



**QUARTERLY DISCLOSURE STATEMENT
(UNAUDITED)**

For the Period Ended September 30, 2018

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 Bonds (DP)	2012D
Wake Forest University Baptist Medical Center	Taxable Bonds (Fixed)	2016

QUARTERLY DISCLOSURE September 30, 2018

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 three months ended September 30, 2018. 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 September 30, 2018, the Combined Group generated in the aggregate 88.6% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 84.1% of Wake Forest Baptist’s unrestricted net assets.

QUARTERLY HIGHLIGHTS

Wake Forest Baptist is an integrated clinical, research and academic enterprise that includes a tertiary and quaternary acute care regional referral center with four additional hospital facilities totaling more than 1,500 acute care, rehab and psych beds, more than 1,200 employed physicians and major teaching and research operations.

Effective September 1, 2018, Wake Forest Baptist acquired High Point Regional Health, a 351-bed acute care hospital located in High Point, North Carolina. Wake Forest Baptist Health – High Point Medical Center is not currently a member of the Combined Group.

In the first quarter of fiscal year 2019, Wake Forest Baptist reported a gain in unrestricted net assets of \$33.7 million. This gain is comprised of operating income of \$2.4 million (0.3% operating margin) and net non-operating gains of \$31.3 million.

The sections below provide context regarding underlying financial performance for the three months ending September 30, 2018.

Revenues and Operating Performance

- **Net Revenues:** Total net revenues were \$772.8 million, 12.5% higher than the prior year. Underlying patient revenues improved 13.2% over the same period last year due to clinical volume increases in inpatient activity, surgical services, outpatient encounters, professional activity, the addition of High Point Medical Center, and yield improvements.
- **Operating Performance:** Operating income for the period ending September 30, 2018, was \$2.4 million or 0.3% compared to prior year of \$5.4 million or 0.8%. Year-to-date operating EBIDA Margin was \$46.0 million or 5.9% compared to prior year of \$44.6 million, or 6.5%.

Utilization

Wake Forest Baptist generated overall clinical volume growth with an 11.8% year over year growth in case mix adjusted equivalent discharges (CMAEDs). The addition of High Point Medical Center, increased system inpatient admissions, outpatient volumes, and operating room cases contributed to the year over year growth.

- **Inpatient Utilization:** System inpatient case mix adjusted discharges increased when compared to prior year due to an increase in discharges, 17.1%, offset by a decrease in case mix index (2.7%). Both year-over-year changes were driven primarily by the addition of High Point Medical Center, which increased system discharges while reducing case mix index.
- **Surgical Volumes:** The Medical Center witnessed growth in surgical volumes compared to prior year. Operating room cases across the health system increased by 8.7% over prior year, a 10.8% growth in inpatient cases and a 7.6% growth in the outpatient setting. Higher case volume was primarily driven by the expansion of ambulatory facilities and the addition of High Point Medical Center.
- **Outpatient Volumes:** Overall outpatient volumes continued to show strong growth with an 8.1% increase in

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outpatient charges over the prior year. This growth is attributable to the migration of treating patients in an observation setting, improvements in ambulatory and diagnostics access, and the addition of High Point Medical Center.

- **Observation:** Observation volumes continued to grow, increasing 2.4% compared to the prior year.
- **Clinic Visits:** Overall clinic visits increased 6.9% compared to the prior year.
- **Emergency Department:** System emergency department (ED) visits represented an 8.8% increase compared to prior year.

Operational Performance / Efficiency

- **Length of Stay:** Average Length of Stay decreased 5.6% compared to the prior year. This decrease was primarily driven by the addition of High Point Medical Center, but also related to patient throughput and post-acute strategies.
- **Productivity:** Salaries, Wages, and Benefits as a percent of Revenues decreased from 57.2% to 55.0%; however, purchased services increased year-over-year, in part, due to integration costs associated with the acquisition of High Point.

Balance Sheet

- **Liquidity:** Balance sheet remains stable with Days Cash on Hand of 183 and Debt-to-Capitalization of 34.8%.
- **Investment Performance:** WFB had investment gains of \$20.7 million in the first quarter of the fiscal year. WFB maintains a broadly diversified investment portfolio and continues to have a long-term perspective with regard to its investment activities.
- **Line of Credit:** Wake Forest Baptist has an unsecured line of credit to provide up to \$150 million for the working capital needs of the organization. As of September 30th, the facility had an outstanding balance of \$59.2 million.
- **Capital Expenditures:** Capital expenditures through September 30th were \$29.5 million and included IT infrastructure for High Point Medical Center, Davie Medical Center OR expansion project, and main campus renovations.

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FINANCIAL RATIOS

The following statistics and ratio calculations are based on numbers for the **Combined Group** (i.e., Obligated Group Members and Designated Members) and do not include the activity or financial impact of non-designated members such as WFB – High Point Medical Center, WFB – Wilkes Medical Center, and Cornerstone Healthcare, LLC. These numbers will differ 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-18 to FS-20 of the attached financial statements.

Liquidity – Combined Group

The following table sets forth, as of September 30, 2018, and 2017, 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>9/30/2018</u>	<u>9/30/2017</u>
Unrestricted Cash & cash equivalents	\$ 147,806	\$ 183,278
Investments and assets whose use is limited	1,194,751	1,384,964
Total cash and investments	<u>\$ 1,342,557</u>	<u>\$ 1,568,242</u>
Bonds payable	\$ 712,676	\$ 778,073
Notes payable and capital leases	205,536	124,503
Less: Short-term debt	<u>-</u>	<u>-</u>
Long-term Indebtedness	<u>\$ 918,212</u>	<u>\$ 902,576</u>
Unrestricted Cash-to-Debt	146%	174%
Days Cash on Hand	190	242

**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 September 30, 2018) for the Combined Group.

	<u>Actual</u>
Equity	34.6%
Fixed Income	30.4%
Absolute Return	30.3%
Real Assets	4.7%
Total	<u>100.0%</u>

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

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Capitalization – Combined Group

The capitalization for the Combined Group for the periods ended September 30, 2018 and 2017 is set forth in the following table.

	<u>9/30/2018</u>	<u>9/30/2017</u>
Revenue Bonds	712,676	778,073
Other Notes Payable	161,189	76,873
Capital Leases	44,347	47,630
	<hr/>	<hr/>
Total Debt	918,212	902,576
Unrestricted Net Assets	1,498,205	1,610,422
	<hr/>	<hr/>
Total Capitalization	<u>2,416,417</u>	<u>2,512,998</u>
Total Debt as a % of Total Capitalization	38.0%	35.9%

Debt Service Coverage Ratio – Combined Group

The Coverage Ratio (calculated upon actual annual debt service) reported below is for the 12-month period ended September 30, 2018 (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>9/30/2018</u>
Operating Income	(12,833)
Unrestricted Contributions	-
Interest & Dividend Income	8,882
Depreciation and Amortization	129,478
Financing Costs	31,534
Income Available for Debt Service	<u>157,061</u>
Actual Debt Service	61,500
Debt Service Coverage Ratio	2.6

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UTILIZATION STATISTICS

Utilization Statistics – Combined Group

	Three Months Ended		% Chg from Prior Year
	<u>9/30/2018</u>	<u>9/30/2017</u>	
Case Mix Adjusted Equivalent Discharges	51,952	49,277	5.4%
Patient Days	65,009	63,858	1.8%
Inpatient Admissions	11,022	10,465	5.3%
Average Length of Stay	5.90	6.10	-3.4%
Average Length of Stay (Case Mix Adjusted)	2.88	3.01	-4.4%
Inpatient Operating Room Cases	4,187	4,004	4.6%
Outpatient Operating Room Cases	6,734	6,824	-1.3%
Total Operating Room Cases	10,921	10,828	0.9%
Emergency Department Visits	38,037	38,228	-0.5%
Case Mix Index <i>(all payors using Medicare weights)</i>	2.0475	2.0265	1.0%
RVUs	1,628,929	1,484,823	9.7%

CURRENT OPERATING PROFILE

The information in this disclosure describes an integrated clinical, research and academic enterprise headquartered in Winston-Salem, North Carolina, and commonly known as Wake Forest Baptist, which includes:

- an academic 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 approximately 2,500,000 (“WFB - Main Campus”);
- a hospital facility located approximately 20 miles southeast of WFB – Main Campus, in High Point, North Carolina, currently licensed for 351 acute care beds (“WFB – High Point Medical Center”)
- a hospital facility located approximately 56 miles west of WFB – Main Campus, in North Wilkesboro, North Carolina, currently licensed for 130 acute care beds (“WFB – Wilkes Medical Center”)
- a hospital facility located approximately 26 miles south of WFB – Main Campus, in Lexington, North Carolina, currently licensed for 94 acute care beds (“WFB - Lexington Medical Center”);
- a hospital facility located approximately 12 miles southwest of WFB – Main Campus in Bermuda Run, North Carolina, currently licensed for 50 acute care beds (“WFB - Davie Medical Center”);
- approximately 1,200 employed physicians;
- teaching and research operations; and
- a non-acute and ambulatory network with over 300 sites of patient care.

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Wake Forest Baptist's annual outpatient visits exceed 1.9 million. Its degree-granting educational programs annually train over 1,900 students in health care-related fields and it receives approximately \$200 million annually in research funding from federal and state agencies, industry and other sources.

Combined Group

The term "*Wake Forest Baptist*" refers to the entirety of the integrated clinical, research and academic enterprise described above, including the entities that own and operate the enterprise, which are:

- Wake Forest University Baptist Medical Center ("*WFBMC*"), North Carolina Baptist Hospital ("*NCBH*") and Wake Forest University Health Sciences ("*WFUHS*," and collectively with WFBMC and NCBH, the "*Members of the Obligated Group*");
- the Designated Members, entities controlled by one or more Members of the Obligated Group and include WFB-Lexington Medical Center, WFB-Davie Medical Center, and 17 dialysis centers (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 combined into the financial statements.

As of September 30, 2018, the Combined Group generated in the aggregate 88.6% of Wake Forest Baptist's unrestricted revenue, and the Combined Group owned in the aggregate 84.1% of Wake Forest Baptist's unrestricted net assets.

Wake Forest 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 Wake Forest University part of the Combined Group or Wake Forest Baptist.



WAKE FOREST BAPTIST

**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 Period Ended September 30, 2018
(Unaudited)**

WAKE FOREST BAPTIST
Combined Financial Statements
Period Ended September 30, 2018
(Unaudited)

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WAKE FOREST BAPTIST

Combined Balance Sheets

Dollars in thousands.

	(Unaudited) September 30, 2018	(Audited) June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 202,687	\$ 190,951
Patient receivables, net	356,869	303,689
Accounts, grants, and notes receivable, net	122,274	107,981
Other current assets	102,951	83,332
Total current assets	<u>784,781</u>	<u>685,953</u>
Accounts, grants, and notes receivable, net, long-term	21,266	20,588
Investments and assets whose use is limited	1,561,320	1,673,684
Property and equipment, net	1,313,040	1,137,000
Goodwill	94,025	94,025
Other assets	17,327	28,770
Total assets	<u>\$ 3,791,759</u>	<u>\$ 3,640,020</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accruals	\$ 184,097	\$ 164,423
Accrued employee compensation	201,109	187,829
Estimated third-party payer settlements, net	78,999	75,394
Deferred revenue	67,700	50,295
Current portion of long-term debt	30,160	29,531
Other current liabilities	51,194	41,898
Total current liabilities	<u>613,259</u>	<u>549,370</u>
Notes payable, capital leases, and line of credit, net of current portion	221,361	177,357
Bonds payable, net of current portion	697,888	698,165
Retirement benefits	100,811	99,583
Other long-term liabilities	93,028	111,006
Total liabilities	<u>1,726,347</u>	<u>1,635,481</u>
Net assets:		
Unrestricted	1,781,931	1,748,227
Temporarily restricted	95,664	69,335
Permanently restricted	179,451	179,017
Total net assets attributable to Wake Forest Baptist	2,057,046	1,996,579
Noncontrolling interest in affiliates	8,366	7,960
Total net assets	<u>2,065,412</u>	<u>2,004,539</u>
Total liabilities and net assets	<u>\$ 3,791,759</u>	<u>\$ 3,640,020</u>

See accompanying notes to combined financial statements.

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WAKE FOREST BAPTIST

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

Dollars in thousands.

	Period Ended September 30,	
	2018	2017
Operating revenues and support		
Net patient service revenue	\$ 679,228	\$ 600,151
Gifts, grants, and contracts	45,721	42,477
Net student tuition and fees	8,507	8,954
Investment return designated for current operations	6,670	6,860
Other sources	25,532	20,514
Net assets released from restrictions	7,130	7,833
	<u>772,788</u>	<u>686,789</u>
Total operating revenues and support	<u>772,788</u>	<u>686,789</u>
Operating expenses		
Salaries and wages	348,671	316,002
Employee benefits	76,288	76,517
Purchased services	90,472	77,162
Clinical and laboratory supplies	146,229	111,093
Other operating expenses	65,160	61,379
Depreciation and amortization	34,639	31,250
Financing costs	8,939	7,953
	<u>770,398</u>	<u>681,356</u>
Total operating expenses	<u>770,398</u>	<u>681,356</u>
Operating excess of revenues and support over expenses	2,390	5,433
Nonoperating gains (losses)		
Gains from equity-method affiliates	494	618
Net investment gains	13,992	23,048
Net gains on interest rate swap valuation	307	89
Gain on acquisition of affiliates	22,166	46,801
Pension and postretirement costs	(1,822)	(2,363)
Other	(3,263)	(6,354)
	<u>34,264</u>	<u>67,272</u>
Excess of revenues and gains over expenses and losses before noncontrolling interest	<u>34,264</u>	<u>67,272</u>

See accompanying notes to combined financial statements.

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WAKE FOREST BAPTIST

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

Dollars in thousands.

	Period Ended September 30,	
	2018	2017
Excess of revenues and gains over expenses and losses before noncontrolling interest	\$ 34,264	\$ 67,272
Noncontrolling interest	(406)	(120)
Excess of revenues and gains over expenses and losses attributable to Wake Forest Baptist	33,858	67,152
Pension and postretirement-related losses other than net periodic cost	(24)	(24)
Other	(130)	(162)
Change in unrestricted net assets	33,704	66,966
Temporarily restricted net assets		
Contributions	5,631	5,993
Investment return designated for restricted purposes	1,903	1,856
Net assets released from restrictions	(7,130)	(7,833)
Net investment (losses) gains	(186)	992
Gain on acquisition of affiliates	26,111	-
Change in temporarily restricted net assets	26,329	1,008
Permanently restricted net assets		
Contributions	334	639
Investment return (losses) reinvested in principal	46	(27)
Net investment gains	54	727
Change in permanently restricted net assets	434	1,339
Change in net assets attributable to Wake Forest Baptist	60,467	69,313
Net assets attributable to Wake Forest Baptist at beginning of period	1,996,579	1,891,174
Net assets attributable to Wake Forest Baptist at end of period	2,057,046	1,960,487
Change in net assets attributable to noncontrolling interest	406	120
Net assets attributable to noncontrolling interest at beginning of period	7,960	6,680
Total net assets at end of period	\$ 2,065,412	\$ 1,967,287

See accompanying notes to combined financial statements.

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WAKE FOREST BAPTIST

Combined Statements of Cash Flows (Unaudited)

Dollars in thousands.

	Period Ended September 30,	
	2018	2017
Operating activities and gains and losses		
Change in net assets	\$ 60,873	\$ 69,433
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	34,639	31,250
Amortization of bond premium	(277)	(274)
Gain on acquisition of affiliates	(48,277)	(46,801)
Gains from equity-method affiliates	(494)	(618)
Net investment gains	(22,479)	(33,456)
Gains in value of interest rate swaps, net	(307)	(89)
Losses on disposal of property and equipment	64	615
Contributions restricted for long-term investing	(380)	(612)
Changes in operating assets and liabilities:		
Patient receivables, net	(22,267)	(3,539)
Accounts, grants, and notes receivable, net	2,038	(2,803)
Other current assets	(11,999)	11,247
Other assets	14,945	16,335
Accounts payable and accruals	(46,344)	(10,743)
Accrued employee compensation	(5,131)	(26,554)
Estimated third-party payer settlements, net	3,506	(296)
Deferred revenues	17,405	(5,051)
Other current liabilities	4,762	2,946
Retirement benefits	1,228	2,020
Other long-term liabilities	(17,701)	(15,678)
Net cash used in operating activities	<u>(36,196)</u>	<u>(12,668)</u>
Investing activities		
Net sales and purchases of investments	179,267	25,654
Acquisitions, net of cash acquired	(139,148)	(16,533)
Net additions to property and equipment	(29,475)	(20,470)
Net cash provided by (used in) investing activities	<u>10,644</u>	<u>(11,349)</u>
Financing activities		
Principal payments on debt	(2,000)	(3,046)
Proceeds from issuance of debt	40,000	-
Payments on capital lease obligations	(1,092)	(924)
Contributions restricted for long-term investing	380	612
Net cash provided by (used in) financing activities	<u>37,288</u>	<u>(3,358)</u>
Increase (decrease) in cash and cash equivalents	11,736	(27,375)
Cash and cash equivalents at beginning of period	<u>190,951</u>	<u>226,286</u>
Cash and cash equivalents at end of period	<u>\$ 202,687</u>	<u>\$ 198,911</u>

See accompanying notes to combined financial statements.

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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 comprising Wake Forest Baptist (WFB) were prepared to comply with the terms of a Master Trust Indenture (MTI) as well as to present the entirety of WFB's financial position and results of operations.

Wake Forest University Baptist Medical Center (WFUBMC), a North Carolina non-profit corporation, was formed to act on behalf of Wake Forest University Health Sciences (WFUHS) and North Carolina Baptist Hospital (NCBH) in connection with facilities planning, informational technology services, insurance, payroll, fundraising, and budget formulation and review, and direct the planning and supervision of numerous construction projects as well as the fundraising campaigns in connection therewith. Construction costs are paid in accordance with the respective occupancy percentages of the facilities. WFUHS and NCBH are both party to a land and facilities sharing agreement whereby WFUHS and NCBH independently hold title to certain land and facilities, as designated by the agreement. NCBH and Wake Forest University (WFU) are the members of WFUBMC.

Effective July 1, 2010, the Boards of WFUHS, NCBH, WFUBMC, and 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.

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 50 subsidiaries. It provides a continuum of care that includes primary care centers, outpatient rehabilitation centers 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 jointly and severally liable for all debt and other obligations that are evidenced and secured under the MTI.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

September 30, 2018

Dollars in thousands.

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, CareNet, Inc. (CareNet), The Hawthorne Inn and Conference Center, Inc. (Hawthorne Inn), North Carolina Baptist Hospital Foundation (the Foundation), The Nursing Center at Oak Summit (NCOS), Clemmons Medical Park LLC (CMP), and Wake WellQ, LLC (Wake WellQ). 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 consolidated financial statements. NCBH owns a 69.85% interest in Cornerstone Health Enablement Strategic Solutions, LLC (CHESS), which is included in the consolidated financial statements. Hawthorne Inn was dissolved effective June 30, 2018.

WFUHS, a wholly owned affiliate of Wake Forest University (WFU), based in Winston-Salem, North Carolina, is a private, coeducational, not for 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 (Dialysis); 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; Park IMP 1, LLC; BRF – A 1, LLC; BRF Deck 1, LLC; BRF – A 1a, LLC; Childress Institute for Pediatric Trauma; North District Owners Association; and RegenMed Development Organization (REMDO). Effective April 2018, Wake Forest University Baptist Medical Center Community Physicians' name was amended to Wake Forest Emergency Providers and an equity transfer to affiliate was made from WFUHS to WFUBMC. WFUHS owns an 80% equity interest in Wake Forest Ambulatory Ventures, LLC, a 33.33% equity interest in Carolina Behavioral Health, LLC, a 25% equity interest in HCEC, LLC, a 15.67% equity interest in Elemance, LLC, a 6.47% interest in A.M. Pappas Life Science Ventures V., LP, and a 99% equity interest in Wake Forest Technology Development Program, LP.

WFUHS and NCBH each own a 50% equity interest 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 (WFBI). WFUHS and NCBH own a 73.23% and 15.55% interest, respectively, in Verger Fund II, LLC (VFII). VFII was formed for the purpose of investing its members' assets in Verger Capital Fund LLC (Master Fund), which is managed by Verger Capital Management, LLC, a separate limited liability company organized and controlled by WFU.

WFUBMC is the sole member of Lexington Medical Center (LMC), Wilkes Regional Medical Center Hospital, Northwest Community Care Network (NWCCN), FaithHealthInnovations, Inc., Cornerstone Health Care, LLC (CHC), Wake Forest Healthcare Ventures, LLC (WFHCV), Wake Forest Emergency Health Providers, and Wake Air Care, LLC. On September 1, 2018, WFUBMC acquired High Point Regional Health (HPRMC), a nonprofit health system based in High Point, North Carolina. HPRMC consists of High Point Regional Health; High Point Regional Health Foundation; High Point Health Care Ventures, Inc.; Premier Surgery Center, LLC; High Point Surgery Center, LLC; Guilford Adult Health; Regional Physicians, LLC; Premier Imaging, LLC; and High Point Physical Therapy, LLC.

b. Basis of Presentation

The combined financial statements for WFB have been prepared on the accrual basis of accounting in accordance 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. All significant intercompany accounts and transactions have been eliminated in the combined financial statements.

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. Contributions which impose restrictions that are met in the same fiscal year they are received are reported as increases in unrestricted net assets. 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 from temporarily restricted net assets to unrestricted net assets. Net assets released from restrictions from permanently restricted net assets relate to a change in donor's intent.

c. Investments and Assets Limited as to Use

Investments in debt and equity securities, inclusive of assets whose use is limited, are reported at fair value. Investments in joint ventures are accounted for using the equity method.

Gains, losses, and investment income are included in excess 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 whose use is limited in the combined balance sheets. 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 statements 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.

d. 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.

e. 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, based on such factors as prior collection history, type of contribution, relationship with the donor, and nature of fundraising activity.

f. Excess of Revenues and Gains Over Expenses and Losses

The combined statements of operations and changes in net assets include excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from excess 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 and postretirement plan liabilities, and capital contributions.

WFB differentiates its operating activities through the use of operating excess 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 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; and other incidental transactions.

g. 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 medical malpractice claims. Actual results could differ from those estimates.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

September 30, 2018

Dollars in thousands.

h. *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 organizations assets, liabilities, net assets, revenues, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

i. *Reclassifications*

Certain reclassifications have been made to the financial statement presentation of the year ended June 30, 2018 to correspond to the current year's format. Net assets are unchanged due to these reclassifications.

2. Investments and Assets Whose Use is Limited

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

	September 30, 2018	June 30, 2018
Short-term investments ^(a)	\$ 77,505	\$ 94,986
Absolute return ^(b)	552,551	560,882
Commodities ^(c)	19,425	23,778
Fixed income ^(d)	317,015	429,297
Private equity ^(e)	2,637	2,230
Public equity ^(f)	413,388	391,859
Real estate ^(g)	8,024	8,974
Pooled investments held at WFU ^(h)	3,434	3,370
Beneficial interest in perpetual trusts and assets held by others ⁽ⁱ⁾	20,875	20,765
Investments in equity-method affiliates ^(j)	46,756	39,403
Other ^(k)	99,710	98,140
Total investments and assets whose use is limited	<u>\$ 1,561,320</u>	<u>\$ 1,673,684</u>

(a) **Short-term investments** – includes 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, private equity, currencies, futures contracts, options, and other derivative instruments. This class also includes absolute return mutual funds and exchange traded funds. The investment objective of this asset class is to produce attractive long-term risk-adjusted returns with low correlation to traditional asset classes.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

September 30, 2018

Dollars in thousands.

- (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 and exchange traded 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, exchange traded funds, and other fixed income securities. This class also includes investments in hedge funds and hedge fund-of-funds that invest in 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 basis in global equity markets. The investment objective for this class is capital appreciation over the long term.
- (g) **Real estate** – includes real estate mutual funds and exchange traded funds.
- (h) **Pooled investments held at WFU** – includes primarily alternative investment vehicles and other investment interests.
- (i) **Beneficial interest in perpetual trusts and assets held by others** – 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 investments in equity-method affiliates and other miscellaneous investments.

Investment Return

Total unrestricted investment return included in the accompanying combined statements of operations and changes in net assets comprises the following:

	Period Ended September 30,	
	2018	2017
Interest and dividend income	\$ 6,352	\$ 6,650
Realized (losses) gains	(21,953)	14,466
Unrealized gains	36,263	8,792
Total investment return included in change in unrestricted net assets	<u>\$ 20,662</u>	<u>\$ 29,908</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

September 30, 2018

Dollars in thousands.

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

	Period Ended September 30,	
	2018	2017
Operating:		
Investment return designated for current operations	\$ 6,670	\$ 6,860
Nonoperating:		
Net investment gains	13,992	23,048
	<u>20,662</u>	<u>29,908</u>
Total unrestricted investment return included in in the combined statements of operations and changes in net assets		
	<u>20,662</u>	<u>29,908</u>
Investment return designated for temporarily restricted purposes	1,903	1,856
Temporarily restricted net (losses) gains on investments	(186)	992
Permanently restricted investment return reinvested in principal	46	(27)
Permanently restricted net gains on investments	54	727
	<u>1,817</u>	<u>3,548</u>
Total investment return included in change in restricted net assets		
	<u>1,817</u>	<u>3,548</u>
Total investment return	<u>\$ 22,479</u>	<u>\$ 33,456</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

September 30, 2018

Dollars in thousands.

Designations of investment and assets whose use is limited consist of the following at:

	September 30, 2018		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	\$ 299,441	\$ -	\$ 299,441
Donor-restricted endowment funds	-	186,429	186,429
Total endowment funds	299,441	186,429	485,870
Funds designated for capital improvements	703,028	-	703,028
Funds designated for settlement of professional liability costs	38,689	-	38,689
Collateral for derivative agreements	-	2,790	2,790
Beneficial interests in perpetual trusts and assets held by others	-	20,875	20,875
Funds held under retirement and benefit plans	63,957	-	63,957
Designated for restricted purposes	4,698	41,948	46,646
Assets whose use is limited	1,109,813	252,042	1,361,855
Other unrestricted investments			152,709
Investments in equity-method affiliates			46,756
Investments and assets whose use is limited			<u>\$ 1,561,320</u>

	June 30, 2018		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	\$ 298,090	\$ -	\$ 298,090
Donor-restricted endowment funds	-	186,306	186,306
Total endowment funds	298,090	186,306	484,396
Funds designated for capital improvements	740,964	-	740,964
Funds designated for settlement of professional liability costs	45,729	-	45,729
Collateral for derivative agreements	-	3,090	3,090
Beneficial interests in perpetual trusts and assets held by others	-	20,764	20,764
Funds held under retirement and benefit plans	61,236	-	61,236
Designated for restricted purposes	1,789	20,029	21,818
Assets whose use is limited	1,147,808	230,189	1,377,997
Other unrestricted investments			256,284
Investments in equity-method affiliates			39,403
Investments and assets whose use is limited			<u>\$ 1,673,684</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

September 30, 2018

*Dollars in thousands.***3. Debt**

Debt consists of the following:

	September 30, 2018	June 30, 2018
Series 2016 ^(a)	\$ 150,000	\$ 150,000
Series 2016 Bond Issuance Costs	(1,359)	(1,371)
Series 2012A ^(b)	118,405	118,405
Series 2012A Unamortized Bond Premium	3,637	3,670
Series 2012A Bond Issuance Costs	(906)	(914)
Series 2012B ^(b)	94,520	94,520
Series 2012B Unamortized Bond Premium	11,855	12,050
Series 2012B Bond Issuance Costs	(696)	(707)
Series 2012D ^(b)	80,000	80,000
Series 2012D Bond Issuance Costs	(289)	(292)
Series 2010 ^(c)	252,350	252,350
Series 2010 Unamortized Bond Premium	7,304	7,421
Series 2010 Bond Issuance Costs	(2,145)	(2,179)
Total bonds payable	<u>712,676</u>	<u>712,953</u>
Line of credit ^(d)	59,198	19,198
Loan agreement ^(e)	9,173	9,674
Loan agreement ^(f)	40,500	42,000
Loan agreement ^(g)	48,035	48,035
Loan agreements ^(h)	4,284	4,284
External notes ⁽ⁱ⁾	1,714	1,819
Capital leases ^(j)	2,469	3,040
Capital lease ^(k)	41,878	42,139
Capital lease ^(l)	21,800	21,911
Loan agreements ^(m)	<u>7,682</u>	<u>-</u>
Total notes payable and capital leases	<u>236,733</u>	<u>192,100</u>
Total debt	949,409	905,053
Less current portion	<u>(30,160)</u>	<u>(29,531)</u>
Total long-term debt	<u>\$ 919,249</u>	<u>\$ 875,522</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

September 30, 2018

Dollars in thousands.

Debt is reflected in the combined balance sheets as follows:

	<u>September 30, 2018</u>	<u>June 30, 2018</u>
Current portion of long-term debt	\$ 30,160	\$ 29,531
Notes payable and capital leases, net of current portion	221,361	177,357
Bonds payable, net of current portion	<u>697,888</u>	<u>698,165</u>
Total debt	<u>\$ 949,409</u>	<u>\$ 905,053</u>

- (a) **Series 2016 Taxable Bonds** – taxable bonds issued directly by WFUBMC as general, unsecured obligations under the MTI structure. The Series 2016 bonds are structured with a \$75 million bullet maturity due on June 1, 2026, at a fixed rate of 3.093% and a \$75 million term bond with final maturity on June 1, 2046, at a fixed rate of 4.175%. The 2046 maturity includes sinking fund payments of \$25 million due on June 1 of each year beginning in 2044.
- (b) **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 ranging from \$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 were fully redeemed on October 2, 2017, and refinanced with a taxable term note. The bonds were originally issued in the Index Floating Rate Mode with an Index Floating Rate based on the SIFMA Index plus a spread of 0.74% and an original maturity date in 2034. Per the bond agreements, the principal and sinking fund payments on the bonds were paid on December 1 of each year beginning in 2014.

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 refunded in fiscal year 2018 and reissued with a new bank as bondholder. The bonds are currently 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 0.75%. 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.

- (c) **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 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%.

- (d) **Line of credit** – consists of an unsecured credit facility with a total borrowing capacity of \$150,000 to provide for the working capital needs of NCBH, WFUHS, and WFUBMC, all Borrowers under the credit facility. The line of credit is due on June 9, 2020 and bears interest at one-month LIBOR plus 0.65%.
- (e) **Loan agreement** – represents an unsecured loan agreement held by WFUHS, with a variable rate based on 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.
- (f) **Loan agreement** – represents an unsecured loan agreement held by WFUBMC, with a variable rate based on 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 bullet maturity date of June 23, 2020. This taxable loan is guaranteed by both NCBH and WFUHS.
- (g) **Loan agreement** – represents an unsecured loan agreement held by WFUHS, NCBH and WFUBMC, with a variable rate based on one-month LIBOR plus a premium of 0.55% for \$50,355 to refinance the previously outstanding Series 2012C bonds. Principal payments are due on December 1 of each year with monthly interest payments and a bullet maturity date of October 1, 2019.
- (h) **Loan agreements** – represents notes payable held by WFUHS subsidiary, with variable interest rates based on one-month LIBOR plus a premium of 1.05% and final maturities in 2021 and 2025.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

September 30, 2018

Dollars in thousands.

- (i) **External notes** – includes various notes payable held by WFB affiliates, with interest rates ranging from 0% to 5.31% and final maturities between 2014 and 2023.
- (j) **Capital leases** – comprised of capital lease obligations held by NCBH, maturing at various dates through 2019. The obligations have fixed interest rates of 3.1% and are secured by leased equipment.
- (k) **Capital lease** – represents a capital lease obligation of \$44,125 entered into by WFUHS related to the Bowman Gray Center for Medical Education with an initial term of 15 years and additional renewal options. The obligation has a fixed interest rate of 4.5%.
- (l) **Capital lease** – represents a capital lease obligation of \$21,911 entered into by WFUBMC and WRMC related to assets leased from the Town of North Wilkesboro with an initial term of 30 years and additional renewal options. The obligation has a fixed interest rate of 4.1%.
- (m) **Loan agreements** – represents various notes payable and capital leases held by HPRMC, with interest rates ranging from a fixed rate of 5.00% to variable one-month LIBOR plus a premium of 2.50% and final maturity dates between 2020 and 2026.

Debt issued under the MTI is 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)

September 30, 2018

Dollars in thousands.

	NCBH	WFUHS	HPRMC	LEXMC	DAVIE	WRMC	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Assets														
Current assets:														
Cash and cash equivalents	\$ 28,009	\$ 24,622	\$ 20,973	\$ 39,837	\$ 11,177	\$ 4,820	\$ 6,398	\$ 65,067	\$ 1,784	\$ -	\$ 202,687	\$ (54,881)	\$ -	\$ 147,806
Patient receivables, net	197,262	70,663	50,473	10,068	7,223	7,856	-	11,915	1,409	-	356,869	(70,789)	-	286,080
Accounts, grants, and notes receivable, net	129,088	66,115	14,835	29,391	10,516	674	36	20,341	8,944	(157,666)	122,274	16,237	(35,528)	102,983
Other current assets	74,191	9,088	12,320	1,877	1,124	2,711	-	42,695	72	(41,127)	102,951	(17,208)	-	85,743
Total current assets	428,550	170,488	98,601	81,173	30,040	16,061	6,434	140,018	12,209	(198,793)	784,781	(126,641)	(35,528)	622,612
Accounts, grants, and notes receivable, net, long-term	14,400	29,847	-	595	-	-	-	1,834	-	(25,410)	21,266	(100)	-	21,166
Investments and assets whose use is limited	901,223	797,651	43,932	-	-	17,097	98	59,814	144	(258,639)	1,561,320	(100,605)	48,626	1,509,341
Property and equipment, net	664,771	352,371	179,701	22,754	6,349	44,774	491	36,993	4,836	-	1,313,040	(234,539)	-	1,078,501
Goodwill	36,106	-	-	420	-	40,043	-	17,456	-	-	94,025	(92,101)	-	1,924
Other assets	6,658	7,067	3,502	96	-	4	-	-	-	-	17,327	(3,505)	-	13,822
Total assets	\$ 2,051,708	\$ 1,357,424	\$ 325,736	\$ 105,038	\$ 36,389	\$ 117,979	\$ 7,023	\$ 256,115	\$ 17,189	\$ (482,842)	\$ 3,791,759	\$ (557,491)	\$ 13,098	\$ 3,247,366
Liabilities and Net Assets														
Current liabilities:														
Accounts payable and accruals	\$ 68,911	\$ 39,043	\$ 86,787	\$ 1,342	\$ 2,006	\$ 32,683	\$ 627	\$ 96,775	\$ 936	\$ (145,013)	\$ 184,097	\$ (102,780)	\$ (35,605)	\$ 45,712
Accrued employee compensation	40,314	104,620	18,620	1,909	951	1,121	-	33,427	147	-	201,109	(25,351)	-	175,758
Estimated third-party payer settlements	66,279	-	7,894	1,540	1,587	1,698	-	1	-	-	78,999	(9,592)	-	69,407
Deferred revenue	9,511	57,768	-	-	-	-	272	1	148	-	67,700	(9,108)	-	58,592
Current portion of long-term debt	13,045	10,179	468	-	-	136	-	6,000	332	-	30,160	(1,014)	77	29,223
Other current liabilities	27,281	14,175	4,530	534	-	1,214	-	3,456	4	-	51,194	(7,386)	-	43,808
Total current liabilities	225,341	225,785	118,299	5,325	4,544	36,852	899	139,660	1,567	(145,013)	613,259	(155,231)	(35,528)	422,500
Notes payable, capital leases, and line of credit, net of current portion	21,170	104,715	7,214	-	-	21,664	-	65,216	1,382	-	221,361	(30,260)	-	191,101
Bonds payable, net of current portion	447,643	101,604	-	-	-	-	-	148,641	-	-	697,888	-	-	697,888
Retirement benefits	65,940	32,476	-	-	-	2,395	-	-	-	-	100,811	(2,395)	-	98,416
Other long-term liabilities	55,413	74,837	30	84	68	-	-	41,736	49	(79,189)	93,028	(3,126)	-	89,902
Total liabilities	815,507	539,417	125,543	5,409	4,612	60,911	899	395,253	2,998	(224,202)	1,726,347	(191,012)	(35,528)	1,499,807
Net assets:														
Unrestricted	1,208,438	585,493	174,082	99,605	31,777	57,068	5,768	(142,678)	14,191	(251,813)	1,781,931	(340,368)	56,642	1,498,205
Temporarily restricted	10,306	55,351	26,111	-	-	-	356	3,540	-	-	95,664	(26,111)	-	69,553
Permanently restricted	2,614	176,813	-	24	-	-	-	-	-	-	179,451	-	-	179,451
Total net assets attributable to WFB	1,221,358	817,657	200,193	99,629	31,777	57,068	6,124	(139,138)	14,191	(251,813)	2,057,046	(366,479)	56,642	1,747,209
Noncontrolling interest in affiliates	14,843	350	-	-	-	-	-	-	-	(6,827)	8,366	-	(8,016)	350
Total net assets	1,236,201	818,007	200,193	99,629	31,777	57,068	6,124	(139,138)	14,191	(258,640)	2,065,412	(366,479)	48,626	1,747,559
Total liabilities and net assets	\$ 2,051,708	\$ 1,357,424	\$ 325,736	\$ 105,038	\$ 36,389	\$ 117,979	\$ 7,023	\$ 256,115	\$ 17,189	\$ (482,842)	\$ 3,791,759	\$ (557,491)	\$ 13,098	\$ 3,247,366

⁽¹⁾ 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)

Period Ended September 30, 2018

Dollars in thousands.

	NCBH	WFUHS	HPRMC	LEXMC	DAVIE	WRMC	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Operating revenues and support														
Net patient service revenue	\$ 418,543	\$ 137,447	\$ 26,262	\$ 25,632	\$ 18,543	\$ 16,648	\$ 1,977	\$ 30,694	\$ 3,482	\$ -	\$ 679,228	\$ (76,363)	\$ -	\$ 602,865
Gifts, grants, and contracts	378	42,701	382	1,159	-	128	935	38	-	-	45,721	(510)	-	45,211
Net student tuition and fees	461	8,046	-	-	-	-	-	-	-	-	8,507	-	-	8,507
Investment return designated for current operations	319	6,269	-	-	-	-	-	5	77	-	6,670	(396)	-	6,274
Other sources	13,500	57,385	503	272	132	273	-	4,359	4	(50,896)	25,532	(10,648)	-	14,884
Net assets released from restrictions	41	7,062	-	-	-	-	27	-	-	-	7,130	(334)	-	6,796
Total operating revenues and support	433,242	258,910	27,147	27,063	18,675	17,049	2,939	35,096	3,563	(50,896)	772,788	(88,251)	-	684,537
Operating expenses														
Salaries and wages	140,536	151,831	10,021	9,788	5,303	8,342	-	21,139	557	1,154	348,671	(40,457)	-	308,214
Employee benefits	41,104	22,840	1,796	2,430	1,244	2,588	-	3,841	123	322	76,288	(8,459)	-	67,829
Purchased services	86,809	37,630	3,558	2,799	1,363	2,654	1,656	4,726	1,090	(51,813)	90,472	(13,864)	-	76,608
Clinical and laboratory supplies	107,007	16,439	6,206	5,386	4,174	2,207	-	4,704	106	-	146,229	(13,168)	-	133,061
Other operating expenses	33,023	20,407	2,098	1,540	2,173	1,411	1,010	3,837	219	(558)	65,160	(8,145)	-	57,015
Depreciation and amortization	20,972	8,734	1,642	964	557	978	20	584	188	-	34,639	(2,997)	-	31,642
Financing costs	4,701	1,939	30	-	-	889	-	1,375	5	-	8,939	(927)	3	8,015
Total operating expenses	434,152	259,820	25,351	22,907	14,814	19,069	2,686	40,206	2,288	(50,895)	770,398	(88,017)	3	682,384
Operating excess (deficit) of revenues and support over expenses	(910)	(910)	1,796	4,156	3,861	(2,020)	253	(5,110)	1,275	(1)	2,390	(234)	(3)	2,153
Nonoperating gains (losses)														
Gains (losses) from equity-method affiliates	26,638	26,349	-	-	-	-	-	246	-	(52,739)	494	(464)	(120)	(90)
Net investment gains (losses)	13,403	336	-	-	-	(28)	-	289	(8)	-	13,992	(385)	4	13,611
Unrealized gains on interest rate swap valuation	-	307	-	-	-	-	-	-	-	-	307	-	-	307
Gains (losses) on acquisitions	-	-	172,266	-	-	-	-	(150,100)	-	-	22,166	(172,266)	-	(150,100)
Pension and postretirement costs	(1,475)	(347)	-	-	-	-	-	-	-	-	(1,822)	-	-	(1,822)
Other	(3,368)	88	20	-	-	-	-	(3)	-	-	(3,263)	(20)	-	(3,283)
Excess (deficit) of revenues and gains over expenses and losses before noncontrolling interest	34,288	25,823	174,082	4,156	3,861	(2,048)	253	(154,678)	1,267	(52,740)	34,264	(173,369)	(119)	(139,224)

⁽¹⁾ 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), continued

Period Ended September 30, 2018

Dollars in thousands.

	NCBH	WFUHS	HPRMC	LEXMC	DAVIE	WRMC	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Excess (deficit) of revenues and gains over expenses and losses before noncontrolling interest	\$ 34,288	\$ 25,823	\$ 174,082	\$ 4,156	\$ 3,861	\$ (2,048)	\$ 253	\$ (154,678)	\$ 1,267	\$ (52,740)	\$ 34,264	\$ (173,369)	\$ (119)	\$ (139,224)
Noncontrolling interest	(944)	119	-	-	-	-	-	-	-	419	(406)	-	525	119
Excess (deficit) of revenues and gains over expenses and losses attributable to WFB	33,344	25,942	174,082	4,156	3,861	(2,048)	253	(154,678)	1,267	(52,321)	33,858	(173,369)	406	(139,105)
Pension and postretirement-related losses other than net periodic pension benefit	(24)	-	-	-	-	-	-	-	-	-	(24)	-	-	(24)
Other	-	-	-	-	-	-	-	-	(521)	391	(130)	521	(391)	-
Change in unrestricted net assets	33,320	25,942	174,082	4,156	3,861	(2,048)	253	(154,678)	746	(51,930)	33,704	(172,848)	15	(139,129)
Temporarily restricted net assets														
Contributions	3,263	2,363	-	-	-	-	5	-	-	-	5,631	(333)	-	5,298
Investment return designated for restricted purposes	-	1,903	-	-	-	-	-	-	-	-	1,903	-	-	1,903
Net assets released from restrictions	(41)	(7,062)	-	-	-	-	(27)	-	-	-	(7,130)	333	-	(6,797)
Net investment gains (losses)	13	(199)	-	-	-	-	-	-	-	-	(186)	-	-	(186)
Gains on acquisitions	-	-	26,111	-	-	-	-	-	-	-	26,111	(26,111)	-	-
Change in temporarily restricted net assets	3,235	(2,995)	26,111	-	-	-	(22)	-	-	-	26,329	(26,111)	-	218
Permanently restricted net assets														
Contributions	-	334	-	-	-	-	-	-	-	-	334	-	-	334
Investment return reinvested in principal	-	46	-	-	-	-	-	-	-	-	46	-	-	46
Net investment gains (losses)	-	54	-	-	-	-	-	-	-	-	54	-	-	54
Change in permanently restricted net assets	-	434	-	-	-	-	-	-	-	-	434	-	-	434
Change in net assets attributable to WFB	36,555	23,381	200,193	4,156	3,861	(2,048)	231	(154,678)	746	(51,930)	60,467	(198,959)	15	(138,477)
Net assets attributable to WFB at beginning of year	1,184,803	794,276	-	95,473	27,916	59,116	5,893	15,540	13,445	(199,883)	1,996,579	(167,520)	56,627	1,885,686
Net assets attributable to WFB at end of period	1,221,358	817,657	200,193	99,629	31,777	57,068	6,124	(139,138)	14,191	(251,813)	2,057,046	(366,479)	56,642	1,747,209
Change in net assets attributable to noncontrolling interest	944	(119)	-	-	-	-	-	-	-	(419)	406	-	(525)	(119)
Net assets attributable to noncontrolling interest at beginning of year	13,899	469	-	-	-	-	-	-	-	(6,408)	7,960	-	(7,491)	469
Total net assets at end of period	\$ 1,236,201	\$ 818,007	\$ 200,193	\$ 99,629	\$ 31,777	\$ 57,068	\$ 6,124	\$ (139,138)	\$ 14,191	\$ (258,640)	\$ 2,065,412	\$ (366,479)	\$ 48,626	\$ 1,747,559

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