



QUARTERLY DISCLOSURE STATEMENT (UNAUDITED)

For the Period Ended March 31, 2016

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

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

QUARTERLY DISCLOSURE March 31, 2016

Comments below are based on combined results of Wake Forest Baptist Medical Center (“Wake Forest Baptist” or “WFB”) (including those entities not obligated on the Bonds) for the nine months ended March 31, 2016. Effective March 26, 2011, North Carolina Baptist Hospital, Wake Forest University Health Sciences, and Wake Forest University Baptist Medical Center formed a single obligated group under the North Carolina Baptist Hospital Master Trust Indenture. As of March 31, 2016, the Combined Group generated in the aggregate 99.2% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 97.3% of Wake Forest Baptist’s unrestricted net assets.

QUARTERLY HIGHLIGHTS

Wake Forest Baptist is 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.

Through nine months of fiscal year 2016, Wake Forest Baptist reported a gain in unrestricted net assets of \$18.5 million. This gain is comprised of operating income of \$46.2 million (2.7% operating margin) and net non-operating losses of \$27.6 million primarily attributed to year to date investment losses.

The sections below provide context regarding underlying financial performance for the nine months ending March 31, 2016.

Revenues and Operating Performance

- **Net Revenues:** Total net revenues were \$1.7 billion, 8.9% higher than the prior year. Underlying patient revenues improved 10.1% over the same period last year due to growth in clinical volumes and yield improvements.
- **Operating Performance:** Operating income through third quarter was \$46.2 million or 2.7% compared to prior year of \$40.2 million or 2.5%. Year-to-date operating EBIDA Margin was \$155.1 million or 8.9% compared to prior year of \$148.3 million or 9.3%. Solid operating results were driven by strong revenue cycle performance and increased labor productivity coupled with volume growth in the clinical enterprise.

Utilization

Wake Forest Baptist generated overall clinical volume growth with a 9.3% year over year growth in case mix adjusted equivalent discharges (CMAEDs). This increase reflects a combined increase in discharges, acuity levels, outpatient volumes, and OR cases. Improving patient access and enhancing provider throughput has continued to be an ongoing focus.

- **Inpatient Utilization:** System inpatient case mix adjusted discharges increased by 2.2% compared to prior year. This was driven by growth in emergency department visits and ambulatory clinic visits. The number of ED patients admitted to the hospital is approaching 21% and over 90% of those patients require critical care. Additionally, with an increased focus on access, clinic visits increased 4.7% during the period.
- **Surgical Volumes:** Operating room cases across the health system increased by 2.6% over prior year. Consistent with the strategy to migrate operating room volume from inpatient to outpatient, growth in the outpatient setting was 4.7% while inpatient operating cases softened by 0.9%. 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 120,908 represented a 1.8% increase over prior year. The expansion of Wake Forest Baptist multi-specialty clinics and urgent care centers (Clemmons, Davie, etc.) increased access points for care and provided appropriate care settings, while supporting growth. The Emergency department is a key driver of inpatient volumes. During the period,

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56.5% of inpatient admissions began in the ED compared with 54.5% during the same period in the prior year.

- **Outpatient Volumes:** Outpatient volumes continued to show strong growth with a 10.6% increase over the prior year. This growth is attributable to improvements in ambulatory and diagnostics access, clinician and staff productivity, expansion of outpatient facilities, and pricing strategies.

Operational Performance / Efficiency

- **Length of Stay:** Average Length of Stay increased 1.8% during the nine months ending March 31st, compared to the prior year. This increase is primarily driven by an increase in the Case Mix. Case Mix Adjusted Average Length of Stay was 2.98 days, compared to 2.96 days during the same period in the prior year.
- **Productivity:** Staffing productivity for system hospitals improved 6.0% during the period compared to the prior year. Labor hours per CMAED were 90.3 paid hours, compared to 96.1 paid hours per CMAED during the same period prior year.

Balance Sheet

- **Liquidity:** Balance sheet remains solid with Days Cash on Hand of 244 and Debt-to-Capitalization of 33.5%.
- **Investment Performance:** WFB loss on investments, for the nine months ended March 31st, 2016, was \$42.8 million. WFB maintains a broadly diversified investment portfolio and continues to have a long-term perspective with regard to its investment activities.
- **Debt Structure/Line of Credit:** Wake Forest Baptist has an unsecured line of credit to provide up to \$125 million for the working capital needs of the organization. As of March 31st, the facility had an outstanding balance of \$8.5 million.
- **Capital Expenditures:** Capital expenditures through March 31st were \$77.7 million and included the development of the Medical Plaza – North Elm, a multi-specialty clinic in Greensboro, main campus facility renovations, and other IT network and data center infrastructure upgrades.

Key Strategic Investments

- Wake Forest Baptist Medical Center completed the purchase of Cornerstone Health Care (Cornerstone) on May 3, 2016, following a three-month due diligence period. The terms of the deal remain confidential, but the acquisition will allow Cornerstone – a 275+ provider, multi-specialty practice – to continue to operate as a separate business unit and maintain its leadership position as one of the top performing Accountable Care Organizations (ACO) in the country. Cornerstone's network of more than 275 medical providers and 50 practices across 12 counties complements Wake Forest Baptist's network of community physicians, specialty practices and multiple hospital campuses.
- The Town of Wilkesboro and Wilkes Regional Medical Center (WRMC) agreed to enter into a letter of intent with Wake Forest Baptist Medical Center and begin negotiations leading to a long-term lease of WRMC. Under the terms of its proposal, Wake Forest Baptist will invest \$238 million in support of WRMC, the Town of North Wilkesboro, the Wilkes community, and patients in the region it serves during the initial 30-year term of the lease.

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FINANCIAL RATIOS

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

Liquidity – Combined Group

The following table sets forth, as of March 31, 2016 and 2015, the Combined Group's operating cash, Board-designated funds for capital expansion and short-term investments. Excluded are trustee-held funds, donor restricted funds, and pension assets. All investments are shown at market value.

	<u>3/31/2016</u>	<u>3/31/2015</u>
Unrestricted Cash & cash equivalents	\$ 178,143	\$ 108,002
Investments and assets whose use is limited	1,215,010	1,145,572
Total cash and investments	\$ 1,393,153	\$ 1,253,574
Bonds payable	\$ 656,232	\$ 677,112
Notes payable and capital leases	86,520	141,101
Less: Short-term debt	-	-
Long-term Indebtedness	\$ 742,752	\$ 818,213
Unrestricted Cash-to-Debt	188%	153%
Days Cash on Hand	241	234

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

The following table summarizes the current allocation of board designated and other unrestricted fund investments (as of March 31, 2016) for the Combined Group.

	<u>Actual</u>
Equity	30.8%
Fixed Income	40.3%
Absolute Return	22.4%
Real Assets	6.4%
Total	100.0%

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

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Capitalization – Combined Group

The capitalization for the Combined Group for the periods ended March 31, 2016 and 2015 is set forth in the following table.

	<u>3/31/2016</u>	<u>3/31/2015</u>
Revenue Bonds	656,232	677,112
Other Notes Payable	78,536	131,025
Capital Leases	7,984	10,076
	<hr/>	<hr/>
Total Debt	742,752	818,213
Unrestricted Net Assets	1,435,474	1,447,823
	<hr/>	<hr/>
Total Capitalization	<u>2,178,226</u>	<u>2,266,036</u>
Total Debt as a % of Total Capitalization	34.1%	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 March 31, 2016 (i.e., trailing four quarter calculation). The Coverage Ratio is the ratio determined by dividing Income Available for Debt Service for such annual period by the debt service requirement for such period. The Combined Group does not have a quarterly Coverage Ratio reporting requirement, but voluntarily provides this information on a rolling 12-month basis.

	12 months ending <u>3/31/2016</u>
Operating Income	45,071
Unrestricted Contributions	0
Interest & Dividend Income	13,752
Depreciation and Amortization	121,565
Financing Costs	25,448
Income Available for Debt Service	<u>205,836</u>
Actual Debt Service	60,996
Debt Service Coverage Ratio	3.4

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UTILIZATION STATISTICS

Utilization Statistics – Combined Group

	<u>Nine Months Ended</u>		<u>% Chg from Prior Year</u>
	<u>3/31/2016</u>	<u>3/31/2015</u>	
Case Mix Adjusted Equivalent Discharges	147,583	135,074	9.3%
Patient Days	194,767	190,038	2.5%
Inpatient Admissions	33,051	32,826	0.7%
Average Length of Stay	5.89	5.79	1.8%
Average Length of Stay (Case Mix Adjusted)	2.98	2.96	0.6%
Inpatient Operating Room Cases	11,370	11,468	-0.9%
Outpatient Operating Room Cases	21,951	20,975	4.7%
Total Operating Room Cases	33,321	32,443	2.7%
Emergency Department Visits	120,908	118,810	1.8%
Case Mix Index <i>(all payors using Medicare weights)</i>	1.9790	1.9549	1.2%
RVUs	4,306,259	4,128,586	4.3%

CURRENT OPERATING PROFILE

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

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

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

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

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

The Obligated Group

The following entities are currently Members of the Obligated Group:

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

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

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

The Combined Group

As of March 31, 2016, the Combined Group generated in the aggregate 99.2% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 97.3% of Wake Forest Baptist’s unrestricted net assets.

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



WAKE FOREST BAPTIST

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

**For the Period Ended March 31, 2016
(Unaudited)**

WAKE FOREST BAPTIST
Combined Financial Statements
Period Ended March 31, 2016

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Combined Balance Sheets

Dollars in thousands.

	(Unaudited) March 31, 2016	(Audited) June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 181,614	\$ 341,756
Patient receivables, net	237,227	211,512
Estimated third-party payer settlements	58,966	22,288
Accounts, grants, and notes receivable, net	80,023	100,106
Other current assets	52,870	51,763
Total current assets	<u>610,700</u>	<u>727,425</u>
Accounts, grants, and notes receivable, net	40,550	40,640
Investments and assets whose use is limited	1,470,591	1,433,241
Goodwill	51,586	-
Property and equipment, net	1,010,971	1,024,943
Other assets	13,276	30,809
Total assets	<u>\$ 3,197,674</u>	<u>\$ 3,257,058</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accruals	\$ 131,643	\$ 224,253
Accrued employee compensation	165,626	132,766
Estimated third-party payer settlements	100,278	106,257
Deferred revenue	69,813	57,834
Current portion of long-term debt	27,252	25,590
Other current liabilities	53,353	40,207
Total current liabilities	<u>547,965</u>	<u>586,907</u>
Notes payable and capital leases, net of current portion	76,357	88,617
Bonds payable, net of current portion	640,911	647,835
Retirement benefits	98,542	96,274
Other long-term liabilities	104,036	122,729
Total liabilities	<u>1,467,811</u>	<u>1,542,362</u>
Net assets:		
Unrestricted		
Wake Forest Baptist	1,474,916	1,476,345
Noncontrolling interests in subsidiaries	19,968	-
Temporarily restricted	77,177	77,787
Permanently restricted	157,802	160,564
Total net assets	<u>1,729,863</u>	<u>1,714,696</u>
Total liabilities and net assets	<u>\$ 3,197,674</u>	<u>\$ 3,257,058</u>

See accompanying notes to the combined financial statements.

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WAKE FOREST BAPTIST

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

Dollars in thousands.

	Period Ended March 31,	
	2016	2015
Operating revenues and support		
Patient service revenue (net of contractual allowances and discounts)	\$ 1,544,851	\$ 1,446,701
Provision for bad debts	(38,183)	(79,282)
Net patient service revenue	1,506,668	1,367,419
Gifts, grants, and contracts	124,657	136,015
Net student tuition and fees	24,473	22,588
Investment return designated for current operations	18,658	18,085
Other sources	44,449	34,754
Net assets released from restrictions	23,140	20,179
Total operating revenues and support	<u>1,742,045</u>	<u>1,599,040</u>
Operating expenses		
Salaries and wages	775,855	709,373
Employee benefits	184,572	151,644
Purchased services	207,807	206,794
Clinical and laboratory supplies	281,107	261,428
Other operating expenses	137,616	121,469
Depreciation and amortization	90,674	89,889
Financing costs	18,244	18,242
Total operating expenses	<u>1,695,875</u>	<u>1,558,839</u>
Operating excess of revenues and support over expenses	46,170	40,201
Nonoperating gains (losses)		
Gains from equity-method affiliates	415	1,627
Net investment losses	(61,408)	(1,995)
Net loss on interest rate swap valuation	(1,086)	(1,691)
Other	34,108	-
Excess of revenues and gains over expenses and losses	<u>18,199</u>	<u>38,142</u>

See accompanying notes to the combined financial statements.

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WAKE FOREST BAPTIST

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

Dollars in thousands.

	Period Ended March 31,	
	2016	2015
Excess of revenues and gains over expenses and losses	18,199	38,142
Pension and postretirement-related losses other than net periodic cost	(52)	(52)
Other	392	(304)
Change in unrestricted net assets	<u>18,539</u>	<u>37,786</u>
Temporarily restricted net assets		
Contributions	18,735	13,021
Investment return designated for restricted purposes	(637)	4,527
Net assets released from restrictions	(23,140)	(20,179)
Net investment gains (losses)	4,836	(3,936)
Other	(404)	624
Change in temporarily restricted net assets	<u>(610)</u>	<u>(5,943)</u>
Permanently restricted net assets		
Contributions	8,601	6,878
Investment return reinvested in principal	573	122
Net investment losses	(11,936)	(393)
Other	-	(395)
Change in permanently restricted net assets	<u>(2,762)</u>	<u>6,212</u>
Change in net assets	15,167	38,055
Net assets at beginning of period	<u>1,714,696</u>	<u>1,664,281</u>
Net assets at end of period	<u>\$ 1,729,863</u>	<u>\$ 1,702,336</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.

	Period Ended March 31,	
	2016	2015
Operating activities and gains and losses		
Change in net assets	\$ 15,167	\$ 38,055
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	90,674	89,889
Amortization of bond premium	(855)	(1,036)
Gains in value of interest rate swaps, net	(1,086)	(1,691)
Gains from equity-method affiliates	(415)	(1,627)
Loss (gains) on disposal of property and equipment	949	(660)
Gifts and other revenue restricted for long-term investing	(9,137)	(6,906)
Investment losses, net	68,508	5,931
Changes in operating assets and liabilities:		
Patient receivables, net	(25,715)	6,976
Estimated third-party payer settlements, net	(42,657)	(21,130)
Accounts, grants, and notes receivable, net	20,173	72,651
Other current assets	(1,107)	(16,802)
Other assets	17,533	9,634
Accounts payable and accruals	(92,610)	(14,197)
Accrued employee compensation	32,860	9,285
Deferred revenues	11,979	4,880
Other current liabilities	13,146	7,531
Retirement benefits	2,268	(353)
Other long-term liabilities	(17,607)	(46,627)
Net cash provided by operating activities	<u>82,068</u>	<u>133,803</u>
Investing activities		
Net purchases and maturities of investments	(105,443)	(78,060)
Goodwill from acquisition	(51,586)	-
Net additions to property and equipment	(77,651)	(52,111)
Net cash used in investing activities	<u>(234,680)</u>	<u>(130,171)</u>
Financing activities		
Principal payments on debt	(18,113)	(19,196)
Proceeds from issuance of debt	1,446	13,755
Proceeds from private gifts restricted for long-term investing	8,558	6,778
Other financing activities	579	128
Net cash (used in) provided by financing activities	<u>(7,530)</u>	<u>1,465</u>
(Decrease) increase in cash and cash equivalents	(160,142)	5,097
Cash and cash equivalents at the beginning of year	<u>341,756</u>	<u>106,811</u>
Cash and cash equivalents at end of year	<u>\$ 181,614</u>	<u>\$ 111,908</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 is shared equally between the entities. Although the entities will be operated to maximize value at the total WFB level, revenues, expenses, existing and new assets and debt will continue to be accounted for generally at the individual entity levels.

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

North Carolina Baptist Hospital (NCBH) is a private, non-profit institution dedicated to the provision of healthcare. NCBH, which is based in Winston-Salem, North Carolina, consists of entities that provide services directly to patients and entities that support ancillary functions. NCBH consists of North Carolina Baptist Hospital, Davie County Emergency Health Corporation (DCH), CareNet, Inc. (CareNet), The Hawthorne Inn and Conference Center, Inc. (Hawthorne Inn), North Carolina Baptist Hospital Foundation (the Foundation), and Clemmons Medical Park LLC (CMP). NCBH owns a 50% equity interest in MedCost LLC (MedCost), a preferred provider organization which through the shared ownership agreements is accounted for as equity-method investments in the combined financial statements. As of March 31, 2016, NCBH owns a 66.75% interest in Cornerstone Health Enablement Strategic Solutions, LLC (CHESS), which has been consolidated in the combined financial statements.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

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; and BRF – A 1a, LLC; and Childress Institute for Pediatric Trauma; North District Owners Association; and Verger Fund II, LLC. NCBH and WFUHS each own a 50% equity interest in Dialysis Access Group of Wake Forest University, LLC (DAG) and in NCBH Outpatient Endoscopy Center, LLC, and The Medical Foundation of WFUHS & NCBH, and each own a 37.5% equity interest in Wake Forest Baptist Imaging, LLC (WFBI).

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

b. *Basis of Presentation*

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

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

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

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

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

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

Dollars in thousands.

c. ***Cash Equivalents***

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

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

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

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

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

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

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

e. Property and Equipment

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

f. Asset Retirement Obligations

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

WFB reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. WFB recognizes an impairment charge when the fair value of the asset or group of assets is less than the carrying value. As of March 31, 2016 there were no impairment charges on assets.

g. Defined Benefit Plans

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

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

h. Derivative Instruments

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

i. Revenue Recognition

WFB's revenue recognition policies are:

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

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

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

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

j. Contributions

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

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 period ended March 31, 2016 and the fiscal year ended June 30, 2015, WFB recognized EHR incentives of approximately \$2,816 and \$5,595, respectively, which are included in other sources of revenue (separate from net patient service revenue) in the combined statements of operations and changes in net assets.

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

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

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

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

Dollars in thousands.

ended March 31, 2016 and fiscal year ended June 30, 2015, including a quantification of tax risks in areas such as unrelated business income and taxation of its for-profit subsidiaries. This evaluation did not have a material effect on WFB's combined financial statements for the period ended March 31, 2016 and the fiscal year ended June 30, 2015.

n. ***Use of Estimates***

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

o. ***Reclassifications***

Certain reclassifications have been made to the financial statement presentation of the period ended March 31, 2016 and the fiscal year ended June 30, 2015 to correspond to the current year's format. Net assets are unchanged due to these reclassifications.

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

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

q. ***Subsequent Events***

On May 2, 2016, WFB acquired Cornerstone Health Care, P.A. (CHC). As a result of this transaction CHC is now a wholly-owned subsidiary of WFB. Results of operations for CHC will be included in WFB's consolidated financial statements from the date of acquisition.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

Dollars in thousands.

2. Investments and Assets Whose Use is Limited

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

	<u>March 31, 2016</u>	<u>June 30, 2015</u>
Short-term investments ^(a)	\$ 85,519	\$ 80,042
Absolute return ^(b)	433,245	428,667
Commodities ^(c)	29,143	39,293
Fixed income ^(d)	415,101	342,400
Private equity ^(e)	1,017	694
Public equity ^(f)	368,550	394,064
Real estate ^(g)	17,325	12,335
Pooled investments held at WFU ^(h)	6,329	10,443
Beneficial interest in perpetual trusts and assets held by others ⁽ⁱ⁾	18,892	19,903
Other ⁽ⁱ⁾	95,470	105,400
Total investments and assets whose use is limited	<u>\$ 1,470,591</u>	<u>\$ 1,433,241</u>

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

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

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.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

*Dollars in thousands.***Investment Return**

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

	Period Ended March 31,	
	2016	2015
Interest and dividend income	\$ 16,168	\$ 18,954
Net investment losses	(58,918)	(2,864)
Total investment return included in change in unrestricted net assets	<u>\$ (42,750)</u>	<u>\$ 16,090</u>

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

	Period Ended March 31,	
	2016	2015
Operating:		
Investment return designated for current operations	\$ 18,658	\$ 18,085
Nonoperating:		
Net investment losses	(61,408)	(1,995)
Total unrestricted investment return included in in the combined statements of operations and changes in net assets	<u>(42,750)</u>	<u>16,090</u>
Investment return designated for temporarily restricted purposes	(637)	4,527
Temporarily restricted net losses on investments	4,836	(3,936)
Investment return reinvested in principal	573	122
Permanently restricted net losses on investments	<u>(11,936)</u>	<u>(393)</u>
Total investment return included in change in restricted net assets	<u>(7,164)</u>	<u>320</u>
Total investment return	<u>\$ (49,914)</u>	<u>\$ 16,410</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

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

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

	March 31, 2016		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	\$ 258,267	-	\$ 258,267
Donor-restricted endowment funds	-	166,052	166,052
Total endowment funds	258,267	166,052	424,319
Funds designated for capital improvements	626,836	-	626,836
Funds designated for settlement of professional liability costs	59,050	-	59,050
Collateral for derivative agreements	-	5,700	5,700
Beneficial interests in perpetual trusts and assets held by others	-	18,892	18,892
Funds held under retirement and benefit plans	38,648	-	38,648
Designated for restricted purposes	1,759	16,029	17,788
Assets whose use is limited	984,560	206,673	1,191,233
Other unrestricted investments			259,205
Investments in equity-method affiliates			20,153
Investments and assets whose use is limited			<u>\$ 1,470,591</u>
	June 30, 2015		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	\$ 274,006	\$ -	\$ 274,006
Donor-restricted endowment funds	-	167,322	167,322
Total endowment funds	274,006	167,322	441,328
Funds designated for capital improvements	649,183	-	649,183
Funds designated for settlement of professional liability costs	66,987	-	66,987
Collateral for derivative agreements	-	4,890	4,890
Beneficial interests in perpetual trusts and assets held by others	-	19,903	19,903
Funds held under retirement and benefit plans	35,896	-	35,896
Designated for restricted purposes	1,849	16,711	18,560
Assets whose use is limited	1,027,921	208,826	1,236,747
Other unrestricted investments			165,617
Investments in equity-method affiliates			30,877
Investments and assets whose use is limited			<u>\$ 1,433,241</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

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

Debt consists of the following:

	March 31, 2016	June 30, 2015
Series 2012A ^(a)	\$ 118,405	\$ 118,405
Series 2012A Unamortized Bond Premium	3,972	4,072
Series 2012A Bond Issuance Costs	(990)	(1,015)
Series 2012B ^(a)	102,155	105,750
Series 2012B Unamortized Bond Premium	13,809	14,395
Series 2012B Bond Issuance Costs	(810)	(845)
Series 2012C ^(a)	52,615	54,810
Series 2012C Bond Issuance Costs	(399)	(415)
Series 2012D ^(a)	80,000	80,000
Series 2012D Bond Issuance Costs	(106)	(109)
Series 2010 ^(b)	281,595	281,595
Series 2010 Unamortized Bond Premium	8,470	8,819
Series 2010 Bond Issuance Costs	(2,484)	(2,586)
Total bonds payable	<u>656,232</u>	<u>662,876</u>
Line of credit ^(c)	8,539	13,039
Line of credit ^(d)	951	-
Loan agreement ^(e)	14,176	15,678
Loan agreement ^(f)	55,500	60,000
Promissory note ^(g)	160	160
Promissory note ^(h)	161	160
JV external notes ⁽ⁱ⁾	416	570
Capital leases ^(j)	7,984	9,559
Capital leases ^(k)	401	-
Total notes payable and capital leases	<u>88,288</u>	<u>99,166</u>
Total debt	744,520	762,042
Less current portion	<u>27,252</u>	<u>25,590</u>
Total long-term debt	<u>\$ 717,268</u>	<u>\$ 736,452</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

Dollars in thousands.

Debt is reflected in the combined balance sheets as follows:

	<u>March 31, 2016</u>	<u>June 30, 2015</u>
Current portion of long-term debt	\$ 27,252	\$ 25,590
Notes payable and capital leases, net of current portion	76,357	88,617
Bonds payable, net of current portion	<u>640,911</u>	<u>647,835</u>
Total debt	<u>\$ 744,520</u>	<u>\$ 762,042</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 credit facility in the amount of \$125,000 to provide for the working capital needs of NCBH, WFUHS, and the Medical Center, all Borrowers under the credit facility. The line of credit refinanced the previously held \$160,000 line of credit. The line of credit is due on June 23, 2018 and bears interest at the one-month LIBOR plus 0.70%.
- (d) **Line of credit** – consists of an unsecured credit facility in the amount of \$1,000 to provide for the working capital needs of CHESS. The line of credit is due on August 3, 2016 and bears interest at the one-month LIBOR plus 5.00%.
- (e) **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.
- (f) **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.
- (g) **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.
- (h) **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.
- (i) **JV external notes** – includes various notes payable held by WFB affiliates, with interest rates ranging from 3.38% to 5.26% and final maturities between 2014 and 2019.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

March 31, 2016

Dollars in thousands.

- (j) **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.
- (k) **Capital leases** – comprised of capital lease obligations held by CHESS, maturing at various dates through 2017. The obligations have interest rates ranging from 5.88% to 17.821% and are secured by leased equipment.

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

WAKE FOREST BAPTIST

Combining Balance Sheet Information (Unaudited)

March 31, 2016

Dollars in thousands.

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Assets										
Current assets:										
Cash and cash equivalents	\$ 86,866	24,016	52,861	15,155	4,283	(1,567)	\$ 181,614	\$ (5,038)	1,567	\$ 178,143
Patient receivables, net	178,625	51,296	6,968	-	338	-	237,227	(169)	-	237,058
Estimated third-party payer settlements	57,367	-	1,599	-	-	-	58,966	-	-	58,966
Accounts, grants, and notes receivable, net	51,082	71,382	1,672	1,696	84	(45,893)	80,023	(3,006)	397	77,414
Other current assets	47,435	3,189	1,949	55,682	176	(55,561)	52,870	(630)	-	52,240
Total current assets	421,375	149,883	65,049	72,533	4,881	(103,021)	610,700	(8,843)	1,964	603,821
Accounts, grants, and notes receivable, net	41,380	39,483	-	1,126	-	(41,439)	40,550	-	731	41,281
Investments and assets whose use is limited	744,688	777,328	-	62,697	6,364	(120,486)	1,470,591	(35,363)	43,308	1,478,536
Goodwill	51,586	-	-	-	-	-	51,586	(51,586)	-	-
Property and equipment, net	657,254	293,911	22,382	34,059	3,365	-	1,010,971	(5,928)	-	1,005,043
Other assets	5,723	6,766	787	-	-	-	13,276	(2,225)	-	11,051
Total assets	\$ 1,922,006	\$ 1,267,371	\$ 88,218	\$ 170,415	\$ 14,610	\$ (264,946)	\$ 3,197,674	\$ (103,945)	\$ 46,003	\$ 3,139,732
Liabilities and Net Assets										
Current liabilities:										
Accounts payable and accruals	\$ 51,833	80,114	8,663	70,406	1,420	(80,793)	\$ 131,643	\$ (1,518)	-	\$ 130,125
Accrued employee compensation	58,206	106,212	2,514	(1,306)	-	-	165,626	(2,269)	-	163,357
Estimated third-party payer settlements	98,609	-	1,669	-	-	-	100,278	-	-	100,278
Deferred revenue	563	67,896	-	1,354	-	-	69,813	(87)	-	69,726
Current portion of long-term debt	12,828	8,242	-	6,000	182	-	27,252	(1,931)	397	25,718
Other current liabilities	34,432	25,677	410	-	764	(7,930)	53,353	(764)	7,930	60,519
Total current liabilities	256,471	288,141	13,256	76,454	2,366	(88,723)	547,965	(6,569)	8,327	549,723
Notes payable and capital leases, net of current portion	5,829	20,794	-	49,500	234	-	76,357	(966)	732	76,123
Bonds payable, net of current portion	479,541	161,370	-	-	-	-	640,911	-	-	640,911
Retirement benefits	59,358	39,184	-	-	-	-	98,542	-	-	98,542
Other long-term liabilities	77,708	80,987	7,385	-	56	(62,100)	104,036	(56)	-	103,980
Total liabilities	878,907	590,476	20,641	125,954	2,656	(150,823)	1,467,811	(7,591)	9,059	1,469,279
Net assets:										
Unrestricted										
Wake Forest Baptist	1,017,466	453,829	66,263	39,874	11,954	(114,470)	1,474,916	(96,354)	56,912	1,435,474
Noncontrolling interests in subsidiaries	19,621	-	-	-	-	347	19,968	-	(19,968)	-
Temporarily restricted	3,621	68,560	409	4,587	-	-	77,177	-	-	77,177
Permanently restricted	2,391	154,506	905	-	-	-	157,802	-	-	157,802
Total net assets	1,043,099	676,895	67,577	44,461	11,954	(114,123)	1,729,863	(96,354)	36,944	1,670,453
Total liabilities and net assets	\$ 1,922,006	\$ 1,267,371	\$ 88,218	\$ 170,415	\$ 14,610	\$ (264,946)	\$ 3,197,674	\$ (103,945)	\$ 46,003	\$ 3,139,732

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

WAKE FOREST BAPTIST

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

Period Ended March 31, 2016

Dollars in thousands.

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Operating revenues and support										
Patient service revenue (net of contractual allowances and discounts)	\$ 1,092,856	\$ 373,282	\$ 65,238	\$ 5,709	7,766	\$ -	\$ 1,544,851	\$ (6,513)	\$ -	\$ 1,538,338
Provision for bad debts	(7,520)	(28,501)	(1,981)	-	(181)	-	(38,183)	222	-	(37,961)
Net patient service revenue	1,085,336	344,781	63,257	5,709	7,585	-	1,506,668	(6,291)	-	1,500,377
Gifts, grants, and contracts	1,058	120,152	271	3,176	-	-	124,657	(2)	750	125,405
Net student tuition and fees	1,118	23,355	-	-	-	-	24,473	-	-	24,473
Investment return designated for current operations	1,032	17,626	-	-	-	-	18,658	(932)	-	17,726
Other sources	26,862	169,797	374	1,374	-	(153,958)	44,449	(9,067)	1,267	36,649
Net assets released from restrictions	1,243	21,897	-	-	-	-	23,140	-	-	23,140
Total operating revenues and support	1,116,649	697,608	63,902	10,259	7,585	(153,958)	1,742,045	(16,292)	2,017	1,727,770
Operating expenses										
Salaries and wages	365,514	387,283	21,677	-	1,381	-	775,855	(8,394)	-	767,461
Employee benefits	96,760	81,684	5,842	-	286	-	184,572	(1,991)	-	182,581
Purchased services	240,384	105,670	6,972	4,950	2,579	(152,748)	207,807	(2,609)	1,267	206,465
Clinical and laboratory supplies	233,946	35,404	11,485	-	272	-	281,107	(128)	-	280,979
Other operating expenses	87,282	42,612	4,361	3,883	687	(1,209)	137,616	(2,310)	749	136,055
Depreciation and amortization	61,979	24,365	2,984	1,039	307	-	90,674	(796)	-	89,878
Financing costs	14,227	4,034	-	-	14	(31)	18,244	(113)	72	18,203
Total operating expenses	1,100,092	681,052	53,321	9,872	5,526	(153,988)	1,695,875	(16,341)	2,088	1,681,622
Operating excess (deficiency) of revenues and support over expenses	16,557	16,556	10,581	387	2,059	30	46,170	49	(71)	46,148
Nonoperating gains (losses)										
Gains (losses) from equity-method affiliates	6,709	6,356	-	(77)	-	(12,573)	415	55	-	470
Net investment (losses) gains	(34,721)	(26,655)	6	(7)	-	(31)	(61,408)	1,743	1,340	(58,325)
Net loss on interest rate swap valuation	-	(1,086)	-	-	-	-	(1,086)	-	-	(1,086)
Other	34,549	-	-	-	-	(441)	34,108	(57,850)	36,100	12,358
(Deficiency) excess of revenues and gains over expenses and losses	23,094	(4,829)	10,587	303	2,059	(13,015)	18,199	(56,003)	37,369	(435)

WAKE FOREST BAPTIST

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

Period Ended March 31, 2016

Dollars in thousands.

	NCBH	WFUHS	LEXMC	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
(Deficiency) excess of revenues and gains over expenses and losses	23,094	(4,829)	10,587	303	2,059	(13,015)	18,199	(56,003)	37,369	(435)
Pension and postretirement-related gains other than net periodic cost	(52)	-	-	-	-	-	(52)	-	-	(52)
Other	69	385	-	-	(2,011)	1,949	392	1,911	(1,848)	455
Change in unrestricted net assets	23,111	(4,444)	10,587	303	48	(11,066)	18,539	(54,092)	35,521	(32)
Temporarily restricted net assets										
Contributions	1,373	17,362	-	-	-	-	18,735	-	-	18,735
Investment return designated for restricted purposes	-	(637)	-	-	-	-	(637)	-	-	(637)
Net assets released from restrictions	(1,243)	(21,897)	-	-	-	-	(23,140)	-	-	(23,140)
Net investment (losses) gains	(109)	4,945	-	-	-	-	4,836	-	-	4,836
Other	(17)	(452)	-	65	-	-	(404)	-	-	(404)
Change in temporarily restricted net assets	4	(679)	-	65	-	-	(610)	-	-	(610)
Permanently restricted net assets										
Contributions	42	8,559	-	-	-	-	8,601	-	-	8,601
Investment return reinvested in principal	(6)	579	-	-	-	-	573	-	-	573
Net investment losses	-	(11,936)	-	-	-	-	(11,936)	-	-	(11,936)
Other	-	(1)	1	-	-	-	-	-	-	-
Change in permanently restricted net assets	36	(2,799)	1	-	-	-	(2,762)	-	-	(2,762)
Change in net assets	23,151	(7,922)	10,588	368	48	(11,066)	15,167	(54,092)	35,521	(3,404)
Net assets at beginning of period	1,019,948	684,817	56,989	44,093	11,906	(103,057)	1,714,696	(42,262)	1,423	1,673,857
Net assets at end of period	<u>\$ 1,043,099</u>	<u>\$ 676,895</u>	<u>\$ 67,577</u>	<u>\$ 44,461</u>	<u>\$ 11,954</u>	<u>\$ (114,123)</u>	<u>\$ 1,729,863</u>	<u>\$ (96,354)</u>	<u>\$ 36,944</u>	<u>\$ 1,670,453</u>