



**QUARTERLY DISCLOSURE STATEMENT
(UNAUDITED)**

For the Period Ended September 30, 2017

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

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

QUARTERLY DISCLOSURE September 30, 2017

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 three months ended September 30, 2017. 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 September 30, 2017, the Combined Group generated in the aggregate 92.4% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 93.7% of Wake Forest Baptist’s unrestricted net assets.

QUARTERLY HIGHLIGHTS

Wake Forest Baptist is an integrated clinical, research and academic enterprise that includes a tertiary and quaternary acute care regional referral center with three additional hospital facilities totaling more than 1,050 acute care, rehab and psych beds, more than 1,200 employed physicians and major teaching and research operations.

Effective July 1, 2017, Wake Forest Baptist entered into a 30-year lease and change of control agreement with the Town of North Wilkesboro to become the sole member of Wilkes Regional Medical Center, a 130-bed acute care hospital located in North Wilkesboro, North Carolina. Wilkes Medical Center is not a member of the Combined Group.

In the first quarter of fiscal year 2018, Wake Forest Baptist reported a gain in unrestricted net assets of \$67.0 million. This gain is comprised of operating income of \$5.4 million (0.8% operating margin) and net non-operating gains of \$61.6 million.

The sections below provide context regarding underlying financial performance for the three months ending September 30, 2017.

Revenues and Operating Performance

- **Net Revenues:** Total net revenues were \$686.8 million, 7.5% higher than the prior year. Underlying patient revenues improved 9.0% over the same period last year due to clinical volume increases in outpatient services, Wilkes Medical Center, and yield improvements.
- **Operating Performance:** Operating income for the quarter ending September 30, 2017, was \$5.4 million or 0.8% compared to prior year of \$5.9 million or 0.9%. Year-to-date operating EBIDA Margin was \$44.6 million or 6.5% compared to prior year of \$43.3 million, or 6.8%.

Utilization

Wake Forest Baptist generated overall clinical volume growth with a 3.4% year over year growth in case mix adjusted equivalent discharges (CMAEDs). Increased system inpatient discharges, outpatient volumes, and operating room cases contributed to the year over year growth. Improving patient access, utilizing system facility hospitals to decompress WFB – Main Campus, and enhancing throughput continues to be a focus.

- **Inpatient Utilization:** System inpatient case mix adjusted discharges increased when compared to prior year due to an increase in discharges (2.4%) offset by a slight decrease in case mix index (0.9%). Both year-over-year changes were driven by Wilkes Medical Center increasing system discharges while reducing case mix index.
- **Surgical Volumes:** The enterprise witnessed growth in surgical volumes compared to prior year. Operating room cases across the health system increased by 6.8% over prior year, a 1.4% growth in inpatient cases and a 10.2% growth in the outpatient setting. Higher case volume was primarily driven by the expansion of ambulatory facilities and Wilkes Medical Center.

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- **Outpatient Volumes:** Overall outpatient volumes continued to show strong growth with a 10.5% increase 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 Wilkes Medical Center.
 - **Observation:** Observation volumes continued to grow, replacing the inpatient setting for some lower acuity patients. Observation volumes increased 20.8% compared to the prior year.
 - **Clinic Visits:** Overall clinic visits increased 3.4% compared to the prior year.
 - **Emergency Department:** System emergency department (ED) visits represented a 17.4% increase compared to prior year. The addition of Wilkes Medical Center, as well as the expansion of Wake Forest Baptist multi-specialty clinics and urgent care centers increased access points for care and provided appropriate care settings, while supporting overall growth.

Operational Performance / Efficiency

- **Length of Stay:** Average Length of Stay increased 0.2% compared to the prior year. This increase was primarily driven by the continued shift of short stay patients from inpatient to observation services. Case Mix Adjusted Average Length of Stay was 3.00 days, a slight increase from 2.97 days compared to prior year.
- **Productivity:** Salaries, Wages, and Benefits as a percent of Revenues decreased slightly from 57.4% to 57.2 % (0.3% decrease). This slight improvement is important considering the continuing shift toward lower revenue outpatient services.

Balance Sheet

- **Liquidity:** Balance sheet remains solid with Days Cash on Hand of 229 and Debt-to-Capitalization of 35.0%.
- **Investment Performance:** WFB had investment gains of \$29.9 million in the first 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 \$75 million for the working capital needs of the organization. As of September 30th, the facility had an outstanding balance of \$19.2 million.
- **Capital Expenditures:** Capital expenditures through September 30th were \$20.5 million and included the Davie inpatient tower, facility improvements, clinical equipment and other IT infrastructure upgrades.

Key Strategic Investments

On October 25, 2017, Wake Forest Baptist and UNC Health Care, the parent organization of High Point Regional Health, signed a Letter of Intent in which Wake Forest Baptist would acquire and integrate High Point Regional and its affiliates into the regional health care system with an expected close of summer 2018.

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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 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-21 to FS-23 of the attached financial statements.

Liquidity – Combined Group

The following table sets forth, as of September 30, 2017, and 2016, 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>9/30/2017</u>	<u>9/30/2016</u>
Unrestricted Cash & cash equivalents	\$ 183,278	\$ 194,451
Investments and assets whose use is limited	1,384,964	1,159,425
Total cash and investments	<u>\$ 1,568,242</u>	<u>\$ 1,353,876</u>
Bonds payable	\$ 778,073	\$ 646,341
Notes payable and capital leases	124,503	141,299
Less: Short-term debt	-	-
Long-term Indebtedness	<u>\$ 902,576</u>	<u>\$ 787,640</u>
Unrestricted Cash-to-Debt	174%	172%
Days Cash on Hand	242	225

**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 September 30, 2017) for the Combined Group.

	<u>Actual</u>
Equity	28.0%
Fixed Income	41.6%
Absolute Return	25.9%
Real Assets	4.5%
Total	<u>100.0%</u>

**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 September 30, 2017 and 2016 is set forth in the following table.

	<u>9/30/2017</u>	<u>9/30/2016</u>
Revenue Bonds	778,073	646,341
Other Notes Payable	76,873	90,494
Capital Leases	47,630	50,805
	<hr/>	<hr/>
Total Debt	902,576	787,640
Unrestricted Net Assets	1,610,422	1,456,668
	<hr/>	<hr/>
Total Capitalization	<u>2,512,998</u>	<u>2,244,308</u>
Total Debt as a % of Total Capitalization	35.9%	35.1%

Debt Service Coverage Ratio – Combined Group

The Coverage Ratio (calculated upon actual annual debt service) reported below is for the 12-month period ended September 30, 2017 (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>9/30/2017</u>
Operating Income	93,006
Unrestricted Contributions	58
Interest & Dividend Income	13,901
Depreciation and Amortization	121,492
Financing Costs	30,677
Income Available for Debt Service	<u>259,134</u>
Actual Debt Service	59,979
Debt Service Coverage Ratio	4.3

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September 30, 2017

UTILIZATION STATISTICS

Utilization Statistics – Combined Group

	<u>Three Months Ended</u>		<u>% Chg from Prior Year</u>
	<u>9/30/2017</u>	<u>9/30/2016</u>	
Case Mix Adjusted Equivalent Discharges	49,277	50,119	-1.7%
Patient Days	63,858	64,427	-0.9%
Inpatient Admissions	10,465	10,901	-4.0%
Average Length of Stay	6.10	5.91	3.2%
Average Length of Stay (Case Mix Adjusted)	3.01	2.97	1.6%
Inpatient Operating Room Cases	4,004	4,089	-2.0%
Outpatient Operating Room Cases *	6,824	6,658	2.5%
Total Operating Room Cases	10,828	10,739	0.8%
Emergency Department Visits	38,228	39,298	-2.7%
Case Mix Index (<i>all payors using Medicare weights</i>)	2.0265	1.9933	1.7%
RVUs	1,484,823	1,463,231	1.5%

* Note: Outpatient OR cases now exclude Spine procedures at Medical Plaza – Clemmons; prior year has been restated for consistency.

CURRENT OPERATING PROFILE

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

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

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

QUARTERLY DISCLOSURE
September 30, 2017

Combined Group

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

- Wake Forest University Baptist Medical Center (“*WFBMC*”), North Carolina Baptist Hospital (“*NCBH*”) and Wake Forest University Health Sciences (“*WFUHS*,” and collectively with WFBMC and NCBH, the “*Members of the Obligated Group*”);
- the Designated Members, entities controlled by one or more Members of the Obligated Group and include WFB-Lexington Medical Center, WFB-Davie Medical Center, and 16 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 September 30, 2017, the Combined Group generated in the aggregate 92.4% of Wake Forest Baptist’s unrestricted revenue, and the Combined Group owned in the aggregate 93.7% of Wake Forest Baptist’s unrestricted net assets.

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



WAKE FOREST BAPTIST

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

**For the Period Ended September 30, 2017
(Unaudited)**

WAKE FOREST BAPTIST
Combined Financial Statements
Period Ended September 30, 2017
(Unaudited)

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WAKE FOREST BAPTIST

Combined Balance Sheets

Dollars in thousands.

	(Unaudited) September 30, 2017	(Audited) June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 198,911	\$ 226,286
Patient receivables, net	292,781	280,489
Accounts, grants, and notes receivable, net	58,539	79,297
Other current assets	70,287	78,926
Total current assets	<u>620,518</u>	<u>664,998</u>
Accounts, grants, and notes receivable, less current portion, net	52,017	42,578
Investments and assets whose use is limited	1,672,580	1,647,098
Property and equipment, net	1,125,867	1,089,908
Goodwill	92,214	53,983
Other assets	10,834	27,169
Total assets	<u>\$ 3,574,030</u>	<u>\$ 3,525,734</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accruals	\$ 108,717	\$ 118,072
Accrued employee compensation	150,076	174,602
Estimated third-party payer settlements, net	99,694	96,182
Deferred revenue	53,601	58,652
Current portion of long-term debt	28,138	28,130
Other current liabilities	45,419	41,181
Total current liabilities	<u>485,645</u>	<u>516,819</u>
Notes payable, capital leases, and line of credit, net of current portion	134,888	118,733
Bonds payable, net of current portion	761,653	761,927
Retirement benefits	120,732	110,809
Other long-term liabilities, net of current portion	103,825	119,592
Total liabilities	<u>1,606,743</u>	<u>1,627,880</u>
Net assets:		
Unrestricted	1,719,567	1,652,601
Temporarily restricted	68,727	67,719
Permanently restricted	172,193	170,854
Total net assets attributable to Wake Forest Baptist	<u>1,960,487</u>	<u>1,891,174</u>
Noncontrolling interest in affiliates	6,800	6,680
Total net assets	<u>1,967,287</u>	<u>1,897,854</u>
Total liabilities and net assets	<u>\$ 3,574,030</u>	<u>\$ 3,525,734</u>

See accompanying notes to combined financial statements.

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WAKE FOREST BAPTIST

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

Dollars in thousands.

	Period Ended September 30,	
	2017	2016
Operating revenues and support		
Patient service revenue (net of contractual allowances and discounts)	\$ 647,078	\$ 596,792
Provision for bad debts	(46,927)	(46,414)
Net patient service revenue	600,151	550,378
Gifts, grants, and contracts	42,477	43,299
Net student tuition and fees	8,954	8,561
Investment return designated for current operations	6,860	6,527
Other sources	20,514	23,296
Net assets released from restrictions	7,833	6,871
Total operating revenues and support	686,789	638,932
Operating expenses		
Salaries and wages	316,002	296,473
Employee benefits	76,517	70,431
Purchased services	77,162	66,573
Clinical and laboratory supplies	111,093	106,519
Other operating expenses	61,379	55,668
Depreciation and amortization	31,250	30,593
Financing costs	7,953	6,759
Total operating expenses	681,356	633,016
Operating excess of revenues and support over expenses	5,433	5,916
Nonoperating gains (losses)		
Gains (losses) from equity-method affiliates	618	(2,814)
Net investment gains	23,048	22,830
Net gains on interest rate swap valuation	89	193
Gain on acquisition of WRMC	46,801	-
Other	(8,717)	388
Excess of revenues and gains over expenses and losses before noncontrolling interest	67,272	26,513

WAKE FOREST BAPTIST

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

Dollars in thousands.

	Period Ended September 30,	
	2017	2016
Excess of revenues and gains over expenses and losses before noncontrolling interest	\$ 67,272	\$ 26,513
Noncontrolling interest	(120)	(35)
Excess of revenues and gains over expenses and losses attributable to Wake Forest Baptist	67,152	26,478
Pension and postretirement-related losses other than net periodic cost	(24)	(24)
Other	(162)	(103)
Change in unrestricted net assets	66,966	26,351
Temporarily restricted net assets		
Contributions	5,993	4,989
Investment return designated for restricted purposes	1,856	1,838
Net assets released from restrictions	(7,833)	(6,871)
Net investment gains	992	1,602
Change in temporarily restricted net assets	1,008	1,558
Permanently restricted net assets		
Contributions	639	1,728
Investment return reinvested in principal	(27)	45
Net investment gains	727	190
Change in permanently restricted net assets	1,339	1,963
Change in net assets attributable to Wake Forest Baptist	69,313	29,872
Net assets attributable to Wake Forest Baptist at beginning of period	1,891,174	1,716,548
Net assets attributable to Wake Forest Baptist at end of period	1,960,487	1,746,420
Change in net assets attributable to noncontrolling interest	120	35
Net assets attributable to noncontrolling interest at beginning of period	6,680	8,833
Total net assets at end of period	\$ 1,967,287	\$ 1,755,288

See accompanying notes to combined financial statements.

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WAKE FOREST BAPTIST

Combined Statements of Cash Flows (Unaudited)

Dollars in thousands.

	Period Ended September 30,	
	2017	2016
Operating activities and gains and losses		
Change in net assets	\$ 69,433	\$ 29,907
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	31,250	30,593
Amortization of bond premium	(274)	(286)
Gain on acquisition of WRMC	(46,801)	-
Gains in value of interest rate swaps, net	(89)	(193)
(Gains) losses from equity-method affiliates	(618)	2,814
Losses on disposal of property and equipment	615	219
Contributions restricted for long-term investing	(612)	(1,773)
Investment gains, net	(33,456)	(33,032)
Changes in operating assets and liabilities:		
Patient receivables, net	(3,539)	(7,843)
Estimated third-party payer settlements, net	(296)	(6,316)
Accounts, grants, and notes receivable, net	(2,803)	(10,580)
Other current assets	11,247	(12,944)
Other assets	16,335	8,151
Accounts payable and accruals	(10,743)	(82,420)
Accrued employee compensation	(26,554)	(9,470)
Deferred revenues	(5,051)	(6,455)
Other current liabilities	2,946	10,245
Retirement benefits	2,020	2,320
Other long-term liabilities	(15,678)	(22,112)
Net cash used in operating activities	<u>(12,668)</u>	<u>(109,175)</u>
Investing activities		
Net sales and purchases of investments	25,654	105,049
Acquisition of WRMC, net of cash acquired	(16,533)	-
Net additions to property and equipment	(20,470)	(66,593)
Net cash (used in) provided by investing activities	<u>(11,349)</u>	<u>38,456</u>
Financing activities		
Principal payments on debt	(3,046)	(10,084)
Proceeds from issuance of debt	-	50,125
Payments on capital lease obligations	(924)	-
Contributions restricted for long-term investing	612	1,773
Net cash (used in) provided by financing activities	<u>(3,358)</u>	<u>41,814</u>
Decrease in cash and cash equivalents	(27,375)	(28,905)
Cash and cash equivalents at beginning of period	<u>226,286</u>	<u>236,366</u>
Cash and cash equivalents at end of period	<u>\$ 198,911</u>	<u>\$ 207,461</u>

See accompanying notes to combined financial statements.

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1. Organization and Summary of Significant Accounting Policies

a. Description of the Organization

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

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

Effective July 1, 2010, the Boards of WFUHS, NCBH, WFUBMC, and WFU approved the Medical Center Integration Agreement (the Integration Agreement or MCI). 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 40 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, continued

September 30, 2017

Dollars in thousands.

NCBH is a private, non-profit institution dedicated to the provision of healthcare. NCBH, which is based in Winston-Salem, North Carolina, consists of entities that provide services directly to patients and entities that support ancillary functions. NCBH consists of North Carolina Baptist Hospital, CareNet, Inc. (CareNet), The Hawthorne Inn and Conference Center, Inc. (Hawthorne Inn), North Carolina Baptist Hospital Foundation (the Foundation), The Nursing Center at Oak Summit (NCOS), 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. NCBH owns a 69.85% interest in Cornerstone Health Enablement Strategic Solutions, LLC (CHESS), which is included in the combined 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' wholly owned affiliates are The Dialysis Centers of Wake Forest University (Dialysis); Wake Forest University Baptist Medical Center Community Physicians (Community Physicians); Wake Forest Ambulatory Ventures LLC; Wake Forest Innovation Quarter Development Co.; Wake Forest Innovation Quarter CDC; Wake Forest Innovation Quarter Management Co.; WFIQ Holdings, LLC; WFIQ Holdings II, LLC; WFIQ Holdings III, LLC; Seed Stage Associates, LLC; Park IMP 1, LLC; BRF – A 1, LLC; BRF Deck 1, LLC; BRF – A 1a, LLC; Childress Institute for Pediatric Trauma; North District Owners Association; and RegenMed Development Organization (REMDO).

WFUHS owns a 33.33% equity interest in Carolina Behavioral Health, LLC, a 25% equity interest in HCEC, LLC, a 15.67% equity interest in Elemance, LLC, and a 99% equity interest in Wake Forest Technology Development Program, LP.

WFUHS and NCBH each own a 50% equity interest in NCBH Outpatient Endoscopy Center, LLC and The Medical Foundation of WFUHS & NCBH, and each own a 37.5% equity interest in Wake Forest Baptist Imaging, LLC (WFBI). WFUHS and NCBH own an 84% and 9% interest, respectively, in Verger Fund II, LLC (VFII). VFII was formed for the purpose of investing its members' assets in Verger Capital Fund LLC (Master Fund), which is managed by Verger Capital Management, LLC, a separate limited liability company organized and controlled by WFU. WFUHS and NCBH each owned a 50% equity interest in Dialysis Access Group of Wake Forest University, LLC (DAG), which was dissolved effective July 1, 2016.

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

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

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

b. Basis of Presentation

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

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

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

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

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

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

c. 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. WFB maintains cash balances at various financial institutions. The accounts are insured by the Federal Deposit Insurance Corporation up to \$250. At times, the amounts on deposit with these financial institutions exceed the insured limit.

d. 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.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

September 30, 2017

Dollars in thousands.

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.

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 1 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 those assets.

	Estimated Useful Life in Years
Land improvements	3-25
Buildings and other improvements	3-50
Fixed and movable equipment	1-25

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 is subsequently 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 are depreciated over the asset's useful life.

g. Defined Benefit Plans

WFB records annual amounts relating to its defined benefit plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, turnover rates, rate of return, 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 changes in unrestricted net assets and amortized to net periodic pension benefit (cost) over future periods using the corridor method. Management believes that the assumptions used in recording its obligations under its defined benefit plans are reasonable based on its experience and market conditions.

The net periodic pension benefit (cost) is recognized as employees render the services necessary to earn the benefits.

h. Derivative Instruments

WFB records all derivative instruments other than interest rate swaps in investments and assets whose use is limited on the combined balance sheets at their respective fair values. WFB records its interest rate swap agreement as part of other assets or liabilities in the accompanying combined balance sheets at fair value. 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, based on such factors as prior collection history, type of contribution, relationship with the donor, and nature of fundraising activity.

k. *HITECH Incentive Funding for Meaningful Use of Electronic Health Records (EHR)*

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified EHR technology. The program is commonly referred to as the Health Information Technology for Economic and Clinical Health (HITECH) Act. To qualify for incentives under the HITECH Act, healthcare providers must meet designated EHR meaningful use criteria as defined by the Centers for Medicare and Medicaid Services (CMS). Incentive payments are awarded to healthcare providers who have attested to CMS that applicable meaningful use criteria have been met. Compliance with meaningful use criteria is subject to audit by the federal government or its designee, and incentive payments are subject to adjustment in a future period.

WFB recognizes revenue for EHR incentive payments in the period in which it has obtained reasonable assurance that it is in compliance with the applicable EHR meaningful use requirements. Accordingly, for the period ended September 30, 2017 and the fiscal year ended June 30, 2017, WFB recognized EHR incentives of approximately \$40 and \$2,058, 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 of Revenues and Gains Over Expenses and Losses

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

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

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, 2015 remain subject to examination by federal and state tax authorities. WFB has evaluated uncertain tax positions for its period ended September 30, 2017 and fiscal year ended June 30, 2017, 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 September 30, 2017 and fiscal year ended June 30, 2017.

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 medical malpractice claims. Actual results could differ from those estimates.

o. New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal year 2019. WFB is evaluating the impact on revenue of implementing the ASU.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU removes the requirement to disclose the fair value of financial instruments that are measured at amortized cost. WFB adopted ASU 2016-01 in 2016 and removed the fair value disclosure for its fixed rate debt.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP which have terms of greater than 12 months. This ASU defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. This ASU retains a distinction between finance leases and operating leases. The result of retaining a distinction between finance leases and operating leases in the statement of operations and the statement of cash flows is largely unchanged from previous GAAP. ASU 2016-02 is effective for fiscal year 2020. WFB expects to record an increase in lease assets and lease liabilities presented in the combined balance sheets.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. This ASU changes certain presentation requirements for not-for-profit entities' financial statements in an effort to make information more meaningful for users. This ASU removes the requirement to distinguish between resources with temporary and permanent restrictions on the face of the financial statements and replaces this with a requirement to present two classes of net assets – with and without donor restrictions. Additionally, the ASU requires expenses to be presented by their natural and functional classifications. The guidance also requires that investment returns be presented net of external and direct internal investment expenses and eliminates the requirements for disclosures of the components of investment returns. Further, the ASU requires additional qualitative and quantitative disclosures about liquidity and availability of financial assets. ASU 2016-14 is effective for fiscal year 2019.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)*. This ASU eliminates the requirement to calculate the implied fair value of goodwill to measure the impairment charge and instead allows entities to record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. WFB adopted ASU 2017-04 in 2017 and recorded a goodwill impairment charge for CHESS based on the excess of the entity's carrying amount over its fair value.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

September 30, 2017

Dollars in thousands.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*. This ASU requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost and all other components of net benefit cost separate from operating income. ASU 2017-07 is effective for fiscal year 2019 but may be early adopted. WFB adopted ASU 2017-07 in fiscal year 2018 and recorded the service cost component of net benefit cost in the other nonoperating gains (losses) line item.

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.

2. Investments and Assets Whose Use is Limited

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

	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Short-term investments ^(a)	\$ 143,082	\$ 160,860
Absolute return ^(b)	532,173	491,285
Commodities ^(c)	24,314	23,590
Fixed income ^(d)	436,976	443,233
Private equity ^(e)	2,027	1,746
Public equity ^(f)	378,875	377,570
Real estate ^(g)	9,186	10,058
Pooled investments held at WFU ^(h)	5,015	5,011
Beneficial interest in perpetual trusts and assets held by others ⁽ⁱ⁾	20,629	17,985
Other ⁽ⁱ⁾	120,303	115,760
Total investments and assets whose use is limited	<u>\$ 1,672,580</u>	<u>\$ 1,647,098</u>

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

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

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

September 30, 2017

Dollars in thousands.

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

Investment Return

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

	Period Ended September 30,	
	2017	2016
Interest and dividend income	\$ 6,650	\$ 5,227
Realized gains	14,466	8,277
Unrealized gains	8,792	15,853
Total investment return included in change in unrestricted net assets	<u>\$ 29,908</u>	<u>\$ 29,357</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

September 30, 2017

Dollars in thousands.

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

	Period Ended September 30,	
	2017	2016
Operating:		
Investment return designated for current operations	\$ 6,860	\$ 6,527
Nonoperating:		
Net investment gains	23,048	22,830
Total unrestricted investment return included in in the combined statements of operations and changes in net assets	29,908	29,357
Investment return designated for temporarily restricted purposes	1,856	1,838
Temporarily restricted net gains on investments	992	1,602
Permanently restricted investment return reinvested in principal	(27)	45
Permanently restricted net gains on investments	727	190
Total investment return included in change in restricted net assets	3,548	3,675
Total investment return	\$ 33,456	\$ 33,032

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

September 30, 2017

Dollars in thousands.

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

	September 30, 2017		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	\$ 296,928	\$	\$ 296,928
Donor-restricted endowment funds		180,760	180,760
Total endowment funds	296,928	180,760	477,688
Funds designated for capital improvements	718,938	-	718,938
Funds designated for settlement of professional liability costs	56,720	-	56,720
Collateral for derivative agreements	-	4,520	4,520
Beneficial interests in perpetual trusts and assets held by others	-	20,629	20,629
Funds held under retirement and benefit plans	54,207	-	54,207
Designated for restricted purposes	1,729	17,549	19,278
Assets whose use is limited	1,128,522	223,458	1,351,980
Other unrestricted investments			287,872
Investments in equity-method affiliates			32,728
Investments and assets whose use is limited			<u>\$ 1,672,580</u>

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

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

September 30, 2017

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

Debt consists of the following:

	September 30, 2017	June 30, 2017
Series 2016 ^(a)	\$ 150,000	\$ 150,000
Series 2016 Bond Issuance Costs	(1,408)	(1,420)
Series 2012A ^(b)	118,405	118,405
Series 2012A Unamortized Bond Premium	3,771	3,804
Series 2012A Bond Issuance Costs	(939)	(948)
Series 2012B ^(b)	98,415	98,415
Series 2012B Unamortized Bond Premium	12,637	12,832
Series 2012B Bond Issuance Costs	(742)	(753)
Series 2012C ^(b)	50,355	50,355
Series 2012C Bond Issuance Costs	(365)	(371)
Series 2012D ^(b)	80,000	80,000
Series 2012D Bond Issuance Costs	(100)	(101)
Series 2010 ^(c)	262,555	262,555
Series 2010 Unamortized Bond Premium	7,770	7,887
Series 2010 Bond Issuance Costs	(2,281)	(2,315)
Total bonds payable	<u>778,073</u>	<u>778,345</u>
Line of credit ^(d)	19,200	20,238
Loan agreement ^(e)	11,175	11,675
Loan agreement ^(f)	46,500	48,000
External notes ^(g)	1,976	2,097
Capital leases ^(h)	4,725	5,279
Capital lease ⁽ⁱ⁾	42,905	43,156
Capital lease ^(j)	20,125	-
Total notes payable and capital leases	<u>146,606</u>	<u>130,445</u>
Total debt	924,679	908,790
Less current portion	(28,138)	(28,130)
Total long-term debt	<u>\$ 896,541</u>	<u>\$ 880,660</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

September 30, 2017

Dollars in thousands.

Debt is reflected in the combined balance sheets as follows:

	<u>September 30,</u> <u>2017</u>	<u>June 30,</u> <u>2017</u>
Current portion of long-term debt	\$ 28,138	\$ 28,130
Notes payable and capital leases, net of current portion	134,888	118,733
Bonds payable, net of current portion	<u>761,653</u>	<u>761,927</u>
Total debt	<u>\$ 924,679</u>	<u>\$ 908,790</u>

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

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

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

The Series 2012C bonds 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.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

September 30, 2017

Dollars in thousands.

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.

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

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

- (d) **Line of credit** – consists of an unsecured credit facility with a total borrowing capacity of \$75,000 to provide for the working capital needs of NCBH, WFUHS, and WFUBMC, all Borrowers under the credit facility. The line of credit is due on June 9, 2020 and bears interest at the one-month LIBOR plus 0.65%.
- (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 bullet maturity date of June 23, 2020. This taxable loan is guaranteed by both NCBH and WFUHS.
- (g) **External notes** – includes various notes payable held by WFB affiliates, with interest rates ranging from 0% to 4.07% and final maturities between 2014 and 2023.
- (h) **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.
- (i) **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%.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

September 30, 2017

Dollars in thousands.

- (j) **Capital lease** – represents a capital lease obligation of \$35,125 entered into by WFUBMC and WRMC related to assets leased from the Town of North Wilkesboro with an initial term of 30 years and additional renewal options. The obligation has an upfront payment of \$15,000 and a fixed interest rate of 4.7%.

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)

September 30, 2017

Dollars in thousands.

	NCBH	WFUHS	LEXMC	DAVIE	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Assets												
Current assets:												
Cash and cash equivalents	\$ 64,972	\$ 23,626	\$ 39,254	\$ 16,081	\$ 5,528	\$ 47,768	\$ 1,682	\$ -	\$ 198,911	\$ (15,633)	\$ -	\$ 183,278
Patient receivables, net	191,260	63,602	9,492	6,338	-	21,706	383	-	292,781	(21,915)	-	270,866
Accounts, grants, and notes receivable, net	49,596	39,305	28,409	261	35	(42,839)	8,795	(25,023)	58,539	(8,621)	1,546	51,464
Other current assets	56,818	7,601	1,810	1,084	-	50,041	83	(47,150)	70,287	5,831	-	76,118
Total current assets	362,646	134,134	78,965	23,764	5,563	76,676	10,943	(72,173)	620,518	(40,338)	1,546	581,726
Accounts, grants, and notes receivable, net, long-term	39,296	64,385	-	-	-	1,488	-	(53,152)	52,017	-	-	52,017
Investments and assets whose use is limited	897,120	767,437	-	-	-	178,427	144	(170,548)	1,672,580	(55,154)	36,881	1,654,307
Property and equipment, net	667,071	344,134	21,010	7,356	571	80,462	5,263	-	1,125,867	(55,721)	-	1,070,146
Goodwill	36,106	1,505	420	-	-	54,183	-	-	92,214	(90,289)	-	1,925
Other assets	4,845	5,904	85	-	-	-	-	-	10,834	(1,664)	-	9,170
Total assets	\$ 2,007,084	\$ 1,317,499	\$ 100,480	\$ 31,120	\$ 6,134	\$ 391,236	\$ 16,350	\$ (295,873)	\$ 3,574,030	\$ (243,166)	\$ 38,427	\$ 3,369,291
Liabilities and Net Assets												
Current liabilities:												
Accounts payable and accruals	\$ 50,608	\$ 29,955	\$ 1,356	\$ 11,808	\$ 650	\$ 28,595	\$ 750	\$ (15,005)	\$ 108,717	\$ (43,569)	\$ 227	\$ 65,375
Accrued employee compensation	42,043	94,199	1,928	803	-	10,979	124	-	150,076	(4,351)	-	145,725
Estimated third-party payer settlements, net	88,060	2,935	2,202	2,114	-	4,383	-	-	99,694	(4,383)	-	95,311
Deferred revenue	-	53,432	-	-	9	3	157	-	53,601	(157)	-	53,444
Current portion of long-term debt	12,464	9,244	-	-	-	6,000	430	-	28,138	(1,750)	1,319	27,707
Other current liabilities	27,973	11,453	521	-	-	5,471	1	-	45,419	(3,654)	-	41,765
Total current liabilities	221,148	201,218	6,007	14,725	659	55,431	1,462	(15,005)	485,645	(57,864)	1,546	429,327
Notes payable, capital leases, and line of credit, net of current portion	14,216	58,501	-	-	-	60,625	1,546	-	134,888	(21,749)	77	113,216
Bonds payable, net of current portion	458,976	154,085	-	-	-	148,592	-	-	761,653	-	-	761,653
Retirement benefits	77,021	36,151	-	-	-	7,560	-	-	120,732	(7,560)	-	113,172
Other long-term liabilities, net of current portion	70,907	76,178	7,100	-	-	59,911	49	(110,320)	103,825	(3,240)	-	100,585
Total liabilities	842,268	526,133	13,107	14,725	659	332,119	3,057	(125,325)	1,606,743	(90,413)	1,623	1,517,953
Net assets:												
Unrestricted	1,145,875	559,943	87,349	16,395	5,287	56,176	13,293	(164,751)	1,719,567	(152,749)	43,604	1,610,422
Temporarily restricted	3,775	61,823	-	-	188	2,941	-	-	68,727	(4)	-	68,723
Permanently restricted	2,569	169,600	24	-	-	-	-	-	172,193	-	-	172,193
Total net assets attributable to Wake Forest Baptist	1,152,219	791,366	87,373	16,395	5,475	59,117	13,293	(164,751)	1,960,487	(152,753)	43,604	1,851,338
Noncontrolling interest in affiliates	12,597	-	-	-	-	-	-	(5,797)	6,800	-	(6,800)	-
Total net assets	1,164,816	791,366	87,373	16,395	5,475	59,117	13,293	(170,548)	1,967,287	(152,753)	36,804	1,851,338
Total liabilities and net assets	\$ 2,007,084	\$ 1,317,499	\$ 100,480	\$ 31,120	\$ 6,134	\$ 391,236	\$ 16,350	\$ (295,873)	\$ 3,574,030	\$ (243,166)	\$ 38,427	\$ 3,369,291

⁽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 September 30, 2017

Dollars in thousands.

	NCBH	WFUHS	LEXMC	DAVIE	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Operating revenues and support												
Patient service revenue (net of contractual allowances and discounts)	\$ 416,528	\$ 137,155	\$ 27,315	\$ 17,436	\$ 1,977	\$ 43,944	\$ 2,723	\$ -	\$ 647,078	\$ (46,429)	\$ -	\$ 600,649
Provision for bad debts	(30,694)	(9,529)	(2,988)	(1,957)	-	(1,672)	(87)	-	(46,927)	1,759	-	(45,168)
Net patient service revenue	385,834	127,626	24,327	15,479	1,977	42,272	2,636	-	600,151	(44,670)	-	555,481
Gifts, grants, and contracts	680	40,469	231	-	934	163	-	-	42,477	(132)	-	42,345
Net student tuition and fees	434	8,520	-	-	-	-	-	-	8,954	-	-	8,954
Investment return designated for current operations	318	6,464	-	-	-	-	78	-	6,860	(396)	-	6,464
Other sources	11,226	67,748	206	71	-	3,749	4	(62,490)	20,514	(6,332)	-	14,182
Net assets released from restrictions	64	7,734	-	-	35	-	-	-	7,833	(413)	-	7,420
Total operating revenues and support	398,556	258,561	24,764	15,550	2,946	46,184	2,718	(62,490)	686,789	(51,943)	-	634,846
Operating expenses												
Salaries and wages	128,684	145,912	8,863	4,088	-	26,745	499	1,211	316,002	(28,221)	-	287,781
Employee benefits	37,371	28,842	2,078	647	-	7,113	110	356	76,517	(7,347)	-	69,170
Purchased services	93,042	37,000	2,673	1,079	1,754	4,292	945	(63,623)	77,162	(6,057)	-	71,105
Clinical and laboratory supplies	85,517	12,567	4,943	3,557	-	4,410	99	-	111,093	(4,458)	-	106,635
Other operating expenses	28,132	22,882	1,615	2,234	1,073	5,727	150	(434)	61,379	(6,702)	-	54,677
Depreciation and amortization	19,655	8,082	931	512	20	1,876	174	-	31,250	(1,670)	-	29,580
Financing costs	4,724	1,845	-	-	-	1,379	5	-	7,953	(23)	11	7,941
Total operating expenses	397,125	257,130	21,103	12,117	2,847	51,542	1,982	(62,490)	681,356	(54,478)	11	626,889
Operating excess (deficiency) of revenues and support over expenses	1,431	1,431	3,661	3,433	99	(5,358)	736	-	5,433	2,535	(11)	7,957
Nonoperating gains (losses)												
Gains from equity-method affiliates	32,689	32,193	-	-	-	91	-	(64,355)	618	(115)	305	808
Net investment gains	17,786	4,799	-	15	-	390	58	-	23,048	(795)	11	22,264
Unrealized gains on interest rate swap valuation	-	89	-	-	-	-	-	-	89	-	-	89
Gain on acquisition of WRMC	-	-	-	-	-	46,801	-	-	46,801	(46,801)	-	-
Other	(23,338)	(138)	-	11	-	14,748	-	-	(8,717)	(14,750)	-	(23,467)
Excess of revenues and gains over expenses and losses before noncontrolling interest	28,568	38,374	3,661	3,459	99	56,672	794	(64,355)	67,272	(59,926)	305	7,651

⁽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

Period Ended September 30, 2017

Dollars in thousands.

	NCBH	WFUHS	LEXMC	DAVIE	NWCCN	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non- Designated Entities	Eliminations	Total Combined Group ⁽¹⁾
Excess of revenues and gains over expenses and losses before noncontrolling interest	\$ 28,568	\$ 38,374	\$ 3,661	\$ 3,459	\$ 99	\$ 56,672	\$ 794	\$ (64,355)	\$ 67,272	\$ (59,926)	\$ 305	\$ 7,651
Noncontrolling interest	(235)	-	-	-	-	-	-	115	(120)	-	120	-
Excess of revenues and gains over expenses and losses attributable to Wake Forst Baptist	28,333	38,374	3,661	3,459	99	56,672	794	(64,240)	67,152	(59,926)	425	7,651
Pension and postretirement-related losses other than net periodic pension cost	(24)	-	-	-	-	-	-	-	(24)	-	-	(24)
Other	-	-	-	-	-	-	(648)	486	(162)	699	(729)	(192)
Change in unrestricted net assets	28,309	38,374	3,661	3,459	99	56,672	146	(63,754)	66,966	(59,227)	(304)	7,435
Temporarily restricted net assets												
Contributions	34	5,959	-	-	-	-	-	-	5,993	(417)	-	5,576
Investment return designated for restricted purposes	-	1,856	-	-	-	-	-	-	1,856	-	-	1,856
Net assets released from restrictions	(64)	(7,734)	-	-	(35)	-	-	-	(7,833)	413	-	(7,420)
Net investment gains	19	973	-	-	-	-	-	-	992	-	-	992
Change in temporarily restricted net assets	(11)	1,054	-	-	(35)	-	-	-	1,008	(4)	-	1,004
Permanently restricted net assets												
Contributions	8	631	-	-	-	-	-	-	639	-	-	639
Investment return reinvested in principal	-	(27)	-	-	-	-	-	-	(27)	-	-	(27)
Net investment gains	-	727	-	-	-	-	-	-	727	-	-	727
Change in permanently restricted net assets	8	1,331	-	-	-	-	-	-	1,339	-	-	1,339
Change in net assets attributable to Wake Forest Baptist	28,306	40,759	3,661	3,459	64	56,672	146	(63,754)	69,313	(59,231)	(304)	9,778
Net assets attributable to Wake Forest Baptist at beginning of period	1,136,275	750,607	83,712	12,936	5,411	2,445	13,147	(106,679)	1,897,854	(93,522)	37,228	1,841,560
Net assets attributable to Wake Forest Baptist at end of period	1,164,581	791,366	87,373	16,395	5,475	59,117	13,293	(170,433)	1,967,167	(152,753)	36,924	1,851,338
Change in net assets attributable to noncontrolling interest	235	-	-	-	-	-	-	(115)	120	-	(120)	-
Total net assets at end of period	\$ 1,164,816	\$ 791,366	\$ 87,373	\$ 16,395	\$ 5,475	\$ 59,117	\$ 13,293	\$ (170,548)	\$ 1,967,287	\$ (152,753)	\$ 36,804	\$ 1,851,338

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