

## Senior Management

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## Executive Summary

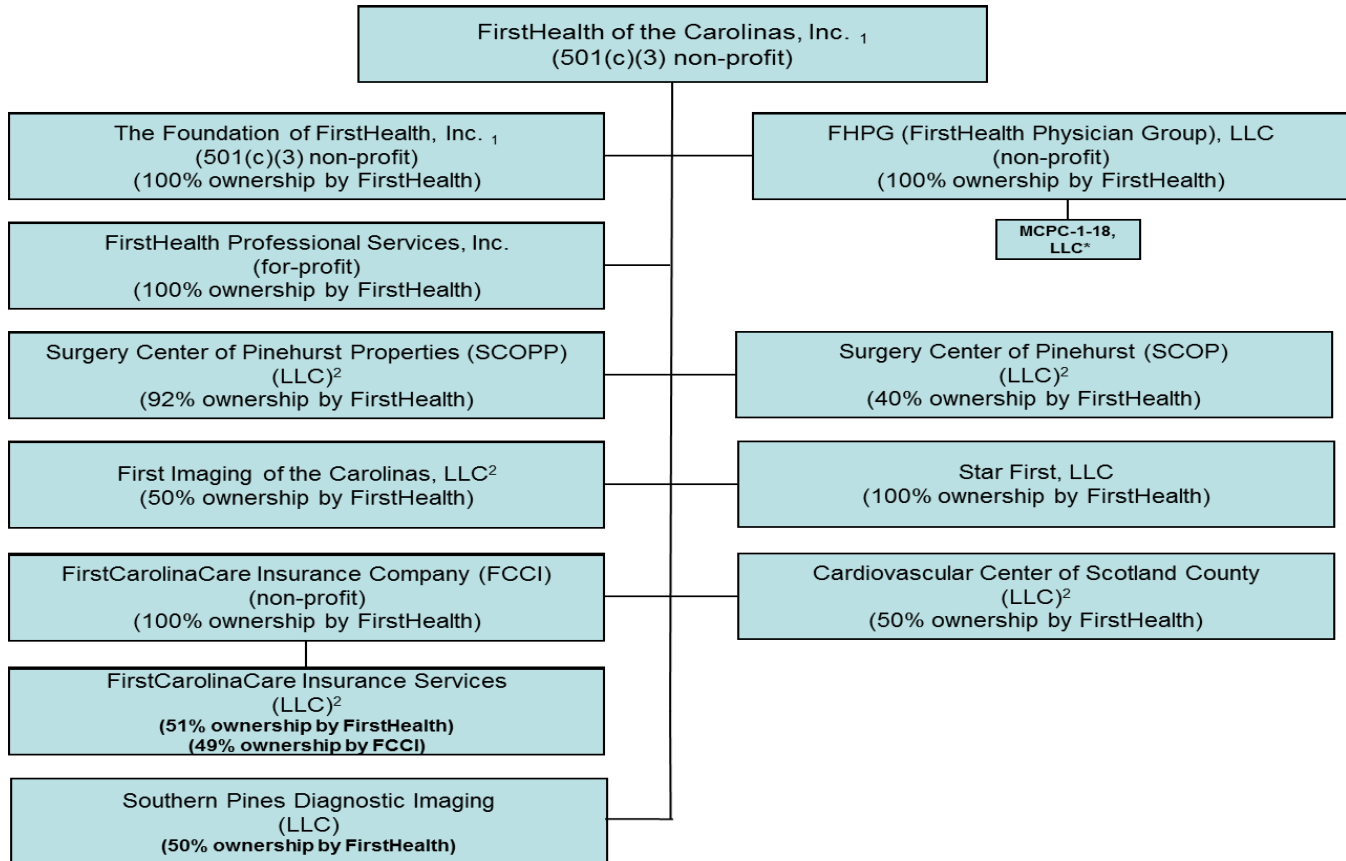
FirstHealth of the Carolinas, Inc. ("FirstHealth") is a private North Carolina nonprofit health care system headquartered in Pinehurst, North Carolina. FirstHealth and its six wholly owned affiliates own and operate a health care delivery system (the "Health System") that provides health care services to patients throughout a 15-county service area in North Carolina and South Carolina (the "Total Service Area"). The Total Service Area includes a smaller 6-county primary service area (the "Primary Service Area") and larger 9-county secondary service area (the "Secondary Service Area"). FirstHealth operates three hospitals: FirstHealth Moore Regional Hospital ("FirstHealth Moore Regional"), FirstHealth Montgomery Memorial Hospital ("FirstHealth Montgomery Memorial") and Sandhills Regional Medical Center (acquired December 1, 2016). FirstHealth Moore Regional operates in three locations: the main campus in Pinehurst, North Carolina and remote locations in Rockingham, North Carolina and Raeford, North Carolina. FirstHealth also provides primary care services at nineteen medical clinics and three convenient care clinics, specialty services at eighteen clinics (including neurosurgery, cardiology, cardiothoracic surgery, women's care, wound care, infectious disease, transition care, back and neck pain and medical oncology), home health services, health and fitness centers, dental clinics, inpatient and outpatient behavioral programs, occupational health programs, mobile health services, 11-bed inpatient hospice facility and in-home hospice services, inpatient and outpatient rehabilitation, and regional emergency medical transport services.

FirstHealth Moore Regional is the sole tertiary care hospital in its Primary Service Area and competes with only two other tertiary care hospitals in its Total Service Area. Those hospitals are located in Cumberland (Cape Fear Valley Medical Center) and Robeson (Southeastern Regional Medical Center) counties, approximately 43 and 52 miles away, respectively. Other competing tertiary care facilities are academic medical centers (Duke University Hospital and UNC Hospitals) located more than 60 miles away.

FirstHealth is the leader in cardiology, oncology, orthopedic and neuroscience services in the Total Service Area. FirstHealth operates the only dedicated comprehensive heart and vascular hospital in the Primary Service Area - The Reid Heart Center, as well as a comprehensive community cancer center, and offers a full array of neurology and neurosurgery services.

FirstHealth has contracted with Epic Systems Corporation for system-wide Information Technology replacement. Implementation is underway with a July 1, 2017 Go-Live date.

The following chart summarizes the organizational structure of the Health System:



<sup>1</sup> Member of the Restricted Group.

<sup>2</sup> Financial results are included with Moore Regional Hospital - Pinehurst results.

- \* MCPC-1, LLC - FirstHealth Richmond Medical Group Women's Center
- \* MCPC-2, LLC - FirstHealth Richmond Medical Group Internal Medicine (*Inactive*)
- \* MCPC-3, LLC - FirstHealth Neurology Consultants
- \* MCPC-4, LLC - FirstHealth Richmond Medical Group - General Surgery
- \* MCPC-5, LLC - FirstHealth Cardiology Services
- \* MCPC-6, LLC - FirstHealth Back and Neck Pain Center
- \* MCPC-7, LLC - Sandhills Regional Physician Group
- \* MCPC-8, LLC - FirstHealth FirstCare Convenient Care Center
- \* MCPC-9, LLC - FirstHealth Surgical Specialties
- \* MCPC-10, LLC - FirstHealth Cardiovascular and Thoracic Services
- \* MCPC-11, LLC - FirstHealth Behavioral Services
- \* MCPC-12, LLC - FirstHealth Southern Pines Women's Health Center
- \* MCPC-13, LLC - FirstHealth Infectious Diseases
- \* MCPC-14, LLC - FirstHealth Transition Care
- \* MCPC-15, LLC - FirstHealth Gastroenterology Services (*Inactive*)
- \* MCPC-16, LLC - FirstHealth Hoke Primary Care and Cardiology
- \* MCPC-17, LLC - FirstHealth Internal Medicine
- \* MCPC-18, LLC - FirstHealth Cardiology - Pinehurst Medical Clinic

**FirstHealth of the Carolinas, Inc.**  
**Consolidated Balance Sheet**  
(In \$000's)

	June 30, 2017	June 30, 2016
<b>Assets:</b>		
Cash and Short-term Investments	35,210	27,418
Patient Accounts Receivable, Net	102,696	76,060
Other Receivables*	7,981	17,421
Inventories	13,516	12,188
Prepaid Expenses	9,945	8,152
<b>Total Current Assets</b>	<b>169,347</b>	<b>141,238</b>
<b>Assets Whose Use Is Limited:</b>		
Designated by Board for Projects	461,063	464,381
Under Indenture Agreements	2,959	7,919
Insurance Reserves	45,202	51,071
Contributions by Donors to Foundations (Includes Fiduciary & Other Assets)	68,810	62,737
<b>Total Assets Whose Use is Limited</b>	<b>578,034</b>	<b>586,108</b>
<b>Net Property, Plant and Equipment</b>	<b>361,086</b>	<b>322,168</b>
<b>Other Assets</b>	<b>20,113</b>	<b>14,661</b>
<b>Total Assets</b>	<b>1,128,580</b>	<b>1,064,175</b>
<b>Liabilities &amp; Net Assets:</b>		
Accounts Payable	33,927	23,060
Employee Compensation and Other	61,519	57,595
Estimated Settlements Due Third Parties	-3,761	14,273
Current Portion of Long Term Debt	5,690	5,470
<b>Total Current Liabilities</b>	<b>97,375</b>	<b>100,400</b>
Long-Term Debt, Net of Current	202,708	208,373
Other Liabilities	15,245	21,391
<b>Total Liabilities</b>	<b>315,327</b>	<b>330,165</b>
<b>Net Assets</b>	<b>813,252</b>	<b>734,011</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>1,128,580</b>	<b>1,064,176</b>

**FirstHealth of the Carolinas**  
**Results of Operations**  
(In \$000's)

	<b>9 Months Ended</b>	
	<b>June 30, 2017</b>	<b>June 30, 2016</b>
<b>Revenues:</b>		
Inpatient Revenue	743,291	655,799
Outpatient Revenue	866,963	724,178
Gross Patient Revenue	1,610,254	1,379,977
Deductions from Revenue	-1,153,051	-972,104
Net Patient Revenue	457,203	407,874
Other Operating Revenue	126,613	106,731
<b>Net Revenue</b>	<b>583,816</b>	<b>514,605</b>
<b>Operating Expenses:</b>		
Salary & Wages	196,234	175,450
Fringe Benefits	44,659	41,897
Supplies	112,106	98,017
Other Operating Expense	188,613	155,550
Depreciation	24,925	25,645
Interest	3,756	3,382
<b>Total Operating Expense</b>	<b>570,293</b>	<b>499,942</b>
<b>Income(Loss) from Operations</b>	<b>13,523</b>	<b>14,663</b>
<b>Nonoperating Gains:</b>		
Unrestricted Investment Income	14,717	25,933
Loss on Advance Refunding	0	0
<b>Total Nonoperating Gains</b>	<b>14,717</b>	<b>25,935</b>
<b>Excess of Revenue Over Expenses :</b>	<b>28,240</b>	<b>40,597</b>
Unrealized Gains/Losses	26,447	-3,499
Other Changes	-1,688	-1,444
<b>Increase in Unrestricted Net Assets</b>	<b>53,000</b>	<b>35,655</b>
<b>Restricted Net Asset Changes:</b>		
Restricted Contributions	2,439	1,077
Other Changes	0	0
Restricted Investment Income	555	660
Net Assets Released From Restriction	-1,840	-1,073
<b>Total Restricted Gains</b>	<b>1,154</b>	<b>664</b>
Unrealized Gains/Losses	743	248
<b>Increase in Restricted Net Assets</b>	<b>1,897</b>	<b>912</b>
<b>Operating Metrics:</b>		
Operating Margin %	2.3%	2.8%
Operating Cash Flow Margin %	7.2%	8.5%
Excess Margin %	4.7%	7.5%

**Unaudited**

**FirstHealth of the Carolinas**  
**Consolidated Statement of Cash Flows**  
**(In \$000's)**

**9 Months Ended  
June 30, 2017**

## CASH FLOWS FROM OPERATING ACTIVITIES

Increase in Net Assets	\$ 54,897
Adjustments to Reconcile Increase in Net Assets to Net Cash	
Provided by Operating Activities:	
Depreciation	24,925
Provision for Bad Debts	70,108
Amortization of Premium/Discount	19
Income and Unrealized (Gains) Losses on Investments and Derivatives	(41,491)
Loss on Refunding of Long Term Debt	-
Changes in Operating Assets and Liabilities:	
Patient Accounts Receivable	(95,993)
Other Assets	1,232
Accounts Payable	5,644
Employee Compensation and Other	1,272
Estimated Settlements Due to Third-Party Payors	(16,528)
Net Cash Provided by (Used by) Operating Activities	4,084

## CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment	(53,238)
Purchase of Assets Whose Use is Limited, Net	66,632
Net Cash Provided by (Used by) Investing Activities	13,394

## CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Issuance of Bonds	-
Bond Discount/Premium on Refunded Bonds	-
Refunding of Bonds	-
Cash paid for Issue Costs	-
Principal Payments of Long-Term Debt	(5,470)
Permanently Restricted Contributions	
<b>Net Cash Used in Financing Activities</b>	<b>(5,470)</b>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents - Beginning of Year	23,202
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 35,210</b>

FIRSTHEALTH OF THE CAROLINAS, INC.

Unaudited

CONSOLIDATING BALANCE SHEET - RESTRICTED GROUP

June 30, 2017

(in \$000s)

	Moore Regional Hospital Pinehurst	Moore Regional Hospital Richmond	Moore Regional Hoke Campus	Montgomery Memorial Hospital	Sandhills Regional Medical Center	The Foundation of FirstHealth	Eliminations	Restricted Group Combined
<b>ASSETS</b>								
<b>CURRENT ASSETS:</b>								
Cash and Cash Equivalents	30,357	( 2 )	( 4 )	( 7 )	( 3,833 )	798		27,309
Accounts Receivable, net	8,609	49,646	29,098	2,766	3,221	-		93,341
Other Receivables	( 1,410 )	( 75 )	( 0 )	1	2,820	-		1,336
Inventories	10,453	1,244	420	253	1,146	-		13,516
Prepaid Expenses	9,152	34	36	17	74	-		9,313
Due From Affiliates	266,708	6,171	( 923 )	1,097	758	23	( 281,686 )	( 7,852 )
Total Current Assets	323,869	57,018	28,627	4,126	4,187	821	( 281,686 )	136,961
<b>ASSETS LIMITED AS TO USE:</b>								
By Board for Projects	436,246	-	-	-	-	-	-	436,246
Under Indenture Agreements-Held by Trustees	2,959	-	-	-	-	-	-	2,959
Self-Insurance Reserves	20,026	-	-	-	-	-	-	20,026
Contributions by Donors to Foundations	-	-	-	-	-	68,810	-	68,810
Non Current Assets Limited as to Use	459,231	-	-	-	-	68,810	-	528,041
<b>PROPERTY AND EQUIPMENT, net</b>	272,833	26,173	43,373	3,005	6,595	4,495		356,474
<b>OTHER ASSETS</b>	8,546	-	-	-	-	568		9,115
<b>TOTAL ASSETS</b>	<b>1,064,480</b>	<b>83,191</b>	<b>72,000</b>	<b>7,131</b>	<b>10,782</b>	<b>74,694</b>	<b>( 281,686 )</b>	<b>1,030,592</b>
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES:</b>								
Accounts Payable	25,104	315	(6)	(105)	231	30		25,568
Accrued Expenses and Other Liabilities	35,644	1,257	272	396	180	551		38,301
Due To Affiliates	42,862	42,718	65,292	11,501	13,779	625	( 281,686 )	( 104,910 )
Estimated Settlements Due Third Party	( 3,798 )	3	2	( 4 )	-	-		( 3,797 )
Current Portion of Long Term Debt	5,690	-	-	-	-	-		5,690
Total Current Liabilities	105,502	44,293	65,560	11,788	14,190	1,206	( 281,686 )	( 39,148 )
<b>LONG TERM DEBT, less current portion</b>	202,708	-	-	-	-	-		202,708
<b>OTHER LIABILITIES</b>	11,432	-	-	-	-	3,812		15,245
Total Liabilities	319,642	44,293	65,560	11,788	14,190	5,018	( 281,686 )	178,804
<b>NET ASSETS:</b>								
Unrestricted	742,351	38,899	6,440	( 5,545 )	( 3,408 )	31,354		810,090
Temporarily Restricted	2,487	-	-	888	-	21,046		24,421
Permanently Restricted	-	-	-	-	-	17,277		17,277
	744,838	38,899	6,440	( 4,657 )	( 3,408 )	69,676	-	851,788
<b>Total Liabilities and Net Assets</b>	<b>1,064,480</b>	<b>83,191</b>	<b>72,000</b>	<b>7,131</b>	<b>10,782</b>	<b>74,694</b>	<b>( 281,686 )</b>	<b>1,030,592</b>

FIRSTHEALTH OF THE CAROLINAS, INC.

Unaudited

COMBINING SCHEDULE OF EXCESS REVENUES OVER EXPENSE - RESTRICTED GROUP

Nine Months Ended June 30, 2017

(in \$000s)

	Moore Regional Hospital Pinehurst	Moore Regional Hospital Richmond	Moore Regional Hospital Hoke Campus	Montgomery Memorial Hospital	Sandhills Regional Medical Center	The Foundation of FirstHealth	Eliminations	Restricted Group Combined
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>								
Net patient service revenue	370,277	36,677	16,309	9,346	6,453	-	-	439,063
Other Operating Revenue	23,790	926	71	35	56	3,321	(2,863)	25,336
Total revenues, gains and other support	394,067	37,604	16,380	9,381	6,509	3,321	(2,863)	464,399
<b>OPERATING EXPENSES:</b>								
Salaries	141,032	15,448	5,354	4,699	3,578	-	-	170,111
Fringe benefits	33,589	3,676	1,311	1,123	869	-	(61)	40,506
Supplies	101,469	5,042	1,600	711	1,383	-	(2)	110,203
Depreciation and amortization	19,550	1,937	1,776	506	401	225	-	24,396
Interest	3,592	164	-	-	-	-	-	3,756
Other	62,825	7,737	3,395	1,977	3,686	3,237	(2,800)	80,056
Total operating expense	362,058	34,003	13,435	9,016	9,917	3,462	(2,863)	429,028
<b>INCOME (LOSS) FROM OPERATIONS</b>	32,009	3,601	2,944	365	(3,408)	(141)	-	35,370
<b>NONOPERATING INCOME:</b>								
Unrestricted investment income	18,151	2	0	3	-	1,197	-	19,353
Loss on Advanced Refunding	-	-	-	-	-	-	-	-
	18,151	2	0	3	-	1,197	-	19,353
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	50,160	3,602	2,945	369	(3,408)	1,057	-	54,724



FIRSTHEALTH OF THE CAROLINAS, INC.

Unaudited

CONSOLIDATING BALANCE SHEET

June 30, 2017  
(in \$000s)

	Restricted Group Combined	FirstHealth Physicians Group, LLC	FirstHealth Professional Services Inc.	FirstCarolinaCare Insurance Co.	StarFirst LLC	Eliminations	Consolidated
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and Cash Equivalents	27,309	1,442	(2)	5,808	652	-	35,210
Accounts Receivable, Less Allow Uncoll Accts	93,341	9,355	-	-	-	-	102,696
Other Receivables	1,336	20	200	6,050	375	-	7,981
Inventories	13,516	-	-	-	-	-	13,516
Prepaid Expenses	9,313	461	-	171	-	-	9,945
Due From Affiliates	(7,852)	(7,429)	(221)	(37)	-	15,539	0
Total Current Assets	136,961	3,850	(23)	11,992	1,028	15,539	169,347
<b>ASSETS LIMITED AS TO USE:</b>							
By Board for Projects	436,246	-	-	-	24,817	-	461,063
Under Indenture Agreements-Held by Trustees	2,959	-	-	-	-	-	2,959
Self-Insurance Reserves	20,026	-	-	17,747	7,428	-	45,202
Contributions by Donors to Foundations	68,810	-	-	-	-	-	68,810
Non Current Assets Limited as to Use	528,041	-	-	17,747	32,245	-	578,034
<b>PROPERTY AND EQUIPMENT, net</b>	356,474	4,492	-	119	-	-	361,086
<b>OTHER ASSETS</b>	9,115	368	-	16,252	-	(5,621)	20,113
<b>TOTAL ASSETS</b>	<b>1,030,592</b>	<b>8,710</b>	<b>(23)</b>	<b>46,111</b>	<b>33,273</b>	<b>9,918</b>	<b>1,128,580</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>CURRENT LIABILITIES:</b>							
Accounts Payable	25,568	(72)	-	6,922	1,508	-	33,927
Accrued Expenses and Other Liabilities	38,301	1,990	-	13,346	7,882	-	61,519
Due To Affiliates	(104,910)	89,714	(1,439)	1,051	81	15,539	37
Estimated Settlements Due Third Party	(3,797)	-	-	-	-	-	(3,797)
Current Portion of Long Term Debt	5,690	-	-	-	-	-	5,690
Total Current Liabilities	(39,148)	91,632	(1,439)	21,319	9,472	15,539	97,375
<b>LONG TERM DEBT, less current portion</b>	202,708	-	-	-	-	-	202,708
<b>OTHER LIABILITIES</b>	15,245	-	-	-	-	-	15,245
Total Liabilities	178,804	91,632	(1,439)	21,319	9,472	15,539	315,328
<b>NET ASSETS:</b>							
Unrestricted	810,090	(82,923)	1,416	24,792	23,801	(5,621)	771,554
Temporarily Restricted	24,421	-	-	-	-	-	24,421
Permanently Restricted	17,277	-	-	-	-	-	17,277
	851,788	(82,923)	1,416	24,792	23,801	(5,621)	813,252
<b>Total Liabilities and Net Assets</b>	<b>1,030,592</b>	<b>8,710</b>	<b>(23)</b>	<b>46,111</b>	<b>33,273</b>	<b>9,918</b>	<b>1,128,580</b>



FIRSTHEALTH OF THE CAROLINAS, INC.

Unaudited

COMBINING SCHEDULE OF EXCESS REVENUES OVER EXPENSE

Nine Months Ended June 30, 2017

(in \$000s)

	Restricted Group Combined	FirstHealth Physicians Group, LLC	FirstHealth Professional Services, Inc.	FirstCarolinaCare Insurance Co.	FirstHealth StarFirst	Eliminations	Consolidated
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>							
Net patient service revenue	439,063	27,033	-	-	-	(8,893)	457,203
Other Operating Revenue	25,336	840	332	101,668	1,954	(3,517)	126,613
Total revenues, gains and other support	464,399	27,873	332	101,668	1,954	(12,409)	583,816
<b>OPERATING EXPENSES:</b>							
Salaries	170,111	23,045	-	3,078	-	-	196,234
Fringe benefits	40,506	3,384	-	768	-	-	44,659
Supplies	110,203	1,370	-	201	-	332	112,106
Depreciation and amortization	24,396	502	-	28	-	-	24,925
Interest	3,756	-	-	-	-	-	3,756
Provision for bad debts	-	-	-	-	-	-	-
Other	80,056	13,404	334	107,891	(331)	(12,742)	188,613
Total operating expense	429,028	41,705	334	111,965	(331)	(12,409)	570,293
<b>INCOME (LOSS) FROM OPERATIONS</b>	35,370	(13,832)	(2)	(10,297)	2,285	-	13,523
<b>NONOPERATING INCOME:</b>							
Unrestricted investment income	19,353	-	-	(39)	402	(5,000)	14,717
Loss on Advanced Refunding	-	-	-	-	-	-	-
	19,353	-	-	(39)	402.28	(5,000.00)	14,717
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	54,724	(13,832)	(2)	(10,336)	2,687	(5,000)	28,240

## Summary of Operating Statistics

	Years Ending September 30			YTD QTR 3	
	2014	2015	2016	2016	2017
Total Licensed Beds	531	531	546*	531	610**
Total Staffed Beds	494	494	487	494	477
Discharges	24,855	25,705	26,447	19,795	20,012
Patient Days	104,659	110,603	112,863	84,904	88,867
Average Daily Census	286.7	303.0	308.4	309.9	325.5
Percent Occupancy	58.04%	61.34%	63.58%	63.90%	68.24%
Medicare Case Mix Index	1.665	1.675	1.727	1.715	1.785
Emergency Room Visits	125,063	134,409	132,756	100,185	106,529
Hospitalist Encounters	102,343	111,543	118,011	87,942	95,718
Hospitalist Admissions	16,367	16,747	17,739	13,361	13,730
Surgical Cases	12,389	13,147	13,559	9,940	11,336
Hospice ADC	136.2	124.4	151.5	151.8	145.4
Total EMS Transports	18,678	19,518	18,594	14,629	12,193
FCCI Average Members	20,807	22,901	25,000	24,541	27,041
FamilyCareCenter RVUs	416,888	452,354	473,585	348,399	408,542

\* Additional 15 bed increase due to the following:

New 13 bed 1st Medical Unit opened in FY16

New 12 bed Reid opened in FY16

Decreased IP Rehab beds from 25 to 15 in FY16

\*\* Additional 64 licensed beds due to the acquisition of SRMC on December 1, 2016

## FirstHealth of the Carolinas Acute Care Payor Mix

	Years Ending September 30			YTD Qtr 3	
	2014	2015	2016	2016	2017
FirstHealth of the Carolinas					
Medicare	55.8%	56.4%	57.1%	57.1%	57.1%
Medicaid	12.1%	12.3%	11.7%	11.7%	11.9%
Commercial Insurance/Third Party	22.5%	22.6%	22.5%	22.4%	22.6%
Self Pay and Other (Tricare*)	9.6%	8.6%	8.7%	8.8%	8.4%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

\* Tricare: FY14 4.2%, FY15 4.0%, FY16 4.1% & 3Qtr FY17 3.6%