

### First Quarter 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  
50, 000 member Medicare ACO  
14,000 member Medicare Advantage Plan  
Management services agreement with Randolph Hospital

For the quarter ended December 31, 2017 the health network's consolidated operating income was \$13.8M and a margin of 2.9% compared to operating income of \$11.1M and a margin of 2.6% for fiscal year 2016. Excess of revenues over expenses were \$14.8M and an excess margin of 3.1% compared to \$15.2M and 3.5% for fiscal year 2017.

The first quarter of fiscal year 2018 continued the trend of higher outpatient volumes from fiscal year 2017, as net patient revenue increased 8.1% to \$434M. Compared to fiscal year 2017, inpatient volume increased by 1.5% to 15,037 fully offset by a large increase in observation cases. Acute length of stay decreased by 1.4% to 4.22 days although case mix increased from 1.61 to 1.66. Salaries and wages increased in line with patient volume, and benefits increased by 6.72% representing a higher cost of employee health and other employee benefits. Depreciation expense increased 7.90% to \$29.8M reflecting continued investment in facilities and information technology.

Supplies expense increased 7.1% 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 \$2.91M to positive \$2M 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 2018	YTD	Prior YTD
Operating income	\$13,834	\$11,066
Operating Margin %	2.9%	2.6%
Operating EBIDA	\$47,324	\$42,012
Operating EBIDA Margin %	9.8%	9.7%
Excess of revenue over expenses	\$14,834	\$15,223
Excess Margin %	3.07%	3.47%
Change in Net Assets	\$37,151	\$35,363

Surgical procedures increased to 10,456 (4,031 inpatient/6,425 outpatient) fiscal year to date, an increase of 1.4% over last fiscal year. Emergency department visits were up by 0.3%, 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 acquired in previous years.

Operating Statistics	Fiscal Year to date 2018		
	<u>Current Year</u>	<u>Prior year</u>	<u>% Variance</u>
Surgical Procedures	10,456	10,307	1.4%
Deliveries	1,864	1,858	0.3%
ED Visits	89,476	89,069	0.5%
Outpatient Visits	180,514	181,412	-0.5%
Physician Services			
Office Visits	193,597	181,348	6.8%
Physician Hospital Visits	61,077	52,514	16.3%
Procedures	125,888	104,458	20.5%

Inpatient activity, measured by discharges, census and length of stay, increased over prior year. The increase in discharges of 223 was accompanied by an increase in observation cases of 139. Beds in service declined due to renovation and construction.

Hospital Statistics	Fiscal Year to date 2018		
	<u>Actual</u>	<u>Prior year</u>	<u>% Variance</u>
Beds in Service	1,030	1,039	-0.9%
Number of Inpatients (Discharges)	15,037	14,814	1.5%
Average Length of Stay	4.22	4.16	-1.4%
Average Daily Acute Census	690.4	669.3	3.2%
Extended Care Census	287	287.0	0.0%
Long Term Care Census	86.1	83.6	3.0%

Balance sheet liquidity ratios strengthened in the quarter driven by positive cash flow as well strong investment performance. In December, Cone borrowed \$160 million to help fund large ongoing construction projects. Of that amount, \$27 million was released from restricted accounts in December with the remaining in assets whose use is restricted. Unrestricted cash and investments improved \$93 million during the quarter. The calendar year-to-date return on the system investment portfolio was 12.4% 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 (NET)

	Fiscal Year to date	Fiscal Year	Fiscal Year
	2018	2017	2016
Medicare	33.9%	33.3%	34.0%
Medicaid	11.8%	12.8%	12.7%
Commercial & Managed Care	48.1%	47.8%	48.5%
Self-Pay	1.5%	1.4%	1.6%
Other	4.7%	4.7%	3.2%
Total	100.0%	100.0%	100.0%

### Balance Sheet Summary of Key Metrics and Ratios as of December 31, 2017

	Actual	Prior Qtr.	Change	Prior FY
Cash and long-term investments (\$000)	\$1,070,072	\$1,028,642	\$41,430	\$1,028,642
Days cash on hand	225	225	0	225
Days in A/R	44	44	0	44
Cash to debt	159%	195%	-36%	195%
Debt to capitalization	28.61 %	24.28%	4.33%	24.28%
Annual debt service coverage ratio	6.28	6.57	-0.29	6.57

### Debt Summary As of December 31, 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.

The Federal tax law legislation passed in late 2017 is expected to increase the cost of Cone's tax exempt debt by an aggregate amount of approximately 0.30%.

### Outstanding Debt Series as of December 31, 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
2004A	47,500,000	46,855,000	1.45%	2017	Weekly VRDB
2011A	60,170,000	37,015,000	4.42%	2023	Fixed Rate
2011B	47,980,000	46,920,000	1.79%	2036	Windows 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
2017 Note	50,000,000	50,000,000	4.33%	2046	Direct Placement
2017A	100,000,000	100,000,000	2.30%	2046	Direct Placement
2017B	60,000,000	60,000,000	1.28%	2041	Direct Placement
	681,035,000	628,280,000			
Other		37,900,000	2.61%	2026	Fixed

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 2017, Cone Health entered into two direct placement loans with two banks totaling \$160 million. \$100 million carries a ten year fixed rate of 2.29% and \$60 million carries a variable rate of 70% of 1 month libor plus 0.28%. Proceeds will be used to fund capital projects, specifically the new Women's and Children's pavilion on the Moses H. Cone Memorial Hospital campus and operative services improvements on the Wesley Long Community Hospital Campus.

In December 2016, Cone Health executed a \$50 million 30-year term loan (2017Note) at a fixed rate of 4.33%. These funds, subsequent to Dec. 31, were deposited into the closed defined benefit plan. At December 31, the funding level was approximately 96%. 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 December 31, 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 \$908 million at December 31, 2017, 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.

<b>Cone Health Liquidity As of December 31, 2017 available to support debt payments and self-supported bond exposure (excluding Foundation assets)</b>				
<b>Type</b>	<b>Market Value (Millions)</b>	<b>Funds Availability</b>		
		<b>1-Day</b>	<b>Under 1-Week</b>	<b>Over 1-Week</b>
Deposits at Banks	\$43.6	\$43.6		
Bond Funds	\$175.3	\$84.3	\$91.0	\$0
Equity Funds	\$403.4	\$41.5	\$73.2	\$288.7
Other Funds	\$286.2	\$32.2	\$11.8	\$242.2
<b>Total Liquid Assets</b>	<b>\$908.5</b>	<b>\$201.6</b>	<b>\$176.0</b>	<b>\$530.9</b>
Bank Lines of Credit	\$97.5	\$97.5		
<b>Total Liquidity</b>	<b>\$1,006.0</b>	<b>\$299.1</b>	<b>\$176.0</b>	<b>\$530.9</b>

\$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

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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**

<b>Assets</b>	<b>December 31, 2017</b>	<b>Audited September 30, 2017</b>	<b>Liabilities and Net Assets</b>	<b>December 31, 2017</b>	<b>Audited September 30, 2017</b>
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash	\$ 69,265,135	\$ 57,808,044	Accrued Payroll	\$ 85,100,778	\$ 92,377,221
Short-Term Investments	26,976,401	26,802,222	Accounts Payable	69,929,524	78,196,469
Patient Receivables (net) (Note 1)	209,840,836	198,787,064	PAL & Retirement	30,563,283	31,227,502
Other Receivables	54,144,351	52,469,211	Medical Claims IBNR	11,822,792	11,822,792
Inventories	32,533,802	31,435,086	Bonds Payable (Note 5)	12,545,000	12,525,000
Prepaid Expenses	16,280,685	16,571,150	Short Term Debt, Line of Credit (Note 5)	176,851,449	179,462,643
Other Current Assets	17,771,416	20,422,377	Other Current Liabilities	94,317,059	96,389,433
<b>Total Current Assets</b>	<b>426,812,626</b>	<b>404,295,154</b>	<b>Total Current Liabilities</b>	<b>481,129,885</b>	<b>502,001,060</b>
<b>Plant and Property (net)</b>			<b>Debt and Other Liabilities</b>		
Land and Land Improvements	72,110,683	71,038,285	Bonds Payable (Note 5)	438,095,503	284,200,131
Building and Fixed Equipment	728,061,008	715,400,411	Long Term Debt (Note 5)	38,498,822	39,623,943
Moveable Equipment	205,933,728	209,032,116	Capital Lease Obligation	9,511,003	10,526,201
Real Estate	12,180,925	12,469,247	Other Non-Current Liabilities	121,551,062	115,411,401
	<b>1,018,286,344</b>	<b>1,007,940,059</b>	<b>Total Liabilities</b>	<b>1,088,786,275</b>	<b>951,762,736</b>
Construction/Equipment in Progress	64,937,134	79,182,090	<b>Net Assets</b>		
<b>Total Plant and Property (Note 2)</b>	<b>1,083,223,478</b>	<b>1,087,122,149</b>	Unrestricted	1,679,004,959	1,641,588,824
<b>Other Non Current Assets</b>			Noncontrolling Interest	96,928	913,098
Marketable Securities (Note 3)	992,661,188	962,807,860	<b>Total Unrestricted Net Assets</b>	<b>1,679,101,887</b>	<b>1,642,501,922</b>
Joint Ventures (Note 4)	55,042,892	53,229,030			
Investment in Unrelated Parties	588,024	588,024	Temporarily Restricted	12,645,240	12,037,484
Trustee held bond funds	133,347,677	9,035,903	<b>Total Restricted Net Assets</b>	<b>12,645,240</b>	<b>12,037,484</b>
<b>Investments</b>	<b>1,181,639,781</b>	<b>1,025,660,817</b>	<b>Total Net Assets</b>	<b>1,691,747,127</b>	<b>1,654,539,406</b>
Deferred Costs	92,384	88,566	<b>TOTAL LIAB. AND NET ASSETS</b>	<b>\$ 2,780,533,402</b>	<b>\$ 2,606,302,142</b>
Other Assets	79,035,795	79,406,118			
Goodwill	9,729,338	9,729,338			
<b>Total Other Non-Current Assets</b>	<b>88,857,517</b>	<b>89,224,022</b>			
<b>TOTAL ASSETS</b>	<b>\$ 2,780,533,402</b>	<b>\$ 2,606,302,142</b>			

**Cone Health**  
**Consolidated Statements of Operations**

	YEAR-TO-DATE		
	ACTUAL 12/31/17	ACTUAL 12/31/16	Act./Act. % Var
<b>REVENUE</b>			
Patient Service Revenue (net of contractual allowances and discounts)	\$ 473,358,341	\$ 437,807,208	8.12%
Provision for bad debts (Note 1)	39,440,772	36,475,512	-8.13%
<b>Net Patient Service Revenue (Note 2)</b>	<b>433,917,569</b>	<b>401,331,696</b>	<b>8.12%</b>
Other Operating Revenue	21,618,841	19,109,822	13.13%
Premium Revenue	26,431,340	13,641,184	93.76%
<b>TOTAL OPERATING REVENUES</b>	<b>481,967,750</b>	<b>434,082,702</b>	<b>11.03%</b>
<b>EXPENSE</b>			
Salaries and Wages	177,344,350	165,772,546	6.98%
Fringe Benefits	60,437,915	56,633,980	6.72%
Purchased Personnel	4,369,856	3,342,588	30.73%
Medical Claims Expense	22,932,618	11,035,810	107.80%
Supplies	89,777,317	83,810,484	7.12%
Other Operating Expense	79,781,721	71,475,165	11.62%
Interest Expense	3,646,285	3,286,638	10.94%
Depreciation/Amortization	29,843,568	27,659,801	7.90%
<b>TOTAL OPERATING EXPENSE</b>	<b>468,133,630</b>	<b>423,017,012</b>	<b>10.67%</b>
<b>INCOME FROM OPERATIONS</b>	<b>13,834,120</b>	<b>11,065,690</b>	<b>25.02%</b>
<b>OTHER INCOME</b>			
Investment Income (Note 3)	7,057,276	10,751,286	-34.36%
Joint Venture Income (Note 4)	2,390,338	571,839	318.01%
Other Expense (Note 4)	(7,438,031)	(6,408,615)	-16.06%
<b>Total Other Income (Expense)</b>	<b>2,009,583</b>	<b>4,914,510</b>	<b>-59.11%</b>
<b>EXCESS OF REVENUES OVER EXPENSE BEFORE NONCONTROLLING INTEREST</b>	<b>15,843,703</b>	<b>15,980,200</b>	<b>-0.85%</b>
Non-controlling Interest Expense (Income)	1,009,232	756,925	-33.33%
<b>EXCESS OF REVENUES OVER EXPENSE</b>	<b>14,834,471</b>	<b>15,223,275</b>	<b>-2.55%</b>
Change in Net Unrealized Gains and (Losses) on Investments (Note 3)	22,316,730	20,140,098	10.81%
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<b>\$ 37,151,201</b>	<b>\$ 35,363,373</b>	<b>5.06%</b>

**Cone Health**  
**Consolidated Statement of Changes in Net Assets**

	December 31, 2017	Audited September 30, 2017
<b>UNRESTRICTED NET ASSETS:</b>		
Excess of revenues over expenses from consolidated operations	\$ 15,843,703	\$ 70,851,374
Change in net unrealized gains and losses on investments	21,226,775	57,585,101
Pension-related changes other than net periodic benefit cost		16,424,973
Change in the fair value of the floating-to-fixed swap agreement	1,089,955	18,265,059
Acquisition of HTA noncontrolling interest		(17,600,000)
Other changes in net assets	(1,560,468)	(4,228,476)
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<b>Increase in unrestricted net assets</b>	<b>36,599,965</b>	<b>141,298,031</b>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Other changes in net assets	607,756	921,573
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<b>Increase in temporarily restricted net assets</b>	<b>607,756</b>	<b>921,573</b>
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<b>INCREASE IN NET ASSETS</b>	<b>\$ 37,207,721</b>	<b>\$ 142,219,604</b>
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**Cone Health**  
**Consolidated Statements of Cash Flows**

	December 31, 2017	Audited September 30, 2017
<b>CASH FLOWS FROM OPERATING AND NON OPERATING ACTIVITIES</b>		
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 37,207,721	\$ 142,219,604
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	(21,226,775)	(57,585,101)
Change in fair value of the floating-to-fixed swap agreement	(1,089,955)	(18,265,059)
Net realized gain on sale of investments	(3,508,244)	(29,037,350)
Depreciation and amortization	29,843,568	115,466,763
Provision for uncollectible accounts	39,440,772	145,691,014
Accumulated or Other Comprehensive Income (FAS 158 - pension)	-	(16,424,973)
Loss on disposal of property and equipment	34,559	2,894,348
Equity in earnings of unconsolidated entities	(2,390,338)	(4,364,272)
Distributions from unconsolidated entities	576,476	3,398,662
Distributions to noncontrolling interests	1,825,402	6,587,834
Purchase of noncontrolling interest	-	17,600,000
Changes to medical claims IBNR in Care-n-Care of NC	-	7,170,591
(Increase) Decrease in patient accounts receivable	(50,494,544)	(114,868,515)
(Increase) Decrease in prepaids and other receivables	(1,530,765)	(16,538,999)
(Increase) Decrease in inventory	(1,098,716)	(2,562,039)
Increase (Decrease) in accounts payable and accrued expenses	(17,322,313)	37,734,001
Contribution to pension liability	-	(58,750,000)
(Increase) Decrease in other operating assets and liabilities (net)	6,681,925	3,682,204
<b>Net cash provided by operating activities and gains and losses</b>	<b>16,948,773</b>	<b>164,048,713</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Additions) to Property, Plant and Equipment	(26,209,936)	(128,675,557)
(Increase) in investment portfolios	(127,082,439)	(5,097,208)
Restriction of funds in Care-n-Care of NC, Inc.	-	(10,187,971)
<b>Net cash used in investing activities</b>	<b>(153,292,375)</b>	<b>(143,960,736)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from debt issuance	159,484,737	130,397,444
Repayments of debt	(9,346,316)	(92,357,305)
Purchase of noncontrolling interest	-	(12,000,000)
Distributions to noncontrolling interest	(1,825,402)	(6,587,834)
Payments on capital lease obligations	(512,326)	(2,068,979)
<b>Net cash provided by financing activities</b>	<b>147,800,693</b>	<b>17,383,326</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>11,457,091</b>	<b>37,471,303</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>57,808,044</b>	<b>20,336,741</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 69,265,135</b>	<b>\$ 57,808,044</b>