpetual trusts and assets held by others <sup>(i)</sup>	18,889	19,903
Other <sup>(j)</sup>	<u>108,687</u>	<u>105,400</u>
Total investments and assets whose use is limited	<u>\$ 1,501,180</u>	<u>\$ 1,433,241</u>

- (a) **Short-term investments** – includes short duration U.S. Treasury debt securities and other short-term, higher quality debt securities, cash and cash equivalents, and money market mutual funds.
- (b) **Absolute return** – includes investments in hedge funds and hedge fund-of-funds that invest both long and short on a global basis primarily in a wide range of securities and other instruments, including equity securities (common stocks), credit securities (both investment grade and non-investment grade), commodities, currencies, futures contracts, options, and other derivative instruments. The investment objective of this asset class is to produce attractive long-term risk-adjusted returns with low correlation to traditional asset classes.
- (c) **Commodities** – includes investments in hedge funds and hedge fund-of-funds that invest in a wide range of commodities, securities, and financial instruments with a focus on commodities markets. This class also includes commodity (i.e. precious metals, industrial materials and energy) mutual funds. The investment objective of this class is to produce attractive long-term risk-adjusted returns in excess of traditional commodity index exposure.
- (d) **Fixed income** – includes corporate bonds, mortgage-backed securities, asset-backed securities, mutual funds, and other fixed income securities.
- (e) **Private equity** – includes various illiquid venture capital investments.
- (f) **Public equity** – includes investments primarily in U.S. and non-U.S. (including emerging markets) common stocks, mutual funds, and exchange traded funds. This class also includes investments in hedge funds and hedge fund-of-funds that invest on both a long and short

## **WAKE FOREST BAPTIST**

### Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

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basis in global equity markets. The investment objective for this class is capital appreciation over the long term.

- (g) **Real estate** – includes direct investments in commercial and residential real estate, as well as real estate mutual funds.
- (h) **Pooled investments held at WFU** – includes a diversified portfolio of debt and equity securities and other investment interests, including alternative investment vehicles.
- (i) **Beneficial interest in perpetual trusts** – includes trusts and certain other assets held and administered by others for which WFB has an unconditional right to receive all or a portion of the specified cash flows.
- (j) **Other** – includes primarily investment in joint ventures and other miscellaneous investments.

## **WAKE FOREST BAPTIST**

### Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

#### **Investment Return**

Total investment return included in change in unrestricted net assets is comprised of the following:

	<b>Year Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Interest and dividend income	\$ 26,588	\$ 27,674
Net investment losses	<u>(54,018)</u>	<u>(9,931)</u>
<b>Total investment return included in change in unrestricted net assets</b>	<b>\$ (27,430)</b>	<b>\$ 17,743</b>

Total investment return is reflected in the combined statements of operations and changes in net assets as follows:

	<b>Year Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating:</b>		
Investment return designated for current operations	\$ 24,548	\$ 24,445
<b>Nonoperating:</b>		
Net investment losses	<u>(51,978)</u>	<u>(6,702)</u>
Total unrestricted investment return included in in the combined statements of operations and changes in net assets	<u>(27,430)</u>	<u>17,743</u>
 <b>Investment return designated for temporarily restricted purposes</b>	 7,414	 6,058
<b>Temporarily restricted net losses</b>		
on investments	(9,268)	(5,178)
Investment return reinvested in principal	308	565
<b>Permanently restricted net losses</b>		
on investments	<u>(2,074)</u>	<u>(1,104)</u>
 <b>Total investment return included in change in restricted net assets</b>	 <u>(3,620)</u>	 <u>341</u>
 <b>Total investment return</b>	 <b>\$ (31,050)</b>	 <b>\$ 18,084</b>

# WAKE FOREST BAPTIST

## Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

### Investment and Assets Whose Use is Limited

Investment and assets whose use is limited consist of the following:

	June 30, 2016		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	\$ 272,429	\$ -	\$ 272,429
Donor-restricted endowment funds	-	167,629	167,629
Total endowment funds	272,429	167,629	440,058
Funds designated for capital improvements	629,782	-	629,782
Funds designated for settlement of professional liability costs	60,210	-	60,210
Collateral for derivative agreements	-	5,980	5,980
Beneficial interests in perpetual trusts and assets held by others	-	18,889	18,889
Funds held under retirement and benefit plans	39,951	-	39,951
Designated for restricted purposes	1,749	16,168	17,917
Assets whose use is limited	1,004,121	208,666	1,212,787
Other unrestricted investments			256,618
Investments in equity-method affiliates			31,775
Investments and assets whose use is limited			\$ 1,501,180

	June 30, 2015		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	\$ 274,006	\$ -	\$ 274,006
Donor-restricted endowment funds	-	167,322	167,322
Total endowment funds	274,006	167,322	441,328
Funds designated for capital improvements	649,183	-	649,183
Funds designated for settlement of professional liability costs	66,987	-	66,987
Collateral for derivative agreements	-	4,890	4,890
Beneficial interests in perpetual trusts and assets held by others	-	19,903	19,903
Funds held under retirement and benefit plans	35,896	-	35,896
Designated for restricted purposes	1,849	16,711	18,560
Assets whose use is limited	1,027,921	208,826	1,236,747
Other unrestricted investments			165,617
Investments in equity-method affiliates			30,877
Investments and assets whose use is limited			\$ 1,433,241

# WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

## 3. Debt

Debt consists of the following:

	June 30, 2016	June 30, 2015
Series 2012A <sup>(a)</sup>		
Series 2012A Unamortized Bond Premium	\$ 3,938	4,072
Series 2012A Bond Issuance Costs	(981)	(1,015)
Series 2012B <sup>(a)</sup>	102,155	105,750
Series 2012B Unamortized Bond Premium	13,614	14,395
Series 2012B Bond Issuance Costs	(799)	(845)
Series 2012C <sup>(a)</sup>	52,615	54,810
Series 2012C Bond Issuance Costs	(393)	(415)
Series 2012D <sup>(a)</sup>	80,000	80,000
Series 2012D Bond Issuance Costs	(105)	(109)
Series 2010 <sup>(b)</sup>	272,275	281,595
Series 2010 Unamortized Bond Premium	8,353	8,819
Series 2010 Bond Issuance Costs	(2,450)	(2,586)
Total bonds payable	<u>646,627</u>	<u>662,876</u>
Line of credit <sup>(c)</sup>	26,007	13,039
Loan agreement <sup>(d)</sup>	13,675	15,678
Loan agreement <sup>(e)</sup>	54,000	60,000
Promissory note <sup>(f)</sup>	80	160
Promissory note <sup>(g)</sup>	-	160
External notes <sup>(h)</sup>	611	570
Capital leases <sup>(i)</sup>	<u>7,452</u>	<u>9,559</u>
Total notes payable and capital leases	<u>101,825</u>	<u>99,166</u>
Total debt	<u>748,452</u>	<u>762,042</u>
Less current portion	<u>26,155</u>	<u>25,590</u>
Total long-term debt	<u><u>\$ 722,297</u></u>	<u><u>\$ 736,452</u></u>

## WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

Debt is reflected in the combined balance sheets as follows:

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Current portion of long-term debt	\$ 26,155	\$ 25,590
Notes payable and capital leases, net of current portion	91,390	88,617
Bonds payable, net of current portion	<u>630,907</u>	<u>647,835</u>
Total debt	<u><u>\$ 748,452</u></u>	<u><u>\$ 762,042</u></u>

- (a) **Series 2012 Revenue Bonds** – revenue bonds issued by Wake Forest Baptist Obligated Group, representing funds borrowed by the entities pursuant to loan agreements with the North Carolina Medical Care Commission (NCMCC). As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under a MTI structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group.

The Series 2012A bonds mature in full in fiscal year 2046. The fixed rate instruments bear interest at fixed coupon rates of 4.00% and 5.00%. Per the bond agreements, the principal and sinking fund payments on the bonds are due on December 1 of each year beginning in 2039 and in increasing annual amounts of \$9,425 to \$20,200.

The Series 2012B bonds mature in full in fiscal year 2034. The fixed rate instruments bear interest at fixed coupon rates ranging from 2.00% to 5.00%. Per the bond agreements, the principal and sinking fund payments on the bonds are due on December 1 of each year beginning in 2014 and in increasing annual amounts ranging from \$3,385 to \$7,000.

The Series 2012C bonds mature in full in fiscal year 2034. The bonds were issued in the Index Floating Rate Mode and bear interest at an Index Floating Rate based on the SIFMA Index plus a spread of 0.74%. At the option of WFUHS, the bonds may be converted to various interest rate modes. Per the bond agreements, the principal and sinking fund payments on the bonds are due on December 1 of each year beginning in 2014 and in increasing annual amounts ranging from \$2,090 to \$4,825.

The Series 2012D bonds were issued in an aggregate principal amount not to exceed \$80,000 and mature in full in fiscal year 2043. The bonds were issued in the Bank-Bought Rate Mode and bear interest at an Index Floating Rate based on an Adjusted London Interbank Offered Rate (LIBOR) rate plus a spread of 0.97%. At the option of NCBH, the bonds may be converted to various interest rate modes. Per the bond agreements, the principal and sinking fund payments on the bonds are due on December 1 of each year beginning in 2034 and in increasing annual amounts ranging from \$14,075 to \$15,295.

- (b) **Series 2010 Revenue Bonds** – revenue bonds issued by NCBH, representing funds borrowed by the entities pursuant to loan agreements with the NCMCC. As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under an

## WAKE FOREST BAPTIST

### Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

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MTI structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group.

The Series 2010 bonds mature in full in 2034. Per the bond agreements, the principal and sinking fund payments on the bonds are due on June 1 of each year in increasing annual amounts ranging from \$7,705 to \$12,330. The fixed rate instruments bear interest at coupon rates ranging from 2.00% to 5.25%. The total all-in yield rate on the Series 2010 bonds, without giving effect to outstanding swap agreements, is 4.71%.

- (c) **Line of credit** – consists of an unsecured credit facility in the amount of \$125,000 to provide for the working capital needs of NCBH, WFUHS, and the Medical Center, all Borrowers under the credit facility. The line of credit refinanced the previously held \$160,000 line of credit. The line of credit is due on June 23, 2018 and bears interest at the one-month LIBOR plus 0.70%.
- (d) **Loan agreement** – represents an unsecured loan agreement held by WFUHS, with a variable rate based on the one-month LIBOR plus a premium of 0.65% for \$20,014 to refinance two previously outstanding fixed rate notes. Fixed principal payments and accrued interest are due monthly with a final maturity date of April 1, 2023. This taxable loan is guaranteed by both NCBH and WFUBMC.
- (e) **Loan agreement** – represents an unsecured loan agreement held by WFUBMC, with a variable rate based on the one-month LIBOR plus a premium of 0.55% for \$60,000 to refinance a portion of the previously outstanding line of credit. Fixed principal payments and accrued interest are due monthly with a ten-year amortization and bullet maturity date of June 23, 2020. This taxable loan is guaranteed by both NCBH and WFUHS.
- (f) **Promissory note** – represents a non-interest bearing contractual lien against WFUHS, for \$800 from the City of Winston-Salem to provide grant funding for the construction of the Green Park Courtyard in the Piedmont Triad Research Park. The grant states that in the event that an additional \$17,400 in taxable property value are created within the Park within 10 years, then the promissory note shall be marked satisfied and paid in full and canceled of record. Fixed payments of principal are due annually with a final maturity date of June 1, 2017.
- (g) **Promissory note** – represents a 20 year, non-interest bearing loan with the City of Winston-Salem to provide grant funding for the cleanup of a Brownsfields designated site. Fixed principal payments are deferred for the first ten years of the loan with monthly payments commencing in year 11.
- (h) **External notes** – includes various notes payable held by WFB affiliates, with interest rates ranging from 3.38% to 3.93% and final maturities through 2018.
- (i) **Capital leases** – comprised of capital lease obligations held by NCBH, maturing at various dates through 2019. The obligations have fixed interest rates at 3.1% and are secured by leased equipment.

## **WAKE FOREST BAPTIST**

### Selected Notes to Combined Financial Statements, continued

June 30, 2016

*Dollars in thousands.*

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Bonds issued under the MTI are payable solely from the Obligated Group's revenues (as defined by the MTI). Additionally, the Combined Group must remain compliant with certain covenants and restrictions required by the MTI and loan agreements underlying the bonds. The Combined Group is subject to covenants under the MTI containing restrictions or limitations with respect to indebtedness, property encumbrance, consolidation or merger or transfer of assets. In addition, the Combined Group has agreed that it will not create any lien upon its property, accounts, or revenue now owned or hereafter acquired other than "permitted liens" as described in the MTI.

# WAKE FOREST BAPTIST

Combining Balance Sheet Information (Unaudited)

June 30, 2016

Dollars in thousands.

	<b>NCBH</b>	<b>WFUHS</b>	<b>LEXMC</b>	<b>WFUBMC</b>	<b>Other Subs and Affiliates</b>	<b>Eliminations</b>	<b>Total WFB</b>	<b>Non- Designated Entities</b>	<b>Eliminations</b>	<b>Total Combined Group<sup>(1)</sup></b>
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 115,648	\$ 32,339	\$ 51,877	\$ 33,473	\$ 3,030	\$ -	\$ 236,367	\$ (8,386)	\$ -	\$ 227,981
Patient receivables, net	168,028	57,251	7,194	10,657	401	-	243,531	(10,904)	-	232,627
Estimated third-party payer settlements	30,168	-	187	-	-	-	30,355	-	-	30,355
Accounts, grants, and notes receivable, net	75,058	71,189	4,082	7,590	8,108	(76,096)	89,931	(18,664)	8,626	79,893
Other current assets	47,105	2,730	1,871	53,631	91	(54,000)	51,428	(12,633)	-	38,795
Total current assets	<u>436,007</u>	<u>163,509</u>	<u>65,211</u>	<u>105,351</u>	<u>11,630</u>	<u>(130,096)</u>	<u>651,612</u>	<u>(50,587)</u>	<u>8,626</u>	<u>609,651</u>
Accounts, grants, and notes receivable, net	38,754	30,052	-	3,633	-	(39,879)	32,560	-	628	33,188
Investments and assets whose use is limited	744,981	789,581	-	74,951	-	(108,333)	1,501,180	(37,719)	67,855	1,531,316
Property and equipment, net	675,404	303,973	22,398	40,434	1,707	-	1,043,916	(10,806)	-	1,033,110
Goodwill	51,586	1,505	420	18,352	-	-	71,863	(69,938)	-	1,925
Other assets	10,115	10,929	376	1,142	-	-	22,562	(3,320)	-	19,242
Total assets	<u>\$ 1,956,847</u>	<u>\$ 1,299,549</u>	<u>\$ 88,405</u>	<u>\$ 243,863</u>	<u>\$ 13,337</u>	<u>\$ (278,308)</u>	<u>\$ 3,323,693</u>	<u>\$ (172,370)</u>	<u>\$ 77,109</u>	<u>\$ 3,228,432</u>
<b>Liabilities and Net Assets</b>										
Current liabilities:										
Accounts payable and accruals	\$ 58,832	\$ 94,858	\$ 5,196	\$ 60,467	\$ 2,180	\$ (46,108)	\$ 175,425	\$ (17,662)	\$ 314	\$ 158,077
Accrued employee compensation	51,656	109,967	2,341	12,703	74	-	176,741	(9,196)	-	167,545
Estimated third-party payer settlements	118,281	-	2,333	-	-	-	120,614	-	-	120,614
Deferred revenue	243	69,684	-	1,354	149	-	71,430	(239)	-	71,191
Current portion of long-term debt	11,893	8,081	-	6,000	181	-	26,155	(586)	405	25,974
Other current liabilities	30,786	20,580	527	3,908	7	-	55,808	(3,917)	7,907	59,798
Total current liabilities	<u>271,691</u>	<u>303,170</u>	<u>10,397</u>	<u>84,432</u>	<u>2,591</u>	<u>(46,108)</u>	<u>626,173</u>	<u>(31,600)</u>	<u>8,626</u>	<u>603,199</u>
Notes payable and capital leases, net of current portion	19,797	23,163	-	48,242	188	-	91,390	(1,058)	628	90,960
Bonds payable, net of current portion	469,715	161,192	-	-	-	-	630,907	-	-	630,907
Retirement benefits	94,153	37,830	-	-	-	-	131,983	-	-	131,983
Other long-term liabilities	76,216	82,612	7,397	75,724	-	(123,867)	118,082	(15,514)	-	102,568
Total liabilities	<u>931,572</u>	<u>607,967</u>	<u>17,794</u>	<u>208,398</u>	<u>2,779</u>	<u>(169,975)</u>	<u>1,598,535</u>	<u>(48,172)</u>	<u>9,254</u>	<u>1,559,617</u>
Net assets:										
Unrestricted										
Wake Forest Baptist	1,003,664	467,946	68,541	29,069	10,558	(100,936)	1,478,842	(124,198)	76,287	1,430,931
Noncontrolling interests in subsidiaries	15,829	-	-	-	-	(7,397)	8,432	-	(8,432)	-
Temporarily restricted	3,294	60,038	1,166	6,396	-	-	70,894	-	-	70,894
Permanently restricted	2,488	163,598	904	-	-	-	166,990	-	-	166,990
Total net assets	<u>1,025,275</u>	<u>691,582</u>	<u>70,611</u>	<u>35,465</u>	<u>10,558</u>	<u>(108,333)</u>	<u>1,725,158</u>	<u>(124,198)</u>	<u>67,855</u>	<u>1,668,815</u>
Total liabilities and net assets	<u>\$ 1,956,847</u>	<u>\$ 1,299,549</u>	<u>\$ 88,405</u>	<u>\$ 243,863</u>	<u>\$ 13,337</u>	<u>\$ (278,308)</u>	<u>\$ 3,323,693</u>	<u>\$ (172,370)</u>	<u>\$ 77,109</u>	<u>\$ 3,228,432</u>

<sup>(1)</sup> Represents only those WFB entities that are Obligated Group members or Designated Members under the MTI.

# WAKE FOREST BAPTIST

## Combining Statement of Operations and Changes in Net Assets Information (Unaudited)

Year Ended June 30, 2016

*Dollars in thousands.*

	NCBH	WFUHS	LEXMC	WFUBMC	Affiliates	Other Subs and and Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group <sup>(1)</sup>
<b>Operating revenues and support</b>										
Patient service revenue (net of contractual allowances and discounts)	\$ 1,494,164	\$ 489,254	\$ 90,166	\$ 22,112	\$ 10,464	\$ -	\$ 2,106,160	\$ (23,411)	\$ -	\$ 2,082,749
Provision for bad debts	(42,038)	(15,295)	(4,322)	(1,075)	(181)	-	(62,911)	1,375	-	(61,536)
Net patient service revenue	1,452,126	473,959	85,844	21,037	10,283	-	2,043,249	(22,036)	-	2,021,213
Gifts, grants, and contracts	1,849	165,951	353	6,248	-	-	174,401	(508)	-	173,893
Net student tuition and fees	1,447	33,800	-	-	-	-	35,247	-	1,200	36,447
Investment return designated for current operations	1,243	22,988	-	-	317	-	24,548	(1,560)	-	22,988
Other sources	40,779	226,288	519	9,741	-	(203,525)	73,802	(21,513)	1,423	53,712
Net assets released from restrictions	1,738	30,422	-	241	-	-	32,401	-	-	32,401
Total operating revenues and support	1,499,182	953,408	86,716	37,267	10,600	(203,525)	2,383,648	(45,617)	2,623	2,340,654
<b>Operating expenses</b>										
Salaries and wages	502,928	513,094	29,996	13,329	1,862	-	1,061,209	(26,338)	-	1,034,871
Employee benefits	122,326	113,336	8,236	3,943	382	-	248,223	(6,967)	-	241,256
Purchased services	319,736	154,993	10,852	12,587	3,843	(201,834)	300,177	(10,306)	-	289,871
Clinical and laboratory supplies	317,999	48,821	15,540	2,386	332	-	385,078	(2,558)	-	382,520
Other operating expenses	106,829	59,583	5,347	9,863	636	(1,691)	180,567	(7,431)	1,000	174,136
Depreciation and amortization	83,000	30,850	3,886	2,213	410	-	120,359	(1,843)	-	118,516
Financing costs	18,954	5,321	-	131	17	(31)	24,392	(287)	93	24,198
Total operating expenses	1,471,772	925,998	73,857	44,452	7,482	(203,556)	2,320,005	(55,730)	1,093	2,265,368
<b>Operating excess (deficiency) of revenues and support over expenses</b>	<b>27,410</b>	<b>27,410</b>	<b>12,859</b>	<b>(7,185)</b>	<b>3,118</b>	<b>31</b>	<b>63,643</b>	<b>10,113</b>	<b>1,530</b>	<b>75,286</b>
<b>Nonoperating gains (losses)</b>										
Gains (losses) from equity-method affiliates	16,229	3,548	-	8,648	-	(7,223)	21,202	55	(16,874)	4,383
Net investment (losses) gains	(25,496)	(26,199)	6	(12)	(246)	(31)	(51,978)	2,123	93	(49,762)
Net loss on interest rate swap valuation	-	(1,468)	-	-	-	-	(1,468)	-	-	(1,468)
Other	14,525	-	-	(11,953)	(1,623)	-	949	(41,068)	35,539	(4,580)
<b>Excess (deficiency) of revenues and gains over expenses and losses</b>	<b>32,668</b>	<b>3,291</b>	<b>12,865</b>	<b>(10,502)</b>	<b>1,249</b>	<b>(7,223)</b>	<b>32,348</b>	<b>(28,777)</b>	<b>20,288</b>	<b>23,859</b>

# WAKE FOREST BAPTIST

## Combining Statement of Operations and Changes in Net Assets Information (Unaudited)

Year Ended June 30, 2016

*Dollars in thousands.*

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group <sup>(1)</sup>
<b>Excess (deficiency) of revenues and gains over expenses and losses</b>	\$ 32,668	\$ 3,291	\$ 12,865	\$ (10,502)	\$ 1,249	\$ (7,223)	\$ 32,348	\$ (28,777)	\$ 20,288	\$ 23,859
Equity transfer from affiliate	7,665	385	-	-	-	-	8,050	(55,755)	48,091	386
Pension and postretirement-related (losses) gains other than net periodic cost	(34,882)	2,106	-	-	-	-	(32,776)	-	-	(32,776)
Other	-	3,891	-	-	(2,597)	1,947	3,241	2,596	(1,947)	3,890
<b>Change in unrestricted net assets</b>	<b>5,451</b>	<b>9,673</b>	<b>12,865</b>	<b>(10,502)</b>	<b>(1,348)</b>	<b>(5,276)</b>	<b>10,863</b>	<b>(81,936)</b>	<b>66,432</b>	<b>(4,641)</b>
<b>Temporarily restricted net assets</b>										
Contributions	1,569	23,014	757	2,106	-	-	27,446	-	-	27,446
Investment return designated for restricted purposes	-	7,414	-	-	-	-	7,414	-	-	7,414
Net assets released from restrictions	(1,738)	(30,422)	-	(241)	-	-	(32,401)	-	-	(32,401)
Net investment (losses) gains	(88)	(9,180)	-	-	-	-	(9,268)	-	-	(9,268)
Other	-	(27)	-	9	-	-	(18)	-	-	(18)
<b>Change in temporarily restricted net assets</b>	<b>(257)</b>	<b>(9,201)</b>	<b>757</b>	<b>1,874</b>	<b>-</b>	<b>-</b>	<b>(6,827)</b>	<b>-</b>	<b>-</b>	<b>(6,827)</b>
<b>Permanently restricted net assets</b>										
Contributions	141	7,916	-	-	-	-	8,057	-	-	8,057
Investment return reinvested in principal	-	308	-	-	-	-	308	-	-	308
Net investment losses	(2)	(2,072)	-	-	-	-	(2,074)	-	-	(2,074)
Other	(6)	141	-	-	-	-	135	-	-	135
<b>Change in permanently restricted net assets</b>	<b>133</b>	<b>6,293</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,426</b>	<b>-</b>	<b>-</b>	<b>6,426</b>
<b>Change in net assets</b>	<b>5,327</b>	<b>6,765</b>	<b>13,622</b>	<b>(8,628)</b>	<b>(1,348)</b>	<b>(5,276)</b>	<b>10,462</b>	<b>(81,936)</b>	<b>66,432</b>	<b>(5,042)</b>
Net assets at beginning of period	1,019,948	684,817	56,989	44,093	11,906	(103,057)	1,714,696	(42,262)	1,423	1,673,857
Net assets at end of period	<b>\$ 1,025,275</b>	<b>\$ 691,582</b>	<b>\$ 70,611</b>	<b>\$ 35,465</b>	<b>\$ 10,558</b>	<b>\$ (108,333)</b>	<b>\$ 1,725,158</b>	<b>\$ (124,198)</b>	<b>\$ 67,855</b>	<b>\$ 1,668,815</b>