



**QUARTERLY DISCLOSURE STATEMENT
(UNAUDITED)**

For the Period Ended June 30, 2018

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

Issuer	Bonds	Series
North Carolina Medical Care Commission	Hospital Revenue Refunding Bonds (Fixed)	2010
	Health Care Facilities Revenue Bonds (Fixed)	2012A
	Health Care Facilities Revenue Refunding Bonds (Fixed)	2012B
	Health Care Facilities Revenue Bonds (DP)	2012D
Wake Forest University Baptist Medical Center	Taxable Bonds (Fixed)	2016

QUARTERLY DISCLOSURE June 30, 2018

Comments below are based on combined results of Wake Forest Baptist Medical Center (“Wake Forest Baptist” or “WFB”) (including those entities not obligated on the Bonds) for the fiscal year ended June 30, 2018. Effective March 26, 2011, North Carolina Baptist Hospital, Wake Forest University Health Sciences, and Wake Forest University Baptist Medical Center formed a single obligated group under the North Carolina Baptist Hospital Master Trust Indenture. As of June 30, 2018, the Combined Group generated in the aggregate 91.9% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 94.0% of Wake Forest Baptist’s unrestricted net assets.

QUARTERLY HIGHLIGHTS

Wake Forest Baptist is an integrated clinical, research and academic enterprise that includes a tertiary and quaternary acute care regional referral center with three additional hospital facilities totaling more than 1,150 acute care, rehab and psych beds, more than 1,200 employed physicians and major teaching and research operations. Wake Forest Baptist is honored to have received the following accolades:

Wake Forest Baptist Medical Center has been recognized in U.S. News & World Report’s “Best Hospitals” rankings for the 26th consecutive year with seven specialties – up from six last year - listed among the nation’s finest. The specialties earning top-50 spots in the 2018-2019 report were Cancer (No. 19), Ear, Nose and Throat (No. 30), Geriatrics (No. 31), Nephrology (No. 38), Pulmonology (No. 41), Neurology and Neurosurgery (No. 47), and Gynecology (No. 49). Wake Forest Baptist’s rankings in Cancer and Geriatrics are the highest of any hospitals in North Carolina.

Additionally, three specialties – Diabetes & Endocrinology, Orthopaedics, and Urology – were listed as “High Performing” by U.S. News. Wake Forest Baptist is the only hospital in the Piedmont Triad to be nationally ranked and is second overall in North Carolina.

In fiscal year 2018, Wake Forest Baptist reported a gain in unrestricted net assets of \$88.6 million. This gain is comprised of operating income of \$3.0 million (0.10% operating margin) and net non-operating gains of \$85.6 million.

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

Revenues and Operating Performance

- **Net Revenues:** Total net revenues were \$2.86 billion, 7.1% higher than the prior year. Underlying patient revenues improved 7.6% over the same period last year due to clinical volume increases in surgical services, outpatient encounters, professional activity, the addition of Wilkes Medical Center, and yield improvements.
- **Operating Performance:** Operating income for the period ending June 30, 2018, was \$3.0 million or 0.10% compared to prior year of \$76.1 million or 2.9%. Year-to-date operating EBIDA Margin was \$167.4 million or 5.9% compared to prior year of \$246.3 million, or 9.2%.

Utilization

Wake Forest Baptist generated overall clinical volume growth with a 3.2% year over year growth in case mix adjusted equivalent discharges (CMAEDs). Increased system inpatient admissions, outpatient volumes, and operating room cases contributed to the year over year growth.

- **Inpatient Utilization:** System inpatient case mix adjusted discharges increased when compared to prior year due to an increase in discharges, 6.9%, offset by a decrease in case mix index (2.5%). Both year-over-year changes were driven by the addition of Wilkes Medical Center, which increased system discharges while reducing case mix index.

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- **Surgical Volumes:** The enterprise witnessed growth in surgical volumes compared to prior year. Operating room cases across the health system increased by 9.4% over prior year, a 6.8% growth in inpatient cases and a 10.9% growth in the outpatient setting. Higher case volume was primarily driven by the expansion of ambulatory facilities and the addition of Wilkes Medical Center.
- **Outpatient Volumes:** Overall outpatient volumes continued to show strong growth with an 8.9% increase in outpatient charges over the prior year. This growth is attributable to the migration of treating patients in an observation setting, improvements in ambulatory and diagnostics access, and the addition of Wilkes Medical Center.
 - **Observation:** Observation volumes continued to grow, replacing the inpatient setting for lower acuity patients. Observation volumes increased 11.7% compared to the prior year.
 - **Clinic Visits:** Overall clinic visits increased 6.4% compared to the prior year.
 - **Emergency Department:** System emergency department (ED) visits represented an 18.4% increase compared to prior year.

Operational Performance / Efficiency

- **Length of Stay:** Average Length of Stay decreased 1.0% compared to the prior year. This decrease was primarily driven by the addition of Wilkes Medical Center, but also related to patient throughput and post-acute strategies. Case Mix Adjusted Average Length of Stay was 3.02 days, a slight increase from 2.98 days compared to prior year.
- **Productivity:** Salaries, Wages, and Benefits as a percent of Revenues increased slightly from 55.5% to 55.7%.

Balance Sheet

- **Liquidity:** Balance sheet remains solid with Days Cash on Hand of 214 and Debt-to-Capitalization of 34.2%.
- **Investment Performance:** WFB had investment gains of \$64.3 million in the fiscal year. WFB maintains a broadly diversified investment portfolio and continues to have a long-term perspective with regard to its investment activities.
- **Line of Credit:** Wake Forest Baptist has an unsecured line of credit to provide up to \$75 million for the working capital needs of the organization. As of June 30th, the facility had an outstanding balance of \$19.2 million.
- **Capital Expenditures:** Capital expenditures through June 30th were \$151.9 million and included the Wilkes Medical Center leased assets, Wake Forest Innovation Quarter expansion projects, Davie inpatient tower, facility improvements, clinical equipment and other IT infrastructure upgrades.

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June 30, 2018

FINANCIAL RATIOS

The following ratio calculations are based on numbers for the **Combined Group** (i.e., Obligated Group Members and Designated Members) and do not include the activity or financial impact of non-designated members such as WFB—Wilkes Medical Center and Cornerstone Healthcare, LLC. These numbers will differ from total Wake Forest Baptist (discussed on prior pages). A breakout of the Combined Group balance sheet and income statement can be found on pages FS-18 to FS-20 of the attached financial statements.

Liquidity – Combined Group

The following table sets forth, as of June 30, 2018, and 2017, the Combined Group's operating cash, Board-designated funds for capital expansion and short-term investments. Excluded are trustee-held funds, donor restricted funds, and pension assets. All investments are shown at market value.

	<u>6/30/2018</u>	<u>6/30/2017</u>
Unrestricted Cash & cash equivalents	\$ 174,345	\$ 219,438
Investments and assets whose use is limited	1,357,824	1,367,079
Total cash and investments	\$ 1,532,169	\$ 1,586,517
Bonds payable	\$ 712,953	\$ 778,345
Notes payable and capital leases	168,370	128,349
Less: Short-term debt	-	-
Long-term Indebtedness	\$ 881,323	\$ 906,694
Unrestricted Cash-to-Debt	174%	175%
Days Cash on Hand	223	253

**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, 2018) for the Combined Group.

	<u>Actual</u>
Equity	29.6%
Fixed Income	38.1%
Absolute Return	27.7%
Real Assets	4.6%
Total	100.0%

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

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June 30, 2018

Capitalization – Combined Group

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

	<u>6/30/2018</u>	<u>6/30/2017</u>
Revenue Bonds	712,953	778,345
Other Notes Payable	123,191	79,914
Capital Leases	45,179	48,435
	<hr/>	<hr/>
Total Debt	881,323	906,694
Unrestricted Net Assets	1,637,029	1,602,987
	<hr/>	<hr/>
Total Capitalization	<u>2,518,352</u>	<u>2,509,681</u>
Total Debt as a % of Total Capitalization	35.0%	36.1%

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, 2018 (i.e., trailing four quarter calculation). The Coverage Ratio is the ratio determined by dividing Income Available for Debt Service for such annual period by the debt service requirement for such period. The Combined Group does not have a quarterly Coverage Ratio reporting requirement, but voluntarily provides this information on a rolling 12-month basis.

	12 months ending <u>6/30/2018</u>
Operating Income	(7,029)
Unrestricted Contributions	-
Interest & Dividend Income	15,805
Depreciation and Amortization	127,416
Financing Costs	31,460
Income Available for Debt Service	<u>167,652</u>
Actual Debt Service	61,072
Debt Service Coverage Ratio	2.7

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June 30, 2018

UTILIZATION STATISTICS

Utilization Statistics – Combined Group

	<u>Fiscal Year Ended</u>		<u>% Chg from Prior Year</u>
	<u>6/30/2018</u>	<u>6/30/2017</u>	
Case Mix Adjusted Equivalent Discharges	200,319	205,449	-2.5%
Patient Days	262,819	259,208	1.4%
Inpatient Admissions	43,079	43,345	-0.6%
Average Length of Stay	6.10	5.98	2.0%
Average Length of Stay (Case Mix Adjusted)	3.03	2.98	1.7%
Inpatient Operating Room Cases	16,360	15,911	2.8%
Outpatient Operating Room Cases	28,054	27,631	1.5%
Total Operating Room Cases	44,414	43,542	2.0%
Emergency Department Visits	156,089	158,344	-1.4%
Case Mix Index <i>(all payors using Medicare weights)</i>	2.0130	2.0099	0.2%
RVUs	6,243,895	6,081,822	2.7%

CURRENT OPERATING PROFILE

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

- an academic medical center, currently licensed for 885 acute care beds, which is a tertiary and quaternary acute care regional referral center with a service area population of approximately 2,500,000 (“WFB - Main Campus”);
- a hospital facility located approximately 56 miles west of WFB – Main Campus, in North Wilkesboro, North Carolina, currently licensed for 130 acute care beds (“WFB – Wilkes Medical Center”)
- a hospital facility located approximately 26 miles south of WFB – Main Campus, in Lexington, North Carolina, currently licensed for 94 acute care beds (“WFB - Lexington Medical Center”);
- a hospital facility located approximately 12 miles southwest of WFB – Main Campus in Bermuda Run, North Carolina, currently licensed for 50 acute care beds (“WFB - Davie Medical Center”);
- approximately 1,200 employed physicians;
- teaching and research operations; and
- a non-acute and ambulatory network with over 200 sites of patient care.

Wake Forest Baptist’s annual outpatient visits exceed 1.8 million. Its degree-granting educational programs annually train over 1,900 students in health care-related fields and it receives approximately \$200 million annually in research funding from federal and state agencies, industry and other sources.

QUARTERLY DISCLOSURE
June 30, 2018

Combined Group

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

- Wake Forest University Baptist Medical Center (“*WFBMC*”), North Carolina Baptist Hospital (“*NCBH*”) and Wake Forest University Health Sciences (“*WFUHS*,” and collectively with WFBMC and NCBH, the “*Members of the Obligated Group*”);
- the Designated Members, entities controlled by one or more Members of the Obligated Group and include WFB-Lexington Medical Center, WFB-Davie Medical Center, and 18 dialysis centers (such Designated Members and the Members of the Obligated Group are collectively referred to as the “*Combined Group*”), and
- all other entities and operations that are combined into the financial statements.

As of June 30, 2018, the Combined Group generated in the aggregate 91.9% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 94.0% of Wake Forest Baptist’s unrestricted net assets.

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



WAKE FOREST BAPTIST

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

**For the Year Ended June 30, 2018
(Unaudited)**

WAKE FOREST BAPTIST
Combined Financial Statements
Year Ended June 30, 2018
(Unaudited)

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WAKE FOREST BAPTIST

Combined Balance Sheets

Dollars in thousands.

	(Unaudited) June 30, 2018	(Audited) June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 190,951	\$ 226,286
Patient receivables, net	303,689	280,489
Accounts, grants, and notes receivable, net	108,301	79,297
Other current assets	83,332	78,926
Total current assets	<u>686,273</u>	<u>664,998</u>
Accounts, grants, and notes receivable, net, long-term	20,588	42,578
Investments and assets whose use is limited	1,673,684	1,647,098
Property and equipment, net	1,137,000	1,089,908
Goodwill	94,025	53,983
Other assets	28,770	27,169
Total assets	<u>\$ 3,640,340</u>	<u>\$ 3,525,734</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accruals	\$ 164,743	\$ 118,072
Accrued employee compensation	187,829	174,602
Estimated third-party payer settlements, net	75,394	96,182
Deferred revenue	50,295	58,652
Current portion of long-term debt	29,531	28,130
Other current liabilities	41,898	41,181
Total current liabilities	<u>549,690</u>	<u>516,819</u>
Notes payable, capital leases, and line of credit, net of current portion	177,357	118,733
Bonds payable, net of current portion	698,165	761,927
Retirement benefits	106,272	110,809
Other long-term liabilities	111,682	119,592
Total liabilities	<u>1,643,166</u>	<u>1,627,880</u>
Net assets:		
Unrestricted	1,741,233	1,652,601
Temporarily restricted	72,106	67,719
Permanently restricted	175,875	170,854
Total net assets attributable to Wake Forest Baptist	<u>1,989,214</u>	<u>1,891,174</u>
Noncontrolling interest in affiliates	7,960	6,680
Total net assets	<u>1,997,174</u>	<u>1,897,854</u>
Total liabilities and net assets	<u>\$ 3,640,340</u>	<u>\$ 3,525,734</u>

See accompanying notes to combined financial statements.

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WAKE FOREST BAPTIST

Combined Statements of Operations and Changes in Net Assets

Dollars in thousands.

	(Unaudited) Year Ended June 30, 2018	(Audited) Year Ended June 30, 2017
Operating revenues and support		
Patient service revenue (net of contractual allowances and discounts)	\$ 2,689,790	\$ 2,515,061
Provision for bad debts	(212,829)	(212,290)
Net patient service revenue	2,476,961	2,302,771
Gifts, grants, and contracts	192,283	187,593
Net student tuition and fees	33,822	33,319
Investment return designated for current operations	27,451	26,606
Other sources	95,707	83,706
Net assets released from restrictions	31,173	35,176
Total operating revenues and support	2,857,397	2,669,171
Recurring operating expenses		
Salaries and wages	1,293,786	1,192,924
Employee benefits	297,088	289,520
Purchased services	370,476	292,665
Clinical and laboratory supplies	484,018	435,337
Other operating expenses	232,747	212,454
Depreciation and amortization	132,904	125,355
Goodwill impairment loss	-	15,480
Financing costs	31,493	29,357
Total recurring operating expenses	2,842,512	2,593,092
Nonrecurring operating expenses		
Acquisition costs	11,932	-
Total operating expenses	2,854,444	2,593,092
Operating excess of revenues and support over expenses	2,953	76,079
Nonoperating gains (losses)		
Losses from equity-method affiliates	(1,331)	(3,544)
Net investment gains	36,820	71,246
Net gains on interest rate swap valuation	1,244	1,887
Gains on acquisitions of affiliates	51,941	-
Pension and postretirement costs	(9,403)	-
Other	(12,028)	(4,081)
Excess of revenues and gains over expenses and losses before noncontrolling interest	70,196	141,587

See accompanying notes to combined financial statements.

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WAKE FOREST BAPTIST

Combined Statements of Operations and Changes in Net Assets, continued

Dollars in thousands.

	(Unaudited) Year Ended June 30, 2018	(Audited) Year Ended June 30, 2017
Excess of revenues and gains over expenses and losses before noncontrolling interest	\$ 70,196	\$ 141,587
Noncontrolling interest	(1,280)	2,153
Excess of revenues and gains over expenses and losses attributable to Wake Forest Baptist	68,916	143,740
Pension and postretirement-related losses other than net periodic cost	20,370	30,149
Other	(654)	(260)
Change in unrestricted net assets	88,632	173,629
Temporarily restricted net assets		
Contributions	26,487	25,329
Investment return designated for restricted purposes	7,501	7,265
Net assets released from restrictions	(31,173)	(34,176)
Net investment gains	1,575	1,916
Other	(3)	(4,309)
Change in temporarily restricted net assets	4,387	(3,975)
Permanently restricted net assets		
Contributions	8,836	7,931
Investment (losses) gains reinvested in principal	(628)	268
Net assets released from restrictions	-	(1,000)
Net investment losses	(3,408)	(580)
Actuarial gains (losses) on annuity obligations	217	(736)
Other	4	(911)
Change in permanently restricted net assets	5,021	4,972
Change in net assets attributable to Wake Forest Baptist	98,040	174,626
Net assets attributable to Wake Forest Baptist at beginning of period	1,891,174	1,716,548
Net assets attributable to Wake Forest Baptist at end of period	1,989,214	1,891,174
Change in net assets attributable to noncontrolling interest	1,280	(2,153)
Net assets attributable to noncontrolling interest at beginning of period	6,680	8,833
Total net assets at end of period	\$ 1,997,174	\$ 1,897,854

See accompanying notes to combined financial statements.

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WAKE FOREST BAPTIST
 Combined Statements of Cash Flows

Dollars in thousands.

	(Unaudited) Year Ended June 30, 2018	(Audited) Year Ended June 30, 2017
Operating activities and gains and losses		
Change in net assets	\$ 99,320	\$ 172,473
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	132,904	125,355
Amortization of bond premium	(938)	(2,560)
Goodwill impairment loss	-	15,480
Gains on acquisitions of affiliates	(51,941)	-
Losses from equity-method affiliates	1,331	3,544
Investment gains, net	(69,311)	(106,721)
Gains in value of interest rate swaps, net	(1,244)	(1,887)
Losses on disposal of property and equipment	229	2,195
Contributions restricted for long-term investing	(8,208)	(8,199)
Changes in operating assets and liabilities:		
Patient receivables, net	(14,447)	(36,959)
Accounts, grants, and notes receivable, net	(21,136)	(6,582)
Other current assets	(1,798)	(27,517)
Other assets	1,138	(4,605)
Accounts payable and accruals	43,735	(42,985)
Accrued employee compensation	11,172	(6,246)
Estimated third-party payer settlements, net	(24,596)	5,924
Deferred revenues	(8,357)	(6,122)
Other current liabilities	(582)	(15,381)
Retirement benefits	(12,440)	(21,174)
Other long-term liabilities	(6,666)	3,886
Net cash provided by operating activities	<u>68,165</u>	<u>41,919</u>
Investing activities		
Net sales and purchases of investments	58,456	(47,194)
Acquisitions, net of cash acquired	(15,415)	-
Net additions to property and equipment	<u>(130,038)</u>	<u>(131,740)</u>
Net cash used in investing activities	<u>(86,997)</u>	<u>(178,934)</u>
Financing activities		
Principal payments on debt	(25,460)	(36,189)
Proceeds from issuance of debt	4,458	158,105
Payments on capital lease obligations	(3,709)	(3,180)
Contributions restricted for long-term investing	<u>8,208</u>	<u>8,199</u>
Net cash (used in) provided by financing activities	<u>(16,503)</u>	<u>126,935</u>
Decrease in cash and cash equivalents	(35,335)	(10,080)
Cash and cash equivalents at beginning of period	<u>226,286</u>	<u>236,366</u>
Cash and cash equivalents at end of period	<u>\$ 190,951</u>	<u>\$ 226,286</u>
Supplemental cash flow disclosure information:		
Property and equipment funded by capital lease borrowings	\$ 21,911	\$ 44,162
Refinancing of long-term debt	\$ 50,355	\$ -

See accompanying notes to combined financial statements.

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1. Organization and Summary of Significant Accounting Policies

a. Description of the Organization

The combined financial statements of the entities collectively 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.

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

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

The Integration Agreement created an integrated academic medical center that combines clinical care, education and research under a single management and debt structure, collectively referred to as WFB, which is governed by the Board of WFUBMC. One of the nation's preeminent academic medical centers, WFB is an integrated health care system that operates over 50 subsidiaries. It provides a continuum of care that includes primary care centers, outpatient rehabilitation centers and dialysis centers. To ensure alignment across the organization, NCBH and WFUHS unrestricted operating income is shared equally between the entities. Although the entities will be operated to maximize value at the total WFB level, revenues, expenses, existing and new assets and debt will continue to be accounted for generally at the individual entity levels.

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

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2018

Dollars in thousands.

NCBH is a private, non-profit institution dedicated to the provision of healthcare. NCBH, which is based in Winston-Salem, North Carolina, consists of entities that provide services directly to patients and entities that support ancillary functions. NCBH consists of North Carolina Baptist Hospital, CareNet, Inc. (CareNet), The Hawthorne Inn and Conference Center, Inc. (Hawthorne Inn), North Carolina Baptist Hospital Foundation (the Foundation), The Nursing Center at Oak Summit (NCOS), Clemmons Medical Park LLC (CMP), and Wake WellQ, LLC (Wake WellQ). NCBH owns a 50% equity interest in MedCost LLC (MedCost), a preferred provider organization which through the shared ownership agreements is accounted for as equity-method investments in the combined financial statements. NCBH owns a 69.85% interest in Cornerstone Health Enablement Strategic Solutions, LLC (CHESS), which is included in the combined financial statements. The Hawthorne Inn and Conference Center, Inc. was dissolved effective June 30, 2018.

WFUHS, a wholly owned affiliate of WFU, based in Winston-Salem, North Carolina, is a private, coeducational, not for profit institution of higher education and research dedicated to medical and health education, healthcare, and biomedical research. WFUHS' wholly owned affiliates are The Dialysis Centers of Wake Forest University (Dialysis); Wake Forest University Baptist Medical Center Community Physicians (Community Physicians); 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; Park IMP 1, LLC; BRF – A 1, LLC; BRF Deck 1, LLC; BRF – A 1a, LLC; Childress Institute for Pediatric Trauma; North District Owners Association; and RegenMed Development Organization (REMDO).

WFUHS owns a 33.33% equity interest in Carolina Behavioral Health, LLC, a 25% equity interest in HCEC, LLC, and a 99% equity interest in Wake Forest Technology Development Program, LP.

WFUHS and NCBH each own a 50% equity interest in NCBH Outpatient Endoscopy Center, LLC and The Medical Foundation of WFUHS & NCBH, and each own a 37.5% equity interest in Wake Forest Baptist Imaging, LLC (WFBI). WFUHS and NCBH own an 84% and 9% interest, respectively, in Verger Fund II, LLC (VFII). VFII was formed for the purpose of investing its members' assets in Verger Capital Fund LLC (Master Fund), which is managed by Verger Capital Management, LLC, a separate limited liability company organized and controlled by WFU.

WFUBMC is the sole member of Lexington Medical Center (LMC), Northwest Community Care Network (NCCN), FaithHealthInnovations, Inc., Cornerstone Health Care LLC (CHC), Wake Forest Healthcare Ventures, LLC (WFHCV), Wake Forest Emergency Health Providers, and Wake Air Care, LLC.

WFUBMC owns a 50% equity interest in Alleghany Health, LLC, a 50% equity interest in WellQ, LLC, a 55.51% equity interest in MS Land Holding Co., LLC, and a 14.4% interest in Academic Innovators Alliance, LLC.

Effective May 1, 2017, WFUBMC became the sole member of Davie County Emergency Health Corporation (DCH) and an equity transfer of affiliate was made from NCBH to WFUBMC.

On July 1, 2017, WFUBMC executed a Change of Control Agreement with Wilkes Regional Medical Center Hospital Operating Corporation (WRMC) and the Town of North Wilkesboro, and WFUBMC became the sole member of WRMC.

b. Basis of Presentation

The combined financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). In accordance with Financial Accounting Standards Board (FASB) accounting standards for consolidated and combined financial statements, the financial statements and related notes are presented as combined statements due to the Integration Agreement. All significant intercompany accounts and transactions have been eliminated in the combined financial statements.

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of WFB and changes therein are classified and reported as follows:

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

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

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

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Contributions which impose restrictions that are met in the same fiscal year they are received are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases, respectively, in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Net assets released from restrictions from permanently restricted net assets relate to a change in donor's intent.

c. Investments and Assets Limited as to Use

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

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

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

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

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

d. Revenue Recognition

WFB's revenue recognition policies are:

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

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

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

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

e. Contributions

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

f. Excess of Revenues and Gains Over Expenses and Losses

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

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

g. Use of Estimates

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

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2018

Dollars in thousands.

h. *Limitations on Disclosures in Interim Reporting*

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

2. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Short-term investments ^(a)	\$ 94,986	\$ 160,860
Absolute return ^(b)	560,881	491,285
Commodities ^(c)	23,778	23,590
Fixed income ^(d)	429,297	443,233
Private equity ^(e)	2,230	1,746
Public equity ^(f)	391,859	377,570
Real estate ^(g)	8,974	10,058
Pooled investments held at WFU ^(h)	3,370	5,011
Beneficial interest in perpetual trusts and assets held by others ⁽ⁱ⁾	20,764	17,985
Other ⁽ⁱ⁾	137,545	115,760
Total investments and assets whose use is limited	<u>\$ 1,673,684</u>	<u>\$ 1,647,098</u>

(a) **Short-term investments** – includes cash and cash equivalents, and money market mutual funds.

(b) **Absolute return** – includes investments in hedge funds and hedge fund-of-funds that invest both long and short on a global basis primarily in a wide range of securities and other instruments, including equity securities (common stocks), credit securities (both investment grade and non-investment grade), commodities, private equity, currencies, futures contracts, options, and other derivative instruments. This class also includes absolute return mutual funds and exchange traded funds. The investment objective of this asset class is to produce attractive long-term risk-adjusted returns with low correlation to traditional asset classes.

(c) **Commodities** – includes investments in hedge funds and hedge fund-of-funds that invest in a wide range of commodities, securities, and financial instruments with a focus on commodities markets. This class also includes commodity (i.e., precious metals, industrial materials and energy) mutual funds and exchange traded funds. The investment objective of this class is to produce attractive long-term risk-adjusted returns in excess of traditional commodity index exposure.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2018

Dollars in thousands.

- (d) **Fixed income** – includes corporate bonds, mortgage-backed securities, asset-backed securities, mutual funds, exchange traded funds, and other fixed income securities. This class also includes investments in hedge funds and hedge fund-of-funds that invest in fixed income securities.
- (e) **Private equity** – includes various illiquid venture capital investments.
- (f) **Public equity** – includes investments primarily in U.S. and non-U.S. (including emerging markets) common stocks, mutual funds, and exchange traded funds. This class also includes investments in hedge funds and hedge fund-of-funds that invest on both a long and short basis in global equity markets. The investment objective for this class is capital appreciation over the long term.
- (g) **Real estate** – includes real estate mutual funds and exchange traded funds.
- (h) **Pooled investments held at WFU** – includes primarily alternative investment vehicles and other investment interests.
- (i) **Beneficial interest in perpetual trusts and assets held by others** – includes trusts and certain other assets held and administered by others for which WFB has an unconditional right to receive all or a portion of the specified cash flows.
- (j) **Other** – includes primarily investments in equity-method affiliates and other miscellaneous investments.

Investment Return

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

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 27,836	\$ 17,127
Realized gains	38,651	17,877
Unrealized (losses) gains	<u>(2,216)</u>	<u>45,042</u>
Total investment return included in change in unrestricted net assets	<u>\$ 64,271</u>	<u>\$ 80,046</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2018

Dollars in thousands.

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

	<u>2018</u>	<u>2017</u>
Operating:		
Investment return designated for current operations	\$ 27,451	\$ 19,938
Nonoperating:		
Net investment gains	<u>36,820</u>	<u>60,108</u>
Total unrestricted investment return included in in the combined statements of operations and changes in net assets	<u>64,271</u>	<u>80,046</u>
Investment return designated for temporarily restricted purposes	7,501	5,386
Temporarily restricted net gains on investments	1,575	3,712
Permanently restricted investment return reinvested in principal	(628)	178
Permanently restricted net losses on investments	<u>(3,408)</u>	<u>(956)</u>
Total investment return included in change in restricted net assets	<u>5,040</u>	<u>8,320</u>
Total investment return	<u>\$ 69,311</u>	<u>\$ 88,366</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2018

Dollars in thousands.

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

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

	June 30, 2017		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	\$ 288,528	\$ -	\$ 288,528
Donor-restricted endowment funds	-	178,354	178,354
Total endowment funds	288,528	178,354	466,882
Funds designated for capital improvements	700,062	-	700,062
Funds designated for settlement of professional liability costs	58,399	-	58,399
Collateral for derivative agreements	-	4,600	4,600
Beneficial interests in perpetual trusts and assets held by others	-	17,985	17,985
Funds held under retirement and benefit plans	52,227	-	52,227
Designated for restricted purposes	1,774	17,351	19,125
Assets whose use is limited	1,100,990	218,290	1,319,280
Other unrestricted investments			296,790
Investments in equity-method affiliates			31,028
Investments and assets whose use is limited			<u>\$ 1,647,098</u>

See accompanying notes to combined financial statements.

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WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2018

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

Debt consists of the following at June 30:

	2018	2017
Series 2016 ^(a)	\$ 150,000	\$ 150,000
Series 2016 Bond Issuance Costs	(1,371)	(1,420)
Series 2012A ^(b)	118,405	118,405
Series 2012A Unamortized Bond Premium	3,670	3,804
Series 2012A Bond Issuance Costs	(914)	(948)
Series 2012B ^(b)	94,520	98,415
Series 2012B Unamortized Bond Premium	12,050	12,832
Series 2012B Bond Issuance Costs	(707)	(753)
Series 2012C ^(b)	-	50,355
Series 2012C Bond Issuance Costs	-	(371)
Series 2012D ^(b)	80,000	80,000
Series 2012D Bond Issuance Costs	(292)	(101)
Series 2010 ^(c)	252,350	262,555
Series 2010 Unamortized Bond Premium	7,421	7,887
Series 2010 Bond Issuance Costs	(2,179)	(2,315)
Total bonds payable	<u>712,953</u>	<u>778,345</u>
Line of credit ^(d)	19,198	20,238
Loan agreement ^(e)	9,674	11,675
Loan agreement ^(f)	42,000	48,000
Loan agreement ^(g)	48,035	-
Loan agreements ^(h)	4,284	-
External notes ⁽ⁱ⁾	1,819	2,097
Capital leases ^(j)	3,040	5,279
Capital lease ^(k)	42,139	43,156
Capital lease ^(l)	21,911	-
Total notes payable and capital leases	<u>192,100</u>	<u>130,445</u>
Total debt	905,053	908,790
Less current portion	(29,531)	(28,130)
Total long-term debt	<u>\$ 875,522</u>	<u>\$ 880,660</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2018

Dollars in thousands.

Debt is reflected in the combined balance sheets at June 30 as follows:

	<u>2018</u>	<u>2017</u>
Current portion of long-term debt	\$ 29,531	\$ 28,130
Notes payable and capital leases, net of current portion	177,357	118,733
Bonds payable, net of current portion	<u>698,165</u>	<u>761,927</u>
Total debt	<u>\$ 905,053</u>	<u>\$ 908,790</u>

- (a) **Series 2016 Taxable Bonds** – taxable bonds issued directly by WFUBMC as general, unsecured obligations under the MTI structure. The Series 2016 bonds are structured with a \$75 million bullet maturity due on June 1, 2026, at a fixed rate of 3.093% and a \$75 million term bond with final maturity on June 1, 2046, at a fixed rate of 4.175%. The 2046 maturity includes sinking fund payments of \$25 million due on June 1 of each year beginning in 2044.
- (b) **Series 2012 Revenue Bonds** – revenue bonds issued by Wake Forest Baptist Obligated Group, representing funds borrowed by the entities pursuant to loan agreements with the North Carolina Medical Care Commission (NCMCC). As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under a MTI structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group.

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

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

The Series 2012C bonds were fully redeemed on October 2, 2017, and refinanced with a taxable term note. The bonds were originally issued in the Index Floating Rate Mode with an Index Floating Rate based on the SIFMA Index plus a spread of 0.74% and an original maturity date in 2034. Per the bond agreements, the principal and sinking fund payments on the bonds were paid on December 1 of each year beginning in 2014.

The Series 2012D bonds were issued in an aggregate principal amount not to exceed \$80,000 and mature in full in fiscal year 2043. The bonds are currently in the Bank-Bought Rate Mode and bear interest at an Index Floating Rate based on an Adjusted London Interbank Offered Rate (LIBOR) rate plus a spread of 0.75%. At the option of NCBH, the bonds may be converted to various interest rate modes. Per the bond agreements, the principal and sinking fund payments on the bonds are due on December 1 of each year beginning in 2034 and in increasing annual amounts ranging from \$14,075 to \$15,295.

- (c) **Series 2010 Revenue Bonds** – revenue bonds issued by NCBH, representing funds borrowed by the entities pursuant to loan agreements with the NCMCC. As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under an MTI structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group.

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

- (d) **Line of credit** – consists of an unsecured credit facility with a total borrowing capacity of \$75,000 to provide for the working capital needs of NCBH, WFUHS, and WFUBMC, all Borrowers under the credit facility. The line of credit is due on June 9, 2020 and bears interest at one-month LIBOR plus 0.65%.
- (e) **Loan agreement** – represents an unsecured loan agreement held by WFUHS, with a variable rate based on one-month LIBOR plus a premium of 0.65% for \$20,014 to refinance two previously outstanding fixed rate notes. Fixed principal payments and accrued interest are due monthly with a final maturity date of April 1, 2023. This taxable loan is guaranteed by both NCBH and WFUBMC.
- (f) **Loan agreement** – represents an unsecured loan agreement held by WFUBMC, with a variable rate based on one-month LIBOR plus a premium of 0.55% for \$60,000 to refinance a portion of the previously outstanding line of credit. Fixed principal payments and accrued interest are due monthly with a bullet maturity date of June 23, 2020. This taxable loan is guaranteed by both NCBH and WFUHS.
- (g) **Loan agreement** – represents an unsecured loan agreement held by WFUHS, NCBH and WFUBMC, with a variable rate based on one-month LIBOR plus a premium of 0.55% for \$50,355 to refinance the previously outstanding Series 2012C bonds. Principal payments are due on December 1 of each year with monthly interest payments and a bullet maturity date of October 1, 2019.
- (h) **Loan agreements** – represents notes payable held by WFUHS subsidiary, with variable interest rates based on one-month LIBOR plus a premium of 1.05% and final maturities in 2021 and 2025.
- (i) **External notes** – includes various notes payable held by WFB affiliates, with interest rates ranging from 0% to 5.31% and final maturities between 2014 and 2023.
- (j) **Capital leases** – comprised of capital lease obligations held by NCBH, maturing at various dates through 2019. The obligations have fixed interest rates of 3.1% and are secured by leased equipment.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2018

Dollars in thousands.

- (k) **Capital lease** – represents a capital lease obligation of \$44,125 entered into by WFUHS related to the Bowman Gray Center for Medical Education with an initial term of 15 years and additional renewal options. The obligation has a fixed interest rate of 4.5%.
- (l) **Capital lease** – represents a capital lease obligation of \$21,911 entered into by WFUBMC and WRMC related to assets leased from the Town of North Wilkesboro with an initial term of 30 years and additional renewal options. The obligation has a fixed interest rate of 4.1%.

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

WAKE FOREST BAPTIST

Combining Balance Sheet Information (Unaudited)

June 30, 2018

Dollars in thousands.

	NCBH	WFUHS	LEXMC	DAVIE	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Assets												
Current assets:												
Cash and cash equivalents	\$ 43,467	\$ 16,242	\$ 54,685	\$ 22,774	\$ 5,858	\$ 46,369	\$ 1,556	\$ -	\$ 190,951	\$ (16,606)	\$ -	\$ 174,345
Patient receivables, net	194,977	69,359	9,390	8,698	-	20,566	699	-	303,689	(21,081)	-	282,608
Accounts, grants, and notes receivable, net	100,408	74,109	14,676	256	64	23,379	8,839	(113,430)	108,301	17,901	(29,903)	96,299
Other current assets	67,153	8,902	1,994	1,124	-	46,656	98	(42,595)	83,332	(4,724)	-	78,608
Total current assets	406,005	168,612	80,745	32,852	5,922	136,970	11,192	(156,025)	686,273	(24,510)	(29,903)	631,860
Accounts, grants, and notes receivable, net, long-term	16,205	32,608	-	-	-	1,734	-	(29,959)	20,588	-	-	20,588
Investments and assets whose use is limited	907,351	793,080	-	-	98	172,613	144	(199,602)	1,673,684	(56,081)	49,383	1,666,986
Property and equipment, net	664,045	355,893	21,946	10,328	510	79,269	5,009	-	1,137,000	(55,213)	-	1,081,787
Goodwill	36,106	-	420	-	-	57,499	-	-	94,025	(92,101)	-	1,924
Other assets	10,313	18,361	96	-	-	-	-	-	28,770	-	-	28,770
Total assets	\$ 2,040,025	\$ 1,368,554	\$ 103,207	\$ 43,180	\$ 6,530	\$ 448,085	\$ 16,345	\$ (385,586)	\$ 3,640,340	\$ (227,905)	\$ 19,480	\$ 3,431,915
Liabilities and Net Assets												
Current liabilities:												
Accounts payable and accruals	\$ 98,032	\$ 59,269	\$ 3,198	\$ 12,428	\$ 629	\$ 88,681	\$ 762	\$ (98,256)	\$ 164,743	\$ (18,952)	\$ (30,095)	\$ 115,696
Accrued employee compensation	50,124	117,960	2,550	1,229	-	15,858	108	-	187,829	(6,752)	-	181,077
Estimated third-party payer settlements, net	70,825	-	1,368	1,538	-	1,663	-	-	75,394	(1,663)	-	73,731
Deferred revenue	-	50,136	-	1	8	-	150	-	50,295	(240)	-	50,055
Current portion of long-term debt	13,027	10,038	-	-	-	6,111	355	-	29,531	(658)	192	29,065
Other current liabilities	24,545	13,933	534	-	-	2,874	12	-	41,898	(2,431)	-	39,467
Total current liabilities	256,553	251,336	7,650	15,196	637	115,187	1,387	(98,256)	549,690	(30,696)	(29,903)	489,091
Notes payable, capital leases, and line of credit, net of current portion	12,475	105,618	-	-	-	57,800	1,464	-	177,357	(23,264)	-	154,093
Bonds payable, net of current portion	447,748	101,788	-	-	-	148,629	-	-	698,165	-	-	698,165
Retirement benefits	64,472	32,123	-	-	-	9,677	-	-	106,272	(9,677)	-	96,595
Other long-term liabilities	63,420	86,965	84	68	-	48,825	49	(87,729)	111,682	(3,145)	-	108,537
Total liabilities	844,668	577,830	7,734	15,264	637	380,118	2,900	(185,985)	1,643,166	(66,782)	(29,903)	1,546,481
Net assets:												
Unrestricted	1,171,773	555,901	95,449	27,916	5,515	64,427	13,445	(193,193)	1,741,233	(161,078)	56,874	1,637,029
Temporarily restricted	7,071	61,117	-	-	378	3,540	-	-	72,106	(45)	-	72,061
Permanently restricted	2,614	173,237	24	-	-	-	-	-	175,875	-	-	175,875
Total net assets attributable to Wake Forest Baptist	1,181,458	790,255	95,473	27,916	5,893	67,967	13,445	(193,193)	1,989,214	(161,123)	56,874	1,884,965
Noncontrolling interest in affiliates	13,899	469	-	-	-	-	-	(6,408)	7,960	-	(7,491)	469
Total net assets	1,195,357	790,724	95,473	27,916	5,893	67,967	13,445	(199,601)	1,997,174	(161,123)	49,383	1,885,434
Total liabilities and net assets	\$ 2,040,025	\$ 1,368,554	\$ 103,207	\$ 43,180	\$ 6,530	\$ 448,085	\$ 16,345	\$ (385,586)	\$ 3,640,340	\$ (227,905)	\$ 19,480	\$ 3,431,915

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

WAKE FOREST BAPTIST

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

Year Ended June 30, 2018

Dollars in thousands.

	NCBH	WFUHS	LEXMC	DAVIE	NWCCN	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)	\$ 1,739,960	\$ 549,997	\$ 112,161	\$ 76,739	\$ 7,913	\$ 190,962	\$ 12,058	\$ -	\$ 2,689,790	\$ (201,791)	\$ -	\$ 2,487,999
Provision for bad debts	(156,686)	(30,067)	(11,315)	(6,075)	-	(8,084)	(602)	-	(212,829)	8,458	-	(204,371)
Net patient service revenue	1,583,274	519,930	100,846	70,664	7,913	182,878	11,456	-	2,476,961	(193,333)	-	2,283,628
Gifts, grants, and contracts	2,649	184,326	354	-	3,804	1,150	-	-	192,283	(228)	-	192,055
Net student tuition and fees	1,682	32,140	-	-	-	-	-	-	33,822	-	-	33,822
Investment return designated for current operations	1,271	25,849	-	-	-	19	312	-	27,451	(1,583)	-	25,868
Other sources	44,321	209,181	1,017	760	-	22,850	234	(182,656)	95,707	(35,353)	-	60,354
Net assets released from restrictions	454	30,576	-	-	143	-	-	-	31,173	(1,756)	-	29,417
Total operating revenues and support	1,633,651	1,002,002	102,217	71,424	11,860	206,897	12,002	(182,656)	2,857,397	(232,253)	-	2,625,144
Recurring operating expenses												
Salaries and wages	562,280	556,178	38,452	20,047	-	109,835	2,141	4,853	1,293,786	(114,559)	-	1,179,227
Employee benefits	152,313	108,107	8,041	3,068	-	23,808	443	1,308	297,088	(24,637)	-	272,451
Purchased services	327,176	180,080	12,739	6,175	7,009	20,097	4,280	(187,080)	370,476	(29,180)	-	341,296
Clinical and laboratory supplies	370,583	54,475	20,706	16,015	-	21,848	391	-	484,018	(22,040)	-	461,978
Other operating expenses	117,044	72,854	6,756	8,897	4,444	23,551	938	(1,737)	232,747	(26,334)	-	206,413
Depreciation and amortization	85,569	34,463	3,762	2,272	81	6,045	712	-	132,904	(5,488)	-	127,416
Financing costs	18,441	7,532	-	-	-	5,504	16	-	31,493	(65)	32	31,460
Total recurring operating expenses	1,633,406	1,013,689	90,456	56,474	11,534	210,688	8,921	(182,656)	2,842,512	(222,303)	32	2,620,241
Nonrecurring operating expenses												
Acquisition costs	11,932	-	-	-	-	-	-	-	11,932	-	-	11,932
Total operating expenses	1,645,338	1,013,689	90,456	56,474	11,534	210,688	8,921	(182,656)	2,854,444	(222,303)	32	2,632,173
Operating excess (deficiency) of revenues and support over expenses	(11,687)	(11,687)	11,761	14,950	326	(3,791)	3,081	-	2,953	(9,950)	(32)	(7,029)
Nonoperating gains (losses)												
Gains (losses) from equity-method affiliates	49,509	43,579	-	-	-	465	-	(94,884)	(1,331)	(1,005)	14,361	12,025
Net investment gains (losses)	36,059	325	-	19	1	428	(12)	-	36,820	(1,066)	32	35,786
Unrealized gains on interest rate swap valuation	-	1,244	-	-	-	-	-	-	1,244	-	-	1,244
(Losses) gains on acquisitions of affiliates	(19,973)	4,520	-	-	-	67,394	-	-	51,941	(51,941)	-	-
Pension and postretirement costs	(7,378)	(2,025)	-	-	-	-	-	-	(9,403)	-	-	(9,403)
Other	(7,665)	2,018	-	11	-	(6,237)	(155)	-	(12,028)	(9,607)	-	(21,635)
Excess of revenues and gains over expenses and losses before noncontrolling interest	38,865	37,974	11,761	14,980	327	58,259	2,914	(94,884)	70,196	(73,569)	14,361	10,988

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

WAKE FOREST BAPTIST

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

Year Ended June 30, 2018

Dollars in thousands.

	NCBH	WFUHS	LEXMC	DAVIE	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Excess of revenues and gains over expenses and losses before noncontrolling interest	\$ 38,865	\$ 37,974	\$ 11,761	\$ 14,980	\$ 327	\$ 58,259	\$ 2,914	\$ (94,884)	\$ 70,196	\$ (73,569)	\$ 14,361	\$ 10,988
Noncontrolling interest	(1,537)	(469)	-	-	-	-	-	726	(1,280)	-	811	(469)
Excess of revenues and gains over expenses and losses attributable to Wake Forst Baptist	37,328	37,505	11,761	14,980	327	58,259	2,914	(94,158)	68,916	(73,569)	15,172	10,519
Equity transfer to affiliate	(1,109)	(8,900)	-	-	-	10,009	-	-	-	-	-	-
Pension and postretirement-related losses (gains) other than net periodic pension cost	17,988	5,727	-	-	-	(3,345)	-	-	20,370	3,345	-	23,715
Other	-	-	-	-	-	-	(2,616)	1,962	(654)	2,668	(2,206)	(192)
Change in unrestricted net assets	54,207	34,332	11,761	14,980	327	64,923	298	(92,196)	88,632	(67,556)	12,966	34,042
Temporarily restricted net assets												
Contributions	3,482	22,108	-	-	298	599	-	-	26,487	(1,801)	-	24,686
Investment return designated for restricted purposes	-	7,501	-	-	-	-	-	-	7,501	-	-	7,501
Net assets released from restrictions	(454)	(30,576)	-	-	(143)	-	-	-	(31,173)	1,756	-	(29,417)
Net investment gains	257	1,318	-	-	-	-	-	-	1,575	-	-	1,575
Other	-	(3)	-	-	-	-	-	-	(3)	-	-	(3)
Change in temporarily restricted net assets	3,285	348	-	-	155	599	-	-	4,387	(45)	-	4,342
Permanently restricted net assets												
Contributions	57	8,779	-	-	-	-	-	-	8,836	-	-	8,836
Investment return reinvested in principal	-	(628)	-	-	-	-	-	-	(628)	-	-	(628)
Net investment gains (losses)	3	(3,411)	-	-	-	-	-	-	(3,408)	-	-	(3,408)
Actuarial gains on annuity obligations	-	217	-	-	-	-	-	-	217	-	-	217
Other	(7)	11	-	-	-	-	-	-	4	-	-	4
Change in permanently restricted net assets	53	4,968	-	-	-	-	-	-	5,021	-	-	5,021
Change in net assets attributable to Wake Forest Baptist	57,545	39,648	11,761	14,980	482	65,522	298	(92,196)	98,040	(67,601)	12,966	43,405
Net assets attributable to Wake Forest Baptist at beginning of period	1,123,913	750,607	83,712	12,936	5,411	2,445	13,147	(100,997)	1,891,174	(93,522)	43,908	1,841,560
Net assets attributable to Wake Forest Baptist at end of period	1,181,458	790,255	95,473	27,916	5,893	67,967	13,445	(193,193)	1,989,214	(161,123)	56,874	1,884,965
Change in net assets attributable to noncontrolling interest	1,537	469	-	-	-	-	-	(726)	1,280	-	(811)	469
Net assets attributable to noncontrolling interest at beginning of period	12,362	-	-	-	-	-	-	(5,682)	6,680	-	(6,680)	-
Total net assets at end of period	\$ 1,195,357	\$ 790,724	\$ 95,473	\$ 27,916	\$ 5,893	\$ 67,967	\$ 13,445	\$ (199,601)	\$ 1,997,174	\$ (161,123)	\$ 49,383	\$ 1,885,434

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