

Second Quarter Fiscal Year 2016 Financial Report (Unaudited Statements)

Cone Health is an integrated health care delivery system based in Greensboro, NC serving Greensboro and the surrounding counties through a system of hospitals, ambulatory care centers, physician offices and other related health care facilities. The primary and secondary service areas have almost one million residents for which Cone maintains a dominant market presence.

OPERATIONS

- 6 Hospitals - 1,254 licensed beds
- 3 Ambulatory Surgery Centers
- 2 Nursing Homes – 221 beds
- 1 Continuing Care Retirement Community
- 3 Ambulatory Care campuses
- 149+ Outpatient facilities
- 1,400+ Medical Staff, 500 employed
- Over 12,000 employees
- Triad Healthcare Network – clinically integrated with over 875 affiliated physicians
- 40,000 member Medicare ACO
- 6,000 member Medicare

For the six months ended March 31, 2016 the Health System's consolidated operating income was \$16.7M and a margin of 2.0% compared to operating income of \$27.8M and a margin of 3.7% for the same period ended March 31, 2015. Excess of revenues over expenses were \$24.1M and an excess margin of 2.9% compared to \$21.3M and 2.8% for the same period in fiscal year 2015.

The first six months of fiscal year 2016 continued the trend of higher outpatient volumes from fiscal year 2015, as net patient revenue increased 7.5% to \$780.9M. Compared to fiscal year 2015, inpatient volume decreased slightly by 1.4% to 15,176 for the year while acute length of stay decreased by 0.02 to 4.17 days driven by an increase in case mix from 1.54 to 1.61. Salaries and wages increased in line with patient volume, but benefits increased by 12.5% representing a higher cost of employee health and other employee benefits. Depreciation expense increased 12.9% to \$51.9M reflecting continued investment in facilities and information technology.

Supplies expense increased 14.2% principally driven by supplies for intensive inpatient surgeries and drug expenses for cancer treatments as well as employee and specialty pharmacies.

Non-operating income (other income) improved by \$14.2 million to positive \$7.8 million reflecting improved realized gains on investments.

Summary Statement of Operations (\$000)		
First Quarter ended March 31, 2016	YTD	Prior YTD
Operating income	\$16,715	\$27,762
Operating Margin %	2.0%	3.7%
Operating EBIDA	\$73,864	\$78,988
Operating EBIDA Margin %	8.9%	10.5%
Excess of revenue over expenses	\$24,146	\$21,265
Excess Margin %	2.9%	2.8%
Change in Net Assets	\$11,733	\$20,928

Surgical procedures increased slightly to 21,009 fiscal year to date, an increase of 0.4% over last fiscal year. Emergency department visits were up 4.0% attributable to seasonal flu and respiratory cases. Physician services were up sharply, driven by a number of factors including volume at the Cancer Center, as well as an increased number of affiliated physicians.

Operating Statistics	Fiscal Year to date 2016		
	Current Year	Prior year	% Variance
Surgical Procedures	21,009	20,932	0.4%
Deliveries	3,676	3,713	-1.0%
ED Visits	182,746	175,729	4.0%
Outpatient Visits	357,900	341,089	4.9%
Physician Services			
Office Visits	342,056	330,832	3.4%
Physician Hospital Visits	105,775	102,683	3.0%
Procedures	222,450	203,998	9.0%

Although inpatient activity for the system was marginally below prior year, despite increased acuity and a higher average daily census.

Hospital Statistics	Fiscal Year to date 2016		
	Actual	Prior year	% Variance
Beds in Service	1,144	1,154	-0.9%
Number of Inpatients (Discharges)	30,672	31,149	-1.5%
Average Length of Stay	4.25	4.29	0.9%
Average Daily Acute Census	1,061	1,086	-2.4%
Extended Care Census	298	273	9.2%
Long Term Care Census	85.8	81.4	5.4%

Balance Sheet liquidity ratios softened in the first six months of the year driven by a small loss in long term investments, investments in capital projects and increases in patient receivables. Unrestricted cash and investments decreased by \$7.1M during the first six months of the fiscal year. The fiscal year-to-date return on the system investment portfolio was a loss of 0.1% as the portfolio value orientation and low equity exposure hurt performance. The decline in day's cash on hand was principally driven by strong growth in top line revenue and expenses.

Balance Sheet Summary of Key Metrics and Ratios as of

	YTD	Prior Qtr.	Change	Prior FYE
Cash and long-term investment (\$000)	\$892,347	\$878,913	\$13,434	\$899,401
Days cash on hand	215	219	-4	235
Days in A/R	51	48	3	49
Cash to debt	180%	184%	-4%	186%
Debt to capitalization	25.5%	24.7%	1%	25.2%
Annual debt service coverage ratio	6.81	7.52	-0.71	6.15

**Debt Summary
As of March 31, 2016**

The following table shows debt under the Cone Master Trust Indenture, and excludes smaller direct loans and leases. Cone's debt is rated AA/Stable by both Standard & Poor's and FITCH Investors Service.

Outstanding Debt Series as of March 31, 2016					
Principal(\$)					
	Original	Outstanding	Current Rate	Maturity(FY)	Interest Mode
2001A	42,600,000	42,600,000	0.89%	2019	Weekly VRDB
2001B	42,600,000	42,600,000	0.90%	2019	Daily VRDB
2004A	47,500,000	47,500,000	0.98%	2017	Weekly VRDB
2011A	60,170,000	42,185,000	4.42%	2023	Fixed Rate
2011B	47,980,000	47,885,000	0.75%	2036	Windows Mode
2011C & D	100,000,000	97,500,000	0.98%	2021	Direct Placement
2013A, B & C	130,185,000	119,250,000	2.82%	2024	Direct Placement
	471,035,000	439,520,000			

Rates include all related fees including remarketing, credit support and trustee.

VRDB maturities are the renewal date of credit support.

Direct placement maturities are the renewal date of rate agreements.

The 2001 A&B bonds are swapped to maturity at a rate of 3.43%.

The 2011B bonds are swapped to maturity at a rate of 2.097%.

The 2004A and 2011B bonds are supported with Cone Health's liquidity that totaled \$765 million at March 31, 2016, not including funds of the Cone Foundation and Impact Alamance Foundation. Two lines of credit totaling \$97.5 million are also available to support outstanding indebtedness. The availability of Cone's liquidity is shown in the following table.

Cone Health Liquidity As of March 31, 2016 available to support debt payments and self-supported bond exposure (excluding Foundation assets)

<u>Type</u>	Market Value (Millions)	Funds Availability		
		<u>1-Day</u>	<u>Under 1-Week</u>	<u>Over 1-Week</u>
Deposits at Banks	\$40.5	\$40.5		
Bond Funds	\$200.5	\$69.3	\$113.4	\$17.8
Equity Funds	\$205.3		\$58.8	\$146.5
Other Funds	\$319.3	\$29.8	\$12.3	\$277.2
Total Liquid Assets	\$765.6	\$139.6	\$184.5	\$441.5
Bank Lines of Credit	\$97.5	\$97.5		
Total Liquidity	\$863.1	\$237.1	\$184.5	\$441.5

\$47.5 million in bank lines of credit are only available to support a failed remarketing of the 2004A bonds. The remaining \$50 million line is available for general working capital purposes. In October, subsequent to fiscal year end, Cone entered into an additional line of credit in the amount of \$50 million to provide liquidity in the event that the adoption of ICD-10 coding on October 1st resulted in a temporary slowdown in receivables collection and decrease in available cash.

The values of investments in the above chart are market values for Cone Health assets, not including foundation assets. The market values are higher than financial statement values because certain investments in the financial statements are carried at cost, not market value.

Contact Information

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Ratio Methodology

Long Term Debt Service Coverage Ratio $\frac{\text{Excess of Revenues} + \text{Depreciation} + \text{Interest}}{\text{Interest} + \text{Principal}}$
For interim periods, Excess of Revenues and Depreciation are annualized, Interest and Principal are estimated for the full year. Interest Expense includes remarketing, credit support, trustee fees and other related expenses.

Days Cash on Hand $\frac{\text{Unrestricted Cash and Investments}}{\text{Operating Expense less Depreciation}}$
For interim periods, the calculation is based on actual number of days in the period.

Debt to Capital Ratio $\frac{\text{Short and Long Term Debt} + \text{Leases}}{\text{Total Capitalization}}$
Total Capitalization is Short and Long Term Debt + Leases + Unrestricted Net Assets

Max Annual Debt Service Coverage Ratio
Same as the Long Term Debt Service Coverage Ratio, except the interest and principal is the largest scheduled debt service amount estimated for each future year. Variable rate debt is estimated using the 10 year average of SIFMA plus related expenses.

Cash to Debt Ratio $\frac{\text{Unrestricted Cash and Investments}}{\text{Short and Long Term Debt} + \text{Leases}}$

**Cone Health
Consolidated Balance Sheets**

Assets	March 31, 2016	Audited September 30, 2015	Liabilities and Net Assets	March 31, 2016	Audited September 30, 2015
Current Assets			Current Liabilities		
Cash	\$ 51,733,195	\$ 27,152,128	Accrued Payroll	\$ 72,983,626	\$ 75,548,269
Short-term investments	25,056,701	39,501,735	Accounts Payable	51,432,122	57,151,214
Patient Receivables (net) (Note 1)	219,081,705	205,578,977	PAL & Retirement	40,831,198	31,472,387
Other Receivables	46,292,379	21,610,735	Medical Claims IBNR (Note 5)	3,215,649	-
Inventories	28,985,297	27,639,854	Bonds Payable (Note 6)	12,265,000	12,459,931
Prepaid Expenses	12,101,803	15,456,292	Short Term Debt, Line of Credit (Note 6)	191,341,080	181,014,193
Other Current Assets	4,311,068	6,446,312	Other Current Liabilities	67,374,657	70,281,230
Total Current Assets	387,562,148	343,386,033	Total Current Liabilities	439,443,332	427,927,224
Plant and Property(net)			Debt and Other Liabilities		
Land and Land Improvements	100,571,788	99,843,954	Bonds Payable (Note 6)	247,990,000	258,310,000
Building and Fixed Equipment	674,837,768	668,063,886	Long Term Debt (Note 6)	53,699,479	31,001,312
Moveable Equipment	199,786,529	188,161,715	Capital Lease Obligation	1,281,620	2,012,057
Real Estate	11,678,427	11,773,428	Other Non-Current Liabilities	157,059,988	153,595,150
	986,874,512	967,842,983			
Construction/Equipment In Progress	56,036,140	66,943,611	Total Liabilities	899,474,419	872,845,743
Total Plant and Property (Note 2)	1,042,910,652	1,034,786,594			
Other Non Current Assets			Net Assets		
Marketable Securities (Note 3)	821,342,260	837,013,218	Unrestricted	1,452,940,332	1,442,445,101
Joint Ventures (Note 4)	51,842,566	51,099,203	Noncontrolling Interest	8,242,222	7,827,080
Investment in Unrelated Parties	588,024	588,024	Total Unrestricted Net Assets	1,461,182,554	1,450,272,181
Trustee held bond funds	1,065,392	8,343,685			
Subtotal Investments	874,838,242	897,044,130			
			Temporarily Restricted	11,642,303	12,363,152
Deferred Costs	3,023,714	3,028,945	Total Restricted Net Assets	11,642,303	12,363,152
Other Assets	54,235,182	47,506,036			
Goodwill	9,729,338	9,729,338			
Total Other Non-Current Assets	66,988,234	60,264,319			
TOTAL ASSETS	\$2,372,299,276	\$2,335,481,076	TOTAL LIAB. AND NET ASSETS	\$2,372,299,276	\$2,335,481,076

Cone Health
Consolidated Statements of Operations

	YEAR-TO-DATE		
	ACTUAL 3/31/16	ACTUAL 3/31/15	Act./Act. % VAR
REVENUE			
Patient Service Revenue (net of contractual allowances and discounts)	\$ 847,863,495	\$ 788,700,384	7.50%
Provision for bad debts (Note 1)	66,956,006	62,214,587	7.62%
Net Patient Service Revenue (Note 2)	780,907,489	726,485,797	7.49%
Other Operating Revenue	33,281,675	25,922,499	28.39%
Premium Revenue (Note 5)	13,115,132	-	0.00%
TOTAL OPERATING REVENUES	827,304,296	752,408,296	9.95%
EXPENSE			
Salaries and Wages	312,644,464	288,663,876	-8.31%
Fringe Benefits	116,207,559	103,254,398	-12.54%
Purchased Personnel	7,709,285	5,703,203	-35.17%
Medical Claims Expense (Note 5)	8,014,040	-	-100.00%
Supplies	159,492,887	139,658,006	-14.20%
Other Operating Expense	149,372,302	136,140,867	-9.72%
Interest Expense	5,228,688	5,256,206	0.52%
Depreciation/Amortization	51,920,053	45,969,564	-12.94%
TOTAL OPERATING EXPENSE	810,589,278	724,646,120	-11.86%
INCOME FROM OPERATIONS (Note 6)	16,715,018	27,762,176	-39.79%
OTHER INCOME			
Investment Income (Note 3)	15,192,251	1,169,368	1199.18%
Joint Venture Income (Note 4)	2,576,605	2,137,506	20.54%
Other Expenses, Net (Note 4)	(9,980,224)	(9,681,971)	-3.08%
Total Other Income (Note 6)	7,788,632	(6,375,097)	-222.17%
EXCESS OF REVENUES OVER EXPENSE BEFORE MINORITY INTEREST (Note 6)	24,503,650	21,387,079	14.57%
Minority Interest Expense (Income)	357,357	121,873	193.22%
EXCESS OF REVENUES OVER EXPENSE (Note 6)	24,146,293	21,265,206	13.5%
Change In Net Unrealized Gains and Losses on Investments (Note 3)	(12,413,200)	(337,699)	-3576%
INCREASE IN UNRESTRICTED NET ASSETS	\$ 11,733,093	20,927,507	-43.93%

Cone Health
Consolidated Statement of Changes in Net Assets

	March 31, 2016	Audited September 30, 2015
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses from consolidated operations	\$24,503,650	\$44,561,749
Change in net unrealized gains and losses on investments	(\$8,500,150)	(50,676,708)
Change in the fair value of the floating-to-fixed swap agreement	(\$3,913,050)	(7,169,160)
Other changes in net assets	(\$1,180,077)	(15,214,314)
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Increase in unrestricted net assets	10,910,373	(28,498,433)
TEMPORARILY RESTRICTED NET ASSETS:		
Other changes in net assets	(720,849)	1,442,946
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Increase in temporarily restricted net assets	(720,849)	1,442,946
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INCREASE IN NET ASSETS	\$10,189,524	(\$27,055,487)
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Cone Health
Consolidated Statements of Cash Flows

	March 31, 2016	September 30, 2015
CASH FLOWS FROM OPERATING AND NON OPERATING ACTIVITIES		
CASH PROVIDED BY OPERATING ACTIVITIES		
Increase (Decrease) in net assets	\$ 10,189,524	\$ (27,055,487)
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	8,500,150	50,676,708
Change in fair value of the floating-to-fixed swap agreement	3,913,050	7,169,160
Inherent contribution from the acquisition of ARMC	-	-
Net realized gains on sale of investments	(7,799,523)	(2,347,044)
Depreciation and amortization	51,920,154	94,524,608
Provision for uncollectible accounts	66,956,006	122,020,320
Accumulated or Other Comprehensive Income (FAS 158)	-	9,660,933
Funding in excess of net periodic pension cost	-	(4,582,492)
Gain on disposal of property and equipment	33,138	816,592
Equity in earnings of unconsolidated entities	(2,576,605)	(5,894,089)
Distributions from unconsolidated affiliates	1,043,958	1,284,826
Changes to Medical Claims IBNR in Care-n-Care of NC	(3,215,649)	-
(Increase) Decrease in patient accounts receivable	(80,458,734)	(138,592,279)
(Increase) Decrease in other current assets	(21,327,155)	27,536,254
(Increase) Decrease in inventory	(1,345,443)	(965,026)
Increase (Decrease) in accounts payable and accrued expenses	(748,983)	6,354,944
Change in other operating assets and liabilities, net	(3,512,793)	18,350,681
Net cash provided by operating activities and gains and losses	<u>\$ 21,571,094</u>	<u>\$ 158,958,610</u>
CASH FLOWS FROM INVESTING ACTIVITY		
Additions to Property, Plant and Equipment	(58,524,632)	(108,630,944)
Proceeds from sale of property and equipment	11,499	196,312
Liquidation of trusted funds for capital expenditures	-	8,757,091
(Increase)/decrease in investment portfolios	39,091,018	(62,509,633)
Acquisition of physician practice	-	(829,186)
Investments in unconsolidated affiliated entities	789,284	(452,912)
Net cash used in investing activities	<u>(18,632,831)</u>	<u>(163,469,272)</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from debt issuances	34,260,489	
Repayments of debt	(11,750,366)	(12,558,149)
Restriction of cash for debt service	-	-
Repayments of deferred costs	-	-
Borrowings on capital lease obligations	-	-
Payments on capital lease obligations	(867,041)	(1,596,197)
Net cash provided by (used in) financing activities	<u>21,643,082</u>	<u>(14,154,346)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,581,345	(18,665,009)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>27,152,128</u>	<u>45,817,137</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 51,733,473</u>	<u>\$ 27,152,128</u>