



## QUARTERLY DISCLOSURE STATEMENT (UNAUDITED)

For the Period Ended June 30, 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

**QUARTERLY DISCLOSURE**  
**June 30, 2015**

*Comments below are based on combined results of Wake Forest Baptist Medical Center (“Wake Forest Baptist” or “WFB”) (including those entities not obligated on the Bonds) for the twelve months ended June 30, 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 June 30, 2015, the Combined Group generated in the aggregate 99.6% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 97.2% of Wake Forest Baptist’s unrestricted net assets.*

**QUARTERLY HIGHLIGHTS**

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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:

- For the third straight year, U.S. News & World Report has ranked Brenner Children’s Hospital, the pediatric arm of Wake Forest Baptist Medical Center, among the best children’s hospitals in the country. Brenner Children’s, ranked in orthopedics (No. 48), stands out for its comprehensive, multidisciplinary pediatric orthopedic program. As a Level I Pediatric Trauma Center, Brenner Children’s has a designated inpatient unit for pediatric and adolescent orthopedic patients; a dedicated pediatric imaging center; a multidisciplinary musculoskeletal oncology program; a motion laboratory (gait analysis); and seating services or wheelchair coordination clinics for patients with neuromuscular disorders.
- Wake Forest Baptist Medical Center is once again rated as one of the leading hospitals in the country by U.S. News & World Report. In the online magazine’s 2015-16 “Best Hospitals” report, Wake Forest Baptist is ranked among the nation’s top 50 in seven adult medicine specialties: Cancer (17th), Nephrology (18th), Urology (28th), Ear, Nose & Throat (29th), Gastroenterology & GI Surgery (37th), Pulmonology (37th), and Neurology & Neurosurgery (46th).

In addition, the Medical Center is rated as “high performing” in five specialties: Cardiology & Heart Surgery, Diabetes & Endocrinology, Geriatrics, Gynecology and Orthopedics. The U.S. News ratings recognize Wake Forest Baptist as the No. 1 hospital in the Piedmont Triad region – no other area hospital earned a top-50 ranking -- and No. 2 in North Carolina.

Wake Forest Baptist reported a gain in unrestricted net assets of \$24.9 million through June 30, 2015. This gain is comprised of an operating income of \$38.9 million (1.8% operating margin) and net non-operating losses of \$14.0 million.

During fiscal year 2015, Wake Forest Baptist realized significant improvements in operating and financial performance. As noted in prior disclosures, management implemented strategies and processes to restore financial performance and enhance existing programs.

The sections below provide context regarding underlying financial performance for the twelve months ending June 30, 2015.

*Revenues and Operating Performance*

- **Net Revenues:** Total net revenues were \$2.16 billion, 4.8% 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 June was \$38.9 million or 1.8% compared to prior year of -3.8%. Year-to-date operating EBIDA Margin was \$183.2 million or 8.5% compared to prior year of 2.7%.

QUARTERLY DISCLOSURE  
June 30, 2015

Utilization

Wake Forest Baptist generated overall clinical volume growth with a 15.4% 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 10.0% compared to prior year. This was driven by growth in inpatient surgical cases, flu-related activity, and improved access.
- **Surgical Volumes:** Operating room cases across the health system increased by 5.2% over prior year with growth in both inpatient and outpatient settings of 4.6% and 5.5% 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 158,944 represented a 5.5% increase over prior year. The expansion of Wake multi-specialty clinics and urgent care centers (Clemmons, Davie, etc.) increased access points for care and provides appropriate care settings while supporting growth.
- **Outpatient Volumes:** Outpatient volume continued to show strong growth with an 8.3% 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 5.82 days for the twelve months ending June 30th, representing a 4.1% improvement from prior year. Case Mix Adjusted Average Length of Stay improved by 3.2% to 2.97 days.
- **Productivity:** Staffing productivity for system hospitals was 94.7 paid hours per CMAED, an improvement of 13.3% from prior year's comparable 109.3 paid hours per CMAED. This improvement was driven by volume growth, implementation of benchmark-based staffing targets, and organizational reductions in force in FY2014.

Balance Sheet

- **Liquidity:** Balance sheet remains solid with Days Cash on Hand of 262 and Debt-to-Capitalization of 34.1%.
- **Investment Performance:** Wake Forest Baptist had total unrestricted investment returns of \$16.2 million through the fourth quarter.
- **Debt Structure/Line of Credit:** In June 2015, Wake Forest Baptist recapitalized the outstanding balance on its \$160 million line of credit through the combination of a cash payment and refinancing. The refinance included the execution of a \$60 million variable rate term note with a ten-year amortization and a maturity date in June of 2020. Additionally, Wake Forest Baptist entered into a new, unsecured line of credit to provide up to \$125 million for the working capital needs of the organization. As of June 30th, \$13.0 million had been drawn under this facility.
- **Capital Expenditures:** Capital expenditures through June 30th were \$69.7 million and primarily related to IT network refresh and infrastructure upgrades, Epic and other software initiatives, and routine equipment and facility renovations.

QUARTERLY DISCLOSURE  
June 30, 2015

**FINANCIAL RATIOS**

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

**Liquidity – Combined Group**

The following table sets forth, as of June 30, 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>6/30/2015</u>	<u>6/30/2014</u>
Unrestricted Cash & cash equivalents	\$ 244,903	\$ 104,780
Investments and assets whose use is limited	1,161,583	1,047,737
Total cash and investments	<u>\$ 1,406,486</u>	<u>\$ 1,152,517</u>
Bonds payable	\$ 662,876	\$ 676,122
Notes payable and capital leases	98,597	143,260
Less: Short-term debt	-	-
Long-term Indebtedness	<u>\$ 761,473</u>	<u>\$ 819,382</u>
<b>Unrestricted Cash-to-Debt</b>	<b>185%</b>	<b>141%</b>
<b>Days Cash on Hand</b>	<b>256</b>	<b>208</b>

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

The following table summarizes the current allocation of board designated and other unrestricted fund investments (as of June 30, 2015) for the Combined Group.

	<u>Actual</u>
Equity	40%
Fixed Income	38%
Absolute Return	12%
Real Assets	10%
<b>Total</b>	<u><b>100%</b></u>

**QUARTERLY DISCLOSURE**  
**June 30, 2015**

**Capitalization – Combined Group**

The capitalization for the Combined Group for the periods ended June 30, 2015 and 2014 is set forth in the following table.

	<u>6/30/2015</u>	<u>6/30/2014</u>
Revenue Bonds	662,876	676,122
Other Notes Payable	89,038	142,455
Capital Leases	9,559	805
	<hr/>	<hr/>
Total Debt	761,473	819,382
Unrestricted Net Assets	1,435,090	1,410,138
	<hr/>	<hr/>
Total Capitalization	2,196,563	2,229,520
	<hr/>	<hr/>
Total Debt as a % of Total Capitalization	34.7%	36.8%

**Debt Service Coverage Ratio – Combined Group**

The Coverage Ratio (calculated upon actual annual debt service) reported below is for the 12-month period ended June 30, 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>6/30/2015</u>
Operating Income	35,839
Unrestricted Contributions	0
Interest & Dividend Income	13,696
Depreciation and Amortization	118,500
Financing Costs	25,478
Income Available for Debt Service	<hr/> <b>193,513</b> <hr/>
Actual Debt Service	<b>44,870</b>
Debt Service Coverage Ratio	<b>4.3</b>

QUARTERLY DISCLOSURE  
June 30, 2015

**UTILIZATION STATISTICS**

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**Utilization Statistics – Combined Group**

	<u>Twelve Months Ended</u>		<u>% Chg from Prior Year</u>
	<u>6/30/2015</u>	<u>6/30/2014</u>	
Case Mix Adjusted Equivalent Discharges	181,477	157,319	15.4%
Patient Days	254,875	241,564	5.5%
Inpatient Admissions	43,800	39,830	10.0%
Average Length of Stay	5.82	6.06	-4.1%
Average Length of Stay (Case Mix Adjusted)	2.97	3.07	-3.2%
Inpatient Operating Room Cases	15,314	14,646	4.6%
Outpatient Operating Room Cases	28,280	26,808	5.5%
Total Operating Room Cases	43,594	41,454	5.2%
Emergency Department Visits	158,944	150,662	5.5%
Case Mix Index <i>(all payors using Medicare weights)</i>	1.9563	1.9729	-0.8%
RVUs	5,545,900	5,163,808	7.4%

**CURRENT OPERATING PROFILE**

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

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

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

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

QUARTERLY DISCLOSURE  
June 30, 2015

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 June 30, 2015, the Combined Group generated in the aggregate 99.6% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 97.2% of Wake Forest Baptist’s unrestricted net assets.

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



## **WAKE FOREST BAPTIST**

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

**For the Year Ended June 30, 2015  
(Unaudited)**



**WAKE FOREST BAPTIST**  
**Combined Financial Statements**  
**Year Ended June 30, 2015**

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**WAKE FOREST BAPTIST**

## Combined Balance Sheets

*Dollars in thousands.*

	<b>(Unaudited) June 30, 2015</b>	<b>(Audited) June 30, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 343,102	\$ 106,811
Patient receivables, net	211,512	211,858
Estimated third-party payer settlements	22,288	43,439
Accounts, grants, and notes receivable, net	65,745	141,838
Other current assets	51,763	42,117
Total current assets	<u>694,410</u>	<u>546,063</u>
Accounts, grants, and notes receivable, net	40,640	237,700
Investments and assets whose use is limited	1,431,979	1,346,908
Property and equipment, net	1,027,762	1,076,515
Other assets	30,812	19,332
Total assets	<u>\$ 3,225,603</u>	<u>\$ 3,226,518</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accruals	\$ 193,798	\$ 137,072
Accrued employee compensation	132,766	126,560
Estimated third-party payer settlements	106,257	73,757
Deferred revenue	57,834	48,027
Current portion of long-term debt	19,590	17,761
Other current liabilities	41,855	40,821
Total current liabilities	<u>552,100</u>	<u>443,998</u>
Notes payable and capital leases, net of current portion	94,617	140,686
Bonds payable, net of current portion	647,835	661,655
Retirement benefits	96,418	85,735
Other long-term liabilities	122,352	230,163
Total liabilities	<u>1,513,322</u>	<u>1,562,237</u>
Net assets:		
Unrestricted	1,475,827	1,450,905
Temporarily restricted	81,006	62,329
Permanently restricted	155,448	151,047
Total net assets	<u>1,712,281</u>	<u>1,664,281</u>
Total liabilities and net assets	<u>\$ 3,225,603</u>	<u>\$ 3,226,518</u>

See accompanying notes to the combined financial statements.

FS-1

**WAKE FOREST BAPTIST**

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

*Dollars in thousands.*

	Year Ended June 30,	
	2015	2014
<b>Operating revenues and support</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 1,947,270	\$ 1,743,951
Provision for bad debts	(105,680)	(202,624)
Net patient service revenue	1,841,590	1,541,327
Gifts, grants, and contracts	182,691	188,330
Net student tuition and fees	29,373	26,141
Investment return designated for current operations	24,445	22,025
Other sources	58,004	264,066
Net assets released from restrictions	27,955	22,908
Total operating revenues and support	2,164,058	2,064,797
<b>Operating expenses</b>		
Salaries and wages	954,197	935,757
Employee benefits	200,615	175,364
Purchased services	297,840	289,193
Clinical and laboratory supplies	356,179	331,742
Other operating expenses	171,995	277,429
Depreciation and amortization	118,890	111,471
Financing costs	25,492	21,616
Total operating expenses	2,125,208	2,142,572
<b>Operating excess (deficiency) of revenues and support over expenses</b>	38,850	(77,775)
<b>Nonoperating gains (losses)</b>		
Gains (losses) from equity-method affiliates	1,613	(2,639)
Net investment (losses) gains	(8,295)	82,032
Net losses on interest rate swap valuation	(613)	(611)
Other	(516)	(219)
<b>Excess of revenues and gains over expenses and losses</b>	31,039	788

See accompanying notes to the combined financial statements.

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**WAKE FOREST BAPTIST**

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

*Dollars in thousands.*

	Year Ended June 30,	
	2015	2014
<b>Excess of revenues and gains over expenses and losses</b>	31,039	788
Pension and postretirement-related losses other than net periodic cost	(6,943)	(44,041)
Other	827	2,473
<b>Change in unrestricted net assets</b>	<u>24,923</u>	<u>(40,780)</u>
<b>Temporarily restricted net assets</b>		
Contributions	36,874	16,938
Investment return designated for restricted purposes	6,058	6,213
Net assets released from restrictions	(27,955)	(22,908)
Net investment gains	34	6,998
Other	3,665	(789)
<b>Change in temporarily restricted net assets</b>	<u>18,676</u>	<u>6,452</u>
<b>Permanently restricted net assets</b>		
Contributions	10,680	5,998
Investment return reinvested in principal	565	27
Net investment (losses) gains	(6,268)	1,876
Other	(576)	(393)
<b>Change in permanently restricted net assets</b>	<u>4,401</u>	<u>7,508</u>
<b>Change in net assets</b>	48,000	(26,820)
Net assets at beginning of period	1,664,281	1,691,101
Net assets at end of period	<u>\$ 1,712,281</u>	<u>\$ 1,664,281</u>

See accompanying notes to the combined financial statements.

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**WAKE FOREST BAPTIST**

## Combined Statements of Cash Flows (Unaudited)

*Dollars in thousands.*

	<b>Year Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities and gains and losses</b>		
Change in net assets	\$ 48,000	\$ (26,820)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	118,890	111,471
Amortization of bond premium	(1,382)	(1,382)
(Gains) losses in value of interest rate swaps, net	(613)	611
(Gains) losses from equity-method affiliates	(1,613)	2,639
(Gain) loss on disposal of property and equipment	(464)	1,445
Gifts and other revenue restricted for long-term investing	(10,534)	(7,903)
Investment losses (gains), net	14,529	(81,503)
Changes in operating assets and liabilities:		
Patient receivables, net	346	139,824
Estimated third-party payer settlements, net	53,651	47,186
Accounts, grants, and notes receivable, net	273,153	(187,787)
Other current assets	(9,645)	(11,028)
Other assets	(11,117)	1,472
Accounts payable and accruals	56,726	38,453
Accrued employee compensation	6,206	2,208
Deferred revenues	9,807	(6,100)
Other current liabilities	1,034	(2,222)
Retirement benefits	10,683	36,445
Other long-term liabilities	(107,562)	86,355
Net cash provided by operating activities	<u>450,095</u>	<u>143,364</u>
<b>Investing activities</b>		
Net sales and maturities (purchases) of investments	(97,987)	27,046
Net additions to property and equipment	(69,673)	(126,834)
Net cash used in investing activities	<u>(167,660)</u>	<u>(99,788)</u>
<b>Financing activities</b>		
Principal payments on debt	(70,681)	(81,378)
Proceeds from issuance of debt	13,762	75,108
Proceeds from private gifts restricted for long-term investing	10,534	-
Other financing activities	241	6,235
Net cash used in financing activities	<u>(46,144)</u>	<u>(35)</u>
Increase in cash and cash equivalents	236,291	43,541
Cash and cash equivalents at the beginning of year	106,811	63,270
Cash and cash equivalents at end of year	<u>\$ 343,102</u>	<u>\$ 106,811</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).

## WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

June 30, 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 years ended June 30, 2015 and 2014, WFB recognized EHR incentives of approximately \$5,463 and \$4,002, 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, 2012 remain subject to examination by federal and state tax authorities. WFB has evaluated uncertain tax positions for its fiscal years ended June 30, 2015 and 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 years ended June 30, 2015 and 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 accounts and provision for bad debts, management analyzes past history and identifies trends

## WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

June 30, 2015

*Dollars in thousands.*

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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 years ended June 30, 2015 and 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

June 30, 2015

Dollars in thousands.

### 2. Investments and Assets Limited as to Use

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Short-term investments <sup>(a)</sup>	\$ 75,735	\$ 26,478
Absolute return <sup>(b)</sup>	428,480	86,357
Commodities <sup>(c)</sup>	40,064	38,760
Fixed income <sup>(d)</sup>	344,990	259,949
Private equity <sup>(e)</sup>	694	598
Public equity <sup>(f)</sup>	394,000	296,631
Real estate <sup>(g)</sup>	12,335	24,612
Pooled investments held at WFU <sup>(h)</sup>	10,291	483,448
Beneficial interest in perpetual trusts and assets held by others <sup>(i)</sup>	19,903	20,958
Other <sup>(i)</sup>	105,487	109,117
Total investments and assets whose use is limited	<u>\$ 1,431,979</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

June 30, 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:

	Year Ended June 30,	
	2015	2014
Interest and dividend income	\$ 27,674	\$ 30,665
Realized gains	43,535	24,794
Unrealized (losses) gains	(55,059)	48,598
Total investment return included in change in unrestricted net assets	<u>\$ 16,150</u>	<u>\$ 104,057</u>

**WAKE FOREST BAPTIST**

Selected Notes to Combined Financial Statements, continued

June 30, 2015

*Dollars in thousands.*

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

	<b>Year Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
	<hr/>	<hr/>
Operating:		
Investment return designated for current operations	\$ 24,445	\$ 22,025
Nonoperating:		
Realized investment gains	46,764	50,823
Net unrealized (losses) gains	(55,059)	31,209
	<hr/>	<hr/>
Total investment return included in change in unrestricted net assets	16,150	104,057
	<hr/>	<hr/>
Investment return designated for temporarily restricted purposes	6,058	6,213
Temporarily restricted net (losses) gains on investments	34	6,998
Investment return reinvested in principal	565	27
Permanently restricted net (losses) gains on investments	(6,268)	1,876
	<hr/>	<hr/>
Total investment return included in change in restricted net assets	389	15,114
	<hr/>	<hr/>
Total investment return	<u>\$ 16,539</u>	<u>\$ 119,171</u>

**WAKE FOREST BAPTIST**

Selected Notes to Combined Financial Statements, continued

June 30, 2015

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

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

	<b>June 30, 2015</b>		
	<b>Internally Designated</b>	<b>Externally Restricted</b>	<b>Total</b>
Board-designated endowment funds	\$ 292,171	\$ -	\$ 292,171
Donor-restricted endowment funds	-	167,427	167,427
Total endowment funds	292,171	167,427	459,598
Funds designated for capital improvements	649,183	-	649,183
Funds designated for settlement of professional liability costs	66,987	-	66,987
Collateral for derivative agreements	-	4,890	4,890
Beneficial interests in perpetual trusts and assets held by others	-	19,903	19,903
Funds held under retirement and benefit plans	35,896	-	35,896
Designated for restricted purposes	1,849	16,714	18,563
Assets whose use is limited	1,046,086	208,934	1,255,020
Other unrestricted investments			145,995
Investments in equity-method affiliates			30,964
Investments and assets whose use is limited			<u>\$ 1,431,979</u>
	<b>June 30, 2014</b>		
	<b>Internally Designated</b>	<b>Externally Restricted</b>	<b>Total</b>
Board-designated endowment funds	\$ 258,614	\$ -	\$ 258,614
Donor-restricted endowment funds	-	164,543	164,543
Total endowment funds	258,614	164,543	423,157
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	1,907	16,977	18,884
Assets whose use is limited	962,143	241,630	1,203,773
Other unrestricted investments			117,022
Investments in equity-method affiliates			26,113
Investments and assets whose use is limited			<u>\$ 1,346,908</u>



**WAKE FOREST BAPTIST**

Selected Notes to Combined Financial Statements, continued

June 30, 2015

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

Debt consists of the following:

	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Series 2012A <sup>(a)</sup>	\$ 118,405	\$ 118,405
Series 2012A Unamortized Bond Premium	4,072	4,206
Series 2012A Bond Issuance Costs	(1,015)	(1,048)
Series 2012B <sup>(a)</sup>	105,750	109,220
Series 2012B Unamortized Bond Premium	14,395	15,177
Series 2012B Bond Issuance Costs	(845)	(891)
Series 2012C <sup>(a)</sup>	54,810	56,955
Series 2012C Bond Issuance Costs	(415)	(438)
Series 2012D <sup>(a)</sup>	80,000	77,569
Series 2012D Bond Issuance Costs	(109)	(113)
Series 2010 <sup>(b)</sup>	281,595	290,515
Series 2010 Unamortized Bond Premium	8,819	9,286
Series 2010 Bond Issuance Costs	(2,586)	(2,721)
Total bonds payable	<u>662,876</u>	<u>676,122</u>
Line of credit <sup>(c)</sup>	13,039	124,367
Loan agreement <sup>(d)</sup>	15,678	17,679
Loan agreement <sup>(e)</sup>	60,000	-
Promissory note <sup>(f)</sup>	160	240
Promissory note <sup>(g)</sup>	161	169
JV external notes <sup>(h)</sup>	569	720
Capital leases <sup>(i)</sup>	9,559	698
Capital leases <sup>(i)</sup>	-	107
Total notes payable and capital leases	<u>99,166</u>	<u>143,980</u>
Total debt	762,042	820,102
Less current portion	19,590	17,829
Total long-term debt	<u>\$ 742,452</u>	<u>\$ 802,273</u>

## WAKE FOREST BAPTIST

### Selected Notes to Combined Financial Statements, continued

June 30, 2015

Dollars in thousands.

Debt is reflected in the combined balance sheets as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Current portion of long-term debt	\$ 19,590	\$ 17,761
Notes payable and capital leases, net of current portion	94,617	140,686
Bonds payable, net of current portion	<u>647,835</u>	<u>661,655</u>
Total debt	<u>\$ 762,042</u>	<u>\$ 820,102</u>

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

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

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

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

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

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

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, taxable line of credit in the amount of \$125,000 to provide for the working capital needs of NCBH, WFUHS, and the Medical Center, all Borrowers under the credit facility. This line of credit refinanced the previously held \$160,000 line of credit. The line of credit is due on June 23, 2018 and bears interest at the one-month LIBOR plus .60%.
- (d) **Loan agreement** – represents an unsecured loan agreement held by WFUHS, with a variable rate based on the one-month LIBOR plus a premium of 0.65% for \$20,014 to refinance two previously outstanding fixed rate notes. Fixed principal payments and accrued interest are due monthly with a final maturity date of April 1, 2023. This taxable loan is guaranteed by both NCBH and WFUBMC.
- (e) **Loan agreement** – represents an unsecured loan agreement held by WFUBMC, with a variable rate based on the one-month LIBOR plus a premium of 0.55% for \$60,000 to refinance a portion of the previously outstanding line of credit. Fixed principal payments and accrued interest are due monthly with a ten-year amortization and bullet maturity date of June 23, 2020. This taxable loan is guaranteed by both NCBH and WFUHS.
- (f) **Promissory note** – represents a non-interest bearing contractual lien against WFUHS, for \$800 from the City of Winston-Salem to provide grant funding for the construction of the Green Park Courtyard in the Piedmont Triad Research Park. The grant states that in the event that an additional \$17,400 in taxable property value are created within the Park within 10 years, then the promissory note shall be marked satisfied and paid in full and canceled of record. Fixed payments of principal are due annually with a final maturity date of June 1, 2017.
- (g) **Promissory note** – represents a 20 year, non-interest bearing loan with the City of Winston-Salem to provide grant funding for the cleanup of a Brownsfields designated site. Fixed principal payments are deferred for the first ten years of the loan with monthly payments commencing in year 11.
- (h) **JV external notes** – includes various notes payable held by WFB affiliates, with interest rates ranging from 3.38% to 5.06% and final maturities between 2015 and 2018.
- (i) **Capital leases** – comprised of capital lease obligations held by NCBH, maturing at various dates through 2019. The obligations have fixed interest rates at 3.1% and are secured by leased equipment.

## WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

June 30, 2015

*Dollars in thousands.*

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- (j) **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)

June 30, 2015

Dollars in thousands.

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group <sup>(1)</sup>
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 142,482	\$ 159,960	\$ 34,592	\$ 2,773	\$ 3,295	\$ -	\$ 343,102	\$ (4,005)	\$ -	\$ 339,097
Patient receivables, net	163,800	38,083	8,884	-	745	-	211,512	(450)	-	211,062
Estimated third-party payer settlements	21,640	-	648	-	-	-	22,288	-	-	22,288
Accounts, grants, and notes receivable, net	(14,891)	69,541	1,882	10,095	18	(900)	65,745	(18)	376	66,103
Other current assets	89,246	39,452	1,759	60,097	222	(139,013)	51,763	(106)	565	52,222
Total current assets	402,277	307,036	47,765	72,965	4,280	(139,913)	694,410	(4,579)	941	690,772
Accounts, grants, and notes receivable, net	28,237	19,042	-	1,126	-	(7,765)	40,640	-	1,033	41,673
Investments and assets whose use is limited	773,986	690,090	-	70,874	6,605	(109,576)	1,431,979	(37,351)	8,080	1,402,708
Property and equipment, net	670,234	299,584	21,402	33,075	3,467	-	1,027,762	(4,098)	-	1,023,664
Other assets	12,897	17,172	743	-	-	-	30,812	-	-	30,812
Total assets	<u>\$ 1,887,631</u>	<u>\$ 1,332,924</u>	<u>\$ 69,910</u>	<u>\$ 178,040</u>	<u>\$ 14,352</u>	<u>\$ (257,254)</u>	<u>\$ 3,225,603</u>	<u>\$ (46,028)</u>	<u>\$ 10,054</u>	<u>\$ 3,189,629</u>
<b>Liabilities and Net Assets</b>										
Current liabilities:										
Accounts payable and accruals	\$ 46,216	\$ 156,927	\$ 1,506	\$ 993	\$ 184	\$ (12,028)	\$ 193,798	\$ (644)	\$ 566	\$ 193,720
Accrued employee compensation	41,505	84,534	2,022	4,705	-	-	132,766	-	-	132,766
Estimated third-party payer settlements	104,753	-	1,504	-	-	-	106,257	-	-	106,257
Deferred revenue	-	56,469	14	1,351	-	-	57,834	-	-	57,834
Current portion of long-term debt	11,426	8,093	-	-	200	(129)	19,590	(576)	376	19,390
Other current liabilities	26,029	21,033	518	-	1,651	(7,376)	41,855	(1,051)	6,605	47,409
Total current liabilities	229,929	327,056	5,564	7,049	2,035	(19,533)	552,100	(2,271)	7,547	557,376
Notes payable and capital leases, net of current portion	7,452	27,460	-	60,000	369	(664)	94,617	(1,402)	1,033	94,248
Bonds payable, net of current portion	479,862	167,973	-	-	-	-	647,835	-	-	647,835
Retirement benefits	59,458	36,816	-	-	144	-	96,418	(144)	-	96,274
Other long-term liabilities	91,462	90,636	7,354	66,987	-	(134,087)	122,352	-	-	122,352
Total liabilities	868,163	649,941	12,918	134,036	2,548	(154,284)	1,513,322	(3,817)	8,580	1,518,085
Net assets:										
Unrestricted	1,013,506	458,327	55,678	39,482	11,804	(102,970)	1,475,827	(42,211)	1,474	1,435,090
Temporarily restricted	3,615	72,460	409	4,522	-	-	81,006	-	-	81,006
Permanently restricted	2,347	152,196	905	-	-	-	155,448	-	-	155,448
Total net assets	1,019,468	682,983	56,992	44,004	11,804	(102,970)	1,712,281	(42,211)	1,474	1,671,544
Total liabilities and net assets	<u>\$ 1,887,631</u>	<u>\$ 1,332,924</u>	<u>\$ 69,910</u>	<u>\$ 178,040</u>	<u>\$ 14,352</u>	<u>\$ (257,254)</u>	<u>\$ 3,225,603</u>	<u>\$ (46,028)</u>	<u>\$ 10,054</u>	<u>\$ 3,189,629</u>

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

# WAKE FOREST BAPTIST

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

Year Ended June 30, 2015

Dollars in thousands.

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group <sup>(1)</sup>
<b>Operating revenues and support</b>										
Patient service revenue (net of contractual allowances and discounts)	\$ 1,406,574	\$ 444,571	\$ 83,923	\$ 8,171	\$ 11,105	\$ (7,074)	\$ 1,947,270	\$ (8,243)	\$ -	\$ 1,939,027
Provision for bad debts	(82,315)	(15,826)	(7,260)	-	(279)	-	(105,680)	279	-	(105,401)
Net patient service revenue	1,324,259	428,745	76,663	8,171	10,826	(7,074)	1,841,590	(7,964)	-	1,833,626
Gifts, grants, and contracts	1,940	174,471	280	6,000	-	-	182,691	(3)	1,000	183,688
Net student tuition and fees	795	28,578	-	-	-	-	29,373	-	-	29,373
Investment return designated for current operations	2,431	21,979	-	35	-	-	24,445	(1,150)	-	23,295
Other sources	27,110	128,641	1,899	1,732	68	(101,446)	58,004	(1,055)	1,497	58,446
Net assets released from restrictions	1,395	26,560	-	-	-	-	27,955	-	-	27,955
Total operating revenues and support	1,357,930	808,974	78,842	15,938	10,894	(108,520)	2,164,058	(10,172)	2,497	2,156,383
<b>Operating expenses</b>										
Salaries and wages	486,623	435,791	26,225	3,970	1,588	-	954,197	(1,334)	-	952,863
Employee benefits	115,486	77,890	5,983	903	353	-	200,615	(274)	-	200,341
Purchased services	227,897	154,518	9,233	2,098	3,876	(99,782)	297,840	(2,865)	1,497	296,472
Clinical and laboratory supplies	300,619	47,909	13,933	39	753	(7,074)	356,179	(165)	-	356,014
Other operating expenses	113,871	45,402	5,049	8,090	1,248	(1,665)	171,995	(2,119)	1,000	170,876
Depreciation and amortization	82,769	30,510	3,829	1,385	397	-	118,890	(390)	-	118,500
Financing costs	19,628	5,919	27	-	14	(96)	25,492	(134)	120	25,478
Total operating expenses	1,346,893	797,939	64,279	16,485	8,229	(108,617)	2,125,208	(7,281)	2,617	2,120,544
<b>Operating excess (deficiency) of revenues and support over expenses</b>	11,037	11,035	14,563	(547)	2,665	97	38,850	(2,891)	(120)	35,839
<b>Nonoperating gains (losses)</b>										
Gains (losses) from equity-method affiliates	11,380	10,749	-	-	-	(20,516)	1,613	51	1,548	3,212
Net investment gains (losses)	5,049	(13,188)	(20)	(40)	-	(96)	(8,295)	931	69	(7,295)
Net losses on interest rate swap valuation	(364)	(249)	-	-	-	-	(613)	-	-	(613)
Other	-	-	-	-	-	(516)	(516)	-	516	-
<b>Excess (deficiency) of revenues and gains over expenses and losses</b>	27,102	8,347	14,543	(587)	2,665	(21,031)	31,039	(1,909)	2,013	31,143

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

# WAKE FOREST BAPTIST

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

Year Ended June 30, 2015

Dollars in thousands.

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group <sup>(1)</sup>
<b>Excess (deficiency) of revenues and gains over expenses and losses</b>	27,102	8,347	14,543	(587)	2,665	(21,031)	31,039	(1,909)	2,013	31,143
Equity transfer (to) from affiliate	(68)	-	-	68	-	-	-	-	-	-
Pension and postretirement-related (losses) gains other than net periodic cost	(16,169)	9,226	-	-	-	-	(6,943)	-	-	(6,943)
Other	7	-	757	-	(1,866)	1,929	827	1,766	(1,840)	753
<b>Change in unrestricted net assets</b>	<b>10,872</b>	<b>17,573</b>	<b>15,300</b>	<b>(519)</b>	<b>799</b>	<b>(19,102)</b>	<b>24,923</b>	<b>(143)</b>	<b>173</b>	<b>24,953</b>
<b>Temporarily restricted net assets</b>										
Contributions	1,968	34,906	-	-	-	-	36,874	-	-	36,874
Investment return designated for restricted purposes	-	6,058	-	-	-	-	6,058	-	-	6,058
Net assets released from restrictions	(1,395)	(26,560)	-	-	-	-	(27,955)	-	-	(27,955)
Net investment gains	34	-	-	-	-	-	34	-	-	34
Other	(295)	206	(757)	4,443	-	68	3,665	-	-	3,665
<b>Change in temporarily restricted net assets</b>	<b>312</b>	<b>14,610</b>	<b>(757)</b>	<b>4,443</b>	<b>-</b>	<b>68</b>	<b>18,676</b>	<b>-</b>	<b>-</b>	<b>18,676</b>
<b>Permanently restricted net assets</b>										
Contributions	146	10,534	-	-	-	-	10,680	-	-	10,680
Investment return reinvested in principal	(8)	573	-	-	-	-	565	-	-	565
Net investment losses	-	(6,268)	-	-	-	-	(6,268)	-	-	(6,268)
Other	-	(576)	-	-	-	-	(576)	-	-	(576)
<b>Change in permanently restricted net assets</b>	<b>138</b>	<b>4,263</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,401</b>	<b>-</b>	<b>-</b>	<b>4,401</b>
<b>Change in net assets</b>	<b>11,322</b>	<b>36,446</b>	<b>14,543</b>	<b>3,924</b>	<b>799</b>	<b>(19,034)</b>	<b>48,000</b>	<b>(143)</b>	<b>173</b>	<b>48,030</b>
Net assets at beginning of period	1,008,146	646,537	42,449	40,080	11,005	(83,936)	1,664,281	(42,068)	1,301	1,623,514
Net assets at end of period	<u>\$ 1,019,468</u>	<u>\$ 682,983</u>	<u>\$ 56,992</u>	<u>\$ 44,004</u>	<u>\$ 11,804</u>	<u>\$ (102,970)</u>	<u>\$ 1,712,281</u>	<u>\$ (42,211)</u>	<u>\$ 1,474</u>	<u>\$ 1,671,544</u>