



**QUARTERLY DISCLOSURE STATEMENT
(UNAUDITED)**

For the Period Ended June 30, 2019

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
	Health Care Facilities Revenue Bonds (Fixed)	2019A
	Health Care Facilities Revenue Bonds (Put)	2019B
	Health Care Facilities Revenue Bonds (Put)	2019C
Wake Forest University Baptist Medical Center	Taxable Bonds (Fixed)	2016

QUARTERLY DISCLOSURE June 30, 2019

Comments below are based on combined results of Wake Forest Baptist Health (“Wake Forest Baptist” or “WFB”) (including those entities not obligated on the Bonds) for the fiscal year ended June 30, 2019. 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, 2019, the Combined Group generated in the aggregate 92.6% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 93.9% of Wake Forest Baptist’s unrestricted net assets.

QUARTERLY HIGHLIGHTS

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

For fiscal year 2019, Wake Forest Baptist reported a loss in unrestricted net assets of \$20.1 million. This is comprised of operating income of -\$1.8 million (-0.1% operating margin) and net non-operating losses of \$18.3 million.

The sections below provide context regarding underlying financial performance for the fiscal year ending June 30, 2019.

Revenues and Operating Performance

- **Net Revenues:** Total net revenues were \$3.4 billion, 18.3% higher than the prior year. Underlying patient revenues improved 20.0% over the same period last year due to clinical volume increases in inpatient activity, outpatient encounters, professional activity, and the addition of High Point Medical Center.
- **Operating Performance:** Operating income for the fiscal year was -\$1.8 million or -0.1% compared to prior year of \$3.0 million or 0.1%. Year-to-date operating EBIDA Margin was \$185.2 million or 5.5% compared to prior year of \$167.4 million, or 5.9%.

Utilization

Wake Forest Baptist generated overall clinical volume growth with a 25.8% year over year growth in case mix adjusted equivalent discharges (CMAEDs). The addition of High Point Medical Center, increased system inpatient admissions and outpatient volumes contributed to the year over year growth.

- **Inpatient Utilization:** System inpatient case mix adjusted discharges increased 25.4% when compared to prior year due to a 32.0% increase in discharges offset by a 5.0% decrease in case mix index. Both year-over-year changes were driven primarily by the addition of High Point Medical Center, which increased system discharges while reducing case mix index.
- **Surgical Volumes:** The Medical Center witnessed growth in surgical volumes compared to prior year. Operating room cases across the health system increased by 18.0% over prior year, a 16.0% growth in inpatient cases and a 19.1% growth in the outpatient setting. Higher case volume was primarily driven by the expansion of ambulatory facilities and the addition of High Point Medical Center.
- **Outpatient Volumes:** Overall outpatient volumes continued to show strong growth with a 16.9% 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 High Point Medical Center.
 - **Observation:** Observation volumes continued to grow, increasing 13.9% compared to the prior year.

QUARTERLY DISCLOSURE
June 30, 2019

- **Clinic Visits:** Overall clinic visits increased 13.2% compared to the prior year.
- **Emergency Department:** System emergency department (ED) visits represented a 22.6% increase compared to prior year.

Operational Performance / Efficiency

- **Length of Stay:** Average Length of Stay decreased 8.2% compared to the prior year. This decrease was primarily driven by the addition of High Point Medical Center, but also related to patient throughput and post-acute strategies.
- **Productivity:** Salaries, Wages, and Benefits as a percent of Revenues decreased from 55.6% to 54.1%; however, clinical and laboratory supplies increased year-over-year from 16.9% to 19.3%, due primarily to increases in pharmaceutical costs and utilization.

Balance Sheet

- **Liquidity:** Balance sheet remains stable with Days Cash on Hand of 166 and Debt-to-Capitalization of 38.3%.
- **Investment Performance:** WFB had investment gains of \$64.4 million through the fourth quarter of the fiscal year. WFB maintains a broadly diversified investment portfolio and continues to have a long-term perspective with regard to its investment activities.
- **Line of Credit:** Wake Forest Baptist has an unsecured line of credit to provide up to \$150 million for the working capital needs of the organization. As of June 30th, the facility had an outstanding balance of \$44.2 million.
- **Capital Expenditures:** Capital expenditures through June 30th were \$218 million and included funding for IT infrastructure for High Point Medical Center, Davie Medical Center operating room expansion, Lexington Medical Center operating room expansion, Main campus renovations and other routine equipment and renovations.

QUARTERLY DISCLOSURE
June 30, 2019

FINANCIAL RATIOS

The following statistics and ratio calculations are based on numbers for the **Combined Group** (i.e., Obligated Group Members and Designated Members) and do not include the activity or financial impact of non-designated members such as WFB – Wilkes Medical Center, and Wake Forest Health Network, LLC (the entity formerly known as 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-20 to FS-22 of the attached financial statements.

Liquidity – Combined Group

The following table sets forth, as of June 30, 2019, and 2018, 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>6/30/2019</u>	<u>6/30/2018</u>
Unrestricted Cash & cash equivalents	\$ 192,853	\$ 174,345
Investments and assets whose use is limited	1,189,451	1,357,824
Total cash and investments	<u>\$ 1,382,304</u>	<u>\$ 1,532,169</u>
Bonds payable	\$ 907,596	\$ 712,953
Notes payable and capital leases	134,512	168,370
Less: Short-term debt	-	-
Long-term Indebtedness	<u>\$1,042,108</u>	<u>\$ 881,323</u>
Unrestricted Cash-to-Debt	133%	174%
Days Cash on Hand	169	223

**Note: Long-term indebtedness excludes debt with an original 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, 2019) for the Combined Group.

	<u>Actual</u>
Equity	35.3%
Fixed Income	29.0%
Absolute Return	31.3%
Real Assets	4.3%
Total	<u>100.0%</u>

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

QUARTERLY DISCLOSURE
June 30, 2019

Capitalization – Combined Group

The capitalization for the Combined Group for the periods ended June 30, 2019 and 2018 is set forth in the following table.

	<u>6/30/2019</u>	<u>6/30/2018</u>
Revenue Bonds	907,596	712,953
Other Notes Payable	92,707	123,191
Capital Leases	<u>41,805</u>	<u>45,179</u>
Total Debt	1,042,108	881,323
Unrestricted Net Assets	<u>1,623,525</u>	<u>1,637,029</u>
Total Capitalization	<u><u>2,665,633</u></u>	<u><u>2,518,352</u></u>
Total Debt as a % of Total Capitalization	39.1%	35.0%

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, 2019 (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>6/30/2019</u>
Operating Income	2,703
Unrestricted Contributions	-
Interest & Dividend Income	16,756
Depreciation and Amortization	146,742
Financing Costs	<u>33,601</u>
Income Available for Debt Service	<u><u>199,802</u></u>
Actual Debt Service	65,724
Debt Service Coverage Ratio	3.0

QUARTERLY DISCLOSURE
June 30, 2019

UTILIZATION STATISTICS

Utilization Statistics – Combined Group

	Twelve Months Ended		% Chg from <u>Prior Year</u>
	<u>6/30/2019</u>	<u>6/30/2018</u>	
Case Mix Adjusted Equivalent Discharges	254,784	200,319	27.2%
Patient Days	320,261	262,819	21.9%
Inpatient Admissions	57,947	43,079	34.5%
Average Length of Stay	5.53	6.10	-9.4%
Average Length of Stay (Case Mix Adjusted)	2.92	3.03	-3.7%
Inpatient Operating Room Cases	19,028	16,360	16.3%
Outpatient Operating Room Cases	33,610	28,054	19.8%
Total Operating Room Cases	52,638	44,414	18.5%
Emergency Department Visits	199,071	156,097	27.5%
Case Mix Index <i>(all payors using Medicare weights)</i>	1.8940	2.0130	-5.9%
RVUs	7,387,265	6,348,579	16.4%

CURRENT OPERATING PROFILE

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

- an academic medical center, currently licensed for 885 acute care beds, which is a tertiary and quaternary acute care regional referral center with a service area population of approximately 2,500,000 (“*WFB - Main Campus*”);
- a hospital facility located approximately 20 miles southeast of WFB – Main Campus, in High Point, North Carolina, currently licensed for 351 acute care beds (“*WFB – High Point Medical Center*”)
- a hospital facility located approximately 56 miles west of WFB – Main Campus, in North Wilkesboro, North Carolina, currently licensed for 130 acute care beds (“*WFB – Wilkes Medical Center*”)
- a hospital facility located approximately 26 miles south of WFB – Main Campus, in Lexington, North Carolina, currently licensed for 94 acute care beds (“*WFB - Lexington Medical Center*”);
- a hospital facility located approximately 12 miles southwest of WFB – Main Campus in Bermuda Run, North Carolina, currently licensed for 50 acute care beds (“*WFB - Davie Medical Center*”);
- approximately 1,500 employed physicians;
- teaching and research operations; and
- a non-acute and ambulatory network with over 300 sites of patient care.

QUARTERLY DISCLOSURE
June 30, 2019

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

Combined Group

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

- Wake Forest University Baptist Medical Center ("*WFBMC*"), North Carolina Baptist Hospital ("*NCBH*") and Wake Forest University Health Sciences ("*WFUHS*," and collectively with WFBMC and NCBH, the "*Members of the Obligated Group*");
- the Designated Members, entities controlled by one or more Members of the Obligated Group and include WFB-High Point Medical Center, 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, 2019, the Combined Group generated in the aggregate 92.6% of Wake Forest Baptist's unrestricted revenue, and the Combined Group owned in the aggregate 93.9% of Wake Forest Baptist's unrestricted net assets. Please note the Combined Group does not include non-designated members such as WFB – Wilkes Medical Center, and Wake Forest Health Network, LLC (the entity formerly known as Cornerstone Healthcare, LLC).

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, 2019
(Unaudited)**

WAKE FOREST BAPTIST
Combined Financial Statements
Year Ended June 30, 2019
(Unaudited)

Table of Contents

Combined Financial Statements

Combined Balance Sheets	FS-1
Combined Statements of Operations and Changes in Net Assets	FS-2
Combined Statements of Cash Flows	FS-4
Selected Notes to Combined Financial Statements.....	FS-5

Other Financial Information

Combining Balance Sheet Information	FS-20
Combining Statement of Operations and Changes in Net Assets Information	FS-21

WAKE FOREST BAPTIST

Combined Balance Sheets

Dollars in thousands.

	(Unaudited) June 30, 2019	(Audited) June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 236,039	\$ 190,951
Patient receivables, net	353,566	303,689
Accounts, grants, and notes receivable, net	128,853	107,981
Other current assets	106,622	83,332
Total current assets	<u>825,080</u>	<u>685,953</u>
Accounts, grants, and notes receivable, net, long-term	23,334	20,588
Investments and assets whose use is limited	1,564,894	1,673,684
Property and equipment, net	1,408,747	1,137,000
Goodwill	94,025	94,025
Other assets	23,041	28,770
	<u>3,939,121</u>	<u>3,640,020</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accruals	\$ 156,024	\$ 164,423
Accrued employee compensation	214,221	187,829
Estimated third-party payer settlements, net	64,356	75,394
Deferred revenue	46,261	50,295
Current portion of long-term debt	101,879	29,531
Other current liabilities	67,869	41,898
Total current liabilities	<u>650,610</u>	<u>549,370</u>
Notes payable, capital leases, and line of credit, net of current portion	79,246	177,357
Bonds payable, net of current portion	891,948	698,165
Retirement benefits	126,125	99,583
Other long-term liabilities	158,177	111,006
	<u>1,906,106</u>	<u>1,635,481</u>
Net assets:		
Without donor restrictions	1,729,704	1,749,395
With donor restrictions	293,079	247,184
Total net assets attributable to Wake Forest Baptist	<u>2,022,783</u>	<u>1,996,579</u>
Noncontrolling interest in affiliates	10,232	7,960
	<u>2,033,015</u>	<u>2,004,539</u>
	<u>2,033,015</u>	<u>2,004,539</u>
Total liabilities and net assets	<u>\$ 3,939,121</u>	<u>\$ 3,640,020</u>

WAKE FOREST BAPTIST

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

Dollars in thousands.

	(Unaudited) Year Ended June 30, 2019	(Audited) Year Ended June 30, 2018
Operating revenues and support		
Net patient service revenue	\$ 2,972,052	\$ 2,476,961
Gifts, grants, and contracts	202,267	192,283
Net student tuition and fees	35,672	33,822
Investment return designated for current operations	25,897	27,451
Other sources	109,728	96,016
Net assets released from restrictions	36,386	31,173
	<u>3,382,002</u>	<u>2,857,706</u>
Recurring operating expenses		
Salaries and wages	1,491,764	1,293,785
Employee benefits	338,013	295,781
Purchased services	437,726	371,785
Clinical and laboratory supplies	653,066	484,018
Other operating expenses	276,217	233,055
Depreciation and amortization	152,262	132,904
Financing costs	34,795	31,493
	<u>3,383,843</u>	<u>2,842,821</u>
Nonrecurring operating expenses		
Acquisition costs	-	11,932
Total operating expenses	<u>3,383,843</u>	<u>2,854,753</u>
Operating (deficit) excess of revenues and support over expenses	(1,841)	2,953
Nonoperating gains (losses)		
Gains (losses) from equity-method affiliates	1,016	(1,333)
Net investment gains	38,509	37,127
Net (losses) gains on interest rate swap valuation	(1,041)	1,244
Contribution from business combination, net	(27,167)	51,941
Pension and postretirement costs	(6,413)	(9,404)
Other	1,162	(12,028)
	<u>4,225</u>	<u>70,500</u>
Excess of revenues and gains over expenses and losses before noncontrolling interest	<u>4,225</u>	<u>70,500</u>

WAKE FOREST BAPTIST

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

Dollars in thousands.

	(Unaudited) Year Ended June 30, 2019	(Audited) Year Ended June 30, 2018
Excess of revenues and gains over expenses and losses before noncontrolling interest	\$ 4,225	\$ 70,500
Noncontrolling interest	(2,272)	(1,280)
Excess of revenues and gains over expenses and losses attributable to Wake Forest Baptist	1,953	69,220
Pension and postretirement-related losses other than net periodic cost	(21,404)	27,060
Other	(639)	(654)
Change in net assets without donor restrictions	(20,090)	95,626
Net assets with donor restrictions		
Contributions	51,141	35,322
Investment return designated for restricted purposes	7,923	6,873
Net assets released from restrictions	(36,386)	(31,173)
Net investment losses	(2,423)	(2,139)
Actuarial gains on annuity obligations	60	896
Contribution from business combination, net	26,626	-
Other	(647)	-
Change in net assets with donor restrictions	46,294	9,779
Change in net assets attributable to Wake Forest Baptist	26,204	105,405
Net assets attributable to Wake Forest Baptist at beginning of period	1,996,579	1,891,174
Net assets attributable to Wake Forest Baptist at end of period	2,022,783	1,996,579
Change in net assets attributable to noncontrolling interest	2,272	1,280
Net assets attributable to noncontrolling interest at beginning of period	7,960	6,680
Total net assets at end of period	\$ 2,033,015	\$ 2,004,539

WAKE FOREST BAPTIST

Combined Statements of Cash Flows (Unaudited)

Dollars in thousands.

	(Unaudited) Year Ended June 30, 2019	(Audited) Year Ended June 30, 2018
Operating activities and gains and losses		
Change in net assets	\$ 28,476	\$ 106,685
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	152,262	132,904
Amortization of bond premium	(1,223)	(938)
Contribution from business combination, net	541	(51,941)
(Gains) losses from equity-method affiliates	(1,016)	1,333
Net investment gains	(69,906)	(69,312)
Losses (gains) in value of interest rate swaps, net	1,041	(1,244)
(Gains) losses on disposal of property and equipment	(161)	229
Contributions restricted for long-term investing	(4,103)	(8,207)
Changes in operating assets and liabilities:		
Patient receivables, net	(18,960)	(14,447)
Accounts, grants, and notes receivable, net	(6,133)	(20,816)
Other current assets	(15,698)	(1,798)
Other assets	9,089	1,138
Accounts payable and accruals	(77,972)	31,239
Accrued employee compensation	792	11,172
Estimated third-party payer settlements, net	(11,138)	(24,596)
Deferred revenues	(4,034)	(8,357)
Other current liabilities	22,487	(582)
Retirement benefits	26,542	(19,129)
Other long-term liabilities	46,100	(7,342)
Net cash provided by operating activities	<u>76,986</u>	<u>55,991</u>
Investing activities		
Net sales and purchases of investments	224,678	58,455
Acquisitions, net of cash acquired	(204,221)	(15,415)
Net additions to property and equipment	<u>(217,982)</u>	<u>(117,862)</u>
Net cash used in investing activities	<u>(197,525)</u>	<u>(74,822)</u>
Financing activities		
Proceeds from issuance of debt	286,673	4,458
Principal payments on debt	(120,171)	(25,460)
Payments on capital lease obligations	(4,978)	(3,709)
Contributions restricted for long-term investing	4,103	8,207
Net cash provided by (used in) financing activities	<u>165,627</u>	<u>(16,504)</u>
Increase (decrease) in cash and cash equivalents	45,088	(35,335)
Cash and cash equivalents at beginning of period	<u>190,951</u>	<u>226,286</u>
Cash and cash equivalents at end of period	<u>\$ 236,039</u>	<u>\$ 190,951</u>
Supplemental cash flow disclosure information:		
Refinancing of long-term debt	\$ 45,655	\$ 50,355
Property and equipment funded by capital lease borrowings	\$ -	\$ 21,911

1. Organization and Summary of Significant Accounting Policies

a. Description of the Organization

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

Wake Forest University Baptist Medical Center (WFUBMC), a North Carolina non-profit corporation, was formed to act on behalf of Wake Forest University Health Sciences (WFUHS) and North Carolina Baptist Hospital (NCBH) in connection with facilities planning, informational technology services, insurance, payroll, fundraising, and budget formulation and review, and direct the planning and supervision of numerous construction projects as well as the fundraising campaigns in connection therewith. Construction costs are paid in accordance with the respective occupancy percentages of the facilities. WFUHS and NCBH are both party to a land and facilities sharing agreement whereby WFUHS and NCBH independently hold title to certain land and facilities, as designated by the agreement. NCBH and Wake Forest University (WFU) are the members of WFUBMC. NCBH and WFUHS each have a 50% equity interest in 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, 2019

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.; The Hawthorne Inn and Conference Center, Inc.; (Hawthorne Inn), North Carolina Baptist Hospital Foundation (the Foundation); The Nursing Center at Oak Summit; Clemmons Medical Park LLC; and Wake WellQ, LLC. Hawthorne Inn was dissolved effective June 30, 2018. NCBH owns a 50% equity interest in MedCost, LLC, a preferred provider organization, which through the shared ownership agreements is accounted for as equity-method investments in the consolidated financial statements. NCBH owns a 69.95% interest in Cornerstone Health Enablement Strategic Solutions, LLC (CHESS), which is included in the consolidated financial statements.

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' 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 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. Effective April 2018, Wake Forest University Baptist Medical Center Community Physicians' name was amended to Wake Forest Emergency Providers and an equity transfer to affiliate was made from WFUHS to WFUBMC. Effective May 2019, Wake Forest Emergency Providers' sole member was changed from WFUBMC to WFUHS, and an equity transfer to affiliate was made. WFUHS owns an 80% equity interest in Wake Forest Ambulatory Ventures, LLC, a 33.33% equity interest in Carolina Behavioral Health, LLC, a 15.67% equity interest in Elemance, LLC, a 5.54% interest in A.M. Pappas Life Science Ventures V., LP, and a 99% equity interest in Wake Forest Technology Development Program, LP.

WFUHS and NCBH each own a 50% equity interest in NCBH Outpatient Endoscopy Center, LLC and The Medical Foundation of WFUHS & NCBH, and each own a 37.5% equity interest in Wake Forest Baptist Imaging, LLC. WFUHS and NCBH own a 67.1% and 17.8% equity interest, respectively, in Verger Fund II, LLC (VFII). VFII was formed for the purpose of investing its members' assets in Verger Capital Fund LLC, which is managed by Verger Capital Management, LLC, a separate limited liability company organized and controlled by WFU.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2019

Dollars in thousands.

WFUBMC is the sole member of Lexington Medical Center (LMC); Lexington Medical Center Foundation; Davie Medical Center (DMC); WRMC Hospital Operating Corporation (WMC); Northwest Community Care Network (NWCCN); FaithHealthInnovations, Inc.; Wake Forest Health Network, LLC (WFHN), previously known as Cornerstone Health Care, LLC; Wake Forest Healthcare Ventures, LLC; Wake Forest Emergency Providers (from April 2018 through April 2019); and Wake Air Care, LLC. WFHN owns a 14.86% equity interest in CHESS. NWCCN owns a 50% equity interest in Emtiro Health, LLC. On September 1, 2018, WFUBMC acquired High Point Regional Health, Inc. (HPMC), a non-profit health system based in High Point, North Carolina. HPMC consists of High Point Regional Health, Inc.; High Point Regional Health Foundation; High Point Health Care Ventures, Inc.; Premier Surgery Center, LLC; Regional Wellness, LLC; Regional Physicians, LLC; Premier Imaging, LLC; and High Point Physical Therapy, LLC. HPMC has a 90% equity interest in High Point Surgery Center, LLC and a 50% equity interest in Guilford Adult Health, Inc.

WFUBMC owns a 40% equity interest in Wake Forest Baptist Health Care at Home, LLC, a 10% equity interest in Assuring Affordable Quality Healthcare in NC, LLC, a 55.51% equity interest in MS Land Holding Co., LLC, a 49.9% equity interest in Brightbridge, LLC, a 14.8% equity interest in Dioko Health Ventures I, LP, a 50% equity interest in Forsyth Community PCC, LLC, a 50% equity interest in Socius Health Solutions, LLC, an 8.33% equity interest in Provider Led Patient Center Care, LLC, a 50% equity interest in WELLO, LLC, a 50% equity interest in Alleghany Health, LLC, and a 26.04% equity interest in Academic Innovators Alliance, LLC.

b. Basis of Presentation

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

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

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of WFB and/or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity; 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 net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Donor-restricted contributions are reported as increases in net assets with donor restrictions. Contributions which impose restrictions that are met in the same fiscal year they are received are reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases, respectively, in net assets without donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions in the combined statements of operations and changes in net assets.

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 net assets without donor restrictions that are excluded from excess of revenue and gains over expenses and losses, consistent with industry practice, include transfers of assets to and from affiliates for other than goods and services, change in pension and postretirement plan liabilities, and capital contributions.

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

g. *Use of Estimates*

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

h. *Limitations on Disclosures in Interim Reporting*

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

i. *Reclassifications*

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

2. Investments and Assets Whose Use is Limited

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

	<u>2019</u>	<u>2018</u>
Short-term investments ^(a)	\$ 87,623	\$ 94,986
Absolute return ^(b)	556,198	560,882
Commodities ^(c)	14,933	23,778
Fixed income ^(d)	304,775	429,297
Private equity ^(e)	626	2,230
Public equity ^(f)	409,735	391,859
Real estate ^(g)	7,929	8,974
Pooled investments held at WFU ^(h)	2,870	3,370
Beneficial interest in perpetual trusts and assets held by others ⁽ⁱ⁾	20,816	20,765
Investments in equity-method affiliates ^(j)	53,493	39,403
Other ^(k)	105,896	98,140
Total investments and assets whose use is limited	<u>\$ 1,564,894</u>	<u>\$ 1,673,684</u>

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

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2019

Dollars in thousands.

- (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) **Investments in equity-method affiliates** – includes various equity-method affiliates (generally, companies in which WFB has an equity-method interest ranging from 20% to 50%).
- (k) **Other** – includes other miscellaneous investments.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2019

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

Total investment return included in change in net assets without donor restrictions in the accompanying combined statements of operations and changes in net assets comprises the following:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 27,898	\$ 27,837
Net realized (losses) gains	(16,884)	38,957
Net unrealized gains (losses)	<u>53,392</u>	<u>(2,216)</u>
	<u>\$ 64,406</u>	<u>\$ 64,578</u>

Total investment return is reflected in the accompanying combined statements of operations and changes in net assets at June 30, is as follows:

	<u>2019</u>	<u>2018</u>
Operating:		
Investment return designated for current operations	\$ 25,897	\$ 27,451
Nonoperating:		
Net investment gains	<u>38,509</u>	<u>37,127</u>
Total investment return included in change in net assets without donor restrictions	<u>64,406</u>	<u>64,578</u>
Investment return in excess of amounts designated for current operations	7,923	6,873
Net investment losses	<u>(2,423)</u>	<u>(2,139)</u>
Total investment return included in change in net assets with donor restrictions	<u>5,500</u>	<u>4,734</u>
Total investment return	<u>\$ 69,906</u>	<u>\$ 69,312</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2019

Dollars in thousands.

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

	2019		
	Without donor restrictions	With donor restrictions	Total
Endowment funds	\$ 296,761	\$ 187,692	\$ 484,453
Funds designated for capital improvements	701,769	-	701,769
Funds designated for settlement of professional liability costs	31,825	-	31,825
Collateral for derivative agreements	4,070	-	4,070
Beneficial interests in perpetual trusts and assets held by others	-	20,816	20,816
Funds held under retirement and benefit plans	69,714	-	69,714
Bond proceeds held by trustee	14,155	-	14,155
Designated for restricted purposes	5,448	47,803	53,251
Assets whose use is limited	1,123,742	256,311	1,380,053
Other unrestricted investments			131,348
Investments in equity-method affiliates			53,493
Investments and assets whose use is limited			<u>\$ 1,564,894</u>
	2018		
	Without donor restrictions	With donor restrictions	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	1,150,898	227,099	1,377,997
Other unrestricted investments			256,284
Investments in equity-method affiliates			39,403
Investments and assets whose use is limited			<u>\$ 1,673,684</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2019

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

Debt consists of the following:

	June 30, 2019	June 30, 2018
Series 2019A ^(a)	\$ 39,725	\$ -
Series 2019A Unamortized Bond Premium	6,185	-
Series 2019A Bond Issuance Costs	(389)	-
Series 2019B ^(a)	105,905	-
Series 2019B Bond Issuance Costs	(894)	-
Series 2019C ^(a)	60,605	-
Series 2019C Bond Issuance Costs	(598)	-
Series 2016 ^(b)	150,000	150,000
Series 2016 Bond Issuance Costs	(1,322)	(1,371)
Series 2012A ^(c)	118,405	118,405
Series 2012A Unamortized Bond Premium	3,536	3,670
Series 2012A Bond Issuance Costs	(881)	(914)
Series 2012B ^(c)	90,445	94,520
Series 2012B Unamortized Bond Premium	11,269	12,050
Series 2012B Bond Issuance Costs	(661)	(707)
Series 2012D ^(c)	80,000	80,000
Series 2012D Bond Issuance Costs	(280)	(292)
Series 2010 ^(d)	241,635	252,350
Series 2010 Unamortized Bond Premium	6,954	7,421
Series 2010 Bond Issuance Costs	(2,043)	(2,179)
Total bonds payable	<u>907,596</u>	<u>712,953</u>
Line of credit ^(e)	44,199	19,198
Loan agreement ^(f)	7,672	9,674
Loan agreement ^(g)	36,000	42,000
Loan agreement ^(h)	-	48,035
Loan agreements ⁽ⁱ⁾	4,259	4,284
External notes ^(j)	2,469	1,819
Capital leases ^(k)	728	3,040
Capital lease ^(l)	41,077	42,139
Capital lease ^(m)	21,800	21,911
Loan agreements ⁽ⁿ⁾	<u>7,273</u>	<u>-</u>
Total notes payable and capital leases	<u>165,477</u>	<u>192,100</u>
Total debt	1,073,073	905,053
Less current portion	<u>(101,879)</u>	<u>(29,531)</u>
Total long-term debt	<u>\$ 971,194</u>	<u>\$ 875,522</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2019

Dollars in thousands.

Debt is reflected in the combined balance sheets as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Current portion of long-term debt	\$ 101,879	\$ 29,531
Notes payable and capital leases, net of current portion	79,246	177,357
Bonds payable, net of current portion	<u>891,948</u>	<u>698,165</u>
Total debt	<u>\$ 1,073,073</u>	<u>\$ 905,053</u>

- (a) **Series 2019 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 2019A bonds mature in full in fiscal year 2033. The fixed rate instruments bear interest at fixed coupon rates of 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 2019 in annual amounts ranging from \$185 to \$4,505.

The Series 2019B bonds mature in full in fiscal year 2048. The long term rate put bond instruments bear interest at initial fixed coupon rates of 2.20% with an initial term date of December 1, 2022. 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 \$4,605 to \$23,350.

The Series 2019C bonds mature in full in fiscal year 2048. The long term rate put bond instruments bear interest at initial fixed coupon rates of 2.55% with an initial term date of June 1, 2026. Per the bond agreements, the principal and sinking fund payments on the bonds are due on June 1 of each year beginning in 2035 and in increasing annual amounts ranging from \$3,375 to \$16,735.

- (b) **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.

- (c) **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 2012D bonds were issued in an aggregate principal amount not to exceed \$80,000 and mature in full in fiscal year 2043. The bonds were refunded in fiscal year 2018 and reissued with a new bank as bondholder. The bonds are currently in the Bank-Bought Rate Mode and bear interest at an Index Floating Rate based on an Adjusted London Interbank Offered Rate (LIBOR) rate plus a tax-exempt spread of 0.5925%. 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.

- (d) **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%.

- (e) **Line of credit** – consists of an unsecured credit facility with a total borrowing capacity of \$150,000 to provide for the working capital needs of NCBH, WFUHS, and WFUBMC, all Borrowers under the credit facility. The line of credit is due on June 9, 2020 and bears interest at one-month LIBOR plus 0.65%.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2019

Dollars in thousands.

- (f) **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.
- (g) **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.
- (h) **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 tax-exempt bonds. Principal payments are due on December 1 of each year with monthly interest payments and a bullet maturity date of October 1, 2019. The loan was fully redeemed on March 7, 2019, and refinanced with the Series 2019A tax-exempt fixed rate bonds.
- (i) **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.
- (j) **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 2024.
- (k) **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.
- (l) **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%.
- (m) **Capital lease** – represents a capital lease obligation of \$21,911 entered into by WFUBMC and WMC 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%.
- (n) **Loan agreements** – represents various notes payable and capital leases held by HPMC, with interest rates ranging from a fixed rate of 5.00% to variable one-month LIBOR plus a premium of 2.50% and final maturity dates between 2020 and 2026.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements

June 30, 2019

Dollars in thousands.

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, 2019

Dollars in thousands.

	NCBH	WFUHS	HPMC	LMC	DMC	WMC	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Assets														
Current assets:														
Cash and cash equivalents	\$ 69,126	\$ 19,175	\$ 31,385	\$ 8,534	\$ 14,627	\$ 10,711	\$ 6,040	\$ 75,488	\$ 953	\$ -	\$ 236,039	\$ (43,186)	\$ -	\$ 192,853
Patient receivables, net	186,533	83,036	44,448	10,233	10,633	7,882	-	9,554	1,247	-	353,566	(18,403)	-	335,163
Accounts, grants, and notes receivable, net	176,373	57,429	8,669	52,512	16,512	364	141	37,422	9,186	(229,755)	128,853	45,852	(6,005)	168,700
Other current assets	80,613	10,463	7,629	1,955	1,441	3,565	-	37,556	116	(36,716)	106,622	(5,266)	-	101,356
Total current assets	512,645	170,103	92,131	73,234	43,213	22,522	6,181	160,020	11,502	(266,471)	825,080	(21,003)	(6,005)	798,072
Accounts, grants, and notes receivable, net, long-term	13,151	25,009	721	534	-	-	-	1,216	-	(17,297)	23,334	(100)	-	23,234
Investments and assets whose use is limited	910,940	775,191	48,909	-	-	17,619	404	60,156	144	(248,469)	1,564,894	(59,277)	46,659	1,552,276
Property and equipment, net	700,219	359,374	207,726	46,325	8,921	44,486	431	35,420	5,845	-	1,408,747	(73,099)	-	1,335,648
Goodwill	36,106	1,505	-	420	-	40,043	-	15,951	-	-	94,025	(92,101)	-	1,924
Other assets	8,559	13,985	177	98	-	222	-	-	-	-	23,041	(179)	-	22,862
Total assets	\$ 2,181,620	\$ 1,345,167	\$ 349,664	\$ 120,611	\$ 52,134	\$ 124,892	\$ 7,016	\$ 272,763	\$ 17,491	\$ (532,237)	\$ 3,939,121	\$ (245,759)	\$ 40,654	\$ 3,734,016
Liabilities and Net Assets														
Current liabilities:														
Accounts payable and accruals	\$ 105,518	\$ 34,244	\$ 46,935	\$ 4,103	\$ 2,544	\$ 3,114	\$ 790	\$ 150,917	\$ 1,060	\$ (193,201)	\$ 156,024	\$ (38,428)	\$ (6,005)	\$ 111,591
Accrued employee compensation	47,645	144,848	6,972	2,445	1,352	1,999	-	8,802	158	-	214,221	(4,451)	-	209,770
Estimated third-party payer settlements, net	58,396	-	3,663	1,493	724	80	-	-	-	-	64,356	(80)	-	64,276
Deferred revenue	202	45,915	-	-	1	-	3	-	140	-	46,261	(249)	-	46,012
Current portion of long-term debt	45,661	16,024	527	-	-	136	-	39,000	531	-	101,879	(1,096)	-	100,783
Other current liabilities	25,464	13,547	3,196	543	303	41,695	-	5,853	10	(22,742)	67,869	(1,874)	-	65,995
Total current liabilities	282,886	254,578	61,293	8,584	4,924	47,024	793	204,572	1,899	(215,943)	650,610	(46,178)	(6,005)	598,427
Notes payable, capital leases, and line of credit, net of current portion	-	48,898	6,746	-	-	21,664	-	-	1,938	-	79,246	(29,869)	-	49,377
Bonds payable, net of current portion	509,339	142,109	-	-	-	-	-	240,500	-	-	891,948	-	-	891,948
Retirement benefits	96,237	25,811	-	-	-	4,077	-	-	-	-	126,125	(4,077)	-	122,048
Other long-term liabilities	60,735	84,452	189	189	134	123	-	80,131	49	(67,825)	158,177	(2,878)	-	155,299
Total liabilities	949,197	555,848	68,228	8,773	5,058	72,888	793	525,203	3,886	(283,768)	1,906,106	(83,002)	(6,005)	1,817,099
Net assets:														
Without donor restrictions	1,194,460	547,468	253,369	111,145	47,076	52,004	5,706	(255,333)	13,605	(239,796)	1,729,704	(162,757)	56,578	1,623,525
w/With donor restrictions	19,371	241,554	28,051	693	-	-	517	2,893	-	-	293,079	-	-	293,079
Total net assets attributable to WFB	1,213,831	789,022	281,420	111,838	47,076	52,004	6,223	(252,440)	13,605	(239,796)	2,022,783	(162,757)	56,578	1,916,604
Noncontrolling interest in affiliates	18,592	297	16	-	-	-	-	-	-	(8,673)	10,232	-	(9,919)	313
Total net assets	1,232,423	789,319	281,436	111,838	47,076	52,004	6,223	(252,440)	13,605	(248,469)	2,033,015	(162,757)	46,659	1,916,917
Total liabilities and net assets	\$ 2,181,620	\$ 1,345,167	\$ 349,664	\$ 120,611	\$ 52,134	\$ 124,892	\$ 7,016	\$ 272,763	\$ 17,491	\$ (532,237)	\$ 3,939,121	\$ (245,759)	\$ 40,654	\$ 3,734,016

⁽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, 2019

Dollars in thousands.

	NCBH	WFUHS	HPMC	LMC	DMC	WMC	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Operating revenues and support														
Net patient service revenue	\$ 1,692,665	\$ 601,476	\$ 264,528	\$ 105,339	\$ 81,506	\$ 69,777	\$ 7,842	\$ 136,219	\$ 12,700	\$ -	\$ 2,972,052	\$ (202,848)	\$ -	\$ 2,769,204
Gifts, grants, and contracts	2,895	194,492	263	985	-	135	3,078	724	-	(305)	202,267	(2,197)	-	200,070
Net student tuition and fees	1,802	33,870	-	-	-	-	-	-	-	-	35,672	-	-	35,672
Investment return designated for current operations	1,276	24,315	-	-	-	-	-	-	306	-	25,897	(1,582)	-	24,315
Other sources	57,143	232,901	6,595	907	466	1,019	-	19,388	150	(208,841)	109,728	(45,215)	-	64,513
Net assets released from restrictions	429	33,834	1,993	-	-	-	130	-	-	-	36,386	-	-	36,386
Total operating revenues and support	1,756,210	1,120,888	273,379	107,231	81,972	70,931	11,050	156,331	13,156	(209,146)	3,382,002	(251,842)	-	3,130,160
Operating expenses														
Salaries and wages	561,156	632,402	96,976	38,490	21,323	35,308	-	98,833	2,471	4,805	1,491,764	(119,626)	-	1,372,138
Employee benefits	147,840	124,320	23,488	9,687	4,599	8,256	-	18,070	480	1,273	338,013	(25,721)	-	312,292
Purchased services	367,975	174,717	39,859	11,936	6,262	11,787	6,926	23,850	4,893	(210,479)	437,726	(48,935)	-	388,791
Clinical and laboratory supplies	451,635	73,013	66,290	20,827	17,693	9,434	-	13,733	441	-	653,066	(26,686)	-	626,380
Other operating expenses	129,463	85,246	18,756	6,994	10,744	7,074	3,467	18,005	1,213	(4,745)	276,217	(28,704)	-	247,513
Depreciation and amortization	91,982	37,407	9,888	4,035	2,245	3,526	79	2,278	822	-	152,262	(5,520)	-	146,742
Financing costs	20,079	7,703	298	(433)	-	889	-	6,224	35	-	34,795	(1,198)	4	33,601
Total operating expenses	1,770,130	1,134,808	255,555	91,536	62,866	76,274	10,472	180,993	10,355	(209,146)	3,383,843	(256,390)	4	3,127,457
Operating (deficiency) excess of revenues and support over expenses	(13,920)	(13,920)	17,824	15,695	19,106	(5,343)	578	(24,662)	2,801	-	(1,841)	4,548	(4)	2,703
Nonoperating gains (losses)														
Gains (losses) from equity-method affiliates	23,627	21,894	109	-	-	-	(387)	(129)	-	(44,098)	1,016	(2,343)	(557)	(1,884)
Net investment gains (losses)	40,744	(3,895)	611	1	54	490	-	586	(82)	-	38,509	(1,276)	4	37,237
Net (losses) gains on interest rate swap valuation	-	(891)	(150)	-	-	-	-	-	-	-	(1,041)	150	-	(891)
Pension and postretirement costs	(5,901)	(1,387)	-	-	-	875	-	-	-	-	(6,413)	(875)	-	(7,288)
Contribution from business combination, net	-	-	229,982	-	-	-	-	(257,149)	-	-	(27,167)	(1,179)	-	(28,346)
Other	5,440	(19,317)	5,009	-	-	-	-	10,030	-	-	1,162	45	-	1,207
Excess (deficiency) of revenues and gains over expenses and losses before noncontrolling interest	49,990	(17,516)	253,385	15,696	19,160	(3,978)	191	(271,324)	2,719	(44,098)	4,225	(930)	(557)	2,738

⁽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, 2019

Dollars in thousands.

	NCBH	WFUHS	HPMC	LMC	DMC	WMC	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Excess (deficiency) of revenues and gains over expenses and losses before noncontrolling interest	\$ 49,990	\$ (17,516)	\$ 253,385	\$ 15,696	\$ 19,160	\$ (3,978)	\$ 191	\$ (271,324)	\$ 2,719	\$ (44,098)	\$ 4,225	\$ (930)	\$ (557)	\$ 2,738
Noncontrolling interest	(4,693)	172	(16)	-	-	-	-	-	-	2,265	(2,272)	16	2,444	188
Excess (deficiency) of revenues and gains over expenses and losses attributable to WFB	45,297	(17,344)	253,369	15,696	19,160	(3,978)	191	(271,324)	2,719	(41,833)	1,953	(914)	1,887	2,926
Equity transfer (to) from affiliate	-	(3,991)	-	-	-	-	-	3,991	-	-	-	-	-	-
Pension and postretirement-related (losses) gains other than net periodic pension benefit	(25,955)	7,685	-	-	-	(3,134)	-	-	-	-	(21,404)	3,134	-	(18,270)
Other	-	-	-	-	-	-	-	-	(2,559)	1,920	(639)	2,559	(1,920)	-
Change in net assets without donor restrictions	19,342	(13,650)	253,369	15,696	19,160	(7,112)	191	(267,333)	160	(39,913)	(20,090)	4,779	(33)	(15,344)
Net assets with donor restrictions														
Contributions	9,942	36,843	3,418	669	-	-	269	-	-	-	51,141	-	-	51,141
Investment return designated for restricted purposes	-	7,923	-	-	-	-	-	-	-	-	7,923	-	-	7,923
Net assets released from restrictions	(429)	(33,834)	(1,993)	-	-	-	(130)	-	-	-	(36,386)	-	-	(36,386)
Net investment gains (losses)	173	(2,596)	-	-	-	-	-	-	-	-	(2,423)	-	-	(2,423)
Actuarial gains (losses) on annuity obligations	-	60	-	-	-	-	-	-	-	-	60	-	-	60
Contribution from business combination, net	-	-	26,626	-	-	-	-	-	-	-	26,626	-	-	26,626
Other	-	-	-	-	-	-	-	(647)	-	-	(647)	-	-	(647)
Change in net assets with donor restrictions	9,686	8,396	28,051	669	-	-	139	(647)	-	-	46,294	-	-	46,294
Change in net assets attributable to WFB	29,028	(5,254)	281,420	16,365	19,160	(7,112)	330	(267,980)	160	(39,913)	26,204	4,779	(33)	30,950
Net assets attributable to WFB at beginning of year	1,184,803	794,276	-	95,473	27,916	59,116	5,893	15,540	13,445	(199,883)	1,996,579	(167,520)	56,627	1,885,686
Net assets attributable to WFB at end of period	1,213,831	789,022	281,420	111,838	47,076	52,004	6,223	(252,440)	13,605	(239,796)	2,022,783	(162,741)	56,594	1,916,636
Change in net assets attributable to noncontrolling interest	4,693	(172)	16	-	-	-	-	-	-	(2,265)	2,272	(16)	(2,444)	(188)
Net assets attributable to noncontrolling interest at beginning of year	13,899	469	-	-	-	-	-	-	-	(6,408)	7,960	-	(7,491)	469
Total net assets at end of period	\$ 1,232,423	\$ 789,319	\$ 281,436	\$ 111,838	\$ 47,076	\$ 52,004	\$ 6,223	\$ (252,440)	\$ 13,605	\$ (248,469)	\$ 2,033,015	\$ (162,757)	\$ 46,659	\$ 1,916,917

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