



QUARTERLY DISCLOSURE STATEMENT (UNAUDITED)

For the Period Ended December 31, 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 December 31, 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 six months ended December 31, 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 December 31, 2017, the Combined Group generated in the aggregate 92.0% 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 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.

Through the second quarter of fiscal year 2018, Wake Forest Baptist reported a gain in unrestricted net assets of \$118.5 million. This gain is comprised of operating income of \$33.8 million (2.4% operating margin) and net non-operating gains of \$84.7 million.

The sections below provide context regarding underlying financial performance for the six months ending December 31, 2017.

Revenues and Operating Performance

- **Net Revenues:** Total net revenues were \$1,406.5 million, 8.5% higher than the prior year. Underlying patient revenues improved 9.0% over the same period last year due to clinical volume increases in surgical services, outpatient activity, the addition of Wilkes Medical Center, and yield improvements.
- **Operating Performance:** Operating income for the period ending December 31, 2017 was \$33.8 million or 2.4% compared to prior year of \$26.7 million or 2.1%. Year-to-date operating EBIDA Margin was \$112.2 million or 8.0% compared to prior year of \$101.4 million, or 7.8%.

Utilization

Wake Forest Baptist generated overall clinical volume growth with a 4.1% 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. Continued efforts are underway towards improving patient access with afterhours care, expansion of service offerings at community hospitals, and enhancing patient throughput.

- **Inpatient Utilization:** System inpatient case mix adjusted discharges increased when compared to prior year due to an increase in discharges of 4.9% offset by a slight decrease in case mix index (1.6%). Both year-over-year changes were driven by the addition of Wilkes Medical Center, which increased system discharges while reducing case mix index.
- **Surgical Volumes:** The enterprise witnessed growth of 7.6% in surgical volumes compared to prior year, driven by 6.2% growth in inpatient cases and 8.5% growth in the outpatient setting. Higher case volume was primarily driven by the expansion of ambulatory facilities and the addition of Wilkes Medical Center.
- **Outpatient Volumes:** Overall outpatient volumes continued to show strong growth with a 10.8% 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 the addition of Wilkes Medical Center.

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- **Observation:** Observation volumes continued to grow replacing volumes in the inpatient setting for some lower acuity patients. Observation volumes increased 18.8% compared to the prior year.
- **Clinic Visits:** Overall clinic visits increased 7.0% compared to the prior year.
- **Emergency Department:** System emergency department (ED) visits represented a 19.2% increase compared to prior year. The addition of Wilkes Medical Center, as well as the expansion of hours at 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 decreased 0.7% compared to the prior year. This decrease was primarily driven by the addition of Wilkes Medical Center. Case Mix Adjusted Average Length of Stay was 3.00 days, a slight increase from 2.98 days compared to prior year.
- **Productivity:** Salaries, Wages, and Benefits as a percent of Revenues decreased slightly from 56.1% to 55.1%. This labor productivity 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 227 and Debt-to-Capitalization of 34.1%.
- **Investment Performance:** WFB had investment gains of \$63.7 million in the first half 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 December 31st, the facility had an outstanding balance of \$19.2 million.
- **Capital Expenditures:** Capital expenditures through December 31st were \$69.0 million and included the Wilkes Medical Center leased assets, Wake Forest Innovation Quarter expansion projects, Davie inpatient tower, facility improvements, clinical equipment and other IT infrastructure upgrades.

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 in third quarter of 2018.

On February 2, 2018, Wake Forest Baptist and Hugh Chatham Memorial Hospital announced a partnership to ensure the future of Alleghany Memorial Hospital (AMH). Under the agreement, Wake Forest Baptist and Hugh Chatham create a 50-50 joint venture called Alleghany Health, LLC, which will become the full owner of AMH. The goal of the joint venture is to ensure fiscal stability for AMH and to enhance coordination of patient care and access to clinical services across the region.

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December 31, 2017

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 December 31, 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>12/31/2017</u>	<u>12/31/2016</u>
Unrestricted Cash & cash equivalents	\$ 178,997	\$ 259,326
Investments and assets whose use is limited	1,373,500	1,236,557
Total cash and investments	<u>\$ 1,552,497</u>	<u>\$ 1,495,883</u>
Bonds payable	\$ 723,713	\$ 788,769
Notes payable and capital leases	169,727	137,012
Less: Short-term debt	-	-
Long-term Indebtedness	<u>\$ 893,440</u>	<u>\$ 925,781</u>
Unrestricted Cash-to-Debt	174%	162%
Days Cash on Hand	237	246

**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 December 31, 2017) for the Combined Group.

	<u>Actual</u>
Equity	30.2%
Fixed Income	37.5%
Absolute Return	27.6%
Real Assets	4.7%
Total	<u>100.0%</u>

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

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December 31, 2017

Capitalization – Combined Group

The capitalization for the Combined Group for the periods ended December 31, 2017 and 2016 is set forth in the following table.

	<u>12/31/2017</u>	<u>12/31/2016</u>
Revenue Bonds	723,713	788,769
Other Notes Payable	122,907	86,994
Capital Leases	46,820	50,018
	<hr/>	<hr/>
Total Debt	893,440	925,781
Unrestricted Net Assets	1,662,818	1,476,112
	<hr/>	<hr/>
Total Capitalization	<u>2,556,258</u>	<u>2,401,893</u>
Total Debt as a % of Total Capitalization	35.0%	38.5%

Debt Service Coverage Ratio – Combined Group

The Coverage Ratio (calculated upon actual annual debt service) reported below is for the 12-month period ended December 31, 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>12/31/2017</u>
Operating Income	92,334
Unrestricted Contributions	58
Interest & Dividend Income	15,102
Depreciation and Amortization	121,692
Financing Costs	31,486
Income Available for Debt Service	<u>260,672</u>
Actual Debt Service	75,065
Debt Service Coverage Ratio	3.5

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December 31, 2017

UTILIZATION STATISTICS

Utilization Statistics – Combined Group

	<u>Six Months Ended</u>		<u>% Chg from Prior Year</u>
	<u>12/30/2017</u>	<u>12/31/2016</u>	
Case Mix Adjusted Equivalent Discharges	100,130	101,626	-1.5%
Patient Days	129,099	129,107	0.0%
Inpatient Admissions	21,228	21,709	-2.2%
Average Length of Stay	6.08	5.95	2.3%
Average Length of Stay (Case Mix Adjusted)	3.02	2.98	1.4%
Inpatient Operating Room Cases	8,119	7,955	2.1%
Outpatient Operating Room Cases *	13,794	13,798	0.0%
Total Operating Room Cases	21,913	21,753	0.7%
Emergency Department Visits	77,339	78,101	-1.0%
Case Mix Index (<i>all payors using Medicare weights</i>)	2.0162	1.9989	0.9%
RVUs	3,081,364	2,954,220	4.3%

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
December 31, 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 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 December 31, 2017, the Combined Group generated in the aggregate 92.0% 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.

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 December 31, 2017
(Unaudited)**

WAKE FOREST BAPTIST
Combined Financial Statements
Period Ended December 31, 2017
(Unaudited)

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WAKE FOREST BAPTIST

Combined Balance Sheets

Dollars in thousands.

	(Unaudited) December 31, 2017	(Audited) June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 195,468	\$ 226,286
Patient receivables, net	308,231	280,489
Accounts, grants, and notes receivable, net	78,732	79,297
Other current assets	70,097	78,926
Total current assets	<u>652,528</u>	<u>664,998</u>
Accounts, grants, and notes receivable, net, long-term	23,270	42,578
Investments and assets whose use is limited	1,682,405	1,647,098
Property and equipment, net	1,121,880	1,089,908
Goodwill	92,214	53,983
Other assets	11,216	27,169
Total assets	<u>\$ 3,583,513</u>	<u>\$ 3,525,734</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accruals	\$ 85,921	\$ 118,072
Accrued employee compensation	166,546	174,602
Estimated third-party payer settlements, net	61,769	96,182
Deferred revenue	54,137	58,652
Current portion of long-term debt	28,479	28,130
Other current liabilities	39,312	41,181
Total current liabilities	<u>436,164</u>	<u>516,819</u>
Notes payable, capital leases, and line of credit, net of current portion	179,295	118,733
Bonds payable, net of current portion	709,433	761,927
Retirement benefits	122,749	110,809
Other long-term liabilities	110,916	119,592
Total liabilities	<u>1,558,557</u>	<u>1,627,880</u>
Net assets:		
Unrestricted	1,771,134	1,652,601
Temporarily restricted	71,112	67,719
Permanently restricted	175,611	170,854
Total net assets attributable to Wake Forest Baptist	<u>2,017,857</u>	<u>1,891,174</u>
Noncontrolling interest in affiliates	7,099	6,680
Total net assets	<u>2,024,956</u>	<u>1,897,854</u>
Total liabilities and net assets	<u>\$ 3,583,513</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 December 31, 2017	2016
Operating revenues and support		
Patient service revenue (net of contractual allowances and discounts)	\$ 1,315,081	\$ 1,240,408
Provision for bad debts	(91,595)	(117,831)
Net patient service revenue	1,223,486	1,122,577
Gifts, grants, and contracts	91,775	92,005
Net student tuition and fees	17,810	18,364
Investment return designated for current operations	13,724	12,940
Other sources	44,285	34,079
Net assets released from restrictions	15,427	16,357
Total operating revenues and support	1,406,507	1,296,322
Operating expenses		
Salaries and wages	631,555	587,638
Employee benefits	143,732	139,992
Purchased services	173,867	140,877
Clinical and laboratory supplies	228,325	214,960
Other operating expenses	116,802	111,409
Depreciation and amortization	62,241	60,671
Financing costs	16,180	14,086
Total operating expenses	1,372,702	1,269,633
Operating excess of revenues and support over expenses	33,805	26,689
Nonoperating gains (losses)		
Gains (losses) from equity-method affiliates	1,750	(3,740)
Net investment gains	49,931	27,441
Net gains on interest rate swap valuation	361	1,782
Gain on acquisition	45,582	-
Other	(12,148)	(6,135)
Excess of revenues and gains over expenses and losses before noncontrolling interest	119,281	46,037

WAKE FOREST BAPTIST

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

Dollars in thousands.

	Period Ended December 31,	
	2017	2016
Excess of revenues and gains over expenses and losses before noncontrolling interest	\$ 119,281	\$ 46,037
Noncontrolling interest	(419)	(66)
Excess of revenues and gains over expenses and losses attributable to Wake Forest Baptist	118,862	45,971
Pension and postretirement-related losses other than net periodic cost	(24)	(24)
Other	(305)	86
Change in unrestricted net assets	118,533	46,033
Temporarily restricted net assets		
Contributions	11,880	9,198
Investment return designated for restricted purposes	3,642	3,588
Net assets released from restrictions	(15,427)	(16,357)
Net investment gains	3,298	681
Change in temporarily restricted net assets	3,393	(2,890)
Permanently restricted net assets		
Contributions	3,807	4,171
Investment return reinvested in principal	41	104
Net investment gains (losses)	917	(1,238)
Other	(8)	(2)
Change in permanently restricted net assets	4,757	3,035
Change in net assets attributable to Wake Forest Baptist	126,683	46,178
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	2,017,857	1,762,726
Change in net assets attributable to noncontrolling interest	419	66
Net assets attributable to noncontrolling interest at beginning of period	6,680	8,833
Total net assets at end of period	\$ 2,024,956	\$ 1,771,625

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 December 31,	
	2017	2016
Operating activities and gains and losses		
Change in net assets	\$ 127,102	\$ 46,244
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	62,241	60,671
Amortization of bond premium	(383)	(570)
Gain on acquisition	(45,582)	-
Gains in value of interest rate swaps, net	(361)	(1,782)
(Gains) losses from equity-method affiliates	(1,750)	3,740
Losses on disposal of property and equipment	677	533
Contributions restricted for long-term investing	(3,848)	(4,275)
Investment gains, net	(71,553)	(43,516)
Changes in operating assets and liabilities:		
Patient receivables, net	(18,989)	(12,800)
Estimated third-party payer settlements, net	(38,221)	(31,553)
Accounts, grants, and notes receivable, net	5,751	(6,479)
Other current assets	11,437	(8,412)
Other assets	15,953	11,413
Accounts payable and accruals	(33,372)	(87,052)
Accrued employee compensation	(10,084)	(17,147)
Deferred revenues	(4,515)	1,082
Other current liabilities	(3,170)	10,007
Retirement benefits	4,037	4,637
Other long-term liabilities	(8,315)	(18,336)
Net cash used in operating activities	<u>(12,945)</u>	<u>(93,595)</u>
Investing activities		
Net sales and purchases of investments	55,058	40,072
Acquisition, net of cash acquired	(16,533)	-
Net additions to property and equipment	(47,136)	(52,337)
Net cash used in investing activities	<u>(8,611)</u>	<u>(12,265)</u>
Financing activities		
Principal payments on debt	(61,610)	(14,088)
Proceeds from issuance of debt	50,355	148,712
Payments on capital lease obligations	(1,855)	(584)
Contributions restricted for long-term investing	3,848	4,275
Net cash (used in) provided by financing activities	<u>(9,262)</u>	<u>138,315</u>
(Decrease) increase in cash and cash equivalents	(30,818)	32,455
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>\$ 195,468</u>	<u>\$ 268,821</u>
Supplemental cash flow disclosure information:		
Property and equipment funded by capital lease borrowings	\$ 21,911	\$ -

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

December 31, 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

December 31, 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 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.

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Selected Notes to Combined Financial Statements, continued

December 31, 2017

Dollars in thousands.

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 December 31, 2017 and the fiscal year ended June 30, 2017, WFB recognized EHR incentives of approximately \$67 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 December 31, 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 December 31, 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 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.

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.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

December 31, 2017

Dollars in thousands.

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>December 31,</u> <u>2017</u>	<u>June 30,</u> <u>2017</u>
Short-term investments ^(a)	\$ 92,576	\$ 160,860
Absolute return ^(b)	559,131	491,285
Commodities ^(c)	24,841	23,590
Fixed income ^(d)	433,899	443,233
Private equity ^(e)	2,380	1,746
Public equity ^(f)	408,132	377,570
Real estate ^(g)	9,522	10,058
Pooled investments held at WFU ^(h)	5,069	5,011
Beneficial interest in perpetual trusts and assets held by others ⁽ⁱ⁾	20,682	17,985
Other ⁽ⁱ⁾	126,173	115,760
Total investments and assets whose use is limited	<u>\$ 1,682,405</u>	<u>\$ 1,647,098</u>

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

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

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

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

December 31, 2017

Dollars in thousands.

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

Investment Return

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

	Period Ended December 31,	
	2017	2016
Interest and dividend income	\$ 14,459	\$ 17,423
Realized gains (losses)	34,948	(693)
Unrealized gains	14,248	23,651
Total investment return included in change in unrestricted net assets	<u>\$ 63,655</u>	<u>\$ 40,381</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

December 31, 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 December 31,	
	2017	2016
Operating:		
Investment return designated for current operations	\$ 13,724	\$ 12,940
Nonoperating:		
Net investment gains	49,931	27,441
Total unrestricted investment return included in in the combined statements of operations and changes in net assets	63,655	40,381
Investment return designated for temporarily restricted purposes	3,642	3,588
Temporarily restricted net gains on investments	3,298	681
Permanently restricted investment return reinvested in principal	41	104
Permanently restricted net gains (losses) on investments	917	(1,238)
Total investment return included in change in restricted net assets	7,898	3,135
Total investment return	\$ 71,553	\$ 43,516

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

December 31, 2017

Dollars in thousands.

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

	December 31, 2017		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	\$ 301,117	\$ -	\$ 301,117
Donor-restricted endowment funds	-	186,345	186,345
Total endowment funds	301,117	186,345	487,462
Funds designated for capital improvements	742,436	-	742,436
Funds designated for settlement of professional liability costs	56,309	-	56,309
Collateral for derivative agreements	-	3,920	3,920
Beneficial interests in perpetual trusts and assets held by others	-	20,682	20,682
Funds held under retirement and benefit plans	58,285	-	58,285
Designated for restricted purposes	1,790	17,689	19,479
Assets whose use is limited	1,159,937	228,636	1,388,573
Other unrestricted investments			260,232
Investments in equity-method affiliates			33,600
Investments and assets whose use is limited			<u>\$ 1,682,405</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

December 31, 2017

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

Debt consists of the following:

	December 31, 2017	June 30, 2017
Series 2016 ^(a)	\$ 150,000	\$ 150,000
Series 2016 Bond Issuance Costs	(1,395)	(1,420)
Series 2012A ^(b)	118,405	118,405
Series 2012A Unamortized Bond Premium	3,737	3,804
Series 2012A Bond Issuance Costs	(931)	(948)
Series 2012B ^(b)	94,520	98,415
Series 2012B Unamortized Bond Premium	12,441	12,832
Series 2012B Bond Issuance Costs	(730)	(753)
Series 2012C ^(b)	-	50,355
Series 2012C Bond Issuance Costs	-	(371)
Series 2012D ^(b)	80,000	80,000
Series 2012D Bond Issuance Costs	(296)	(101)
Series 2010 ^(c)	262,555	262,555
Series 2010 Unamortized Bond Premium	7,654	7,887
Series 2010 Bond Issuance Costs	(2,247)	(2,315)
Total bonds payable	<u>723,713</u>	<u>778,345</u>
Line of credit ^(d)	19,198	20,238
Loan agreement ^(e)	10,674	11,675
Loan agreement ^(f)	45,000	48,000
Loan agreement ^(g)	48,035	-
External notes ^(h)	1,856	2,097
Capital leases ⁽ⁱ⁾	4,167	5,279
Capital lease ^(j)	42,653	43,156
Capital lease ^(k)	21,911	-
Total notes payable and capital leases	<u>193,494</u>	<u>130,445</u>
Total debt	917,207	908,790
Less current portion	(28,479)	(28,130)
Total long-term debt	<u>\$ 888,728</u>	<u>\$ 880,660</u>

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

December 31, 2017

Dollars in thousands.

Debt is reflected in the combined balance sheets as follows:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Current portion of long-term debt	\$ 28,479	\$ 28,130
Notes payable and capital leases, net of current portion	179,295	118,733
Bonds payable, net of current portion	<u>709,433</u>	<u>761,927</u>
Total debt	<u>\$ 917,207</u>	<u>\$ 908,790</u>

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

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

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

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

The Series 2012D bonds were issued in an aggregate principal amount not to exceed \$80,000 and mature in full in fiscal year 2043. The bonds are currently in the Bank-Bought Rate Mode and bear interest at an Index Floating Rate based on an Adjusted London Interbank Offered Rate (LIBOR) rate plus a spread of 0.62%. 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.

WAKE FOREST BAPTIST

Selected Notes to Combined Financial Statements, continued

December 31, 2017

Dollars in thousands.

- (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) **Loan agreement** – represents an unsecured loan agreement held by WFUHS, NCBH and WFUBMC, with a variable rate based on the one-month LIBOR plus a premium of 0.55% for \$50,355 to refinance the previously outstanding Series 2012C bonds. Principal payments are due on December 1 of each year with monthly interest payments and a bullet maturity date of October 1, 2019.
- (h) **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.
- (i) **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.
- (j) **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

December 31, 2017

Dollars in thousands.

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

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

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Combining Balance Sheet Information (Unaudited)

December 31, 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	\$ 50,648	\$ 24,102	\$ 45,463	\$ 16,971	\$ 5,445	\$ 50,839	\$ 2,000	\$ -	\$ 195,468	\$ (15,895)	\$ (576)	\$ 178,997
Patient receivables, net	202,752	65,772	10,209	7,197	-	22,221	80	-	308,231	(22,220)	-	286,011
Accounts, grants, and notes receivable, net	72,253	56,677	25,057	183	16	9,374	9,100	(93,928)	78,732	19,276	(24,252)	73,756
Other current assets	56,764	7,038	1,753	1,084	-	48,896	83	(45,521)	70,097	5,614	-	75,711
Total current assets	382,417	153,589	82,482	25,435	5,461	131,330	11,263	(139,449)	652,528	(13,225)	(24,828)	614,475
Accounts, grants, and notes receivable, net, long-term	26,234	47,745	-	-	-	1,510	-	(52,219)	23,270	-	-	23,270
Investments and assets whose use is limited	896,278	788,123	-	-	-	178,867	144	(181,007)	1,682,405	(55,912)	42,498	1,668,991
Property and equipment, net	662,088	346,900	20,658	7,415	551	79,132	5,136	-	1,121,880	(54,695)	-	1,067,185
Goodwill	36,106	1,505	420	-	-	54,183	-	-	92,214	(90,289)	-	1,925
Other assets	5,018	6,111	87	-	-	-	-	-	11,216	(1,664)	-	9,552
Total assets	\$ 2,008,141	\$ 1,343,973	\$ 103,647	\$ 32,850	\$ 6,012	\$ 445,022	\$ 16,543	\$ (372,675)	\$ 3,583,513	\$ (215,785)	\$ 17,670	\$ 3,385,398
Liabilities and Net Assets												
Current liabilities:												
Accounts payable and accruals	\$ 45,328	\$ 28,885	\$ 1,437	\$ 9,127	\$ 521	\$ 82,921	\$ 961	\$ (83,259)	\$ 85,921	\$ (8,895)	\$ (25,567)	\$ 51,459
Accrued employee compensation	48,123	102,878	2,377	1,075	-	11,991	102	-	166,546	(6,379)	-	160,167
Estimated third-party payer settlements, net	57,881	-	-	906	-	2,982	-	-	61,769	(2,998)	-	58,771
Deferred revenue	-	53,974	-	-	8	-	155	-	54,137	(245)	-	53,892
Current portion of long-term debt	12,481	9,495	-	-	-	6,111	392	-	28,479	(1,242)	739	27,976
Other current liabilities	22,662	11,249	521	-	-	4,868	12	-	39,312	(4,425)	-	34,887
Total current liabilities	186,475	206,481	4,335	11,108	529	108,873	1,622	(83,259)	436,164	(24,184)	(24,828)	387,152
Notes payable, capital leases, and line of credit, net of current portion	13,640	103,391	-	-	-	60,800	1,464	-	179,295	(23,264)	-	156,031
Bonds payable, net of current portion	458,672	102,156	-	-	-	148,605	-	-	709,433	-	-	709,433
Retirement benefits	78,867	36,665	-	-	-	7,217	-	-	122,749	(7,217)	-	115,532
Other long-term liabilities	73,415	78,647	7,466	296	-	59,452	49	(108,409)	110,916	(3,192)	-	107,724
Total liabilities	811,069	527,340	11,801	11,404	529	384,947	3,135	(191,668)	1,558,557	(57,857)	(24,828)	1,475,872
Net assets:												
Unrestricted	1,177,092	579,833	91,822	21,446	5,342	57,134	13,408	(174,943)	1,771,134	(157,913)	49,597	1,662,818
Temporarily restricted	4,262	63,768	-	-	141	2,941	-	-	71,112	(15)	-	71,097
Permanently restricted	2,555	173,032	24	-	-	-	-	-	175,611	-	-	175,611
Total net assets attributable to Wake Forest Baptist	1,183,909	816,633	91,846	21,446	5,483	60,075	13,408	(174,943)	2,017,857	(157,928)	49,597	1,909,526
Noncontrolling interest in affiliates	13,163	-	-	-	-	-	-	(6,064)	7,099	-	(7,099)	-
Total net assets	1,197,072	816,633	91,846	21,446	5,483	60,075	13,408	(181,007)	2,024,956	(157,928)	42,498	1,909,526
Total liabilities and net assets	\$ 2,008,141	\$ 1,343,973	\$ 103,647	\$ 32,850	\$ 6,012	\$ 445,022	\$ 16,543	\$ (372,675)	\$ 3,583,513	\$ (215,785)	\$ 17,670	\$ 3,385,398

⁽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 December 31, 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)	\$ 844,904	\$ 274,000	\$ 56,631	\$ 36,635	\$ 3,955	\$ 93,240	\$ 5,716	\$ -	\$ 1,315,081	\$ (98,375)	\$ -	\$ 1,216,706
Provision for bad debts	(61,227)	(16,967)	(6,344)	(3,458)	-	(3,257)	(342)	-	(91,595)	3,437	-	(88,158)
Net patient service revenue	783,677	257,033	50,287	33,177	3,955	89,983	5,374	-	1,223,486	(94,938)	-	1,128,548
Gifts, grants, and contracts	1,268	87,829	274	-	1,899	505	-	-	91,775	(132)	-	91,643
Net student tuition and fees	856	16,954	-	-	-	-	-	-	17,810	-	-	17,810
Investment return designated for current operations	635	12,932	-	-	-	1	156	-	13,724	(791)	-	12,933
Other sources	23,306	132,035	440	165	-	9,418	9	(121,088)	44,285	(15,499)	-	28,786
Net assets released from restrictions	231	15,114	-	-	82	-	-	-	15,427	(853)	-	14,574
Total operating revenues and support	809,973	521,897	51,001	33,342	5,936	99,907	5,539	(121,088)	1,406,507	(112,213)	-	1,294,294
Operating expenses												
Salaries and wages	254,762	293,575	17,725	8,586	-	53,385	1,036	2,486	631,555	(56,355)	-	575,200
Employee benefits	69,400	55,098	4,008	1,320	-	13,018	215	673	143,732	(13,364)	-	130,368
Purchased services	189,713	84,602	6,047	2,354	3,532	8,988	2,010	(123,379)	173,867	(12,627)	-	161,240
Clinical and laboratory supplies	175,326	24,937	10,219	7,259	-	10,388	196	-	228,325	(10,480)	-	217,845
Other operating expenses	62,482	34,177	3,007	4,283	2,210	11,132	379	(868)	116,802	(12,771)	-	104,031
Depreciation and amortization	39,541	16,064	1,861	1,060	40	3,326	349	-	62,241	(2,923)	-	59,318
Financing costs	9,361	4,056	-	-	-	2,754	9	-	16,180	(45)	20	16,155
Total operating expenses	800,585	512,509	42,867	24,862	5,782	102,991	4,194	(121,088)	1,372,702	(108,565)	20	1,264,157
Operating excess (deficiency) of revenues and support over expenses	9,388	9,388	8,134	8,480	154	(3,084)	1,345	-	33,805	(3,648)	(20)	30,137
Nonoperating gains (losses)												
Gains from equity-method affiliates	38,912	37,716	-	-	-	369	-	(75,247)	1,750	(395)	6,432	7,787
Net investment gains	38,236	11,128	-	19	-	408	140	-	49,931	(1,689)	20	48,262
Unrealized gains on interest rate swap valuation	-	361	-	-	-	-	-	-	361	-	-	361
Gain on acquisition	-	-	-	-	-	45,582	-	-	45,582	(45,582)	-	-
Other	(26,185)	(329)	-	11	-	14,355	-	-	(12,148)	(14,354)	-	(26,502)
Excess of revenues and gains over expenses and losses before noncontrolling interest	60,351	58,264	8,134	8,510	154	57,630	1,485	(75,247)	119,281	(65,668)	6,432	60,045

⁽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 December 31, 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	\$ 60,351	\$ 58,264	\$ 8,134	\$ 8,510	\$ 154	\$ 57,630	\$ 1,485	\$ (75,247)	\$ 119,281	\$ (65,668)	\$ 6,432	\$ 60,045
Noncontrolling interest	(801)	-	-	-	-	-	-	382	(419)	-	419	-
Excess of revenues and gains over expenses and losses attributable to Wake Forst Baptist	59,550	58,264	8,134	8,510	154	57,630	1,485	(74,865)	118,862	(65,668)	6,851	60,045
Pension and postretirement-related losses other than net periodic pension cost	(24)	-	-	-	-	-	-	-	(24)	-	-	(24)
Other	-	-	-	-	-	-	(1,224)	919	(305)	1,277	(1,162)	(190)
Change in unrestricted net assets	59,526	58,264	8,134	8,510	154	57,630	261	(73,946)	118,533	(64,391)	5,689	59,831
Temporarily restricted net assets												
Contributions	578	11,302	-	-	-	-	-	-	11,880	(868)	-	11,012
Investment return designated for restricted purposes	-	3,642	-	-	-	-	-	-	3,642	-	-	3,642
Net assets released from restrictions	(231)	(15,114)	-	-	(82)	-	-	-	(15,427)	853	-	(14,574)
Net investment gains	129	3,169	-	-	-	-	-	-	3,298	-	-	3,298
Change in temporarily restricted net assets	476	2,999	-	-	(82)	-	-	-	3,393	(15)	-	3,378
Permanently restricted net assets												
Contributions	-	3,807	-	-	-	-	-	-	3,807	-	-	3,807
Investment return reinvested in principal	-	41	-	-	-	-	-	-	41	-	-	41
Net investment gains	2	915	-	-	-	-	-	-	917	-	-	917
Other	(8)	-	-	-	-	-	-	-	(8)	-	-	(8)
Change in permanently restricted net assets	(6)	4,763	-	-	-	-	-	-	4,757	-	-	4,757
Change in net assets attributable to Wake Forest Baptist	59,996	66,026	8,134	8,510	72	57,630	261	(73,946)	126,683	(64,406)	5,689	67,966
Net assets attributable to Wake Forest Baptist at beginning of period	1,123,913	750,607	83,712	12,936	5,411	2,445	13,147	(100,997)	1,891,174	(93,522)	43,908	1,841,560
Net assets attributable to Wake Forest Baptist at end of period	1,183,909	816,633	91,846	21,446	5,483	60,075	13,408	(174,943)	2,017,857	(157,928)	49,597	1,909,526
Change in net assets attributable to noncontrolling interest	801	-	-	-	-	-	-	(382)	419	-	(419)	-
Net assets attributable to noncontrolling interest at beginning of period	12,362	-	-	-	-	-	-	(5,682)	6,680	-	(6,680)	-
Total net assets at end of period	\$ 1,197,072	\$ 816,633	\$ 91,846	\$ 21,446	\$ 5,483	\$ 60,075	\$ 13,408	\$ (181,007)	\$ 2,024,956	\$ (157,928)	\$ 42,498	\$ 1,909,526

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