



QUARTERLY DISCLOSURE STATEMENT (UNAUDITED)

For the Period Ended March 31, 2015

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

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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 nine months ended March 31, 2015. 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 March 31, 2015, the Combined Group generated in the aggregate 99.7% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 97.3% of Wake Forest Baptist’s unrestricted net assets.

QUARTERLY HIGHLIGHTS

Wake Forest Baptist is a national leader in patient quality and is continuing the transformation of its operating and cost structure to leverage the quality of its clinical faculty and staff. Wake Forest Baptist is honored to have received the following accolades over the prior quarter:

- Wake Forest Baptist made Becker’s Hospital Review’s list of “100 Great Hospitals in America” for 2015. In their report, Becker’s writes, “Each organization on this list has a strong foundation of high-quality care, stellar credentials and a focus on doing what is right for the patient. They are home to many medical and scientific breakthroughs, provide best-in-class patient care and are stalwarts of their communities, serving as research hubs or local anchors of wellness.”
- Wake Forest Baptist Medical Center and Wexford Science + Technology have received one of five national “Preservation’s Best of 2014” awards from the National Trust for Historic Preservation, the National Trust Community Investment Corporation and Preservation Action. Wake Forest Baptist and Wexford received the award for the redevelopment of a new research building in Wake Forest Innovation Quarter. The recognition singles out exemplary rehabilitation of historically significant buildings that utilized the federal historic tax credit to revitalize cities and small towns across the country.

Wake Forest Baptist reported a gain in unrestricted net assets of \$37.8 million through March 31, 2015. This gain is comprised of an operating income of \$40.2 million (2.5% operating margin) and net non-operating losses of \$2.4 million.

In recent months, Wake Forest Baptist has realized significant improvements in operating performance. As noted in prior disclosures, management has implemented strategies and processes to restore financial performance and enhance existing programs.

The sections below provide context regarding underlying financial performance for the nine months ending March 31, 2015.

Revenues and Operating Performance

- **Net Revenues:** Total net revenues were \$1.60 billion, 19.0% higher than the prior year. Underlying patient revenues improved over the same period last year due to growth in clinical volumes and the effect of the \$104 million accounts receivable reserve provision recorded in the prior year.
- **Operating Performance:** Operating income through March was \$40.2 million or 2.5% compared to prior year of -11.5%. Year-to-date operating EBIDA Margin was \$148.3 million or 9.3% compared to prior year of -4.3%.

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Utilization

Patient volumes continued to improve through the third quarter. Wake Forest Baptist generated overall volume growth with a 17.1% year over year growth in case mix adjusted equivalent discharges (CMAEDs). Significant focus has been placed on improving patient access and enhancing provider throughput.

- **Inpatient Utilization:** System inpatient admissions increased by 11.5% compared to prior year. This was largely driven by growth in inpatient surgical cases and flu-related admissions.
- **Surgical Volumes:** Operating room cases across the health system increased by 5.8% over prior year with growth in both inpatient and outpatient cases of 7.8% and 4.7% respectively. 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 118,810 represented a 7.4% increase over prior year. The recent openings of several Wake multi-specialty clinics and urgent care centers (Clemmons, Davie, etc.) have increased service offerings for emergent care in the past year and are effectively moving ED volume to lower cost settings while supporting core growth.
- **Outpatient Volumes:** Outpatient volume has continued to show strong growth with a 7.7% increase over the prior year. This growth is attributable to improvements in ambulatory and diagnostics access, clinician productivity and an expansion of outpatient facilities.

Operational Performance / Efficiency

- **Length of Stay:** Average Length of Stay was 5.79 days for the nine months ending March 31st, representing a 5.9% improvement from prior year. Case Mix Adjusted Average Length of Stay improved by 5.4% to 2.96 days.
- **Productivity:** Staffing productivity for system hospitals was 93.9 paid hours per CMAED, an improvement of 16.3% from prior year's comparable 112.2 paid hours per CMAED. This improvement was driven by volume growth, implementation of benchmark-based staffing targets, and organizational reductions in force.

Balance Sheet

- **Liquidity:** Balance sheet remains solid with Days Cash on Hand of 240 and Debt-to-Capitalization of 35.5%.
- **Investment Performance:** Wake Forest Baptist had total unrestricted investment returns of \$16.1 million through the third quarter.
- **Debt Structure/Line of Credit:** Wake Forest Baptist has an unsecured, revolving credit facility to provide up to \$160 million for the working capital needs of the organization. As of March 31st, \$114.4 million had been drawn under this facility.
- **Capital Expenditures:** Capital expenditures through March 31st were \$52.1 million and primarily related to IT infrastructure upgrades, Epic and other software initiatives, and facility renovations.

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Key Strategic Investments

- In March, Wake Forest Baptist Medical Center, Vidant Health and WakeMed Health & Hospitals announced the name Socius Health for its shared services company that will support health care reform initiatives and create business and clinical efficiencies. Also announced was the president of Socius Health, Mark W. Tribbett, FACHE, who brings with him more than 30 years of health care management with extensive experience as a hospital administrator and consultant. As president of Socius Health, Tribbett will lead efforts to transform health care models and support infrastructure that reduce costs and best meet the needs of diverse patient populations.
- In its commitment to provide the best level of health care, orthopaedics and sports medicine, Wake Forest Baptist Medical Center announced a unique partnership with D1 Sports Training. As the D1 medical partner, Wake Forest Baptist will provide orthopaedics/sports medicine and sports physical therapy/rehabilitative services for the jointly owned program to its patients and the D1 facility's members. D1 Winston-Salem's facility will be 43,000 square feet and is expected to open in the late summer/fall of this year.

Leadership Changes

- Effective April 1st, Wake Forest Baptist announced the following leadership changes:
 - Karen "Bobbi" Carbone, M.D., M.B.A., stepped down as president and chief operating officer of Wake Forest Baptist Health to pursue other opportunities. During her tenure, the clinical health system made significant advances including improved access to clinics, throughput within the hospitals and reductions in length of stay. Carbone also implemented an advanced service-line architecture, in tight collaboration with our planning/finance groups and physician leadership, that will serve the organization well in the health care reform environment.
 - Kevin High, M.D., M.S., Professor and Chair of Internal Medicine, has been named executive vice president of health system affairs for Wake Forest Baptist Health. High joined the Medical Center faculty in 1993 and has earned national recognition in the field of infectious diseases in older adults and in integrating geriatrics and gerontology into the specialties of internal medicine. High has held several leadership positions over his tenure at Wake Forest Baptist.
 - Mike Rutherford, M.B.A, chief financial officer (CFO), stepped down as planned, in April. Under Rutherford's guidance, Wake Forest Baptist made rapid improvement in revenue cycle and positive changes to its financial systems.
 - Wake Forest Baptist has named Chad Eckes, M.B.A., as its new executive vice president and CFO. Eckes joined Wake Forest Baptist in March 2014 as the Medical Center's vice president and chief information officer (CIO). In his new position, Eckes will direct all financial functions at the Medical Center, develop and implement long- and short-term financial strategies, and oversee integration and consolidation of systems to optimize financial functions across the organization. He will also oversee Wake Forest Baptist's IT division. Eckes' background is well suited to the world of large clinical data for population health with tightly integrated financial data that will increasingly drive success for the future. He previously served as Chief Strategy Officer for Cancer Treatment Centers of America.
 - Deette "Dee" Emon, M.S., B.S.N., previously chief clinical information officer at Wake Forest Baptist, replaced Eckes as the Medical Center's vice president and chief information officer (CIO), reporting to the CFO. In this new role, Emon will be responsible for the division's strategic development and management, technology systems and processes as they apply to support of

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the Medical Center. Emon joined the Medical Center last spring. Prior to joining Wake Forest Baptist, Emon's experience focused on operational initiatives in growth, quality, service and cost management at Tenet Healthcare. She was an examiner on the team that assesses hospitals being considered for the esteemed Malcolm Baldrige National Quality Award and also served as corporate chief nurse executive and quality officer at Cancer Treatment Centers of America.

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FINANCIAL RATIOS

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-19 to FS-21 of the attached financial statements.

Liquidity – Combined Group

The following table sets forth, as of March 31, 2015 and 2014, 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>3/31/2015</u>	<u>3/31/2014</u>
Cash & cash equivalents	\$ 108,002	\$ 29,943
Investments and assets whose use is limited	1,145,572	1,009,927
Total cash and investments	\$ 1,253,574	\$ 1,039,870
Bonds payable	\$ 677,112	\$ 690,173
Notes payable and capital leases	141,101	146,269
Less: Short-term debt	-	-
Long-term Indebtedness	\$ 818,213	\$ 836,442
Unrestricted Cash-to-Debt	153%	124%
Days Cash on Hand	234	202

**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 March 31, 2015) for the Combined Group.

	<u>Actual</u>
Equity	41%
Fixed Income	37%
Absolute Return	12%
Real Assets	10%
Total	100%

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Capitalization – Combined Group

The capitalization for the Combined Group for the periods ended March 31, 2015 and 2014 is set forth in the following table.

	<u>3/31/2015</u>	<u>3/31/2014</u>
Revenue Bonds	677,112	690,173
Other Notes Payable	131,025	145,230
Capital Leases	10,076	1,039
	<hr/>	<hr/>
Total Debt	818,213	836,442
Unrestricted Net Assets	1,447,823	1,458,005
	<hr/>	<hr/>
Total Capitalization	2,266,036	2,294,447
	<hr/>	<hr/>
Total Debt as a % of Total Capitalization	36.1%	36.5%

Debt Service Coverage Ratio – Combined Group

The Coverage Ratio (calculated upon actual annual debt service) reported below is for the 12-month period ended March 31, 2015 (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>3/31/2015</u>
Operating Income	114,543
Unrestricted Contributions	0
Interest & Dividend Income	12,669
Depreciation and Amortization	119,643
Financing Costs	24,117
Income Available for Debt Service	<hr/> 270,972 <hr/>
Actual Debt Service	44,044
Debt Service Coverage Ratio	6.2

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UTILIZATION STATISTICS

Utilization Statistics – Combined Group

	<u>Nine Months Ended</u>		<u>% Chg from Prior Year</u>
	<u>3/31/2015</u>	<u>3/31/2014</u>	
Case Mix Adjusted Equivalent Discharges	135,032	115,342	17.1%
Patient Days	190,038	181,051	5.0%
Inpatient Admissions	32,826	29,441	11.5%
Average Length of Stay	5.79	6.15	-5.9%
Average Length of Stay (Case Mix Adjusted)	2.96	3.13	-5.4%
Inpatient Operating Room Cases	11,491	10,662	7.8%
Outpatient Operating Room Cases	20,952	20,003	4.7%
Total Operating Room Cases	32,443	30,665	5.8%
Emergency Department Visits	118,810	110,610	7.4%
Case Mix Index (<i>all payors using Medicare weights</i>)	1.9543	1.9637	-0.5%
RVUs	4,128,573	3,795,944	8.8%

CURRENT OPERATING PROFILE

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*”)

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- 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 25 acute care beds

Wake Forest Baptist handles over 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 March 31, 2015, the Combined Group generated in the aggregate 99.7% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 97.3% of Wake Forest Baptist’s unrestricted net assets.

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

**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 March 31, 2015
(Unaudited)**

WAKE FOREST BAPTIST
Combined Financial Statements
Period Ended March 31, 2015

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Combined Balance Sheets

Dollars in thousands.

	(Unaudited) March 31, 2015	(Audited) June 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 111,908	\$ 106,811
Patient receivables, net	204,882	211,858
Estimated third-party payer settlements	72,715	43,439
Accounts, grants, and notes receivable, net	156,405	141,838
Other current assets	58,987	42,185
Total current assets	<u>604,897</u>	<u>546,131</u>
Accounts, grants, and notes receivable, net	150,482	237,700
Investments and assets whose use is limited	1,420,664	1,346,908
Property and equipment, net	1,039,397	1,076,515
Other assets	15,390	24,475
Total assets	<u><u>\$ 3,230,830</u></u>	<u><u>\$ 3,231,729</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accruals	\$ 122,875	\$ 137,072
Accrued employee compensation	135,845	126,560
Estimated third-party payer settlements	81,903	73,757
Deferred revenue	52,907	48,027
Current portion of long-term debt	133,696	17,829
Other current liabilities	54,957	47,426
Total current liabilities	<u>582,183</u>	<u>450,671</u>
Notes payable and capital leases, net of current portion	22,737	140,686
Bonds payable, net of current portion	662,403	666,798
Retirement benefits	85,382	85,735
Other long-term liabilities	175,789	223,558
Total liabilities	<u>1,528,494</u>	<u>1,567,448</u>
Net assets:		
Unrestricted	1,488,691	1,450,905
Temporarily restricted	56,386	62,329
Permanently restricted	157,259	151,047
Total net assets	<u>1,702,336</u>	<u>1,664,281</u>
Total liabilities and net assets	<u><u>\$ 3,230,830</u></u>	<u><u>\$ 3,231,729</u></u>

See accompanying notes to the combined financial statements.

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WAKE FOREST BAPTIST

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

Dollars in thousands.

	For the Period Ended March 31,	
	2015	2014
Operating revenues and support		
Patient service revenue (net of contractual allowances and discounts)	\$ 1,446,701	\$ 1,266,253
Provision for bad debts	(79,282)	(144,632)
Net patient service revenue	1,367,419	1,121,621
Gifts, grants, and contracts	136,015	127,784
Net student tuition and fees	22,588	19,112
Investment return designated for current operations	18,085	16,537
Other sources	34,754	40,947
Net assets released from restrictions	20,179	16,293
Total operating revenues and support	<u>1,599,040</u>	<u>1,342,294</u>
Operating expenses		
Salaries and wages	709,373	695,253
Employee benefits	151,644	138,013
Purchased services	206,794	194,279
Clinical and laboratory supplies	261,428	250,269
Other operating expenses	121,469	122,185
Depreciation and amortization	89,889	81,294
Financing costs	18,242	15,723
Total operating expenses	<u>1,558,839</u>	<u>1,497,016</u>
Operating excess (deficiency) of revenues and support over expenses	40,201	(154,722)
Nonoperating gains (losses)		
Gains from equity-method affiliates	1,627	1,242
Net investment (losses) gains	(1,995)	56,921
Net losses on interest rate swap valuation	(1,691)	(47)
Other	-	(981)
Excess (deficiency) of revenues and gains over expenses and losses	<u>38,142</u>	<u>(97,587)</u>

See accompanying notes to the combined financial statements.

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

Dollars in thousands.

	For the Period Ended March 31,	
	2015	2014
Excess (deficiency) of revenues and gains over expenses and losses	38,142	(97,587)
Pension and postretirement-related loss other than net periodic cost	(52)	-
Other	(304)	(89)
Change in unrestricted net assets	37,786	(97,676)
Temporarily restricted net assets		
Contributions	13,021	17,058
Investment return designated for restricted purposes	4,527	4,429
Net assets released from restrictions	(20,179)	(16,293)
Net investment (losses) gains	(3,936)	3,115
Other	624	1,287
Change in temporarily restricted net assets	(5,943)	9,596
Permanently restricted net assets		
Contributions	6,878	6,093
Investment return reinvested in principal	122	387
Net investment (losses) gains	(393)	266
Other	(395)	26
Change in permanently restricted net assets	6,212	6,772
Change in net assets	38,055	(81,308)
Net assets at beginning of period	1,664,281	1,691,101
Net assets at end of period	\$ 1,702,336	\$ 1,609,793

See accompanying notes to the combined financial statements.

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WAKE FOREST BAPTIST

Combined Statements of Cash Flows (Unaudited)

Dollars in thousands.

	For the Period Ended March 31,	
	2015	2014
Operating activities and gains and losses		
Change in net assets	\$ 38,055	\$ (81,308)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	89,889	81,294
Amortization of bond premium	(1,036)	(1,036)
(Gains) losses in value of interest rate swaps, net	(1,691)	47
Gains from equity-method affiliates	(1,627)	(1,242)
Gains on disposal of property and equipment	(660)	(638)
Gifts and other revenue restricted for long-term investing	(6,906)	(6,360)
Investment losses (gains), net	5,931	(53,811)
Changes in operating assets and liabilities:		
Patient receivables, net	6,976	101,660
Estimated third-party payer settlements, net	(21,130)	5,013
Accounts, grants, and notes receivable, net	72,651	(12,425)
Other current assets	(16,802)	(3,593)
Other assets	9,634	(191)
Accounts payable and accruals	(14,197)	(7,438)
Accrued employee compensation	9,285	(10,049)
Deferred revenues	4,880	7,022
Other current liabilities	7,531	9,938
Retirement benefits	(353)	(3,684)
Other long-term liabilities	(46,627)	(10,405)
Net cash provided by operating activities	<u>133,803</u>	<u>12,794</u>
Investing activities		
Net proceeds from sales and maturities (purchases) of investments	(78,060)	48,873
Net additions to property and equipment	(52,111)	(104,781)
Net cash used in investing activities	<u>(130,171)</u>	<u>(55,908)</u>
Financing activities		
Principal payments on debt	(19,196)	(54,733)
Proceeds from issuance of debt	13,755	60,122
Proceeds from private gifts restricted for long-term investing	6,778	5,973
Other financing activities	128	387
Net cash provided by financing activities	<u>1,465</u>	<u>11,749</u>
Increase (decrease) in cash and cash equivalents	5,097	(31,365)
Cash and cash equivalents at the beginning of year	<u>106,811</u>	<u>63,270</u>
Cash and cash equivalents at end of year	<u>\$ 111,908</u>	<u>\$ 31,905</u>

See accompanying notes to the 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 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 are 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. The effect of the new credit structure is that each member of the Obligated Group becomes joint and severally liable for all debt and other obligations that are to be evidenced and secured under the MTI.

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), the Center for Congregational Health, Inc. (CCH), 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 are accounted for as an equity-method investment in the combined financial statements. NCBH owns a 28.53% interest in Cornerstone Health Enablement Strategic Solutions, LLC (CHESS).

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Selected Notes to Combined Financial Statements, continued

March 31, 2015

Dollars in thousands.

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; BRF – A 1a, LLC; and Childress Institute for Pediatric Trauma. NCBH and WFUHS each own a 50% equity interest in Dialysis Access Group of Wake Forest University, LLC (DAG) and a 37.5% equity interest in Wake Forest Baptist Imaging, LLC (WFBI).

WFUBMC is the sole member of Lexington Medical Center (LMC) and Northwest Community Care Network (NCCN).

All significant intercompany accounts and transactions have been eliminated in the combined financial statements.

b. ***Basis of Presentation***

The combined financial statements for WFB have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America (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 transactions have been eliminated in combination.

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.

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 are classified as trading securities. As such, net investment gains or losses (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues and gains over expenses and losses unless the income or loss is restricted by donor or law.

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.

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.

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 calculated 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 calculated on land and construction in progress. Gains or losses on the disposal of property and equipment are included in non-operating gains (losses) 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.

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 cost 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.

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 WFUHS is reflected as a reduction of student tuition and fee revenue. Student aid does not include payments made to students for services rendered to WFUHS.

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 other changes in net assets. 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. 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.

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 nine-month periods ended March 31, 2015 and 2014, WFB recognized EHR incentives of approximately \$4,406 and \$7,100, 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.

i. 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; gains and losses on disposal of property and equipment; 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, 2011 remain subject to examination by federal and state tax authorities. WFB has evaluated uncertain tax positions for its period ended March 31, 2015 and the fiscal year ended June 30, 2014, 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 financial statements for the period ended March 31, 2015 and the fiscal year ended June 30, 2014.

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.

Patient receivables are reduced by an allowance for doubtful accounts, which is subject to significant management estimate. In order to estimate the appropriate allowance for doubtful

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2015

Dollars in thousands.

accounts and provision for bad debts, management analyzes past history and identifies trends for each of its major payer sources of revenue. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Any adjustments that result from management's continued review are reflected as changes in accounting estimate in the period in which they are determined.

o. *Reclassifications*

Certain reclassifications have been made to the financial statement presentation of the periods ended March 31, 2015 and 2014, and the fiscal year ended June 30, 2014 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 organizations 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

March 31, 2015

Dollars in thousands.

2. Investments and Assets Limited as to Use

Investments and assets limited as to use consist of the following:

	<u>March 31, 2015</u>	<u>June 30, 2014</u>
Short-term investments ^(a)	\$ 65,002	\$ 26,478
Absolute return ^(b)	416,972	86,357
Commodities ^(c)	41,104	38,760
Fixed income ^(d)	335,728	259,949
Private equity ^(e)	698	598
Public equity ^(f)	407,309	296,631
Real estate ^(g)	10,488	24,612
Pooled investments held at WFU ^(h)	16,947	483,448
Beneficial interest in perpetual trusts and assets held by others ⁽ⁱ⁾	20,662	20,958
Other ^(j)	105,754	109,117
Total investments and assets whose use is limited	<u>\$ 1,420,664</u>	<u>\$ 1,346,908</u>

- (a) **Short-term investments** – includes short duration U.S. Treasury debt securities and other short-term, higher quality debt securities, cash 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

March 31, 2015

Dollars in thousands.

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.

Investment Return

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

	Period Ended March 31,	
	2015	2014
Interest and dividend income	\$ 18,954	\$ 23,067
Realized gains	31,454	18,293
Unrealized (losses) gains	(34,318)	32,098
Total investment return included in change in unrestricted net assets	<u>\$ 16,090</u>	<u>\$ 73,458</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2015

Dollars in thousands.

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

	Period Ended March 31,	
	2015	2014
	<hr/>	<hr/>
Operating:		
Investment return designated for current operations	\$ 18,085	\$ 16,537
Nonoperating:		
Realized investment gains	32,323	37,754
Net unrealized (losses) gains	<u>(34,318)</u>	<u>19,167</u>
Total investment return included in change in unrestricted net assets	<u>16,090</u>	<u>73,458</u>
Investment return designated for temporarily restricted purposes	4,527	4,429
Temporarily restricted net (losses) gains on investments	(3,936)	3,115
Investment return reinvested in principal Permanently restricted net (losses) gains on investments	<u>122</u>	<u>387</u>
Total investment return included in change in restricted net assets	<u>(393)</u>	<u>266</u>
	<u>320</u>	<u>8,197</u>
Total investment return	<u><u>\$ 16,410</u></u>	<u><u>\$ 81,655</u></u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2015

*Dollars in thousands.***Investment and Assets Whose Use is Limited**

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

	March 31, 2015		
	<u>Internally Designated</u>	<u>Externally Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 261,365	\$ -	\$ 261,365
Donor-restricted endowment funds	-	166,849	166,849
Total endowment funds	<u>261,365</u>	<u>166,849</u>	<u>428,214</u>
Funds designated for capital improvements	648,866	-	648,866
Funds designated for settlement of professional liability costs	68,949	-	68,949
Collateral for derivative agreements	-	5,650	5,650
Beneficial interests in perpetual trusts and assets held by others	-	20,662	20,662
Funds held under retirement and benefit plans	35,064	3,009	38,073
Designated for restricted purposes	<u>1,839</u>	<u>16,842</u>	<u>18,681</u>
Assets whose use is limited	1,016,083	213,012	1,229,095
Other unrestricted investments			160,306
Investments in equity-method affiliates			<u>31,263</u>
Investments and assets whose use is limited			<u>\$ 1,420,664</u>

	June 30, 2014		
	<u>Internally Designated</u>	<u>Externally Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 258,614	\$ -	\$ 258,614
Donor-restricted endowment funds	-	164,543	164,543
Total endowment funds	<u>258,614</u>	<u>164,543</u>	<u>423,157</u>
Funds designated for capital improvements	593,632	-	593,632
Funds designated for settlement of professional liability costs	75,339	-	75,339
Collateral for derivative agreements	-	4,340	4,340
Beneficial interests in perpetual trusts and assets held by others	-	20,958	20,958
Funds held under retirement and benefit plans	32,651	34,812	67,463
Designated for restricted purposes	<u>1,907</u>	<u>16,977</u>	<u>18,884</u>
Assets whose use is limited	962,143	241,630	1,203,773
Other unrestricted investments			117,022
Investments in equity-method affiliates			<u>26,113</u>
Investments and assets whose use is limited			<u>\$ 1,346,908</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2015

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

Debt consists of the following:

	March 31, 2015	June 30, 2014
Series 2012A ^(a)	\$ 118,405	\$ 118,405
Series 2012A Unamortized Bond Premium	4,105	4,206
Series 2012B ^(a)	105,750	109,220
Series 2012B Unamortized Bond Premium	14,591	15,177
Series 2012C ^(a)	54,810	56,955
Series 2012D ^(a)	80,000	77,569
Series 2010 ^(b)	290,515	290,515
Series 2010 Unamortized Bond Premium	8,936	9,286
Total bonds payable	<u>677,112</u>	<u>681,333</u>
Line of credit ^(c)	114,445	124,367
Loan agreement ^(d)	16,169	17,679
Promissory note ^(e)	240	240
Promissory note ^(f)	169	169
JV external notes ^(g)	625	720
Capital leases ^(h)	10,076	698
Capital leases ⁽ⁱ⁾	-	107
Total notes payable and capital leases	<u>141,724</u>	<u>143,980</u>
Total debt	818,836	825,313
Less current portion	<u>133,696</u>	<u>17,829</u>
Total long-term debt	<u>\$ 685,140</u>	<u>\$ 807,484</u>

Debt is reflected in the combined balance sheets as follows:

	March 31, 2015	June 30, 2014
Current portion of long-term debt	\$ 133,696	\$ 17,829
Notes payable and capital leases, net of current portion	22,737	140,686
Bonds payable, net of current portion	<u>662,403</u>	<u>666,798</u>
Total debt	<u>\$ 818,836</u>	<u>\$ 825,313</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2015

Dollars in thousands.

- (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 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 \$160,000 held by WFUBMC to provide for the working capital needs of NCBH, WFUHS, and the Medical Center.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2015

Dollars in thousands.

The line of credit is due on December 31, 2015 and bears interest at the one-month LIBOR plus .50%. This taxable line of credit is guaranteed by both NCBH and WFUHS.

- (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) **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.
- (f) **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.
- (g) **JV external notes** – includes various notes payable held by WFB affiliates, with interest rates ranging from 3.38% to 5.26% and final maturities between 2014 and 2018.
- (h) **Capital leases** – comprised of capital lease obligations held by NCBH, maturing at various dates through 2019. The obligations have fixed interest rates ranging from 3.10% to 5.10% and are secured by leased equipment.
- (i) **Capital leases** – consists of capital lease obligations held by WFUHS, maturing at various dates through 2015. The leases have fixed interest rates ranging from 4.07% to 5.42% and are secured by leased equipment.

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)

March 31, 2015

Dollars in thousands.

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Assets										
Current assets:										
Cash and cash equivalents	\$ 30,678	\$ 10,465	\$ 52,955	\$ 14,909	\$ 2,901	\$ -	\$ 111,908	\$ (3,906)	\$ -	\$ 108,002
Patient receivables, net	163,601	31,054	9,522	-	705	-	204,882	(426)	-	204,456
Estimated third-party payer settlements	70,328	-	2,387	-	-	-	72,715	-	-	72,715
Accounts, grants, and notes receivable, net	53,954	169,147	(11,322)	(6,562)	18	(48,830)	156,405	(18)	369	156,756
Other current assets	66,513	3,265	(9,673)	9,761	200	(11,079)	58,987	(79)	723	59,631
Total current assets	385,074	213,931	43,869	18,108	3,824	(59,909)	604,897	(4,429)	1,092	601,560
Accounts, grants, and notes receivable, net	29,133	129,578	-	-	-	(8,229)	150,482	-	1,129	151,611
Investments and assets whose use is limited	801,757	710,086	511	3,218	6,605	(101,513)	1,420,664	(37,671)	8,007	1,391,000
Property and equipment, net	674,423	306,516	21,684	33,400	3,531	(157)	1,039,397	(4,161)	-	1,035,236
Other assets	6,591	8,086	713	114,445	-	(114,445)	15,390	-	-	15,390
Total assets	<u>\$ 1,896,978</u>	<u>\$ 1,368,197</u>	<u>\$ 66,777</u>	<u>\$ 169,171</u>	<u>\$ 13,960</u>	<u>\$ (284,253)</u>	<u>\$ 3,230,830</u>	<u>\$ (46,261)</u>	<u>\$ 10,228</u>	<u>\$ 3,194,797</u>
Liabilities and Net Assets										
Current liabilities:										
Accounts payable and accruals	\$ 33,097	\$ 135,444	\$ 2,210	\$ 10,698	\$ 112	\$ (58,686)	\$ 122,875	\$ (754)	\$ 723	\$ 122,844
Accrued employee compensation	47,179	86,673	1,824	169	-	-	135,845	-	-	135,845
Estimated third-party payer settlements	80,654	-	1,249	-	-	-	81,903	-	-	81,903
Deferred revenue	105	51,195	206	1,401	-	-	52,907	(87)	-	52,820
Current portion of long-term debt	11,010	8,159	923	114,445	208	(1,049)	133,696	(576)	369	133,489
Other current liabilities	29,539	24,123	496	-	1,404	(605)	54,957	(885)	-	54,072
Total current liabilities	201,584	305,594	6,908	126,713	1,724	(60,340)	582,183	(2,302)	1,092	580,973
Notes payable and capital leases, net of current portion	7,985	15,034	-	-	416	(698)	22,737	(1,545)	1,129	22,321
Bonds payable, net of current portion	493,042	169,361	-	-	-	-	662,403	-	-	662,403
Retirement benefits	43,475	41,763	-	-	144	-	85,382	(144)	-	85,238
Other long-term liabilities	115,564	179,086	7,343	1,947	-	(128,151)	175,789	-	6,605	182,394
Total liabilities	861,650	710,838	14,251	128,660	2,284	(189,189)	1,528,494	(3,991)	8,826	1,533,329
Net assets:										
Unrestricted	1,029,709	451,776	50,291	40,235	11,676	(94,996)	1,488,691	(42,270)	1,402	1,447,823
Temporarily restricted	3,316	51,532	1,330	276	-	(68)	56,386	-	-	56,386
Permanently restricted	2,303	154,051	905	-	-	-	157,259	-	-	157,259
Total net assets	1,035,328	657,359	52,526	40,511	11,676	(95,064)	1,702,336	(42,270)	1,402	1,661,468
Total liabilities and net assets	<u>\$ 1,896,978</u>	<u>\$ 1,368,197</u>	<u>\$ 66,777</u>	<u>\$ 169,171</u>	<u>\$ 13,960</u>	<u>\$ (284,253)</u>	<u>\$ 3,230,830</u>	<u>\$ (46,261)</u>	<u>\$ 10,228</u>	<u>\$ 3,194,797</u>

⁽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, continued (Unaudited)

Period Ended March 31, 2015

Dollars in thousands.

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Operating revenues and support										
Patient service revenue (net of contractual allowances and discounts)	\$ 1,028,113	\$ 349,041	\$ 60,571	\$ 6,485	\$ 8,164	\$ (5,673)	\$ 1,446,701	\$ (6,014)	\$ -	\$ 1,440,687
Provision for bad debts	(40,779)	(33,495)	(4,790)	-	(218)	-	(79,282)	205	-	(79,077)
Net patient service revenue	987,334	315,546	55,781	6,485	7,946	(5,673)	1,367,419	(5,809)	-	1,361,610
Gifts, grants, and contracts	1,025	130,923	-	4,067	-	-	136,015	(2)	750	136,763
Net student tuition and fees	775	21,813	-	-	-	-	22,588	-	-	22,588
Investment return designated for current operations	1,837	16,244	-	4	-	-	18,085	(862)	-	17,223
Other sources	20,178	113,206	1,137	985	-	(100,752)	34,754	(792)	1,130	35,092
Net assets released from restrictions	997	19,180	-	2	-	-	20,179	-	-	20,179
Total operating revenues and support	1,012,146	616,912	56,918	11,543	7,946	(106,425)	1,599,040	(7,465)	1,880	1,593,455
Operating expenses										
Salaries and wages	359,750	326,465	19,191	2,795	1,172	-	709,373	(982)	-	708,391
Employee benefits	78,918	67,348	4,484	633	261	-	151,644	(203)	-	151,441
Purchased services	182,438	112,716	7,264	1,128	2,804	(99,556)	206,794	(2,071)	1,130	205,853
Clinical and laboratory supplies	220,900	35,919	9,691	30	561	(5,673)	261,428	(122)	-	261,306
Other operating expenses	79,713	32,901	3,430	5,679	942	(1,196)	121,469	(1,552)	750	120,667
Depreciation and amortization	62,425	23,228	2,897	1,046	293	-	89,889	(288)	-	89,601
Financing costs	13,976	4,312	24	-	9	(79)	18,242	(101)	92	18,233
Total operating expenses	998,120	602,889	46,981	11,311	6,042	(106,504)	1,558,839	(5,319)	1,972	1,555,492
Operating excess (deficiency) of revenues and support over expenses	14,026	14,023	9,937	232	1,904	79	40,201	(2,146)	(92)	37,963
Nonoperating gains (losses)										
Gains (losses) from equity-method affiliates	7,242	6,438	-	-	-	(12,053)	1,627	-	1,076	2,703
Net investment (losses) gains	6,405	(8,298)	(24)	1	-	(79)	(1,995)	662	41	(1,292)
Net losses on interest rate swap valuation	(549)	(1,142)	-	-	-	-	(1,691)	-	-	(1,691)
Other	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues and gains over expenses and losses	27,124	11,021	9,913	233	1,904	(12,053)	38,142	(1,484)	1,025	37,683

⁽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, continued (Unaudited)

Period Ended March 31, 2015

Dollars in thousands.

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Excess (deficiency) of revenues and gains over expenses and losses	27,124	11,021	9,913	233	1,904	(12,053)	38,142	(1,484)	1,025	37,683
Pension and postretirement-related loss other than net periodic cost	(52)	-	-	-	-	-	(52)	-	-	(52)
Other	4	-	-	-	(1,233)	925	(304)	1,232	(924)	4
Change in unrestricted net assets	27,076	11,021	9,913	233	671	(11,128)	37,786	(252)	101	37,635
Temporarily restricted net assets										
Contributions	1,216	11,805	-	-	-	-	13,021	-	-	13,021
Investment return designated for restricted purposes	-	4,527	-	-	-	-	4,527	-	-	4,527
Net assets released from restrictions	(997)	(19,180)	-	(2)	-	-	(20,179)	-	-	(20,179)
Net investment losses	(31)	(3,905)	-	-	-	-	(3,936)	-	-	(3,936)
Other	(176)	436	164	200	-	-	624	-	-	624
Change in temporarily restricted net assets	12	(6,317)	164	198	-	-	(5,943)	-	-	(5,943)
Permanently restricted net assets										
Contributions	100	6,778	-	-	-	-	6,878	-	-	6,878
Investment return reinvested in principal	(6)	128	-	-	-	-	122	-	-	122
Net investment losses	-	(393)	-	-	-	-	(393)	-	-	(393)
Other	-	(395)	-	-	-	-	(395)	-	-	(395)
Change in permanently restricted net assets	94	6,118	-	-	-	-	6,212	-	-	6,212
Change in net assets	27,182	10,822	10,077	431	671	(11,128)	38,055	(252)	101	37,904
Net assets at beginning of period	1,008,146	646,537	42,449	40,080	11,005	(83,936)	1,664,281	(42,018)	1,301	1,623,564
Net assets at end of period	<u>\$ 1,035,328</u>	<u>\$ 657,359</u>	<u>\$ 52,526</u>	<u>\$ 40,511</u>	<u>\$ 11,676</u>	<u>\$ (95,064)</u>	<u>\$ 1,702,336</u>	<u>\$ (42,270)</u>	<u>\$ 1,402</u>	<u>\$ 1,661,468</u>