

Third 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 nine months, ended June 30, 2018 the health network's consolidated operating income was \$27.7M and a margin of 1.9% compared to operating income of \$38.7M and a margin of 2.8% for fiscal year to date 2017. Excess of revenues over expenses were \$88.6M and an excess margin of 5.8% compared to \$51.1M and 3.7% for fiscal year 2017.

The first nine months of fiscal year 2018 continued the trend of higher outpatient volumes from fiscal year 2017, as net patient revenue increased 5.3% to \$1.314M. Compared to fiscal year 2017, inpatient volume increased by 1.2% to 44,603 reflecting a heavy flu season in the second quarter. Acute length of stay decreased by 2.1% to 4.21 days although case mix increased from 1.65 to 1.66. Salaries and wages increased due to wage inflation and growth in physician practices, and benefits increased by 3.0% representing a higher cost of employee health and other employee benefits. Depreciation expense increased 7.22% to \$90.5M reflecting continued investment in facilities and information technology.

Supplies expense increased 5.9% 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) increased by \$50.1M to positive \$63.1M as higher investment income was offset by increased expenses in a number strategic non-operating initiatives.

Summary Statement of Operations (\$000)

Fiscal Year 2018	YTD	Prior YTD
Operating income	\$27,672	\$38,725
Operating Margin %	1.9%	2.8%
Operating EBIDA	\$131,675	\$133,257
Operating EBIDA Margin %	8.9%	9.7%
Excess of revenue over expenses	\$88,625	\$51,073
Excess Margin %	5.8%	3.7%
Change in Net Assets	\$63,968	\$105,453

Surgical procedures decreased to 30,464 (11,590 inpatient/18,874 outpatient) fiscal year to date, a decrease of 1.2% over last fiscal year. Emergency department visits were down slightly by 0.7%, 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	30,464	30,825	-1.2%
Deliveries	5,442	5,465	-0.4%
ED Visits	269,072	271,069	-0.7%
Outpatient Visits	654,182	627,183	4.3%
Physician Services			
Office Visits	601,009	569,629	5.5%
Physician Hospital Visits	187,519	167,750	11.8%
Procedures	375,204	367,441	2.1%

Inpatient activity, measured by discharges, and length of stay, increased over prior year. The increase in discharges of 528 was accompanied by a decrease in observation cases of 597. Beds in service show modest fluctuations 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	1,025	1,028	-0.3%
Number of Inpatients (Discharges)	44,603	44,075	1.2%
Average Length of Stay	4.21	4.30	2.1%
Average Daily Acute Census	688.2	695.0	-1.0%
Extended Care Census	285.0	284.0	0.4%
Long Term Care Census	84.8	83.7	2.6%

Balance sheet liquidity ratios strengthened in the first nine months of the year driven by positive cash flow as well positive investment performance. In December, Cone borrowed \$160 million to help fund large ongoing construction projects. Of that amount, \$43.6 million has been released from restricted accounts through June 30 and the remaining is in assets whose use is restricted. Unrestricted cash and investments improved \$83 million during the first nine months. The fiscal year-to-date return on the system investment portfolio was a 4.6% gain. As a result of positive cash flow, days cash improved to 224 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	35.2%	33.3%	34.0%
Medicaid	11.9%	12.8%	12.7%
Commercial & Managed Care	47.0%	47.8%	48.5%
Self-Pay	1.5%	1.4%	1.6%
Other	4.4%	4.7%	3.2%
Total	100.0%	100.0%	100.0%

Balance Sheet Summary of Key Metrics and Ratios as of June 30, 2018

	Actual	Prior FY	Change
Cash and long-term investments (\$000)	\$1,111,823	\$1,028,642	\$83,181
Days cash on hand	224	225	-1
Days in A/R	40	44	-4
Cash to debt	166%	195%	-29%
Debt to capitalization	28.16 %	24.28 %	3.88%
Annual debt service coverage ratio	7.51	6.57	0.94

Debt Summary As of June 30, 2018

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 modified its rating from AA to AA- 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 June 30, 2018

Principal(\$)

	Original	Outstanding	Current Rate	Maturity(FY)	Interest Mode
2001A	42,600,000	42,600,000	1.90%	2019	Weekly VRDB
2001B	42,600,000	42,600,000	2.00%	2019	Daily VRDB
2004A	47,500,000	46,065,000	1.94%	2017	Weekly VRDB
2011A	60,170,000	31,905,000	4.42%	2023	Fixed Rate
2011B	47,980,000	45,135,000	2.60%	2036	Windows Mode
2011C& D	100,000,000	94,750,000	1.99%	2021	Direct Placement
2013A,B & C	130,185,000	110,090,000	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	2.79%	2046	Direct Placement
2017B	60,000,000	60,000,000	1.95%	2041	Direct Placement
	681,035,000	628,280,000			
Other		38,130,000	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 (2017 Note) at a fixed rate of 4.33%. These funds, subsequent to Dec. 31, were deposited into the closed defined benefit plan. At March 31, the funding level was approximately 95%. 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 \$992 million at March 31, 2018, 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.

Cone Health Liquidity As of June 30, 2018 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	\$39.4	\$39.4		
Bond Funds	\$171.5	\$107.9	\$63.6	\$0
Equity Funds	\$387.1	\$21.3	\$93.8	\$272.0
Other Funds	\$336.1			\$336.1
Total Liquid Assets	\$934.1	\$168.6	\$157.4	\$608.1
Bank Lines of Credit	\$97.5	\$97.5		
Total Liquidity	\$1,031.6	\$266.1	\$157.4	\$608.1

\$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**

Assets	June 30, 2018	Audited September 30, 2017	Liabilities and Net Assets	June 30, 2018	Audited September 30, 2017
Current Assets			Current Liabilities		
Cash	\$ 56,733,648	\$ 57,808,044	Accrued Payroll	\$ 75,767,629	\$ 92,377,221
Short-Term Investments	52,211,604	26,802,222	Accounts Payable	56,921,573	78,196,469
Patient Receivables (net) (Note 1)	193,212,717	198,787,064	PAL & Retirement	32,961,601	31,227,502
Other Receivables	53,604,098	52,469,211	Medical Claims IBNR	10,664,781	11,822,792
Inventories	33,583,875	31,435,086	Bonds Payable (Note 5)	12,655,000	12,525,000
Prepaid Expenses	14,857,336	16,571,150	Short Term Debt, Line of Credit (Note 5)	176,823,743	179,462,643
Other Current Assets	16,329,474	20,422,377	Other Current Liabilities	102,105,799	96,389,433
Total Current Assets	420,532,752	404,295,154	Total Current Liabilities	467,900,126	502,001,060
 Plant and Property (net)			 Debt and Other Liabilities		
Land and Land Improvements	75,319,690	71,038,285	Bonds Payable (Note 5)	383,027,459	284,200,131
Building and Fixed Equipment	749,335,419	715,400,411	Long Term Debt (Note 5)	87,585,613	39,623,943
Moveable Equipment	203,139,640	209,032,116	Capital Lease Obligation	8,343,299	10,526,201
Real Estate	11,647,153	12,469,247	Other Non-Current Liabilities	132,551,542	115,411,401
	<u>1,039,441,902</u>	<u>1,007,940,059</u>			
Construction/Equipment in Progress	57,440,303	79,182,090	Total Liabilities	1,079,408,039	951,762,736
Total Plant and Property (Note 2)	1,096,882,205	1,087,122,149			
 Other Non Current Assets			 Net Assets		
Marketable Securities (Note 3)	1,007,047,144	962,807,860	Unrestricted	1,704,941,243	1,641,588,824
Joint Ventures (Note 4)	58,415,902	53,229,030	Noncontrolling Interest	(1,785,521)	913,098
Investment in Unrelated Parties	588,024	588,024	Total Unrestricted Net Assets	1,703,155,722	1,642,501,922
Trustee held bond funds	117,547,830	9,035,903			
Investments	1,183,598,900	1,025,660,817			
 Deferred Costs	79,478	88,566	Temporarily Restricted	12,921,339	12,037,484
Other Assets	84,662,427	79,406,118	Total Restricted Net Assets	12,921,339	12,037,484
Goodwill	9,729,338	9,729,338			
Total Other Non-Current Assets	94,471,243	89,224,022	Total Net Assets	1,716,077,061	1,654,539,406
 TOTAL ASSETS	\$ 2,795,485,100	\$ 2,606,302,142	 TOTAL LIAB. AND NET ASSETS	\$ 2,795,485,100	\$ 2,606,302,142

Cone Health
Consolidated Statements of Operations

	YEAR-TO-DATE		
	ACTUAL 6/30/18	ACTUAL 6/30/17	Act./Act. % Var
REVENUE			
Patient Service Revenue (net of contractual allowances and discounts)	\$ 1,432,379,831	\$ 1,356,622,801	5.58%
Provision for bad debts (Note 1)	118,376,738	108,589,014	-9.01%
Net Patient Service Revenue (Note 2)	1,314,003,093	1,248,033,787	5.29%
Other Operating Revenue	68,222,285	58,451,429	16.72%
Premium Revenue	90,086,603	63,720,370	41.38%
TOTAL OPERATING REVENUES	1,472,311,981	1,370,205,586	7.45%
EXPENSE			
Salaries and Wages	537,836,655	501,796,964	7.18%
Fringe Benefits	189,166,441	183,650,038	3.00%
Purchased Personnel	13,425,881	10,177,663	31.92%
Medical Claims Expense	83,359,868	62,031,878	34.38%
Supplies	267,640,851	252,639,927	5.94%
Other Operating Expense	249,206,907	226,651,652	9.95%
Interest Expense	13,521,247	10,142,052	33.32%
Depreciation/Amortization	90,482,110	84,390,625	7.22%
TOTAL OPERATING EXPENSE	1,444,639,960	1,331,480,799	8.50%
INCOME FROM OPERATIONS	27,672,021	38,724,787	-28.54%
OTHER INCOME			
Investment Income (Note 3)	78,403,283	31,124,175	151.90%
Joint Venture Income (Note 4)	6,632,687	2,769,240	139.51%
Other Expense (Note 4)	(21,930,463)	(20,879,094)	-5.04%
Total Other Income (Expense)	63,105,507	13,014,321	384.89%
EXCESS OF REVENUES OVER EXPENSE BEFORE NONCONTROLLING INTEREST	90,777,528	51,739,108	75.45%
Non-controlling Interest Expense (Income)	2,152,961	666,205	-223.17%
EXCESS OF REVENUES OVER EXPENSE	88,624,567	51,072,903	73.53%
Change in Net Unrealized Gains and (Losses) on Investments (Note 3)	(24,656,898)	54,380,478	-145.34%
INCREASE IN UNRESTRICTED NET ASSETS	\$ 63,967,669	\$ 105,453,381	-39.34%

Cone Health
Consolidated Statement of Changes in Net Assets

	June 30, 2018	Audited September 30, 2017
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses from consolidated operations	\$ 90,777,528	\$ 70,851,374
Change in net unrealized gains and losses on investments	(30,990,460)	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	6,333,562	18,265,059
Acquisition of HTA noncontrolling interest		(17,600,000)
Other changes in net assets	(5,466,830)	(4,228,476)
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Increase in unrestricted net assets	60,653,800	141,298,031
 TEMPORARILY RESTRICTED NET ASSETS:		
Other changes in net assets	883,855	921,573
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Increase in temporarily restricted net assets	883,855	921,573
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INCREASE IN NET ASSETS	\$ 61,537,655	\$ 142,219,604
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Cone Health
Consolidated Statements of Cash Flows

	June 30, 2018	Audited September 30, 2017
CASH FLOWS FROM OPERATING AND NON OPERATING ACTIVITIES		
CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in net assets	\$ 61,537,655	\$ 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	30,990,460	(57,585,101)
Change in fair value of the floating-to-fixed swap agreement	(6,333,562)	(18,265,059)
Net realized gain on sale of investments	(65,322,906)	(29,037,350)
Depreciation and amortization	90,482,110	115,466,763
Provision for uncollectible accounts	118,376,738	145,691,014
Accumulated or Other Comprehensive Income (FAS 158 - pension)	-	(16,424,973)
Loss on disposal of property and equipment	1,042,846	2,894,348
Equity in earnings of unconsolidated entities	(6,632,687)	(4,364,272)
Distributions from unconsolidated entities	4,363,996	3,398,662
Distributions to noncontrolling interests	4,851,579	6,587,834
Purchase of noncontrolling interest	-	17,600,000
Changes to medical claims IBNR in Care-n-Care of NC	(1,158,011)	7,170,591
(Increase) Decrease in patient accounts receivable	(112,802,391)	(114,868,515)
(Increase) Decrease in prepaids and other receivables	578,927	(16,538,999)
(Increase) Decrease in inventory	(2,148,789)	(2,562,039)
Increase (Decrease) in accounts payable and accrued expenses	(24,251,916)	37,734,001
Contribution to pension liability	-	(58,750,000)
(Increase) Decrease in other operating assets and liabilities (net)	10,716,164	3,682,204
Net cash provided by operating activities and gains and losses	<u>104,290,213</u>	<u>164,048,713</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Additions) to Property, Plant and Equipment	(101,206,858)	(128,675,557)
(Increase) in investment portfolios	(129,688,145)	(5,097,208)
Restriction of funds in Care-n-Care of NC, Inc.	(11,612,744)	(10,187,971)
Net cash used in investing activities	<u>(242,507,747)</u>	<u>(143,960,736)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt issuance	194,400,028	130,397,444
Repayments of debt	(50,253,235)	(92,357,305)
Purchase of noncontrolling interest	-	(12,000,000)
Distributions to noncontrolling interest	(4,851,579)	(6,587,834)
Payments on capital lease obligations	(2,152,076)	(2,068,979)
Net cash provided by financing activities	<u>137,143,138</u>	<u>17,383,326</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,074,396)	37,471,303
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>57,808,044</u>	<u>20,336,741</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 56,733,648</u>	<u>\$ 57,808,044</u>