



CONE HEALTH

QUARTERLY FINANCIAL STATEMENTS

FOR THE PERIOD ENDING

September 30, 2014

**CONE HEALTH CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS
FOR THE PERIOD ENDING SEPTEMBER 30, 2014**

Table of Contents

Financial Statement Narrative	1-3
Summary of Major Statistics for Quarter / YTD	4-5
Balance Sheet and Notes	6-9
Consolidated Statement of Operations for Quarter / YTD and Notes	10-13
Consolidating Statement of Operations by Entity for YTD	14
Statement of Cash Flows	15

Cone Health
Financial Statement Narrative
For Period Ended September 30, 2014

The consolidated financial statements and commentary presented below reflect the financial position, results of operations, and cash flows of Cone Health as a consolidated system including Moses Cone Hospital Operating Corporation, Alamance Regional Medical Center, the Parent Corporation, and all related affiliates for the year ended September 30, 2014.

Significant or unique occurrences during the period

Operating performance for the period was better than budget and prior year. For the quarter, The Health System's consolidated operating income was \$10.5M and a margin of 2.8% compared to a budget of \$11.5M and a margin of 3.2%. Excess of revenues over expenses were \$9.3M and an excess margin of 2.4% compared to a budget of \$8.3M and net margin of 2.3%. For the year-to-date period, operating income was \$42.0M and a margin of 3.0% compared to a budget of \$30.6M and a margin of 2.2%. Year-to-date excess of revenues over expenses was \$60.1M and an excess margin of 4.1% compared to a budget of \$29.5M and net margin of 2.1%. In summary, year-to-date revenue was slightly above budget driven by a strong fourth quarter offsetting earlier declines in volumes and a shift in patients from inpatient to lower-paying observation status. Total year-to-date expenses were slightly favorable despite large year-end expenses for pension plan de-risking initiative and strategic initiative investments. Details of the year-to-date operating performance variances are below.

The shift of patients from inpatient status to observation status was a major factor during the year. The main driver of this change has been implementation of the CMS "two-midnight rule" effective October 2013 which guides physicians to place patients in Observation status rather than Inpatient status if the physician cannot initially attest that the patient will be in-house across two midnight periods regardless of acuity. The affect at the Greensboro hospitals has been that more patients are being placed in observation status which on average reimburses less per case than inpatient status would. Managed care companies have begun to implement similarly aggressive policies. Beyond the patient status changes, total census was down compared to budget and prior year. Emergency department volumes and surgeries were down compared to budget and prior year too. Other outpatient volumes were above budget.

Labor expenses were favorable to budget as labor management initiatives including not filling or delaying certain vacant positions led to FTE's being 236 below budget year-to-date. Benefit expenses were above budget due to pension settlement expense for lump-sum payouts and employee medical claims expenses. Pharmaceutical expense continues to rise nationally, and we experienced volume growth in our contract pharmacies and medical oncology services. Other non-labor expenses were unfavorable to budget in malpractice insurance, management fees, and other strategic initiative investments. Depreciation expense was favorable to plan due to slower capital acquisitions.

Several unique items occurred in the period. As part of a long-term pension de-risking initiative, in June the organization began the process of offering lump-sum payouts to terminated vested employees. The payments were made in September and constituted operating expense recognition of approximately \$4.5 million. Recognition of Premier, Inc. public offering and Class B share conversion during the period amounted to approximately \$5.0M in expense reduction. Payments from the NC DSH program were above budget by approximately \$6.0M.

In the first quarter, the Health System closed its Series 2013 bonds in the amount of \$130.2 million through the North Carolina Medical Care Commission. The bonds were used to retire the \$42.9 million under the Health System's line of credit, fund a construction account with \$59.8 million for use on the Alamance Regional Medical Center campus, and to fund an escrow to repay the AEC Series 2007 bonds effective January 1, 2014. The bonds have annual principal payments starting in fiscal year 2014 through 2023 with a balance of \$88.8 million due at maturity. The bonds are fixed rate obligations with an average interest rate of 2.815%.

Cone Health

Financial Statement Narrative

For Period Ended September 30, 2014

Consolidated Statement of Operations Summary (\$ in Thousands)

For the year ended September 30, 2014

	Actual YTD	Budget YTD	Variance	Prior YTD
Operating income	\$41,997	\$30,557	\$11,439	(\$47,617)
Operating Margin %	3.0%	2.2%	0.8%	-3.7%
Operating EBIDA	\$132,699	\$128,299	\$4,400	\$35,891
Operating EBIDA Margin %	9.5%	9.2%	0.3%	2.8%
Excess of revenue over expenses	\$60,073	\$29,538	\$30,535	(\$13,276)
Excess Margin %	4.1%	2.1%	2.0%	-1.0%
Change in Net Assets	\$79,207	\$29,539	\$49,668	\$335,550

In the accompanying comparative consolidated financial statements, prior year information includes twelve months of ARMC Healthcare operations even though the merger acquisition date of May 1, 2013 only covered five months of fiscal year 2013.

Inpatient activity for the system was short of budget for the period by 3,915 cases or 6.4% and below prior year by 6.6%. The observation variance partially offsetting the inpatient shortfall is favorable by 3,719 cases or 27% and above prior year by 3,208 or 22.4%. The inpatient case mix index was 6.5% higher than budget and 5.3% higher than prior year to date. The CMI increase is due in part to the observation shift removing lower weighted cases from the inpatient mix. The acute hospital average length of stay continues to improve and was below budget by 0.11 days or 2.4% and lower than prior year by 0.12 days or 2.5%. Total emergency visits were 2.8% lower than budget and 0.7% above prior year. Surgery volumes are below budget and prior year by 3.0% and 3.1%, respectively. The shortfall and decline are more severe on inpatient cases which were below budget by 6.3% while outpatient surgeries were below budget by 0.9%. Outpatient visits were above budget by 4.7% and above prior year by 8.3%. The variance is due to growth in observations, rehab, cardiology, and radiology visits.

Gross patient revenue followed volume trends with outpatient revenue being significantly above budget and inpatient being significantly under. Total gross revenue was over budget by \$45.9M. The total net patient revenue variance is \$4.3M above budget for the year. The shift of patients to outpatient which has a lower payment rate than inpatient led to approximately \$11.9M unfavorable variance. Other volume variances contributed \$4.6M favorable variance. The physician enterprise has an unfavorable net revenue variance of \$5.0M primarily due to lower volumes. Favorable payer mix shifts contributed approximately \$9.0M variance. Case mix and payment rates were favorable by approximately \$1.2M. North Carolina DSH payments were approximately \$6.4M above budget. Other operating revenue is favorable to budget by \$6.5M primarily due to contract pharmacy revenues and meaningful use payments exceeding budget.

Salary expense including contract labor (purchased personnel) was favorable to budget in the year by \$10.1 million (1.8%). The primary drivers are FTE's being below budget due to lower staffing matched to decreased inpatient volumes and due to vacant positions being held open longer before hiring replacements. In the operating divisions, FTE's were below budget by 236 YTD. Benefits expense was over budget by \$6.1M

Cone Health

Financial Statement Narrative

For Period Ended September 30, 2014

(3.3%). The primary drivers were increased pension settlement costs due to lump-sum payouts of retirees and due to increasing employee medical claims expense.

Supplies and Drugs were unfavorable to budget \$5.7M (2.3%). Various issues are driving the variances. High-cost surgical cases are contributing to the supply variance, but were offset by recognition of Premier, Inc. public offering and class B share conversion as an expense credit totaling \$5.0M. In Pharmacy contract pharmacy volumes and Cancer Center medical oncology activity have been up, and high cost drugs or shortages drove the unfavorable variance.

Other Operating Expenses are over budget by \$5.2M (2.0%). Malpractice expense was \$3.1M over budget. Management fee, consulting, and other purchased service expenses were over budget by \$6.0M. Offsetting those items were favorable variances of \$3.9M including software fees, maintenance, and leases. Depreciation expense is favorable to budget by \$7.0 M (7.2%) due to slower the planned pace of capital spending.

Net Non-Operating Income was above budget by \$15.2M (392%). Joint venture income was strong and over budget by \$4.7M. Realized investment gains were \$7.1M over budget. Interest expense was under budget by \$2.1M. Also included in the year to date variance is loss on extinguishment of debt at ARMC for \$1.9M from the first quarter.

Balance Sheet Summary of Key Metrics and Ratios

As of September 30, 2014

	Actual	Prior Qtr.	Change	Prior FYE
Cash and long-term investment (\$000)	\$928,196	\$935,621	(\$7,425)	\$873,790
Days cash on hand	267	274	(7)	257
Days in A/R	51.7	53.7	(2.0)	63.0
Cash to debt	181%	182%	(1%)	176%
Debt to capitalization	20.8%	20.9%	(0.1%)	26.3%
Annual debt service coverage ratio	6.81	7.30	(0.49)	6.60

Cash and investments increased by \$54 million year-to-date behind strong investment performance and improving operations. That increase drives several of the key ratios to a more favorable position. The fiscal year-to-date return on the investment portfolio as of September 30, 2014, was 8.8%.

CONE HEALTH OPERATIONS
Statistics by Category
September 30, 2014 and September 30, 2013

	QUARTER-TO-DATE					YEAR-TO-DATE				
	Actual 09/30/14	Budget 09/30/14	Act./Bud. % Var	Actual 09/30/13	Act./Act. % Var	Actual 09/30/14	Budget 09/30/14	Act./Bud. % Var	Actual 09/30/13	Act./Act. % Var
Beds in Service										
Moses H Cone Memorial Hospital	485	485	0.00%	506	-4.15%	485	485	0.00%	522	-7.09%
Alamance Regional Medical Center	215	215	0.00%	215	0.00%	215	215	0.00%	215	0.00%
Wesley Long Community Hospital	171	171	0.00%	122	40.16%	171	171	0.00%	116	47.41%
Annie Penn Hospital	46	46	0.00%	87	-47.13%	59	59	0.00%	87	-32.18%
Women's Hospital of Greensboro	134	134	0.00%	134	0.00%	134	134	0.00%	134	0.00%
Behavioral Health Hospital	80	80	0.00%	80	0.00%	80	80	0.00%	80	0.00%
Beds in Service- Operating Corp	1,131	1,131	0.00%	1,144	-1.14%	1,144	1,144	0.00%	1,154	-0.87%
Number of Inpatients										
Moses H Cone Memorial Hospital	6,049	6,071	-0.36%	6,073	-0.40%	23,227	24,823	-6.43%	24,951	-6.91%
Alamance Regional Medical Center	2,798	2,832	-1.20%	2,876	-2.71%	10,943	11,652	-6.08%	11,654	-6.10%
Wesley Long Community Hospital	2,233	2,519	-11.35%	2,506	-10.89%	9,242	10,254	-9.87%	10,298	-10.25%
Annie Penn Hospital	830	846	-1.89%	790	5.06%	3,080	3,552	-13.29%	3,506	-12.15%
Women's Hospital of Greensboro	1,975	1,986	-0.55%	2,007	-1.59%	7,435	7,714	-3.62%	7,747	-4.03%
Behavioral Health Hospital	935	785	19.11%	848	10.26%	3,407	3,254	4.70%	3,219	5.84%
Number of Inpatients - Operating Corp	14,820	15,039	-1.46%	15,100	-1.85%	57,334	61,249	-6.39%	61,375	-6.58%
Average Length of Stay										
Moses H Cone Memorial Hospital	4.51	4.54	0.74%	4.42	-2.07%	4.61	4.67	1.20%	4.60	-0.19%
Alamance Regional Medical Center	4.19	4.19	0.07%	4.23	1.06%	4.25	4.17	-2.07%	4.19	-1.54%
Wesley Long Community Hospital	3.85	4.57	15.82%	4.35	11.48%	4.11	4.76	13.82%	4.68	12.26%
Annie Penn Hospital	3.63	3.72	2.51%	3.52	-2.98%	3.80	3.85	1.39%	3.83	0.96%
Women's Hospital of Greensboro	4.07	3.67	-11.00%	3.80	-7.13%	3.87	3.73	-3.77%	3.90	0.72%
Behavioral Health Hospital	5.32	5.92	10.08%	5.42	1.87%	5.81	5.92	1.90%	5.79	-0.31%
Average Length of Stay - Operating Corp	4.29	4.39	2.25%	4.30	0.14%	4.39	4.49	2.15%	4.47	1.65%
Average Daily Census										
Moses H Cone Memorial Hospital	296.6	299.8	-1.07%	291.7	1.68%	293.4	317.4	-7.56%	314.6	-6.74%
Alamance Regional Medical Center	127.3	129.0	1.32%	132.3	3.78%	127.6	133.1	4.13%	133.8	4.63%
Wesley Long Community Hospital	93.4	125.2	-25.40%	118.4	-21.11%	104.0	133.8	-22.27%	132.0	-21.21%
Annie Penn Hospital	32.7	34.2	-4.39%	30.2	8.28%	32.0	37.5	-14.67%	36.8	-13.04%
Women's Hospital of Greensboro	87.5	79.2	10.48%	83.0	5.42%	78.8	78.8	0.00%	82.7	-4.72%
Behavioral Health Hospital	54.1	50.5	7.13%	50.0	8.20%	54.2	52.8	2.65%	51.1	6.07%
Average Daily Census - Operating Corp	691.5	717.9	-3.68%	705.6	-2.00%	690.1	753.3	-8.39%	751.0	-8.11%
Average Daily Census - Long Term Care										
Penn Nursing Center	83.8	86.2	-2.80%	87.7	-4.48%	84.2	86.2	-2.31%	85.4	-1.42%
Average Daily Census - LTC	83.8	86.2	-2.80%	87.7	-4.48%	84.2	86.2	-2.31%	85.4	-1.42%
Alamance Extended Care										
Edgewood Place	57.1	74.8	-23.71%	73.8	-22.63%	67.8	75.0	-9.53%	73.8	-8.05%
TVAB Skilled Nursing	19.2	17.0	12.66%	13.8	39.07%	14.5	17.0	-14.42%	14.7	-1.34%
Average Daily Census - CCRC	76.2	91.8	-16.97%	87.6	-12.92%	82.4	92.0	-10.43%	88.5	-6.93%
Surgical Procedures										
Moses H Cone Memorial Hospital	3,197	3,071	4.10%	3,154	1.36%	12,650	12,438	1.70%	12,835	-1.44%
Alamance Regional Medical Center	1,871	2,144	-12.73%	1,912	-2.14%	8,442	9,285	-9.08%	8,940	-5.57%
Wesley Long Community Hospital	1,479	1,497	-1.20%	1,485	-0.40%	5,926	6,005	-1.32%	5,911	0.25%
Annie Penn Hospital	563	516	9.11%	532	5.83%	2,154	2,211	-2.58%	2,363	-8.84%
Women's Hospital of Greensboro	1,106	1,163	-4.90%	1,142	-3.15%	4,349	4,506	-3.48%	4,555	-4.52%
Mebane Surgery Center	404	444	-9.01%	452	-10.62%	859	902	-4.77%	926	-7.24%
Day Surgery Center @ Moses Cone	1,070	1,213	-11.79%	1,248	-14.26%	4,644	4,831	-3.87%	4,822	-3.69%
Day Surgery Center @ Wesley Long	351	445	-21.12%	379	-7.39%	1,657	1,761	-5.91%	1,616	2.54%
Surgical Procedures - Operating Corp	10,041	10,493	-4.31%	10,304	-2.55%	40,681	41,939	-3.00%	41,968	-3.07%

CONE HEALTH OPERATIONS
Operational Statistics by Category
September 30, 2014 and September 30, 2013

	<u>QUARTER-TO-DATE</u>					<u>YEAR-TO-DATE</u>				
	Actual 09/30/14	Budget 09/30/14	Act./Bud. % Var	Actual 09/30/13	Act./Act. % Var	Actual 09/30/14	Budget 09/30/14	Act./Bud. % Var	Actual 09/30/13	Act./Act. % Var
Deliveries										
Annie Penn Hospital	3	-	0.00%	3	0.00%	-	-	0.00%	3	-100.00%
Alamance Regional Medical Center	337	332	0.00%	318	5.97%	1,305	1,262	3.41%	1,279	2.03%
Women's Hospital of Greensboro	1,609	1,636	-1.65%	1,600	0.56%	6,116	6,198	-1.32%	6,205	-1.43%
Deliveries - Operating Corp	1,949	1,968	-0.97%	1,921	1.46%	7,421	7,460	-0.52%	7,487	-0.88%
Emergency Department Visits										
Moses H Cone Memorial Hospital	24,966	24,154	3.36%	23,267	7.30%	99,941	96,102	3.99%	94,084	6.23%
Alamance Regional Medical Center	16,249	15,829	2.65%	14,683	10.67%	57,562	61,666	-6.66%	58,061	-0.86%
Urgent Care Center	6,546	7,651	-14.44%	5,840	12.09%	24,475	30,676	-20.21%	28,771	-14.93%
Mebane Urgent Care	2,188	2,580	-15.19%	2,428	-9.88%	4,523	5,004	-9.61%	4,709	-3.95%
Kernersville Urgent Care	1,021	1,722	-40.71%	1,157	-11.75%	4,716	6,848	-31.13%	5,714	-17.47%
Wesley Long Community Hospital	14,216	13,932	2.04%	14,078	0.98%	57,066	54,677	4.37%	54,800	4.14%
Med Center High Point	6,731	7,478	-9.99%	6,581	2.28%	26,747	29,123	-8.16%	27,201	-1.67%
Annie Penn Hospital	9,137	8,709	4.91%	9,183	-0.50%	36,011	35,609	1.13%	35,667	0.96%
MAU Visits	5,245	5,260	-0.29%	5,081	3.23%	20,340	20,946	-2.89%	20,410	-0.34%
ED Visits - Operating Corp	86,299	87,315	-1.16%	82,298	4.86%	331,381	340,651	-2.72%	329,417	0.60%
O/P Visits										
Moses H Cone Memorial Hospital	57,073	51,018	11.87%	52,136	9.47%	222,755	208,406	6.88%	202,213	10.16%
Wesley Long Community Hospital	16,068	14,954	7.45%	14,542	10.49%	63,884	61,554	3.79%	57,656	10.80%
Annie Penn Hospital	15,318	14,015	9.30%	14,670	4.42%	58,963	57,501	2.54%	57,510	2.53%
Women's Hospital of Greensboro	12,262	9,326	31.48%	10,037	22.17%	44,776	39,258	14.05%	38,098	17.53%
Behavioral Health Hospital	5,331	5,413	-1.51%	4,901	8.77%	19,966	21,385	-6.64%	18,563	7.56%
Health Services Division	7,152	5,543	29.03%	5,709	25.28%	24,698	23,017	7.30%	21,783	13.38%
Regional Cancer Center	17,574	14,229	23.51%	14,692	19.62%	65,923	56,902	15.85%	57,603	14.44%
O/P Visits - Operating Corp	161,339	146,809	9.90%	146,419	10.19%	623,116	596,208	4.51%	576,117	8.16%
Moses Cone Physician Services (TCTS, VVS, RCP, UMFC, etc.)										
Physician Office Visits	21,251	22,951	-7.41%	20,917	1.60%	83,302	91,036	-8.50%	85,040	-2.04%
Physician Hospital Visits	31,166	29,517	5.59%	28,673	8.69%	120,926	120,680	0.20%	119,983	0.79%
Physician Procedures	7,680	8,347	-7.99%	7,917	-2.99%	31,148	33,098	-5.89%	32,685	-4.70%
	60,097	60,815	-1.18%	57,507	4.50%	235,376	244,814	-3.86%	237,708	-0.98%
LeBauer Healthcare										
Physician Office Visits	59,010	57,996	1.75%	51,632	14.29%	225,252	230,144	-100.00%	201,926	11.55%
Physician Hospital Visits	11,966	13,437	-10.95%	11,618	3.00%	49,488	53,316	-100.00%	48,975	1.05%
Physician Procedures	92,509	88,538	4.49%	88,806	4.17%	360,609	351,331	-100.00%	335,884	7.36%
	163,485	159,971	2.20%	152,056	7.52%	635,349	634,791	0.09%	586,785	8.28%
Moses Cone Affiliated Physicians										
Physician Office Visits	49,524	52,215	-5.15%	42,855	15.56%	187,456	200,087	-100.00%	163,827	14.42%
Physician Hospital Visits	2,363	5,630	-58.03%	2,327	1.55%	8,418	20,608	-100.00%	4,686	79.64%
	287,109	229,801	24.94%	226,951	26.51%	790,974	786,944	0.51%	657,549	20.29%

Cone Health
Consolidated Balance Sheets
September 30, 2014 and September 30, 2013

Assets	September 30, 2014	Audited September 30, 2013	Liabilities and Net Assets	September 30, 2014	Audited September 30, 2013
Current Assets			Current Liabilities		
Cash	\$ 50,452,808	\$ 11,895,416	Accrued Payroll	\$ 43,578,944	\$ 33,732,708
Short-term investments	16,472,266	45,164,085	Accounts Payable	74,376,653	67,203,459
Patient Receivables (net) (Note 1)	189,007,019	189,623,467	PAL & Retirement	29,252,500	38,595,171
Other Receivables	50,401,598	39,199,786	Bonds Payable (Note 5)	12,316,671	7,478,953
Inventories	26,670,011	24,400,975	Short Term Debt, Line of Credit (Note 5)	95,801,931	96,741,510
Prepaid Expenses	13,993,473	12,671,633	Other Current Liabilities	51,857,055	45,497,741
Other Current Assets	6,454,687	5,932,736	Total Current Liabilities	<u>307,183,753</u>	<u>289,249,541</u>
Total Current Assets	<u>353,451,862</u>	<u>328,888,099</u>			
Plant and Property(net)			Debt and Other Liabilities		
Land and Land Improvements	59,466,869	61,920,571	Bonds Payable (Note 5)	354,980,000	329,028,274
Building and Fixed Equipment	684,216,651	652,172,653	Long Term Debt (Note 5)	32,244,983	58,933,812
Moveable Equipment	186,009,424	187,011,555	Capital Lease Obligation	3,385,908	5,133,567
Real Estate	11,254,447	12,254,925	Other Non-Current Liabilities	126,968,103	116,486,371
	<u>940,947,391</u>	<u>913,359,704</u>	Total Liabilities	<u>824,762,747</u>	<u>798,831,565</u>
Construction/Equipment In Progress	66,074,020	65,718,941			
Total Plant and Property (Note 2)	<u>1,007,021,411</u>	<u>979,078,645</u>			
Other Non Current Assets			Net Assets		
Marketable Securities (Note 3)	851,228,059	816,730,710	Unrestricted	1,482,416,465	1,395,334,620
Joint Ventures (Note 4)	46,033,273	38,500,148	Noncontrolling Interest	8,196,049	7,582,740
Investment in Unrelated Parties	75,000	75,000	Total Unrestricted Net Assets	<u>1,490,612,514</u>	<u>1,402,917,360</u>
Trustee held bond funds	9,105,461	313,863			
Subtotal Investments	<u>906,441,793</u>	<u>855,619,721</u>	Temporarily Restricted	10,920,206	8,549,236
Deferred Costs	3,601,724	2,872,156	Total Restricted Net Assets	<u>10,920,206</u>	<u>8,549,236</u>
Other Assets	46,831,539	37,527,983	Total Net Assets	1,501,532,720	1,411,466,596
Non-Compete Agreement	-	-			
Goodwill	8,947,138	6,311,558			
Total Other Non-Current Assets	<u>59,380,401</u>	<u>46,711,697</u>			
TOTAL ASSETS	<u><u>\$2,326,295,467</u></u>	<u><u>\$2,210,298,161</u></u>	TOTAL LIAB. AND NET ASSETS	<u><u>\$2,326,295,467</u></u>	<u><u>\$2,210,298,161</u></u>

Cone Health
Notes to the Consolidated Balance Sheets
September 30, 2014 and September 30, 2013

Footnotes

(1) Patient accounts receivable are shown net of an allowance for uncollectible accounts. The balances presented include settlements from third party payors - primarily Medicare and Medicaid as a result of subsequent period cost settlements as well as amounts due to third party payors and patients (credit balances). In addition, amounts due from collection agencies on bad debt collections are shown as recovery accruals.

	<u>September 30, 2014</u>	<u>September 30, 2013</u>
Patient Accounts Receivable	\$ 505,597,338	\$ 515,779,310
Less Credit Balances	(779,626)	(1,906,361)
Gross Patient Accounts Receivable Net of Credit Bal	504,817,712	513,872,949
Plus Recovery Accruals	4,321,955	4,232,257
Plus Withholds	57,015	200,000
Plus Settlement Accounts	(11,665,299)	(1,653,594)
Gross Patient Accounts Receivable	497,531,383	516,651,612
Allowance for Uncollectible	(308,524,365)	(327,028,145)
Net Accounts Receivable	<u>\$ 189,007,018</u>	<u>\$ 189,623,467</u>

(2) Plant and property balances are shown at cost net of accumulated depreciation. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed on the straight-line method for financial reporting purposes.

	<u>September 30, 2014</u>			<u>September 30, 2013</u>		
	Cost	Depreciation	Net	Cost	Depreciation	Net
Land and Land Improvements	\$ 73,352,060	\$ (13,885,191)	\$ 59,466,869	\$ 70,655,086	\$ (8,734,515)	\$ 61,920,571
Building and Fixed Equipment	1,062,630,186	(378,413,535)	684,216,651	996,135,521	(343,962,868)	652,172,653
Moveable Equipment	377,532,650	(191,523,226)	186,009,424	362,312,597	(175,301,042)	187,011,555
Real Estate ⁽¹⁾	26,415,888	(15,161,441)	11,254,447	26,244,498	(13,989,573)	12,254,925
Subtotal	\$1,539,930,784	(\$598,983,393)	\$940,947,391	\$1,455,347,701	(\$541,987,998)	\$913,359,704
Construction/Equipment In Progress	66,074,020	N/A	66,074,020	65,718,941	N/A	65,718,941
Total Plant and Property	<u>\$ 1,606,004,804</u>	<u>\$ (598,983,393)</u>	<u>\$ 1,007,021,411</u>	<u>\$ 1,521,066,643</u>	<u>\$ (541,987,998)</u>	<u>\$ 979,078,645</u>

(1) Real Estate investments

	<u>September 30, 2014</u>	<u>September 30, 2013</u>
Adams Farm	\$ 1,376,825	\$ 1,580,438
ARMC	-	0
Forest Oaks - land only	289,490	289,490
Stoney Creek	1,134,799	1,179,948
Wendover Medical	7,364,655	7,994,816
West Wendover	1,088,678	1,210,233
	<u>\$ 11,254,447</u>	<u>\$ 12,254,925</u>

(3) Marketable Securities are listed at market value. Market and cost values by manager are as follows:

	<u>September 30, 2014</u>		<u>September 30, 2013</u>	
	Market	Cost	Market	Cost
Health System:				
Subtotal Health System Marketable Securities	\$ 679,869,307	\$ 633,897,867	\$ 581,335,311	\$ 554,066,988
Alamance Regional Medical Center:				
Subtotal Health System Marketable Securities	\$ 6,130,638		\$ 73,155,414	
Alamance Foundation:				
Subtotal Health System Marketable Securities	59,673,119		54,819,624	
Foundation:				
Subtotal Foundation Marketable Securities	113,826,179	102,362,785	112,269,367	103,749,748
SubTotal Marketable Securities	<u>\$ 859,499,243</u>	<u>\$ 736,260,652</u>	<u>\$ 821,579,717</u>	<u>\$ 657,816,735</u>
Annie Penn Foundation	\$ 2,751,914		\$ 2,592,294	
Reclassified to Short Term or AWUIL-ST**	\$ (11,023,097)		\$ (7,441,301)	
Total Marketable Securities	<u>\$ 851,228,059</u>		<u>\$ 816,730,710</u>	

* Note: Per Generally Accepted Accounting Principles, alternative investments are carried at cost on financial statements as there is no accepted common exchange for market valuation.

** AWUIL-ST - Assets Whose Use Is Limited - Short term

Cone Health
Notes to the Consolidated Balance Sheets
September 30, 2014 and September 30, 2013

(4) Joint Ventures are accounted for using the equity method. The Health System's share has been adjusted for it's share of the respective investee's operations. The Health System's share of the equity is as follows:

	<u>September 30, 2014</u>	<u>September 30, 2013</u>	<u>Change</u>
Hospice at Greensboro	\$ 13,869,142	\$ 11,883,682	\$ 1,985,460
Clarity (HCCI)	1,554,193	1,363,940	190,253
Clarity (HCCR)	400,120	357,616	42,504
Greensboro HealthCare Network	(217,286)	(14,763)	(202,523)
Piedmont Community Health Care Alliance	(21,343)	(21,343)	-
Diagnostic Radiology & Imaging	2,236,817	1,246,279	990,538
NSC Greensboro West (Spine Center JV holding co)*	1,285,033	846,583	438,450
Spine Center JV	-	-	-
Day Surgery Center of Greensboro	838,436	838,446	(10)
Cardiovascular Diagnostic Center*	-	332,341	(332,341)
Advanced HomeCare	20,031,031	16,445,933	3,585,098
Call-A-Nurse	1,507,304	1,381,689	125,615
Guilford Adult Health	373,549	495,178	(121,629)
Randolph Cancer Center	3,057,022	2,104,155	952,867
PACE of Guilford & Rockingham Co	(25,078)	(253,759)	228,681
PACE of Southern Piedmont*	(2,053,121)	(1,046,429)	(1,006,691)
Proficient Health LLC (booked at cost; ownership <20%)	1,050,000	1,050,000	-
Staywell Senior Care (booked at cost; ownership <20%)	315,000	157,500	157,500
JV held by ARMC	1,064,366	1,465,594	(401,229)
Consolidation Eliminations for >50% ownership	768,088	(132,495)	900,582
Total Investment in Joint Ventures	<u>\$ 46,033,273</u>	<u>\$ 38,500,148</u>	<u>\$ 7,533,126</u>

(5) Long term debt consists of the following:

	<u>September 30, 2014</u>	<u>September 30, 2013</u>
Series 2001, fixed rate swap, principal payments begin in 2024	\$ 85,200,000	\$ 85,200,000
Series 2004, variable rate, principal payments begin in 2016	47,500,000	47,500,000
Series 2011, fixed rate, principle payments begin in 2013	54,425,000	60,170,000
Series 2011, variable rate, principle payments begin in 2016	47,885,000	47,980,000
Series 2011, variable rate, principle payments begin in 2013	98,875,000	99,500,000
Series 2007, fixed rate, principle payments begin in 2013	-	28,320,000
Series 2013 A, B and C	127,525,000	-
Revolving credit agreement at variable rates	(0)	87,398,000
High Point Building Note	20,640,000	21,500,000
ARMC note	12,236,139	12,001,000
ARMC note	-	1,027,589
Note payable from consolidated joint venture	1,057,446	1,585,960
	<u>\$ 495,343,585</u>	<u>\$ 492,182,549</u>
Less current portion of long-term debt	108,118,602	104,220,463
Total Long-term debt	<u>\$ 387,224,983</u>	<u>\$ 387,962,086</u>

The average weighted interest rate on the Health System's long-term debt was approximately 2.04% on September 30, 2014 and approximately 1.17% for the September 30, 2013 period before the interest was capitalized.

**Cone Health
Consolidating Balance Sheet
As Of September 30, 2014**

	Operating Corporation	Alamance Regional Medical Center	Parent Corporation	Cone Health Foundation	Impact Alamance	Physician Enterprise	Eliminations & Other Entities	Consolidated
ASSETS								
Current Assets								
Cash	\$ 27,952,718	\$ 16,624,373	\$ 4,881,024	\$ 698,407	\$ 9,955	\$ 254,523	\$ 31,807	\$ 50,452,808
Short-term investments	11,031,718	-	4,568,410	129,281	742,857	-	-	16,472,266
Patient Receivables (net)	142,784,520	28,555,692	-	-	-	14,828,647	2,838,159	189,007,019
Other Receivables	188,733,662	99,515,744	(244,086,481)	(76,568)	(446,461)	9,763,026	(3,001,324)	50,401,598
Inventories	21,330,759	5,244,544	-	-	-	71,943	22,765	26,670,011
Prepaid Expenses	12,261,937	1,479,580	139,913	(404)	-	167,711	(55,264)	13,993,473
Other Current Assets	-	-	-	-	-	-	6,454,687	6,454,687
Total Current Assets	404,095,315	151,419,933	(234,497,133)	750,716	306,351	25,085,850	6,290,831	353,451,862
Plant and Property(net)								
Land and Land Improvements	-	34,803,365	24,663,504	-	-	-	-	59,466,869
Building and Fixed Equipment	2,404,407	256,405,747	423,448,702	-	7,986	1,217,532	732,277	684,216,651
Moveable Equipment	150,538,581	29,943,678	8,361	-	87,941	4,690,128	740,735	186,009,424
Real Estate	-	-	11,254,447	-	-	-	-	11,254,447
	152,942,988	321,152,790	459,375,015	-	95,927	5,907,659	1,473,012	940,947,392
Construction/Equipment In Progress	16,345,507	512,027	48,420,588	-	-	276,282	519,616	66,074,020
Total Plant and Property	169,288,495	321,664,817	507,795,603	-	95,927	6,183,941	1,992,628	1,007,021,411
Other Non Current Assets								
Marketable Securities	2,751,914	6,130,638	675,300,897	113,826,179	59,673,119	-	2,650,773	860,333,520
Joint Ventures	42,649,821	1,064,366	-	-	-	-	2,319,086	46,033,273
Investments in unrelated entities	-	-	75,000	-	-	-	-	75,000
Debt Service Funds Held By Bond Trusts	-	-	9,105,461	-	-	-	(9,105,461)	-
Subtotal Investments	45,401,735	7,195,004	684,481,358	113,826,179	59,673,119	-	(4,135,601)	906,441,793
Deferred Costs	79,478	-	3,515,335	-	-	-	6,910	3,601,724
Other Assets	23,209,938	3,037,983	408,048	-	-	10,434,153	9,741,417	46,831,539
Non-Compete Agreement	-	-	-	-	-	-	-	-
Goodwill	4,970,935	-	778,815	-	-	780,896	2,416,492	8,947,138
Total Other Non-Current Assets	28,260,351	3,037,983	4,702,198	-	-	11,215,049	12,164,819	59,380,401
TOTAL ASSETS	\$647,045,896	\$483,317,736	\$962,482,026	\$114,576,895	\$60,075,397	\$42,484,840	\$16,312,677	\$2,326,295,467
LIABILITIES AND NET ASSETS								
Current Liabilities								
Accrued Payroll	\$ 21,810,745	\$ -	\$ 52,703	\$ 21,585	\$ 56,709	\$ 20,252,069	\$ 1,385,134	\$ 43,578,944
Accounts Payable	40,033,901	23,944,486	7,259,283	33,041	43,855	2,935,277	126,810	74,376,653
PAL & Retirement	13,850,529	-	-	-	-	15,630,311	(228,340)	29,252,500
Bonds Payable	-	411,671	11,905,000	0	0	-	-	12,316,671
Short Term Debt, Line of Credit	-	-	95,385,000	-	-	-	416,931	95,801,931
Other Current Liabilities	24,317,780	4,372,476	19,085,294	4,393,297	-	-	(311,793)	51,857,055
Total Current Liabilities	100,012,955	28,728,633	133,687,280	4,447,923	100,564	38,817,657	1,388,742	307,183,754
Debt and Other Liabilities								
Bonds Payable	-	-	354,980,000	-	-	-	-	354,980,000
Long Term Debt	4,925,000	11,694,537	19,780,000	0	0	-	(4,154,554)	32,244,983
Capital Lease Obligation	3,274,691	105,350	-	-	-	-	5,867	3,385,908
Other Non-Current Liabilities	91,121,542	14,886,321	618,066	25,000	-	10,473,986	9,843,189	126,968,103
Total Liabilities	199,334,188	55,414,841	509,065,345	4,472,923	100,564	49,291,643	7,083,244	824,762,747
Net Assets								
Unrestricted	440,971,913	418,635,267	453,416,680	110,103,972	59,974,833	(6,827,204)	6,141,003	1,482,416,465
Noncontrolling Interests	(1,679,826)	5,787,444	-	-	-	-	4,088,431	8,196,049
Total Unrestricted Net Assets	439,292,087	424,422,711	453,416,680	110,103,972	59,974,833	(6,827,204)	10,229,433	1,490,612,514
Temporarily Restricted	8,419,621	3,480,184	-	-	-	20,401	(1,000,000)	10,920,206
Total Restricted Net Assets	8,419,621	3,480,184	-	-	-	20,401	(1,000,000)	10,920,206
TOTAL LIAB. AND NET ASSETS	\$647,045,896	\$483,317,736	\$962,482,026	\$114,576,895	\$60,075,397	\$42,484,840	\$16,312,677	\$2,326,295,467

Cone Health
Consolidated Statements of Operations
September 30, 2014 and September 30, 2013

	QUARTER-TO-DATE						YEAR-TO-DATE					
	ACTUAL 9/30/14	BUDGET 9/30/14	VARIANCE 9/30/14	Act./Bud. % VAR	ACTUAL 9/30/13	Act./Act. % VAR	ACTUAL 9/30/14	BUDGET 9/30/14	VARIANCE 9/30/14	Act./Bud. % VAR	ACTUAL 9/30/13	Act./Act. % VAR
REVENUE												
Patient Service Revenue (net of contractual allowances and discounts)	\$ 379,848,315	\$ 364,159,699	\$ 15,688,616	4.31%	\$ 344,348,752	10.31%	\$ 1,460,096,500	\$ 1,457,143,386	\$ 2,953,114	0.20%	\$ 1,364,870,543	6.98%
Provision for bad debts (Note 1)	29,450,157	31,397,920	(1,947,763)	-6.20%	54,507,230	-45.97%	124,488,835	125,860,275	(1,371,441)	-1.09%	132,253,145	-5.87%
Net Patient Service Revenue (Note 2)	350,398,158	332,761,779	17,636,379	5.30%	289,841,522	20.89%	1,335,607,665	1,331,283,111	4,324,555	0.32%	1,232,617,398	8.36%
Other Operating Revenue	28,981,936	25,172,125	3,809,811	15.14%	14,883,550	94.72%	68,243,384	61,256,177	6,987,207	11.41%	48,751,547	39.98%
Total Operating Revenues	379,380,094	357,933,904	21,446,190	5.99%	304,725,072	24.50%	1,403,851,049	1,392,539,288	11,311,762	0.81%	1,281,368,945	9.56%
EXPENSE												
Salaries and Wages	146,644,103	143,087,732	(3,556,371)	-2.49%	136,612,589	-7.34%	546,835,195	558,444,068	(11,608,873)	-2.08%	554,449,726	-1.37%
Fringe Benefits	50,172,546	45,343,565	(4,828,981)	-10.65%	45,048,155	-11.38%	188,571,274	182,504,667	(6,066,607)	-3.32%	186,931,036	-0.88%
Purchased Personnel	2,493,316	2,292,878	(200,438)	-8.74%	2,553,288	2.35%	10,864,858	9,336,086	(1,528,772)	-16.37%	13,949,536	22.11%
Supplies	62,861,876	62,391,504	(470,372)	-0.75%	61,960,173	-1.46%	257,788,084	252,090,014	(5,698,070)	-2.26%	244,636,431	-5.38%
Other Operating Expense	83,727,590	68,513,230	(15,214,360)	-22.21%	66,678,895	-25.57%	267,092,798	261,865,297	(5,227,501)	-2.00%	245,510,849	-8.79%
Depreciation/Amortization	22,936,039	24,841,770	1,905,731	7.67%	21,733,925	-5.53%	90,701,722	97,741,681	7,039,959	7.20%	83,507,867	-8.61%
TOTAL OPERATING EXPENSE	368,835,470	346,470,679	(22,364,791)	-6.46%	334,587,025	-10.236%	1,361,853,931	1,361,981,813	127,882	0.01%	1,328,985,445	-2.47%
INCOME FROM OPERATIONS	10,544,624	11,463,225	(918,601)	-8.01%	(29,861,953)	-135.31%	41,997,118	30,557,475	11,439,644	37.44%	(47,616,500)	-188.20%
OTHER INCOME												
Investment Income (Note 3)	3,951,940	7,760,335	(3,808,395)	-49.08%	6,203,740	-36.30%	38,128,550	30,979,380	7,149,170	23.08%	47,221,114	-19.26%
Joint Venture Income (Note 4)	2,736,995	1,113,964	1,623,031	145.70%	1,519,799	80.09%	8,627,392	3,959,164	4,668,228	117.91%	5,820,782	48.22%
Interest Expense	(2,514,026)	(2,598,037)	84,011	3.23%	(1,277,158)	-96.85%	(9,502,219)	(11,580,278)	2,078,059	17.94%	(5,389,731)	76.30%
Other, Net (Note 4)	(5,446,367)	(8,762,470)	3,316,103	37.84%	4,489,810	221.31%	(18,197,254)	(19,481,810)	1,284,556	6.59%	(14,676,134)	-23.99%
Total Other Income	(1,271,458)	(2,486,208)	(1,214,750)	-48.86%	10,936,191	-111.63%	19,056,469	3,876,456	(15,180,013)	391.60%	32,976,031	-42.21%
EXCESS OF REVENUES OVER EXPENSE BEFORE MINORITY INTEREST	9,273,166	8,977,017	296,149	3.30%	(18,925,762)	-149.00%	61,053,587	34,433,931	26,619,657	77.31%	(14,640,469)	-517.02%
Minority Interest Expense	(55,836)	722,590	778,426	107.73%	(631,824)	91.16%	980,462	4,895,316	3,914,854	79.97%	(1,364,650)	-171.85%
EXCESS OF REVENUES OVER EXPENSE (Note 5)	9,329,002	8,254,427	1,074,575	13.02%	(18,293,938)	-151.0%	60,073,125	29,538,615	30,534,511	103.4%	(13,275,819)	-552.5%
Change In Net Unrealized Gains and Losses on Investments (Note 3)	(12,223,641)	-	(12,223,641)	100.00%	14,554,087	-183.99%	20,284,379	-	20,284,379	100.00%	23,660,416	14.27%
Inherent Contribution from Acquisition of ARMC					286,722,249	-100.00%					286,722,249	100.00%
Change In AOCI	0	-	-	0.00%	38,443,394	-100.00%	(1,150,591)	-	(1,150,591)	0.00%	38,443,394	102.99%
INCREASE IN UNRESTRICTED NET ASSETS	\$ (2,894,639)	\$ 8,254,427	\$ (11,149,066)	-135.07%	\$ 321,425,792	-100.90%	\$ 79,206,913	\$ 29,538,615	\$ 49,668,299	168.15%	335,550,240	-76.39%
Operating Margin	2.8%	3.2%			-9.8%		3.0%	2.2%			-3.7%	
EBIDA Margin	8.8%	10.1%			-2.7%		9.5%	9.2%			2.8%	
Excess Revenue over Expenses Margin	2.4%	2.3%			-5.9%		4.1%	2.1%			-1.0%	

Cone Health
Notes to the Consolidated Income Sheets
September 30, 2014 and September 30, 2013

Footnotes:

(1) Bad debt expense represents that portion of net patient service revenue which, while not a contractual adjustment or charity care, proves to be uncollectible. Bad debt expense includes the provision for uncollectible less any recoveries of accounts previously written off, as follows:

	<u>QUARTER-TO-DATE</u>			<u>YEAR-TO-DATE</u>		
	<u>Actual 9/30/14</u>	<u>Budget 9/30/14</u>	<u>Actual 9/30/13</u>	<u>Actual 9/30/14</u>	<u>Budget 9/30/14</u>	<u>Actual 9/30/13</u>
Provision for bad debts	\$ (30,583,132)	\$ (32,753,976)	\$ (56,169,076)	\$ (129,843,701)	\$ (131,340,122)	\$ (137,941,895)
Collection Costs	(229,133)	(357,973)	(354,331)	(892,447)	(1,433,759)	(1,483,120)
Recoveries	1,362,109	1,714,029	2,016,176	6,247,314	6,913,606	7,171,870
Bad debt expense	<u>\$ (29,450,156)</u>	<u>\$ (31,397,920)</u>	<u>\$ (54,507,231)</u>	<u>(\$124,488,834)</u>	<u>(\$125,860,275)</u>	<u>(\$132,253,145)</u>

(2) Patient service revenue is recorded at the amount which the hospital expects to receive. Gross charges are reduced by contractual adjustments and by amounts deemed to be charity care in order to arrive at this figure, as follows:

	<u>QUARTER-TO-DATE</u>			<u>YEAR-TO-DATE</u>		
	<u>Actual 9/30/14</u>	<u>Budget 9/30/14</u>	<u>Actual 9/30/13</u>	<u>Actual 9/30/14</u>	<u>Budget 9/30/14</u>	<u>Actual 9/30/13</u>
Gross Charges	\$ 818,879,370	\$ 784,772,939	\$ 741,581,856	\$ 3,218,058,900	\$ 3,172,180,911	\$ 2,953,520,604
Contractual Adjustments	(414,725,128)	(391,241,123)	(371,159,414)	(1,647,833,084)	(1,595,557,144)	(1,479,942,809)
Charity Care	(44,250,421)	(46,085,630)	(43,712,893)	(179,258,084)	(186,334,431)	(171,969,303)
Bad Debt Expense	(29,450,156)	(31,397,920)	(54,507,231)	(124,488,834)	(125,860,275)	(132,253,145)
Disproportionate Share	19,944,493	16,713,513	17,639,204	69,128,767	66,854,050	63,262,051
Net Patient Service Revenue	<u>\$ 350,398,158</u>	<u>\$ 332,761,779</u>	<u>\$ 289,841,522</u>	<u>\$ 1,335,607,665</u>	<u>\$ 1,331,283,111</u>	<u>\$ 1,232,617,398</u>

(3) Net realized gains and losses from sales of securities as well as interest and dividend income are included in Investment Income. Unrealized gains and losses are included after revenues over expenses. Those amounts by manager are as follows:

	<u>QUARTER-TO-DATE</u>				<u>YEAR-TO-DATE</u>			
	<u>September 30, 2014</u>		<u>September 30, 2013</u>		<u>September 30, 2014</u>		<u>September 30, 2013</u>	
	<u>Investment Income</u>	<u>Unrealized Gains(Losses)</u>	<u>Investment Income</u>	<u>Unrealized Gains(Losses)</u>	<u>Investment Income</u>	<u>Unrealized Gains(Losses)</u>	<u>Investment Income</u>	<u>Unrealized Gains(Losses)</u>
Health System	2,285,162	(9,535,921)	5,568,414	10,185,839	23,423,814	19,611,082	37,431,857	20,433,583
Alamance Regional Medical Center:	(6,298)	-	(117,317)	-	9,798,991	(7,816,141)	4,112,947	-
Alamance Foundation:	687,429	(964,549)	173,006	2,018,678	704,719	5,080,755	351,060	519,624
Foundation	985,646	(1,723,171)	579,637	2,349,570	4,201,027	3,408,682	5,325,249	2,707,209
Total - Investment Income/Unrealized Gain/Loss	<u>\$ 3,951,940</u>	<u>\$ (12,223,641)</u>	<u>\$ 6,203,740</u>	<u>\$ 14,554,087</u>	<u>\$ 38,128,550</u>	<u>\$ 20,284,379</u>	<u>\$ 47,221,114</u>	<u>\$ 23,660,416</u>

* Per Generally Accepted Accounting Principles gain or loss on market value cannot be recognized because common exchange does not exist.

Cone Health
Notes to the Consolidated Income Sheets
September 30, 2014 and September 30, 2013

(4) Other, Net includes income from the joint ventures as well as expenses related to the operations of the Parent and Foundation. The joint venture income is included in the statements on the equity method in the amount attributable to the Health System's interest in the venture.

	<u>QUARTER-TO-DATE</u>			<u>YEAR-TO-DATE</u>		
	<u>Actual 09/30/14</u>	<u>Budget 09/30/14</u>	<u>Actual 09/30/13</u>	<u>Actual 09/30/14</u>	<u>Budget 09/30/14</u>	<u>Actual 09/30/13</u>
Joint Venture Income (Non-Operating Entities):						
Clarity (HCCI)	\$ 190,253	\$ 175,000	\$ 272,105	\$ 190,253	\$ 175,000	\$ 272,105
Clarity (HCCR)	42,503	20,000	31,163	42,503	20,000	31,163
Greensboro HealthCare Network	17,730	-	431,467	81,386	-	62,892
Piedmont Community Health Care Alliance	-	-	-	-	-	-
Day Surgery Center of Greensboro	9,245	4,540	9,256	42,052	24,193	28,778
Consolidation Eliminations for >50% ownership*	-	-	-	-	-	-
Sub-total Non-Operating Joint Venture Income	<u>259,731</u>	<u>199,540</u>	<u>743,991</u>	<u>356,194</u>	<u>219,193</u>	<u>394,938</u>
Joint Venture Income (Operating Entities):						
Advanced HomeCare	\$ 991,778	\$ 432,876	\$ (29,361)	\$ 3,585,098	\$ 1,731,504	\$ 2,292,843
Hospice at Greensboro	485,114	31,250	(95,855)	1,985,462	125,000	405,015
Diagnostic Radiology & Imaging	917,878	241,577	414,149	2,410,363	966,306	1,778,114
NSC Greensboro West (Spine JV Holding Co)*	472,413	420,000	260,316	1,900,903	1,628,259	1,656,739
Cardiovascular Diagnostic Center*	(11,187)	54,622	79,454	196,451	252,797	304,703
Call-A-Nurse	36,858	24,000	92,013	125,615	105,390	327,998
Guilford Adult Health	(200,022)	4,036	(6,154)	(121,630)	16,145	(29,228)
Randolph Cancer Center	126,130	106,249	321,969	57,609	425,000	512,077
PACE of Guilford & Rockingham Co.	119,528	74,436	79,047	228,681	370,626	139,025
PACE of Southern Piedmont	(282,350)	168,157	(256,441)	(1,006,691)	(168,829)	(789,471)
Consolidation Eliminations for >50% ownership*	(178,876)	(642,779)	(83,329)	(1,090,663)	(1,712,227)	(1,171,971)
Sub-total Operating Joint Venture Income	<u>2,477,264</u>	<u>914,424</u>	<u>775,808</u>	<u>8,271,198</u>	<u>3,739,971</u>	<u>5,425,844</u>
Total Joint Venture Income	<u>\$ 2,736,995</u>	<u>\$ 1,113,964</u>	<u>\$ 1,519,799</u>	<u>\$ 8,627,392</u>	<u>\$ 3,959,164</u>	<u>\$ 5,820,782</u>
Other Expenses						
Investment Manager Fees	\$ 805,114	\$ 620,555	\$ 601,480	\$ 2,935,468	\$ 2,518,000	\$ 2,274,113
Debt Expenses	339,111	296,810	372,640	1,358,496	1,133,486	1,073,030
Allocated Expenses	1,932,679	1,888,684	(1,084,697)	7,696,043	7,444,656	9,605,003
Contribution Expense	-	-	-	10,250	10,250	1,010,250
Extraordinary gain/loss on extinguishment of debt	-	-	-	3,046,091	-	-
Other, Miscellaneous	1,806,949	5,100,165	(5,733,440)	1,439,175	5,281,509	(1,979,254)
Foundation Operating expense	369,114	1,055,796	349,794	1,563,959	1,569,233	1,369,532
Foundation Grant expense	453,131	-	1,748,404	503,966	1,743,870	1,718,398
Total Expenses	<u>\$ 5,706,098</u>	<u>\$ 8,962,010</u>	<u>\$ (3,745,819)</u>	<u>\$ 18,553,448</u>	<u>\$ 19,701,003</u>	<u>\$ 15,071,072</u>
Other, Net	<u>\$ (5,446,367)</u>	<u>\$ (8,762,470)</u>	<u>\$ 4,489,810</u>	<u>\$ (18,197,254)</u>	<u>\$ (19,481,810)</u>	<u>\$ (14,676,134)</u>

Cone Health
Notes to the Consolidated Income Sheets
September 30, 2014 and September 30, 2013

(5) Detail and reconciliation of consolidated excess of revenues over expenses for the Operating, Parent, Foundation and other consolidated entities.

	<u>QUARTER-TO-DATE</u>			<u>YEAR-TO-DATE</u>		
	<u>Actual 09/30/14</u>	<u>Budget 09/30/14</u>	<u>Actual 09/30/13</u>	<u>Actual 09/30/14</u>	<u>Budget 09/30/14</u>	<u>Actual 09/30/13</u>
Operating Entities Income from Operations	\$ 11,831,464	\$ 6,482,422	\$ (13,409,533)	\$ 39,161,846	\$ 27,104,530	\$ (31,307,675)
Parent/Other Entity Income from Operations	(1,200,813)	5,060,333	(16,402,590)	4,286,859	3,771,064	(16,090,932)
Operating Grant Revenue from Foundation (eliminated)	(86,026)	(79,530)	(49,830)	(1,451,587)	(318,120)	(217,893)
Total Income from Operations	<u>10,544,625</u>	<u>11,463,225</u>	<u>(29,861,953)</u>	<u>41,997,118</u>	<u>30,557,474</u>	<u>(47,616,500)</u>
Operating Entities Non-Operating Income	2,829,465	144,926	296,977,005	18,169,260	6,483,492	307,633,248
Parent Non-Operating Income	(3,359,415)	(9,449,496)	15,668,999	8,476,920	(10,750,128)	18,139,619
Other Consolidated Affiliates Non-Operating Income	(601,513)	6,983,455	(301,530,377)	(11,769,667)	8,913,205	(292,097,511)
Foundation Income from Operations	(139,993)	(165,093)	(179,436)	4,179,956	(770,113)	(699,325)
Total Non-Operating Income	<u>(1,271,457)</u>	<u>(2,486,208)</u>	<u>10,936,191</u>	<u>19,056,469</u>	<u>3,876,456</u>	<u>32,976,031</u>
Excess of Rev over Exp before Minority Interest	<u>9,273,168</u>	<u>8,977,017</u>	<u>(18,925,763)</u>	<u>61,053,587</u>	<u>34,433,930</u>	<u>(14,640,469)</u>
Minority Interest	(55,836)	722,590	(631,824)	980,462	4,895,316	(1,364,650)
Excess of Revenues over Expense	<u>\$ 9,329,004</u>	<u>\$ 8,254,427</u>	<u>\$ (18,293,939)</u>	<u>\$ 60,073,125</u>	<u>\$ 29,538,614</u>	<u>\$ (13,275,819)</u>

(6) The Parent Company (non-consolidated) Income Statement is as follows:

	<u>QUARTER-TO-DATE</u>			<u>YEAR-TO-DATE</u>		
	<u>Actual 09/30/14</u>	<u>Budget 09/30/14</u>	<u>Actual 09/30/13</u>	<u>Actual 09/30/14</u>	<u>Budget 09/30/14</u>	<u>Actual 09/30/13</u>
INCOME:						
Investment Income	\$2,290,953	\$6,014,992	\$5,354,424	\$22,790,975	\$24,038,882	\$36,563,578
Lease Income	7,794,972	8,376,162	7,687,562	31,311,900	32,562,217	27,449,642
Joint Venture	-	-	-	-	-	-
Other Income	35,850	519	291,457	199,527	2,075	1,729,210
Total Income	<u>10,121,775</u>	<u>14,391,673</u>	<u>13,333,443</u>	<u>54,302,402</u>	<u>56,603,174</u>	<u>65,742,430</u>
Expenses:						
Interest Expense	2,514,026	3,852,571	1,277,158	9,502,219	11,580,279	5,389,731
Debt Expense	339,111	296,810	372,640	1,358,496	1,133,486	1,073,030
Investment Expense	805,114	620,555	601,480	2,935,468	2,518,000	2,274,113
Depreciation/Amortization Exp.	7,764,007	8,354,621	7,730,842	31,304,284	32,501,677	27,602,839
Contribution Expense	-	-	-	10,250	10,250	1,010,250
Other Miscellaneous Expense	1,327,066	3,767,596	5,169,611	5,930,263	8,393,890	16,738,777
Allocated Expense	1,932,679	1,888,684	(1,084,697)	7,696,043	7,444,656	9,605,003
Total Expenses	<u>14,682,003</u>	<u>18,780,836</u>	<u>14,067,034</u>	<u>58,737,023</u>	<u>63,582,238</u>	<u>63,693,743</u>
Excess of Revenue over Expense	<u>(4,560,228)</u>	<u>(4,389,163)</u>	<u>(733,591)</u>	<u>(4,434,621)</u>	<u>(6,979,064)</u>	<u>2,048,687</u>
Change in Unrealized Gains & Losses on Investments	(9,554,746)	-	10,161,307	19,948,472	-	20,747,053
Increase In Unrestricted Net Assets	<u>\$ (14,114,974)</u>	<u>\$ (4,389,163)</u>	<u>\$ 9,427,716</u>	<u>\$ 15,513,851</u>	<u>\$ (6,979,064)</u>	<u>\$ 22,795,740</u>

Cone Health
Consolidating Statement of Operations
Fiscal Year-to-Date Period Ended September 30, 2014

	Operating Corporation	Alamance Regional Medical Center	Parent Corporation	Cone Health Foundation	Impact Alamance	Physician Enterprise	Eliminations & Other Entities	Consolidated
REVENUE								
Patient Service Revenue (net of contractual allowances and discounts)	\$ 1,059,391,759	\$ 266,087,338	\$ -	\$ -	\$ -	\$ 118,497,543	\$ 16,119,860	\$ 1,460,096,500
Provision for bad debts	92,844,857	25,561,357	-	-	-	5,414,785	667,835	\$ 124,488,835
Net Patient Service Revenue	966,546,901	240,525,981	-	-	-	113,082,757	15,452,025	1,335,607,665
Other Operating Revenue	37,075,684	14,421,507	31,511,428	5,873	-	20,253,658	(35,024,765)	68,243,384
Total Operating Revenues	1,003,622,585	254,947,488	31,511,428	5,873	-	133,336,416	(19,572,739)	1,403,851,049
EXPENSE								
Salaries and Wages	367,034,280	98,492,148	607,207	526,753	216,494	73,947,159	6,011,154	546,835,195
Fringe Benefits	145,244,654	25,645,847	222,962	207,106	103,001	16,312,617	835,088	188,571,274
Purchased Personnel	5,602,743	4,614,237	-	-	-	637,485	10,393	10,864,858
Supplies	200,520,909	44,546,997	39,510	17,108	7,338	10,286,275	2,369,947	257,788,084
Other Operating Expense	217,336,470	53,372,807	12,249,005	265,349	94,995	30,183,088	(46,408,916)	267,092,798
Depreciation/Amortization	39,039,581	17,957,555	31,304,284	-	19,316	1,897,642	483,344	90,701,722
TOTAL OPERATING EXPENSE	974,778,637	244,629,590	44,422,968	1,016,315	441,144	133,264,267	(36,698,990)	1,361,853,931
INCOME FROM OPERATIONS	28,843,948	10,317,898	(12,911,541)	(1,010,443)	(441,144)	72,149	17,126,251	41,997,118
OTHER INCOME								
Investment Income	245,087	9,798,991	22,889,819	4,665,935	704,719	-	(176,001)	38,128,550
Joint Venture Income	10,368,552	-	0	0	0	-	(1,741,160)	8,627,392
Interest Expense	-	-	(9,502,219)	-	-	-	-	(9,502,219)
Other, Net	210,940	(2,454,310)	(4,910,680)	(1,057,483)	(133,216)	(52,066)	(9,800,440)	(18,197,254)
Total Other Income	10,824,579	7,344,681	8,476,920	3,608,453	571,503	(52,066)	(11,717,601)	19,056,469
EXCESS OF REVENUES OVER EXPENSE BEFORE MINORITY INTEREST	39,668,528	17,662,579	(4,434,621)	2,598,010	130,359	20,083	5,408,650	61,053,587
Minority Interest Expense	(823,656)	197,092	-	-	-	-	1,607,026	980,462
EXCESS OF REVENUES OVER EXPENSE	40,492,184	17,465,487	(4,434,621)	2,598,010	130,359	20,083	3,801,624	60,073,125
Change In Net Unrealized Gains and Losses on Investments	127,519	(7,709,176)	19,948,472	2,943,774	4,973,790	0	0	20,284,379
INCREASE IN UNRESTRICTED NET ASSETS	\$ 40,619,703	\$ 9,756,311	\$ 15,513,851	\$ 5,541,784	\$ 5,104,149	\$ 20,083	\$ 3,801,624	\$ 80,357,504

Cone Health
Consolidated Statements of Cash Flows
September 30, 2014 and September 30, 2013

	September 30, 2014	September 30, 2013
CASH FLOWS FROM OPERATING AND NON OPERATING ACTIVITIES		
CASH PROVIDED BY OPERATING ACTIVITIES		
Increase (Decrease) in net assets	\$ 90,066,124	\$ 324,073,561
Adjustments to reconcile revenue and gains in excess of expenses and losses to net cash provided by operating activities:		
Change in net unrealized gains and losses on investments	(23,401,218)	(13,540,267)
Change in fair value of the floating-to-fixed swap agreement	3,346,983	(10,268,624)
Inherent contribution from the acquisition of ARMC	-	(286,722,249)
Net realized gains on sale of investments	(14,431,028)	(31,479,551)
Depreciation and amortization	90,701,722	74,166,825
Provision for uncollectible accounts	124,488,835	119,391,631
Accumulated or Other Comprehensive Income (FAS 158)	-	(38,460,862)
Funding in excess of net periodic pension cost	-	3,931,709
Gain on disposal of property and equipment	-	302,392
Equity in earnings of unconsolidated entities	(8,627,392)	(5,820,782)
Distributions from unconsolidated affiliates	1,094,267	7,075,132
(Increase) Decrease in patient accounts receivable	(123,872,387)	(90,634,477)
(Increase) Decrease in other current assets	782,531	(10,069,375)
(Increase) Decrease in inventory	(2,269,036)	(2,810,018)
Increase (Decrease) in accounts payable and accrued expenses	2,972,693	12,725,993
Change in other operating assets and liabilities, net	(16,032,634)	(6,513,608)
Net cash provided by operating activities and gains and losses	\$ 124,819,460	45,347,430
CASH FLOWS FROM INVESTING ACTIVITY		
Additions to Property, Plant and Equipment	(110,386,048)	(166,000,338)
Proceeds from sale of property and equipment	-	67,218
Liquidation of trusted funds for capital expenditures		29,809,250
(Increase)/decrease in investment portfolios	22,713,167	62,511,303
Acquisition of physician practice		(781,315)
Investments in unconsolidated affiliated entities		114,671
Net cash used in investing activities	(87,672,880)	(74,279,211)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from debt issuances	130,607,664	108,898,274
Repayments of debt	(127,245,377)	(69,836,514)
Borrowings on capital lease obligations	299,381	
Payments on capital lease obligations	(2,250,855)	(1,315,230)
Net cash provided by (used in) financing activities	1,410,813	\$37,746,529
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,557,392	8,814,748
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,895,416	3,080,668
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 50,452,808	\$ 11,895,416