

First Quarter Fiscal Year 2021 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. Cone Health has announced its intent to merge with Sentara Healthcare based in Norfolk, Va. Cone and Sentara have executed a letter of intent and are currently engaged in a due diligence process.

OPERATIONS

5 Hospitals - 1,231 licensed beds
3 Ambulatory Surgery Centers
2 Nursing Homes – 167 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 – over 1,300 affiliated physicians
30,000 member Medicare ACO
16,000 member Medicare Advantage Plan
Management services agreement with Randolph Hospital

The Health System continues to deal with the COVID-19 pandemic across the service area, making appropriate investments in caring for our patients and combatting the spread of the virus. The system has required increased usage of contract providers during the heightened COVID-19 patient census. The system has also opened COVID-19 vaccination clinics in December. Management continues to analyze the impact of this crisis and is working with appropriate governmental agencies for financial assistance and relief.

For the quarter, ended December 31, 2020 the health system's consolidated operating income was \$29.6M and a margin of 4.8% compared to operating income of \$19.5M and a margin of 3.4% for fiscal year 2020. Excess of revenues over expenses were \$39.7M and an excess margin of 6.3% compared to \$32.0M and 5.4% for fiscal year 2020. Cone recognized \$17 million in other operating revenue from CARES Act Provider Relief Fund grants related to our COVID-19 response efforts.

Although net patient revenue increased 3.26% to \$547M, the first quarter of fiscal year 2021 continued the trend of lower outpatient volumes compared to fiscal year 2020. Compared to fiscal year 2020, inpatient volume increased by 0.7% to 14,962, acute length of stay decreased by 12% to 4.95 days and case mix increased from 1.85 to 1.80. Salaries and wages increased due to wage inflation and contract labor. Depreciation expense decreased 7.97% to \$31.2M.

Supplies expense increased 9.0%. The pharmaceutical component of the increase was driven by growth in specialty, contract, and Cancer Center pharmacies as well as inflation. The supplies component was driven by growth in supplies for surgical and procedural volumes early in the year and more recently increases in personal protective equipment (PPE) related to the COVID-19 pandemic.

Non-operating income (other income) decreased by \$2.2M to positive \$11.7M. Cone Health has participated in several funding options made available through the federal CARES Act legislation and FEMA reimbursement process. Cone also participated in delayed payment of payroll taxes and received \$140 million in FY2020 in advance payments from CMS made available via the CARES Act.

Summary Statement of Operations (\$000)

Fiscal Year 2021	YTD	Prior YTD
Operating income	\$29,636	\$19,525
Operating Margin %	4.8%	3.4%
Operating EBIDA	\$64,944	\$58,157
Operating EBIDA Margin %	10.5%	10.0%
Excess of revenue over expenses	\$39,653	\$32,030
Excess Margin %	6.3%	5.4%
Change in Net Assets	\$66,074	\$66,162

Surgical procedures decreased to 10,491 (3,881 inpatient/6,610 outpatient) fiscal year to date, a decrease of 3.5% over last fiscal year. Emergency department visits were down by 15.3%, and outpatient volumes decreased 14.3% as COVID-19 impacted all patient activity.

Operating Statistics	Fiscal Year to date 2021		
	Current Year	Prior year	% Variance
Surgical Procedures	10,491	10,872	-3.5%
Deliveries	1,731	1,815	-4.6%
ED Visits	73,027	86,170	-15.3%
Outpatient Visits	208,404	243,059	-14.3%
Telehealth Visits	15,686	0	
Physician Services			
Office Visits	165,141	223,643	-26.2%
Physician Telehealth Visits	40,754	0	
Physician Hospital Visits	77,021	65,421	17.7%
Procedures	132,206	144,020	-8.2%

Inpatient activity, measured by discharges, increased over prior year. The increase in discharges of 107 was accompanied by decreases in observation cases of 701. Beds in service decreased due to COVID-19 staffing changes.

Hospital Statistics	Fiscal Year to date 2021		
	Actual	Prior year	% Variance
Beds in Service	1,080	1,128	-4.3%
Number of Inpatients (Discharges)	14,962	14,855	0.7%
Average Length of Stay	4.95	4.42	-12.0
Average Daily Acute Census	805.0	713.5	12.8%
Extended Care Census	240.8	307.8	-21.8%
Long Term Care Census	64.5	76.6	-15.8%

Balance sheet liquidity ratios remain strong and improved both with and without advances from CMS and deferred payroll tax payments. In December 2017, Cone borrowed \$160 million to help fund large ongoing construction projects. Of that amount, \$161.5 million has been released from restricted accounts and the remaining is in assets whose use is restricted. Unrestricted cash and investments decreased by \$11.5 million over last fiscal year. The fiscal year-to-date return on the system investment portfolio was a 2.0% gain. Days cash decreased to 243 days.

Balance Sheet Summary of Key Metrics and Ratios as of December 31, 2020

	Actual	Prior FY	Change
Cash and long-term investments (\$000)	\$1,476,414	\$1,487,896	(\$11,482)
Days cash on hand	243	261	-18
Days in A/R	32	32	0
Cash to debt	239%	237%	2%
Debt to capitalization	23.8%	24.7 %	-0.9%
Annual debt service coverage ratio	9.25	9.19	0.06

Included in cash and days cash on hand is \$170 million advance payments from CMS and PR tax. Net of this advance, cash and investments total \$1,306,703 and days cash on hand equals 215.

Third-Party Reimbursement and Sources of Payment of the Operating Corporation (NET)

	Fiscal Year to date	Fiscal Year	Fiscal Year
	2021	2020	2019
Medicare	37.2%	36.4%	35.3%
Medicaid	10.0%	11.1%	11.1%
Commercial & Managed Care	44.1%	44.0%	45.9%
Self-Pay	1.7%	1.5%	1.7%
Other	7.0%	7.0%	6.0%
Total	100.0%	100.0%	100.0%

Debt Summary As of December 31, 2020

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 and AA-/Stable by Standard & Poor's

In September, the tax-exempt 2011 C&D bonds were refinanced taxable at a rate of One Month Libor + 0.80 with a Libor floor of 0.25%, with a maturity in October 2023.

In December, the 2017B tax-exempt bonds were renewed for an additional three years maturing December 2023 at a rate of One Month Libor + 0.632% with a Libor floor of 0.25%.

Outstanding Debt Series as of December 31, 2020

Principal(\$)					
	Original	Outstanding	Current Rate	Maturity(FY)	Interest Mode
2001A	42,600,000	42,600,000	3.79%	2023	Weekly VRDB
2001B	42,600,000	42,600,000	3.79%	2023	Daily VRDB
2004A	47,500,000	42,885,000	0.61%	2022	Weekly VRDB
2011A	60,170,000	16,310,000	4.42%	2023	Fixed Rate
2011B	47,980,000	38,635,000	2.60%	2036	Windows Mode
2011C&D	100,000,000	92,750,000	1.05%	2024	Direct Placement
2013A, B & C	130,185,000	100,500,000	2.98%	2024	Direct Placement
2017 Note	50,000,000	50,000,000	4.33%	2046	Direct Placement
2017A	100,000,000	99,180,000	2.79%	2046	Direct Placement
2017B	60,000,000	60,000,000	1.75%	2041	Direct Placement
	681,035,000	585,460,000			
Other	44,500,000	33,250,000	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 2.79% and the \$60 million variable loan was extended to December 2023 at a rate of 79% of 1-months LIBOR plus 0.63%. Proceeds were used to fund capital projects, specifically the new Women's and Children's Center on the Moses H. Cone Memorial Hospital campus and operative services improvements on the Wesley Long 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. Cone Health has received approval for the termination and expected this to occur in the second quarter of 2019.

The 2004A and 2011B bonds are supported with Cone Health's liquidity that totaled \$1,022 million at December 31, 2019, not including funds of the Cone Foundation and Impact Alamance Foundation. Three lines of credit totaling \$192.9 million are also available to support outstanding indebtedness, one of which, totaling \$42.9 million, only supports the 2004A bonds. 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 debt issued in 2018. The notional amount is \$100 million, fixed rate of 1.336 versus 70% of 1-month LIBOR.

Cone Health Liquidity As of December 31, 2020 available to support debt payments and self-supported bond exposure (excluding Foundation assets and CMS advance and Payroll Tax)				
Type	Market Value (Millions)	Funds Availability		
		1-Day	Under 1-Week	Over 1-Week
Deposits at Banks	\$157.3	\$157.3		
Bond Funds	\$675.7	\$92.6	\$583.2	\$0
Equity Funds	\$1.2	\$0.4	\$0	\$0.7
Other Funds	\$287.2			\$287.2
Total Liquid Assets	\$1,121.4	\$250.3	\$583.2	\$288.0
Bank Lines of Credit	\$192.9	192.9		
Total Liquidity	\$1,314.3	\$443.2	\$583.2	\$288.0

\$42.9 million in bank lines of credit are only available to support a failed remarketing of the 2004A bonds.

The values of investments in the above chart are market values for Cone Health assets, not including foundation assets.

Contact Information

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Ratio Methodology

- Long Term Debt Service Coverage Ratio** $\text{Excess of Revenues} + \text{Depreciation} + \text{Interest} / \text{Interest} + \text{Principal}$
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** $\text{Unrestricted Cash and Investments} / \text{Operating Expense less Depreciation}$
For interim periods, the calculation is based on actual number of days in the period.
- Debt to Capital Ratio** $\text{Short and Long Term Debt} + \text{Leases} / \text{Total Capitalization}$
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** $\text{Unrestricted Cash and Investments} / \text{Short and Long Term Debt} + \text{Leases}$

Cone Health
Consolidated Balance Sheets

Assets	December 31, 2020	Audited September 30, 2020	Liabilities and Net Assets	December 31, 2020	Audited September 30, 2020
Current Assets			Current Liabilities		
Cash	\$ 325,978,475	\$ 328,670,712	Accrued Payroll	\$ 166,101,011	\$ 167,850,414
Short-Term Investments	26,774,349	26,687,750	Accounts Payable	59,513,936	63,603,011
Patient Receivables (net)	192,494,067	175,624,509	PAL & Retirement	31,243,109	39,757,887
Other Receivables	81,218,034	68,576,186	Medical Claims IBNR	16,975,575	16,513,090
Inventories	41,353,621	39,413,803	Current Portion of Long Term Debt	179,217,244	182,609,545
Prepaid Expenses	25,025,933	20,740,842	Current Portion of Lease Obligation	20,052,508	20,114,179
Other Current Assets	4,597,388	6,674,462	Other Current Liabilities	229,659,008	230,695,404
Total Current Assets	697,441,867	666,388,264	Total Current Liabilities	702,762,391	721,143,530
Plant and Property (net)			Debt and Other Liabilities		
Land and Land Improvements	89,203,300	82,608,271	Bonds Payable	263,413,989	270,078,409
Building and Fixed Equipment	853,587,320	852,139,414	Long Term Debt	174,509,378	175,675,217
Moveable Equipment	159,189,743	167,373,554	Lease Obligation	65,726,702	63,247,869
Real Estate	10,524,014	10,635,330	Other Non-Current Liabilities	128,834,689	122,788,651
	1,112,504,377	1,112,756,569			
Construction/Equipment in Progress	85,027,439	68,318,888	Total Liabilities	1,335,247,149	1,352,933,676
Total Plant and Property	1,197,531,816	1,181,075,457			
Right to Use Assets (net)	82,237,394	79,824,231			
Other Non Current Assets			Net Assets		
Marketable Securities	1,181,867,606	1,175,692,666	Unrestricted	1,975,260,662	1,909,646,737
Joint Ventures	52,659,216	51,211,457	Noncontrolling Interest	2,868,958	2,633,713
Investment in Unrelated Parties	588,024	588,024	Total Unrestricted Net Assets	1,978,129,620	1,912,280,450
Trustee held bond funds	780,693	17,398,066			
Investments	1,235,895,539	1,244,890,213	Donor Restricted	16,286,314	15,345,114
			Total Restricted Net Assets	16,286,314	15,345,114
Other Assets	106,724,816	98,049,424			
Goodwill	9,831,651	9,831,651	Total Net Assets	1,994,415,934	1,927,625,564
Total Other Non-Current Assets	116,556,467	107,881,075			
TOTAL ASSETS	\$ 3,329,663,083	\$ 3,280,059,240	TOTAL LIABILITY AND NET ASSETS	\$ 3,329,663,083	\$ 3,280,559,240

Cone Health
Consolidated Statements of Operations

	YEAR-TO-DATE		
	ACTUAL 12/31/20	ACTUAL 12/31/19	% Var
REVENUE			
Net Patient Service Revenue	\$ 547,863,145	\$ 530,584,447	3.26%
Other Operating Revenue	33,538,722	15,109,022	121.98%
Premium Revenue	38,596,526	37,055,170	4.16%
TOTAL OPERATING REVENUES	619,998,393	582,748,639	6.39%
EXPENSE			
Salaries and Wages	215,436,637	209,737,311	(2.72%)
Fringe Benefits	66,688,855	65,450,574	(1.89%)
Purchased Personnel	9,862,353	5,105,842	(93.16%)
Medical Claims Expense	38,512,672	26,599,010	(44.79%)
Supplies	124,703,611	114,463,847	(8.95%)
Other Operating Expense	99,849,842	103,235,405	3.28%
Interest Expense	4,124,137	4,744,724	13.08%
Depreciation/Amortization	31,184,726	33,886,694	7.97%
TOTAL OPERATING EXPENSE	590,362,833	563,223,407	(4.82%)
INCOME FROM OPERATIONS	29,635,560	19,525,232	51.78%
OTHER INCOME (EXPENSE)			
Investment Income	13,247,333	18,191,312	27.18%
Joint Venture Income	1,917,759	1,372,609	(39.72%)
Other Income (Expense)	(3,496,374)	(5,693,227)	38.59%
Total Other Income (Expense)	11,668,718	13,870,694	15.88%
EXCESS OF REVENUES OVER EXPENSE BEFORE NONCONTROLLING INTEREST	41,304,278	33,395,927	23.68%
Non-controlling Interest Expense (Income)	1,650,832	1,365,938	(20.86%)
EXCESS OF REVENUES OVER EXPENSE	39,653,446	32,029,989	23.80%
Change in Net Unrealized Gains and (Losses) on Investments	26,420,287	34,131,917	(22.59%)
Change in AOCI	-	-	100.00%
INCREASE IN UNRESTRICTED NET ASSETS	\$ 66,073,733	\$ 66,161,906	(0.13%)

Cone Health
Consolidated Statement of Changes in Net Assets

	December 31, 2020	Audited September 30, 2020
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses from consolidated operations	\$ 41,304,278	\$ 149,096,032
Change in net unrealized gains and (losses) on investments	20,713,834	21,657,293
Pension-related changes other than net periodic benefit cost	-	-
Change in the fair value of the floating-to-fixed swap agreement	5,706,453	(12,288,917)
Other changes in net assets	(1,875,396)	1,818,897
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(Decrease) Increase in unrestricted net assets	65,849,169	160,283,305
 DONOR RESTRICTED NET ASSETS:		
Other changes in net assets	941,200	381,460
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Increase in donor restricted net assets	941,200	381,460
 (DECREASE) INCREASE IN NET ASSETS	 \$ 66,790,369	 \$ 160,664,765
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Cone Health
Consolidated Statements of Cash Flows

	December 31, 2020	Audited September 30, 2020
CASH FLOWS FROM OPERATING AND NON OPERATING ACTIVITIES		
CASH PROVIDED BY OPERATING ACTIVITIES		
(Decrease) Increase in net assets	\$ 66,790,369	\$ 172,062,469
Adjustments to reconcile revenue and gains in excess of expenses and losses to net cash provided by operating activities		
Change in net unrealized losses on investments	(20,713,834)	(17,987,525)
Change in fair value of the floating-to-fixed swap agreement	(5,706,453)	12,288,917
Net realized losses (gains) on sale of investments	(7,635,200)	(49,286,952)
Depreciation and finance lease amortization	31,184,726	145,802,108
Operating lease amortization expense	3,884,932	16,537,399
Loss on disposal of property and equipment	417,176	1,594,565
Lease disposal	2,481,584	7,395,430
Operating lease conversion ASC 842 (RTU Asset)	-	(71,744,581)
Equity in earnings of unconsolidated entities	(1,917,759)	(11,704,170)
Distributions from unconsolidated entities	470,000	7,802,426
Distributions to noncontrolling interests	1,507,936	5,582,803
Changes to medical claims IBNR in Care-n-Care of NC	462,485	(602,420)
(Increase) Decrease in patient accounts receivable	(16,869,558)	57,742,386
(Increase) Decrease in prepaids and other receivables	(16,926,939)	(21,553,053)
(Increase) Decrease in inventory	(1,939,818)	(2,632,868)
Increase (Decrease) in accounts payable and accrued expenses	(16,474,531)	1,190,398
(Increase) Decrease in other operating assets and liabilities (net)	(2,551,161)	(14,273,322)
Net cash provided by operating activities and gains and losses	16,463,955	238,214,010
CASH FLOWS FROM INVESTING ACTIVITIES		
(Additions) to Property, Plant and Equipment	(46,363,245)	(142,197,930)
(Additions) to Right to Use Assets	(10,716,563)	(24,753,141)
Proceeds from the sale of property and equipment	-	-
Decrease (increase) in investment portfolios	38,982,488	6,780,226
Sale of Advanced Homecare	-	15,096,808
Restriction of funds in Care-n-Care of NC, Inc.	(54,029)	(17,042,175)
Net cash used in investing activities	(18,151,349)	(162,116,212)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt issuance	-	90,000,000
Addition of lease obligation	9,757,954	24,240,800
Repayments of debt	(10,784,626)	(106,356,027)
Distributions to noncontrolling interest	(1,507,936)	(5,582,803)
CMS Advance Payment	-	140,364,851
FICA deferral	8,870,556	20,791,079
Lease disposal	(2,402,177)	(7,575,648)
Payments on lease obligations	(4,938,614)	(20,786,579)
Operating lease conversion ASC 842 (lease liability)	-	73,833,287
Net cash (used in) provided by financing activities	(1,004,843)	208,928,960
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,692,237)	285,026,758
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	328,670,712	43,643,954
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 325,978,475	\$ 328,670,712