

September 30, 2017 Fiscal Year Financial Report (Unaudited Statements)

Cone Health is an integrated health care delivery system serving its base of Greensboro NC, and 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 Health 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 1000 affiliated physicians

35,000 member Medicare ACO

12,000 member Medicare Advantage Plan

Management services agreement with Randolph Hospital

For the fiscal year ended September 30, 2017 the health network's consolidated operating income was \$51.9M and a margin of 2.8% compared to operating income of \$33.3M and a margin of 2.0% for fiscal year 2016. Excess of revenues over expenses were \$66.3M and an excess margin of 3.52% compared to \$59.8M and 3.46% for fiscal year 2016.

Fiscal year 2017 continued the trend of higher outpatient volumes from fiscal year 2016, as net patient revenue increased 5.8% to \$1,651M. Compared to fiscal year 2016, inpatient volume decreased by 3.6% to 58,125 fully offset by a large increase in observation cases. Acute length of stay decreased by 1.7% to 4.28 days although case mix increased from 1.58 to 1.63. Salaries and wages increased in line with patient volume, and benefits increased by 3.51% representing a higher cost of employee health and other employee benefits. Depreciation expense increased 7.74% to \$115.5M reflecting continued investment in facilities and information technology.

Supplies expense increased 5.3% principally driven by supplies for intensive inpatient surgeries, surgical implants and drug expenses for high cost cancer treatments, employee and specialty pharmacies and industry-wide inflation.

Non-operating income (other income) decreased by \$7.75M to positive \$19.0M as higher investment income was offset by increased expenses in a number on non-operating areas including Cone Health's Medicare Advantage Plan and operating expenses of the parent corporation.

Summary Statement of Operations (\$000)

Fiscal Year 2017	YTD	Prior YTD
Operating income	\$51,901	\$33,287
Operating Margin %	2.8%	2.0%
Operating EBIDA	\$181,325	\$151,667
Operating EBIDA Margin %	9.9%	9.0%
Excess of revenue over expenses	\$66,329	\$59,846
Excess Margin %	3.52%	3.46%
Change in Net Assets	\$158,604	\$62,561

Surgical procedures decreased to 40,804 fiscal year to date, a decrease of 2.7% over last fiscal year. Emergency department visits were down by 3.2%, offset by outpatient volumes. Physician outpatient services increased, driven by a number of factors including increased volume in the hospital setting, as well as volume from affiliated physicians that were acquired in previous years.

Operating Statistics	Fiscal Year to date 2017		
	<u>Current Year</u>	<u>Prior year</u>	<u>% Variance</u>
Surgical Procedures	40,804	41,927	-2.7%
Deliveries	7,438	7,550	-1.5%
ED Visits	355,435	367,011	-3.2%
Outpatient Visits	730,476	709,480	3.0%
Physician Services			
Office Visits	760,918	700,799	8.6%
Physician Hospital Visits	222,954	210,658	5.8%
Procedures	491,561	453,518	8.4%

Inpatient activity, measured by discharges, census and length of stay, was marginally below prior year. The reduction in discharges of 2,178 was offset by an increase in observation cases of 4,779. Beds in service declined due to renovation and construction.

Hospital Statistics	Fiscal Year to date 2017		
	<u>Actual</u>	<u>Prior year</u>	<u>% Variance</u>
Beds in Service	1,023	1,144	-6.0%
Number of Inpatients (Discharges)	58,125	60,303	-3.6%
Average Length of Stay	4.28	4.20	-1.9%
Average Daily Acute Census	681.2	692.7	-1.7%
Extended Care Census	284	288	-1.4%
Long Term Care Census	83.9	84.9	-1.1%

Balance sheet liquidity ratios strengthened in the year driven by positive cash flow as well strong investment performance. \$50 million in proceeds from a long term loan was used to reduce the unfunded liability in the closed Cone Health defined benefit pension plan, bringing funded to about 99%. Unrestricted cash and investments improved \$126 million over last fiscal year. The fiscal year-to-date return on the system investment portfolio was 10.0% gain as the portfolio participated in the strong equity markets. As a result of positive cash flow, days cash improved to 225 days.

Third-Party Reimbursement and Sources of Payment of the Operating Corporation

	Fiscal Year to date	Fiscal Year	Fiscal Year
	2017	2016	2015
Medicare	45.9%	45.7%	45.9%
Medicaid	13.7%	13.8%	13.6%
Commercial & Managed Care	29.4%	31.1%	30.9%
Self-Pay	6.7%	6.7%	6.7%
Other	4.4%	2.7%	2.9%
Total	100.0%	100.0%	100.0%

Balance Sheet Summary of Key Metrics and Ratios as of September 30, 2017

	Actual	Prior Qtr.	Change	Prior FY
Cash and long-term investments (\$000)	\$1,028,642	\$1,000,291	\$28,351	\$899,697
Days cash on hand	225	219	2	214
Days in A/R	44	45	-1.3	54
Cash to debt	194%	192%	2%	186%
Debt to capitalization	24.37 %	24.53%	-0.16%	24.4%
Annual debt service coverage ratio	6.61	6.65	-0.04	7.08

**Debt Summary
As of September 30, 2017**

The following table shows debt under the Cone Master Trust Indenture, and excludes smaller direct loans and leases. Cone Health's debt is rated AA/Stable by FITCH Investors Service. In April, Standard & Poor's maintained its AA rating but added a negative outlook related to less favorable operating margins and expected capital expenditures and debt related to the construction of a new patient tower on The Moses H. Cone Memorial Hospital campus.

Outstanding Debt Series as of September 30, 2017					
Principal(\$)					
	Original	Outstanding	Current Rate	Maturity(FY)	Interest Mode
2001A	42,600,000	42,600,000	1.36%	2019	Weekly VRDB
2001B	42,600,000	42,600,000	1.38%	2019	Daily VRDB
					Weekly
2004A	47,500,000	46,855,000	1.45%	2017	VRDB
2011A	60,170,000	37,015,000	4.42%	2023	Fixed Rate
					Windows
2011B	47,980,000	46,920,000	1.79%	2036	Mode
2011C & D	100,000,000	95,750,000	1.51%	2021	Direct Placement
2013A, B & C	130,185,000	114,725,000	2.82%	2024	Direct Placement
2017A	50,000,000	50,000,000	4.33%	2046	Direct Placement
	521,035,000	476,465,000			

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%.

In December 2016, Cone Health executed a \$50 million 30-year term loan (2017A) at a fixed rate of 4.33%. These funds, subsequent to Dec. 31, were deposited into the closed defined benefit plan, resulting in the funding level increasing from 71% to 99% at June 30. Cone Health has developed a journey plan with respect to the pension to

begin immunizing the plan from changes in interest rates, and as of September 30, 65% of assets were placed into hedging assets to offset changes in liabilities due to interest rate changes.

The 2004A and 2011B bonds are supported with Cone Health's liquidity that totaled \$782 million at Sept. 30, 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 Health's liquidity is shown in the following table.

On Oct. 6, 2016, Cone Health entered into a forward dated fixed rate swap to hedge interest on an expected debt issuance in 2018. The notional amount is \$100 million, fixed rate of 1.336 versus 70% of 1 month LIBOR.

On Dec. 29, 2016, Cone Health executed a 30-year \$50 million fixed rate loan at 4.33% with the proceeds being used to partially fund the shortfall in a closed defined benefit plan.

Cone Health Liquidity As of September 30, 2017 available to support debt payments and self-supported bond exposure (excluding Foundation assets)				
Type	Market Value (Millions)	Funds Availability		
		1-Day	Under 1-Week	Over 1-Week
Deposits at Banks	\$37.7	\$37.7		
Bond Funds	\$175.1	\$84.4	\$90.6	\$0
Equity Funds	\$382.6	\$31.5	\$75.4	\$275.7
Other Funds	\$276.8	\$30.8	\$10.8	\$235.1
Total Liquid Assets	\$872.1	\$184.4	\$176.9	\$510.8
Bank Lines of Credit	\$97.5	\$97.5		
Total Liquidity	\$969.6	\$281.9	\$176.9	\$510.8

\$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.

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

John Miller
CIO and Treasurer
John.Miller@ConeHealth.com

Andy Barrow
VP Finance
Andy.Barrow@ConeHealth.com

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

Unrestricted Cash and Investments / Short and Long Term Debt + Leases

**Cone Health
Consolidated Balance Sheets**

Assets	September 30, 2017	Audited September 30, 2016	Liabilities and Net Assets	September 30, 2017	Audited September 30, 2016
Current Assets			Current Liabilities		
Cash	\$ 45,004,786	\$ 20,336,741	Accrued Payroll	\$ 92,377,221	\$ 73,340,792
Short-Term Investments	46,070,742	17,825,555	Accounts Payable	78,196,469	65,004,630
Patient Receivables (net) (Note 1)	198,787,064	229,609,563	PAL & Retirement	31,227,502	33,184,629
Other Receivables	52,469,211	40,649,516	Medical Claims IBNR	11,822,792	4,652,201
Inventories	31,435,086	28,873,047	Bonds Payable (Note 5)	12,525,000	12,100,000
Prepaid Expenses	16,571,150	16,201,229	Short Term Debt, Line of Credit (Note 5)	179,462,643	181,438,191
Other Current Assets	12,694,196	7,657,335	Other Current Liabilities	88,661,251	87,031,283
Total Current Assets	403,032,235	361,152,986	Total Current Liabilities	494,272,878	456,751,726
 Plant and Property (net)			 Debt and Other Liabilities		
Land and Land Improvements	71,038,285	71,117,979	Bonds Payable (Note 5)	284,200,131	247,990,000
Building and Fixed Equipment	715,400,411	726,893,720	Long Term Debt (Note 5)	39,623,943	41,892,253
Moveable Equipment	209,032,116	199,159,669	Capital Lease Obligation	10,526,201	1,140,639
Real Estate	12,469,247	11,566,825	Other Non-Current Liabilities	115,411,401	167,763,627
	1,007,940,059	1,008,738,193			
Construction/Equipment in Progress	79,182,090	43,864,697	Total Liabilities	944,034,554	915,538,245
Total Plant and Property (Note 2)	1,087,122,149	1,052,602,890			
 Other Non Current Assets			 Net Assets		
Marketable Securities (Note 3)	956,342,597	873,340,430	Unrestricted	1,641,588,824	1,498,397,466
Joint Ventures (Note 4)	53,229,030	52,231,924	Noncontrolling Interest	913,098	2,806,425
Investment in Unrelated Parties	588,024	588,024	Total Unrestricted Net Assets	1,642,501,922	1,501,203,891
Trustee held bond funds	9,035,903	6,259,848			
Subtotal Investments	1,019,195,554	932,420,226			
			Temporarily Restricted	12,037,484	11,115,911
Deferred Costs	88,566	2,942,993	Total Restricted Net Assets	12,037,484	11,115,911
Other Assets	79,406,118	69,009,614			
Goodwill	9,729,338	9,729,338	Total Net Assets	1,654,539,406	1,512,319,802
Total Other Non-Current Assets	89,224,022	81,681,945			
 TOTAL ASSETS	\$ 2,598,573,960	\$ 2,427,858,047	 TOTAL LIAB. AND NET ASSETS	\$ 2,598,573,960	\$ 2,427,858,047

Cone Health
Consolidated Statements of Operations

	YEAR-TO-DATE		
	ACTUAL 9/30/17	ACTUAL 9/30/16	Act./Act. % Var
REVENUE			
Patient Service Revenue (net of contractual allowances and discounts)	\$ 1,797,133,564	\$ 1,696,542,593	5.93%
Provision for bad debts (Note 1)	145,691,014	135,932,650	7.18%
Net Patient Service Revenue (Note 2)	1,651,442,550	1,560,609,943	5.82%
Other Operating Revenue	98,228,681	75,977,406	29.29%
Premium Revenue	86,893,984	41,706,094	108.35%
TOTAL OPERATING REVENUES	1,836,565,215	1,678,293,443	9.43%
EXPENSE			
Salaries and Wages	683,301,363	635,797,619	7.47%
Fringe Benefits	243,423,010	235,160,168	3.51%
Purchased Personnel	13,951,045	18,769,917	-25.67%
Medical Claims Expense	81,947,140	37,359,971	119.34%
Supplies	335,300,522	318,493,984	5.28%
Other Operating Expense	297,317,175	281,044,908	5.79%
Interest Expense	13,957,004	11,206,098	24.55%
Depreciation/Amortization	115,466,763	107,173,340	7.74%
TOTAL OPERATING EXPENSE	1,784,664,022	1,645,006,005	8.49%
INCOME FROM OPERATIONS	51,901,193	33,287,438	55.92%
OTHER INCOME			
Investment Income (Note 3)	45,240,989	46,622,628	-2.96%
Joint Venture Income (Note 4)	4,364,272	4,540,840	-3.89%
Other Expense (Note 4)	(30,655,080)	(24,465,708)	25.30%
Total Other Income	18,950,181	26,697,760	-29.02%
EXCESS OF REVENUES OVER EXPENSE BEFORE NONCONTROLLING INTEREST	70,851,374	59,985,198	18.11%
Non-controlling Interest Expense (Income)	4,522,083	138,926	3155.03%
EXCESS OF REVENUES OVER EXPENSE	66,329,291	59,846,272	10.83%
Change in Net Unrealized Gains and Losses on Investments (Note 3)	75,850,160	18,721,929	305.14%
Change in AOCI	16,424,973	(16,006,923)	-202.61%
INCREASE IN UNRESTRICTED NET ASSETS	\$ 158,604,424	\$ 62,561,278	153.52%

Cone Health
Consolidated Statement of Changes in Net Assets

	September 30, 2017	Audited September 30, 2016
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses from consolidated operations	\$ 70,851,374	\$ 59,985,536
Change in net unrealized gains and losses on investments	57,585,101	24,715,191
Pension-related changes other than net periodic benefit cost	16,424,973	(16,006,923)
Change in the fair value of the floating-to-fixed swap agreement	18,265,059	(5,993,262)
Acquisition of HTA noncontrolling interest	(17,600,000)	-
Other changes in net assets	<u>(4,228,476)</u>	<u>(11,768,833)</u>
Increase in unrestricted net assets	141,298,031	50,931,709
TEMPORARILY RESTRICTED NET ASSETS:		
Other changes in net assets	<u>921,573</u>	<u>(1,247,241)</u>
Increase (decrease) in temporarily restricted net assets	921,573	(1,247,241)
INCREASE IN NET ASSETS	<u>\$ 142,219,604</u>	<u>\$ 49,684,468</u>

Cone Health
Consolidated Statements of Cash Flows

	September 30, 2017	Audited September 30, 2016
CASH FLOWS FROM OPERATING AND NON OPERATING ACTIVITIES		
CASH PROVIDED BY OPERATING ACTIVITIES		
Increase (Decrease) in net assets	\$ 142,219,604	\$ 49,684,468
Adjustments to reconcile revenue and gains in excess of expenses and losses to new cash provided by operating activities		
Change in net unrealized gains and losses on investments	(57,585,101)	(24,715,191)
Change in fair value of the floating-to-fixed swap agreement	(18,265,059)	5,993,262
Net realized (gains) on sale of investments	(29,037,350)	(31,340,034)
Depreciation and amortization	115,466,763	107,173,340
Provision for uncollectible accounts	145,691,014	135,932,650
Accumulated or Other Comprehensive Income (FAS 158)	(16,424,973)	16,006,923
Funding in excess of net periodic pension cost	-	(4,322,387)
Loss on disposal of property and equipment	2,803,125	1,300,575
Equity in earnings of unconsolidated entities	(4,364,272)	(4,540,840)
Distributions from unconsolidated entities	3,367,166	2,344,883
Purchase of noncontrolling interest	17,600,000	8,270,354
Changes to medical claims IBNR in Care-n-Care of NC	7,170,591	4,652,201
(Increase) Decrease in patient accounts receivable	(114,868,515)	(164,615,438)
(Increase) Decrease in prepaids and other receivables	(12,189,616)	(21,454,182)
(Increase) Decrease in inventory	(2,562,039)	(1,233,193)
Increase (Decrease) in accounts payable and accrued expenses	47,233,426	19,598,842
(increase) Decrease in other operating assets and liabilities (net)	(55,979,413)	(21,167,584)
Net cash provided by operating activities and gains and losses	<u>170,275,351</u>	<u>77,568,649</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Additions) to Property, Plant and Equipment	(138,511,374)	(121,960,437)
Proceeds from the sale of property and equipment	-	(11,523)
(Increase) Decrease in investment portfolios	(17,900,466)	48,650,664
Restriction of funds in Care-n-Care of NC, Inc.	(10,187,971)	(4,703,190)
Investments in unconsolidated affiliated entities	-	1,063,236
Net cash used in investing activities	<u>(166,599,811)</u>	<u>(76,961,250)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt issuance	127,000,000	27,927,704
Repayments of debt	(91,981,460)	(25,835,745)
Purchase of noncontrolling interest	(12,000,000)	(8,270,354)
Payments on capital lease obligations	(2,026,035)	(1,244,391)
Net cash provided by (used in) financing activities	<u>20,992,505</u>	<u>(7,422,786)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>24,668,045</u>	<u>(6,815,387)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>20,336,741</u>	<u>27,152,128</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 45,004,786</u>	<u>\$ 20,336,741</u>