Cone Health Foundation

Financial Statements as of and for the
Years Ended September 30, 2015 and 2014,
and Independent Auditors' Report

CONE HEALTH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Cone Health Foundation:

We have audited the accompanying financial statements of Cone Health Foundation (the "Foundation"), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of September 30, 2015 and 2014, and the results of its activities and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

January 25, 2016

CONE HEALTH FOUNDATION

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 887,499	$ 698,407
Investments—short term	325,888	129,281
Other current assets	99	832
Total current assets	1,213,486	828,520
INVESTMENTS—Long term	101,769,514	113,826,179
TOTAL	$ 102,983,000	$ 114,654,699
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Grants payable—current	$ 4,365,465	$ 4,393,297
Accounts payable and accrued expenses	146,946	132,430
Total current liabilities	4,512,411	4,525,727
GRANTS PAYABLE—Net of current portion	9,113,360	25,000
Total liabilities	13,625,771	4,550,727
UNRESTRICTED NET ASSETS	89,357,229	110,103,972
TOTAL	$ 102,983,000	$ 114,654,699

See notes to financial statements.

CONE HEALTH FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
REVENUES:		
Dividends and interest	$ 1,760,293	$ 1,477,948
Realized gains on investments	1,443,434	2,723,079
Other operating revenue	17,030	5,872
Total revenues	3,220,757	4,206,899
EXPENSES:		
Grants awarded	14,668,886	503,966
Salaries and benefits	734,635	733,859
Investment management fees	235,978	326,947
General and administrative expenses	259,890	320,207
Consulting fees	211,838	188,819
Total expenses	16,111,227	2,073,798
REVENUES (UNDER) OVER EXPENSES	(12,890,470)	2,133,101
CHANGE IN UNREALIZED (LOSS) GAINS ON INVESTMENTS—Net	(7,856,273)	3,408,682
CHANGE IN UNRESTRICTED NET ASSETS	(20,746,743)	5,541,783
NET ASSETS—Beginning of year	110,103,972	104,562,189
NET ASSETS—End of year	$ 89,357,229	$ 110,103,972

See notes to financial statements.

CONE HEALTH FOUNDATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (20,746,743)	$ 5,541,783
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in unrealized losses (gains) on investments—net	7,856,273	(3,408,682)
Net realized gains on sale of investments	(1,443,434)	(2,723,079)
Purchase of trading securities	(13,023,386)	(1,489,964)
Proceeds from sale of trading securities	6,989,646	2,437,201
Changes in:		
Other assets	733	195
Grants payable	9,060,528	(4,000,248)
Accounts payable and accrued expenses	14,516	705
Net cash used in operating activities	(11,291,867)	(3,642,089)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(23,862,754)	(32,370,170)
Sale of investments	35,343,713	36,293,361
Net cash provided by investing activities	11,480,959	3,923,191
NET INCREASE IN CASH AND CASH EQUIVALENTS	189,092	281,102
CASH AND CASH EQUIVALENTS:		
Beginning of year	698,407	417,305
End of year	$ 887,499	$ 698,407

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—The Moses Cone—Wesley Long Community Health Foundation, Inc. (dba Cone Health Foundation) (the "Foundation") was incorporated on December 2, 1996, as a North Carolina nonprofit corporation by Wesley Long Community Hospital. On October 1, 1997, the Wesley Long Community Hospital and The Moses H. Cone Memorial Hospital merged. An outcome of the merger was the consolidation of the community health program of the Moses Cone Health System (the "Health System") with the Foundation. The purpose of the Foundation is to invest in the development and support of activities, programs, and organizations that measurably improve the health of people in the greater Greensboro Area. The Foundation is a 509(a)(3) supporting organization of the Health System.

The Foundation's board of directors (the "Board of Directors") has sole authority over the disbursements of net assets and consists of 17 members. The Board of Directors is composed of two ex officio members (the chairman and vice chairman of the Health System or their designees), eight members appointed by the Health System, and seven self-perpetuating members.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties—The Foundation invests in debt and equity investment securities that are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the investment balances in the financial statements.

Cash and Cash Equivalents—Cash and cash equivalents are held in the Foundation's operating bank account and include demand deposits and certain investments in highly liquid debt instruments with original maturities at the time of purchase of three months or less.

Investments—Investment assets of the Foundation are to be used at the direction of the Board of Directors to accomplish the stated purpose of the Foundation. Investments in equity securities with readily determinable fair values, investments in common/commingled/collective trusts, and all investments in debt securities are measured at fair value in the accompanying balance sheets and are generally classified as available for sale, with the exception of certain securities held in managed accounts, which are classified as trading. Interest, dividends, and realized gains and losses on available-for-sale investments (including other-than-temporary impairment) and all changes in fair value for trading securities are included in revenues in the accompanying statements of activities and changes in net assets. Changes in unrealized gains and losses on available-for-sale investments are reported separately in the accompanying statements of activities and changes in net assets and are excluded from the excess of revenues over expenses. Interests in alternative investments, whose operating and financial policies the Foundation's management has virtually no influence over, are measured at cost in the accompanying statements of financial position.

Fair Value Measurements—US GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1—Valuations based on unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date

Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement

US GAAP permits, as a practical expedient, a reporting entity to measure the fair value of certain investments without readily determinable fair values by using the reported net asset value (NAV) per share of the investment without further adjustment if the investment is in an entity that meets the description of an investment company whose underlying investments are measured at fair value as set forth in the Accounting Standards Codification (ASC).

The fair values of investments in common/commingled/collective trusts, which are recorded at fair value in the statements of financial position, and alternative investments, which are recorded at cost in the statements of financial position and disclosed at fair value in Note 2, are measured using the NAV per share reported by the respective fund managers or the general partners.

The estimated fair values of certain alternative investments, such as private equity interests, are based on valuations performed prior to the balance sheet date by the external investment managers and adjusted for cash receipts, cash disbursements, and securities distributions through September 30. Because alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

The Foundation's management, with the assistance of a third-party investment consultant, where appropriate, evaluates the NAV information and valuations provided by external fund managers or general partners for appropriateness through review of the most recently available annual audited financial statements and unaudited interim reporting for the respective funds, review of the methodologies used to determine fair value, and comparisons of fund performance to market benchmarks.

The carrying amounts of cash equivalents, accounts payable, and grants payable approximates fair value based on the nature and short duration of these accounts.

Transfers between Levels—The availability of market observable data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or valuation methodologies may require the transfer of financial instruments from one fair value hierarchy level to another. In such instances, the transfer would be reported at the beginning of the reporting period. The Foundation evaluates the significance of transfers based on the nature of the financial instrument and the size of the transfer. There were no transfers of investments between levels for the years ended September 30, 2015 and 2014.

Grant Expense—The Foundation records grants as expense in the fiscal year in which the grants are authorized by the Board of Directors and pledged unconditionally to the recipient. During 2015, the Foundation awarded three-year grants in all four of its priority areas for the first time, which caused a significant increase in grant expense compared to the previous year.

Income Taxes—The Foundation is organized as a corporation exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and North Carolina laws.

Subsequent Events—The Foundation has evaluated events and transactions occurring after September 30, 2015, and through January 25, 2016 (the date these financial statements were available to be issued), for potential recognition or disclosure. No events or transactions were identified that would require recognition or disclosure in the financial statements.

Recently Issued Accounting Guidance—In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. ASU No. 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. ASU No. 2013-04 requires entities to measure these obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. ASU No. 2013-04 is effective for nonpublic entities for fiscal years ended after December 15, 2014. As of September 30, 2015, the Foundation has evaluated these provisions and determined there is no impact on its financial statements.

In June 2013, the FASB issued ASU No. 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*. ASU No. 2013-06 addresses the diversity in practice about what guidance not-for-profit entities should apply for recognizing and measuring personnel services received from an affiliate, that is, a party that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the recipient not-for-profit entity. The new guidance is effective for fiscal years beginning after June 15, 2014. As of September 30, 2015, the Foundation has evaluated these provisions and determined there is no impact on its financial statements.

In April 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (Issue 14-B).* ASU No. 2015-07 removes, from the fair value hierarchy, investments for which the practical expedient is used to measure fair value at NAV. Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount in the balance sheet. Further, entities must provide the disclosures in ASC 820-10-50-6A only for investments for which they elect to use the NAV practical expedient. The guidance provided in ASU No. 2015-07 is effective for fiscal years beginning after December 15, 2015. The Foundation is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

2. INVESTMENTS

At September 30, 2015, the composition of the Foundation's investments, recorded at fair value within long-term investments, is as follows:

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed-income funds and securities	$ 11,316,310	$ 8,325,358	$ -	$ 19,641,668
US equity funds and securities	8,096,633	5,383,385		13,480,018
International equity securities funds		22,124,548		22,124,548
Emerging market funds		6,297,184		6,297,184
Commodity securities funds		2,096,068		2,096,068
	$ 19,412,943	$ 44,226,543	$ -	$ 63,639,486

At September 30, 2014, the composition of the Foundation's investments, recorded at fair value within long-term investments, is as follows:

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed-income funds and securities	$ 21,322,983	$ 4,810,042	$ -	$ 26,133,026
US equity funds and securities	11,159,300	9,329,407		20,488,707
International equity securities funds		25,115,019		25,115,019
Commodity securities funds		1,996,012		1,996,012
	$ 32,482,284	$ 41,250,480	$ -	$ 73,732,764

Alternative investments include limited partnerships, limited liability corporations, and offshore investments funds. Included in investments of the limited partnerships are certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance-sheet risk, may result in loss due to changes in the market (market risk). Alternative investments are less liquid compared to the Foundation's other investments.

The Foundation's alternative investments recorded at cost within long-term investments at September 30, 2015 and 2014, are summarized in the following table:

	2015		2014	
	Cost	Estimated Fair Value (Level 3)	Cost	Estimated Fair Value (Level 3)
Private equity funds	$ 4,723,062	$ 6,362,821	$ 3,703,165	$ 4,799,771
Private debt funds	7,594,116	10,010,500	7,265,520	9,536,395
Hedge funds	17,227,263	20,252,513	16,313,074	18,554,656
Risk parity funds	5,709,157	6,106,670	9,137,636	10,660,329
Real estate funds	2,876,430	3,695,209	3,674,020	4,313,173
	$38,130,028	$46,427,713	$40,093,415	$47,864,324

A summary of the investments with a reported NAV recorded within investments as of September 30, 2015, is as follows:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments in common, comingled, and collective trust funds:				
Fixed-income securities	$ 8,325,358	$ -	Daily	3 days
Equity securities	25,708,833		Daily and monthly	1 day to 30 days
Equity securities	1,799,100		End of any calendar quarter	65 days
Emerging market funds	6,297,184		Daily and monthly	1 day to 30 days
Commodity securities	2,096,068		Daily	None to 35 days
	$44,226,543	$ -		
Alternative investment funds:				
Private equity	$ 6,362,821	$3,636,787	N/A—Illiquid	N/A—Illiquid
Private debt	4,061,842	3,669,458	N/A—Illiquid	N/A—Illiquid
Private debt	5,948,658	310,656	Quarterly	60 day to 90 days
Hedge funds	13,720,364		Monthly and quarterly	30 day to 90 days
Hedge funds	6,532,149		Daily, monthly, and quarterly	1 day to 90 days
Risk parity	6,106,670		Monthly	15 days
Real estate	3,695,209		Quarterly	90 days
	$46,427,713	$7,616,901		

A summary of the investments with a reported NAV recorded within investments as of September 30, 2014, is as follows:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments in common, comingled, and collective trust funds:				
Equity securities	$ 32,530,009	$ -	Daily and monthly	1 day to 30 days
Equity securities	1,914,417		End of any calendar quarter	65 days
Fixed-income securities	4,810,042		Daily and monthly	1 day to 30 days
Commodity securities	1,996,012		Daily	None
	$ 41,250,480	$ -		
Alternative investment funds:				
Private equity	$ 4,799,771	$ 4,758,064	N/A—Illiquid	N/A—Illiquid
Private debt	1,586,287	847,030	N/A—Illiquid	N/A—Illiquid
Private debt	5,904,614	196,798	Quarterly	60 day to 90 days
Hedge funds	11,098,503		Monthly and quarterly	30 day to 90 days
Hedge funds	9,501,647		Daily, monthly, and quarterly	1 day to 90 days
Risk parity	10,660,329		Monthly	15 days
Real estate	4,313,173		Quarterly	90 days
	$ 47,864,324	$ 5,801,892		

At September 30, 2015 and 2014, the reported amount of the Foundation's long-term investment assets was as follows:

	2015	2014
Equity funds and securities	$ 13,480,017	$ 20,488,708
International equity securities funds	22,124,548	25,115,019
Fixed-income funds and securities	19,641,668	26,133,025
Commodity securities funds	2,096,068	1,996,012
Emerging market funds	6,297,185	
Alternative investments	38,130,028	40,093,415
	$ 101,769,514	$ 113,826,179

Other-Than-Temporary Impairment of Investments—The Foundation evaluates the near-term prospects for improvement of unrealized losses on available-for-sale investments in relation to the severity and duration of the loss for each category of assets by analyzing the earnings trends and economic conditions. Based on this evaluation, the Foundation recorded realized losses of $1,132,353 and $464,909 on investments that were other-than-temporarily impaired at September 30, 2015 and 2014, respectively. The total amount of unrealized losses remaining at September 30, 2015 and 2014, was $2,330,314 million and $1,319,936 million, respectively, substantially all of which relates to investments that have been in a continuous unrealized loss position for less than 12 months.

Investment income and gains and losses for the years ended September 30, 2015 and 2014, consist of the following:

	2015	2014
Dividend and interest income	$1,760,293	$1,477,948
Realized gains on sales of securities—net	1,443,434	2,723,079
	$3,203,727	$4,201,027

3. TRANSACTIONS WITH THE HEALTH SYSTEM

The Health System performs certain administrative functions for the Foundation. Funds disbursed on behalf of the Foundation are reimbursed to the Health System. The total amount of expenses paid by the Health System and reimbursed by the Foundation for the years ended September 30, 2015 and 2014, were $1,021,228 and $1,047,134, respectively. As of September 30, 2015 and 2014, amounts due to the Health System related to these services totaled $81,531 and $77,804, respectively, reflected in accounts payable and accrued expenses within the statements of financial position.

The Foundation leases its office space from the Health System for a defined amount each year with an indefinite lease term. The lease expense is based on the square footage occupied, plus a prorated share of allocated costs, such as janitorial services, utilities, and facility management. The lease expense was $35,174 and $34,843 for the years ended September 30, 2015 and 2014, respectively.

The Foundation and the Health System are obligated parties under the Health System's Master Trust Indenture. As of September 30, 2015 and 2014, outstanding bonds under this Master Trust Indenture totaled $450,365,000 and $461,410,000, respectively.

Grant expense for the year ended September 30, 2015, includes funds granted to the Health System in the amount of $1,381,346. There were no funds granted to the Health System for the year ended September 30, 2014. Grants payable as of September 30, 2015 and 2014, due to the Health System was $1,163,399 and $164,640, respectively.

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