Novant Health, Inc.
and Affiliates

Consolidated Financial Statements
December 31, 2013 and 2012

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Independent Auditor's Report

To the Board of Trustees of
Novant Health, Inc.

We have audited the accompanying consolidated financial statements of Novant Health, Inc. and Affiliates (the "Company"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Novant Health, Inc. and Affiliates at December 31, 2013 and 2012, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 28, 2014

Novant Health, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Assets		
Current assets		
Cash and cash equivalents	$ 249,182	$ 276,637
Accounts receivable, net of allowance for doubtful accounts of $190,802 in 2013 and $197,913 in 2012	408,375	390,180
Short-term investments	325,205	308,696
Current portion of assets limited as to use	41,646	23,851
Deferred tax asset	5,765	3,728
Receivable for settlement with third-party payors	9,649	12,599
Other current assets	141,509	141,527
Total current assets	1,181,331	1,157,218
Assets limited as to use	57,471	81,394
Long-term investments	1,680,766	1,192,288
Property and equipment, net	1,818,341	1,656,968
Intangible assets and goodwill, net	348,552	389,782
Investments in affiliates	158,278	162,145
Deferred tax asset	-	2,945
Other assets	83,875	51,114
Total assets	$ 5,328,614	$ 4,693,854
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 157,490	$ 78,423
Short-term borrowings	84,965	124,071
Accounts payable	125,432	134,163
Accrued liabilities	351,422	333,305
Estimated third-party payor settlements	20,284	26,453
Total current liabilities	739,593	696,415
Long-term debt, net of current portion	1,771,028	1,472,993
Deferred tax liability	1,049	-
Derivative financial instruments	40,782	71,778
Employee benefits and other liabilities	217,769	289,545
Total liabilities	2,770,221	2,530,731
Commitments and contingencies		
Net assets		
Unrestricted - attributable to Novant	2,499,333	2,116,534
Unrestricted - noncontrolling interests	11,464	9,737
Total unrestricted net assets	2,510,797	2,126,271
Temporarily restricted	36,784	26,953
Permanently restricted	10,812	9,899
Total net assets	2,558,393	2,163,123
Total liabilities and net assets	$ 5,328,614	$ 4,693,854

The accompanying notes are an integral part of these consolidated financial statements.

Novant Health, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2013 and 2012

(in thousands of dollars)	2013	2012
Operating revenues		
Patient service revenues (net of contractual allowances and discounts)	$ 3,609,945	$ 3,576,979
Provision for bad debts	(182,976)	(179,524)
Net patient service revenues less provision for bad debts	3,426,969	3,397,455
Premium revenue	3,959	5,452
Other revenue	161,767	152,366
Total operating revenues	3,592,695	3,555,273
Operating expenses		
Salaries and employee benefits	1,924,394	1,832,776
Supplies and other	1,270,710	1,250,379
Depreciation expense	166,587	181,870
Amortization expense	6,716	6,719
Impairment charge	36,321	18,388
Interest expense	78,161	80,413
Total operating expenses	3,482,889	3,370,545
Operating income	109,806	184,728
Non-operating income (expense)		
Investment income	166,958	108,838
Unrealized gain on non-hedged derivative financial instruments	305	207
Income tax expense	(2,529)	(8,967)
Other, net	(366)	(3,280)
Loss on extinguishment of debt	(1,207)	(7,936)
Excess of revenues over expenses	$ 272,967	$ 273,590

Continued on following page

The accompanying notes are an integral part of these consolidated financial statements.

Novant Health, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets, continued
Years Ended December 31, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Unrestricted net assets		
Excess of revenues over expenses	$ 272,967	$ 273,590
Change in funded status of defined benefit plans	86,127	11,039
Unrealized gain on derivative financial instruments	25,261	2,078
Other changes in unrestricted net assets	171	(1,968)
Increase in unrestricted net assets, before effects of discontinued operations	384,526	284,739
Discontinued operations		
Loss on discontinued operations	-	(2,840)
Gain on sale of discontinued operations	-	1,721
Increase in unrestricted net assets	384,526	283,620
Temporarily restricted net assets		
Contributions and investment income	16,659	6,768
Net assets released from restrictions for operations	(6,828)	(5,558)
Increase in temporarily restricted net assets	9,831	1,210
Permanently restricted net assets		
Contributions	913	1,003
Increase in permanently restricted net assets	913	1,003
Increase in total net assets	395,270	285,833
Net assets, beginning of year	2,163,123	1,877,290
Net assets, end of year	$ 2,558,393	$ 2,163,123

The accompanying notes are an integral part of these consolidated financial statements.

Novant Health, Inc. and Affiliates
Consolidated Statements of Cash Flows, continued
Years Ended December 31, 2013 and 2012

(in thousands of dollars)	2013	2012
Cash flows from operating activities		
Increase in net assets	$ 395,270	$ 285,833
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	175,885	192,748
Gain on sale of real estate	(4,736)	(4,693)
Gain on sale of business	-	(7,998)
Impairment charge	36,321	18,388
Loss on extinguishment of debt	1,207	7,936
Loss on sale of investment	296	3,167
Gain on sale of discontinued operations	-	(1,721)
Change in funded status of defined benefit plans	(86,127)	(11,039)
Share of earnings in affiliates, net of distributions	2,936	263
Net unrealized gains on assets limited as to use and investments	(113,972)	(74,952)
Change in fair value of interest rate swap	(30,996)	(32)
Provision for bad debts	182,976	179,524
Contributions restricted for capital and long-term investment	(11,600)	(2,411)
Changes in operating assets and liabilities		
Accounts receivable	(201,171)	(176,493)
Investments and assets limited as to use	(368,897)	(159,093)
Accounts payable and accrued liabilities	7,903	37,404
Deferred taxes, net	1,957	4,307
Other assets and liabilities, net	(29,737)	(47,829)
Net cash provided by (used in) operating activities	(42,485)	243,309
Cash flows from investing activities		
Capital expenditures	(350,484)	(242,799)
Proceeds from sale of affiliates	635	11,324
Proceeds from sale of property and equipment	5,904	2,882
Cash proceeds from (payments for) repurchase agreements, net	(4,859)	8,729
Net proceeds from the liquidation (purchase) of short-term investments	(3,210)	6,895
Net cash used in investing activities	(352,014)	(212,969)
Cash flows from financing activities		
Principal payments on long-term debt	(31,771)	(32,175)
Bond proceeds received from trustee	173,950	13,827
Proceeds from issuance of bonds, net of deferred issuance costs	247,920	-
Proceeds from sale of accounts receivable, net	31,241	4,821
Extinguishment of debt	(57,161)	(83,154)
Proceeds from contributions restricted for capital and long-term investment	2,786	1,983
Proceeds from line of credit and other financing	79	39,287
Net cash provided by (used in) financing activities	367,044	(55,411)
Net decrease in cash and cash equivalents	(27,455)	(25,071)
Cash and cash equivalents		
Beginning of year	276,637	301,708
End of year	$ 249,182	$ 276,637

The accompanying notes are an integral part of these consolidated financial statements.

Novant Health, Inc. and Affiliates
Consolidated Statements of Cash Flows, continued
Years Ended December 31, 2013 and 2012

(*in thousands of dollars)*

		2013		2012
Supplemental disclosure of cash flow information				
Interest paid, net of amounts capitalized	$	83,702	$	80,724
Income taxes paid		2,172		3,956
Supplemental disclosure of noncash financing and investing activities				
Additions to property and equipment financed through current liabilities		21,294		19,880

During 2013, the Company refunded the Novant Health Prince William Medical Center Series 2002 bonds and partially refunded the series 2003A bonds. The following amounts were noncash investing and financing activities related to this transaction:

Face value of Series 2013 A and B bonds	$	298,765
Premium received on issuance of 2013 bonds		16,368
Debt service funds used		6,817
Bond proceeds deposited with trustee		(197,153)
Extinguishment of 2002 Hospital Revenue bonds		(64,570)
Extinguishment of Series 2003A bonds		(24,720)
Repayment of line of credit		(32,912)
Debt issuance costs		(2,595)
Proceeds from issuance of Series 2013 A and B bonds	$	-

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of dollars)

1. Reporting Entity

Novant Health, Inc. ("Novant Health" or the "Company") is a nonprofit health care system with dual headquarters in Winston-Salem and Charlotte, North Carolina. Novant Health consists of fourteen hospitals and a 1,141-physician medical group with over 340 clinic locations. Other facilities and programs of Novant Health include outpatient surgery and diagnostic centers, a long-term care facility, charitable foundations, a risk retention group, rehabilitation programs and community health outreach programs. Hospitals include Novant Health Presbyterian Medical Center, Novant Health Charlotte Orthopedic Hospital, Novant Health Huntersville Medical Center, Novant Health Gaffney Medical Center, Novant Health Matthews Medical Center, Novant Health Forsyth Medical Center, Novant Health Medical Park Hospital, Novant Health Kernersville Medical Center, Novant Health Clemmons Medical Center, Novant Health Thomasville Medical Center, Novant Health Rowan Medical Center, Novant Health Brunswick Medical Center, Novant Health Franklin Medical Center and Novant Health Prince William Medical Center. Novant Health and its affiliates serve their communities with programs including health education, home health care, prenatal clinics, community clinics and immunization services.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of all affiliates controlled by Novant Health. All significant intercompany transactions and balances have been eliminated. Investments in affiliates in which the Company does not have control or has a 50% or less interest are accounted for by either the equity or cost method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 periods. Actual results could differ from those estimates.

Significant estimates include, but are not limited to, accounts receivable allowances, third-party payor settlements, goodwill and intangible asset valuation and subsequent recoverability, useful lives of intangible assets and property and equipment, medical and professional liability and other self-insurance accruals, and pension related assumptions.

Fair Value of Financial Instruments

The fair value of financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, investments other than alternatives, assets limited as to use, patient accounts receivable, accounts payable and interest rate swaps. More information can be found in Note 8, Fair Value Measurements.

(in thousands of dollars)

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by board designation, donors or trustees.

Accounts Receivable

Accounts receivable consist primarily of amounts owed by various governmental agencies, insurance companies and patients. Novant Health manages these receivables by regularly reviewing the accounts and contracts and by providing appropriate allowances for uncollectible amounts. In evaluating the collectability of accounts receivable from third party payors, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for anticipated uncollectible deductibles and copayments on accounts for which the third party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). In evaluating the collectability of accounts receivable from patients (including both patients without insurance and patients with deductible and copayment balances due for which third party coverage exists), Novant Health considers several factors, including historical collection results, the age of the accounts, changes in collection patterns and general industry conditions. Novant Health records a provision for bad debts in the period of service based on the analysis and consideration of these factors. Once collection efforts are complete, any difference between the amount charged and the amount collected is written off against the allowance for doubtful accounts.

Other Current Assets

Other current assets include inventories (which primarily consist of hospital and medical supplies and pharmaceuticals), prepaid expenses and other receivables. Inventory costs are determined using the average cost method and are stated at the lower of cost or market value.

Investments

Investments are classified as trading securities. Accordingly, unrealized gains and losses on investments are included in excess of revenues over expenses, unless the income or loss is restricted by donor or law. Long-term investments are classified as noncurrent assets as the Company does not expect to use these funds to meet its current liabilities.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. The Company also invests in alternative investments through limited partnerships and limited liability corporations ("LLCs"). These investments are recorded using the equity method of accounting (which approximates fair value) with the related earnings reported as investment income in the accompanying consolidated financial statements. The values provided by the respective partnership or LLC are based on market value or other estimates that require varying degrees of judgment. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a market for such investments existed. Such differences could be material. The Company believes the carrying amount of these investments is a reasonable estimate of fair value.

(in thousands of dollars)

Investments 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 included in the financial statements.

Assets Limited as to Use
Assets limited as to use primarily include assets held by trustees under indenture agreements and assets designated for specific purposes by the Board of Trustees.

Derivatives
The Company selectively enters into interest rate protection agreements to mitigate changes in interest rates on variable rate borrowings. The notional amounts of such agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to loss. None of these agreements are used for speculative or trading purposes.

Derivatives are recognized on the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. The Company formally documents the hedging relationships at inception of the contract for derivative transactions, including identifying the hedge instruments and hedged items, as well as the risk management objectives and strategies for entering into the hedge transaction. At inception and on a quarterly basis thereafter, the Company assesses the effectiveness of derivatives used to hedge transactions. If a cash flow hedge is deemed effective, the change in fair value is recorded as an other change in unrestricted net assets. If after assessment it is determined that a portion of the derivative is ineffective, then that portion of the derivative's change in fair value will be immediately recognized in excess of revenues over expenses. The change in fair value of all derivatives that do not qualify for hedge accounting is also recognized in excess of revenues over expenses.

Property and Equipment
Property and equipment are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the life of the lease or the useful life of the asset, whichever is shorter.

Following is a summary of the estimated useful lives used in computing depreciation:

Buildings	30–40 years
Machinery and equipment	3–15 years
Software	3–10 years
Furniture and fixtures	7–14 years

Certain facilities and equipment held under capital leases are classified as property and equipment and amortized on the straight-line method over the period of the lease term or the estimated useful life of the asset, whichever is shorter. The related obligations are recorded as liabilities. Amortization of equipment under capital lease is included in depreciation expense.

(in thousands of dollars)

The Company also capitalizes the cost of software developed for internal use.

Maintenance and repairs of property and equipment are expensed in the period incurred. Replacements or improvements that increase the estimated useful life of an asset are capitalized. Assets that are sold, retired or otherwise disposed of are removed from the respective asset cost and accumulated depreciation accounts and any gain or loss is included in the results of operations.

Operating leases are accounted for in accordance with generally accepted accounting principles ("GAAP"), which requires the recognition of fixed rental payments, including rent escalations, on a straight-line basis over the term of the lease.

Under the terms of the 1984 deed in which the Forsyth County Board of County Commissioners conveyed the assets of Forsyth Memorial Hospital (the "Hospital") to Novant Health, Novant Health is required to operate the Hospital as a community general hospital open to the general public, and if Novant Health is dissolved, a successor nonprofit corporation approved by the Forsyth County Board of County Commissioners must carry out the terms and conditions of this conveyance. If these terms are not met, all ownership rights to the Hospital shall revert to the County, including the buildings and land together with the personal property and equipment associated with the Hospital with a net book value of approximately $271,929 at December 31, 2013.

Gifts of long-lived assets such as land, buildings, or equipment are excluded from the excess of revenues over expenses and are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Goodwill and Other Intangible Assets
Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies. Intangible assets generally represent the acquisition date fair value of certain rights or relationships obtained in such business acquisitions.

The Company considers certificates of need, which are required by certain states prior to the acquisition of high cost capital items, to be indefinite-lived intangible assets. The Company also has intangible assets with identifiable useful lives related to business acquisitions. These assets include business relationships and corporate trade names. In accordance with GAAP, the Company amortizes the cost of these intangible assets with identifiable useful lives down to their estimated residual value.

Following is a summary of the estimated useful lives used in computing amortization:

Business relationships	26 years
Corporate trade name	29 years

(in thousands of dollars)

On an annual basis, Novant Health tests goodwill and indefinite-lived assets for impairment. In 2012, Novant Health elected to early adopt ASU 2012-2, *Testing Indefinite-Lived Intangible Assets for Impairment.* This guidance provides the option to perform a qualitative assessment of whether it is more likely than not that the indefinite-lived asset is impaired. If it is more likely than not that the indefinite-lived asset is impaired, additional testing for impairment is required. GAAP prescribes that impairment for indefinite-lived intangibles is evaluated by comparing the fair value of the asset with its carrying amount. If the carrying amount exceeds the fair value, an impairment loss is recognized as the amount of that excess.

Impairment tests are performed at the reporting unit level for units that have goodwill. GAAP provides the option to perform a qualitative assessment of whether it is more likely than not that the fair value of the reporting unit exceeds the carrying value of the reporting unit. If it is more likely than not that the fair value of the reporting unit exceeds the carrying value of the reporting unit, additional impairment testing is not required. If it is more likely than not that the carrying value of the reporting unit exceeds the fair value of the reporting unit, additional testing for impairment is required. GAAP prescribes a two-step process for testing for goodwill impairments after applying the qualitative assessment. The first step is to determine if the carrying value of the reporting unit with goodwill is less than the related fair value of the reporting unit. The fair value of the reporting unit is determined through use of discounted cash flow methods and/or market based multiples of earnings and sales methods. If the carrying value of the reporting unit is less than the fair value of the reporting unit, the goodwill is not considered impaired. If the carrying value is greater than the fair value, the potential for impairment of goodwill exists. The goodwill impairment is determined by allocating the current fair value of the reporting unit among the assets and liabilities based on a purchase price allocation methodology as if the reporting unit was being acquired in a business combination. The fair value of the goodwill is implied from this allocation and compared to the carrying value with an impairment loss recognized if the carrying value is greater than the implied fair value.

Investments in Affiliates

Investments in entities which Novant Health does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method. Investments in entities of 20% or less and where there are no qualitative indicators of significant influence are accounted for using the cost method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The earnings on permanently restricted net assets are available for use as specified by the donors. The Company’s temporarily restricted and permanently restricted net assets are predominantly held by related foundations for various hospital service costs and community health programs.

(in thousands of dollars)

Contributions Received
Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or the condition is met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions, which is included in other operating revenue. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Statement of Operations
All activities of Novant Health deemed by management to be ongoing, major and central to the provision of healthcare services are reported as operating revenue and expenses. Other activities are deemed to be non-operating and include investment income, change in fair value of non-hedged derivative financial instruments, income tax expense and loss on extinguishment of debt.

Novant Health receives supplemental Medicaid payments from the state of North Carolina through a federally approved disproportionate share program ("Medicaid DSH"). During 2012, the federal government approved an amendment to the Medicaid DSH plan. This amendment, referred to as the Medicaid Gap Assessment Program ("GAP"), provides a new funding model whereby hospitals are assessed an amount based on a percentage of their costs and are then paid supplemental amounts in an effort to reduce Medicaid losses. The amendment was retroactive to January 1, 2011. Novant Health records GAP payments received as net patient service revenue and GAP assessments paid as other operating expense on the consolidated statements of operations. These supplemental payments are recognized in income when earned, if reasonably estimable and deemed collectible. There can be no assurance that this program will not be discontinued or materially modified. During 2013, Novant Health received $121,124 and paid $51,600 for the GAP program. During 2012, Novant Health received and paid the following amounts for the GAP program, all of which were recognized as either reductions in contractual expense or increases in other operating expenses in 2012:

	Received (Paid) in 2012		
	Related to 2012	**Related to 2011**	**Total**
Payments received	$ 83,236	$ 94,181	$ 177,417
Assessments paid	(36,366)	(44,140)	(80,506)
Net amounts received	$ 46,870	$ 50,041	$ 96,911

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include changes in funded status of defined benefit plans, unrealized gains on derivative financial instruments that apply hedge accounting and the effects of discontinued operations.

(in thousands of dollars)

Income Taxes
Novant Health is classified as a nonprofit organization pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on revenue earned from its tax-exempt purposes. Novant Health also operates various for-profit subsidiaries which operate in service lines that are complimentary to the Company's tax-exempt purpose. Income from activities that are determined by IRS regulations to be unrelated to the tax-exempt purposes as well as income from activities of for-profit subsidiaries of the Company are subject to federal and state taxation.

The Company provides for income taxes using the asset and liability method. This approach recognizes the amount of federal, state and local taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequences of events recognized in the consolidated financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates.

A valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income.

Other Assets
Other assets consist of notes and pledges receivable, deferred financing costs, insurance receivables and the cash surrender value of insurance policies. Deferred financing costs are amortized using the effective interest method over the life of the related debt agreements and instruments.

Compensated Absences
The Company's employees earn vacation days at varying rates depending on years of service. Vacation time accumulates up to certain limits, at which time no additional vacation hours can be earned. Provided this hourly limit is not met, employees can continue to accumulate vacation hours and time can be carried over to future years. Accrued vacation time is included in accrued liabilities on the Company's consolidated balance sheets.

Self-Insurance Reserves
The Company is self-insured for certain employee health benefit options, workers' compensation and malpractice. These costs are accounted for on an accrual basis to include estimates of future payments for claims incurred.

Reclassifications
Certain balances in prior fiscal years have been reclassified to conform to the presentation adopted in the current fiscal year.

(in thousands of dollars)

3. Organizational Changes

Discontinued Operations

During 2010, the Company made the decision to close or sell certain of its MedQuest outpatient imaging locations to unrelated third parties. This decision was the result of management's efforts to more closely align the geographic locations of MedQuest facilities with the Company's long-term business plans. During 2012, four MedQuest locations were divested. In addition to these divestitures, the Company sold the operations of one of its long-term care facilities in 2012. At December 31, 2013 and 2012 there are no locations remaining in discontinued operations. In accordance with GAAP, the operating results related to these locations have been reported as discontinued operations in the consolidated statements of operations and changes in net assets. The amounts of revenue and operating income that have been reported in discontinued operations are as follows:

	2013	2012
Net operating revenue	$ -	$ 10,456
Operating loss	-	(1,119)

4. Net Patient Service Revenue

Net patient service revenue is presented net of provisions for contractual adjustments and other allowances. Novant Health has agreements with third-party payors that provide for payments at amounts different from its established rates. Retroactive adjustments are accrued on an estimated basis in the period the related service is rendered and adjusted in future periods as final settlements are determined. For uninsured patients that do not qualify for charity care, Novant Health recognizes revenue on the basis of its standard rates for services provided, less discounts for uninsured patients as provided by the Company's financial assistance policies. Based on historical experience, many of the Company's uninsured patients will be unable or unwilling to pay for the services provided. As a result, Novant Health records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2013	2012
Third-Party payors	$ 3,532,529	$ 3,520,600
Self Pay	77,416	56,379
Total	$ 3,609,945	$ 3,576,979

(in thousands of dollars)

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid
Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services, and defined capital and medical education costs related to beneficiaries are paid based on a cost reimbursement methodology. Outpatient services are paid at a prospectively determined rate. Novant Health is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Novant Health and audits thereof by the fiscal intermediary. The Company's cost reports have been audited and settled by the Medicare intermediary through 2009 for all facilities. Medicaid cost reports are finalized through 2010 for Novant Health Prince William Medical Center, Novant Health Gaffney Medical Center and Novant Health Franklin Medical Center, and through 2009 for all other facilities. In addition, 2011 cost reports have been settled for all facilities. The Novant Health Prince William Medical Center Medicaid cost report is also settled for 2012.

Revenue from the Medicare and Medicaid programs accounted for approximately 33.5% and 6.5%, respectively, of Novant's net patient service revenue for the year ended 2013, and 33.2% and 7.1%, respectively for the year ended 2012. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

In July 2010, the Department of Health and Human Services published final regulations implementing the health information technology provisions of the American Recovery and Reinvestment Act. The regulation defines the "meaningful use" of Electronic Health Records ("EHR") and established the requirements for the Medicare and Medicaid EHR payment incentive programs. These programs allow Medicare and Medicaid incentive payments to be paid to eligible hospitals, physicians, and certain other health professionals that implement and achieve meaningful use of certified EHR technology. The implementation period for these new Medicare and Medicaid incentive payments started in federal fiscal year 2011 and can end as late as 2016 for Medicare and 2021 for the state Medicaid programs. Novant Health recognizes income related to Medicare and Medicaid incentive payments using a gain contingency model that is based upon when our eligible providers and hospitals have demonstrated meaningful use of certified EHR technology for the applicable period, and, if applicable, the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available. During 2013 and 2012, Novant Health recognized $9,800 and $7,123, respectively, of revenue related to EHR funds. These amounts are included in other revenue in the accompanying consolidated statements of operations. This amount represents amounts that were received and/or amounts for which Novant Health has successfully met meaningful use criteria. Included in the Company's consolidated balance sheets at December 31, 2013 and 2012 are receivables related to EHR funds of $8,075 and $5,500, respectively.

(in thousands of dollars)

Other Payors

Novant Health also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Novant Health under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Payments for services covered by these programs and certain other third-party payor contracts are generally less than billed charges. Provisions for contractual adjustments including Medicare, Medicaid, and managed care total approximately $4,756,444 (or 54%) and $4,369,454 (or 53%) of 2013 and 2012 gross patient service revenue, respectively.

The allowance for doubtful accounts is determined based on management's assessment of historical and expected net collections, business and economic conditions, the age of the accounts, trends in federal and state governmental health care coverage and other collection indicators. The Company's self pay write-offs were $583,854 in 2013 compared to $548,934 in 2012. The increase is the result of increases in self pay revenue as well as negative trends experienced in the collection of amounts from self pay patients during 2013. Novant Health has not changed its charity care or uninsured discount policies during 2012 or 2013. Novant Health does not maintain a material allowance for doubtful accounts from third party payors, nor did it have significant write-offs from third party payors.

Novant Health has a program of factoring certain patient receivables with recourse to a third party. Novant Health is obligated to repurchase factored receivables upon occurrence of certain conditions of the program. Accordingly, Novant Health accounts for the factoring as a secured borrowing. The factored receivables are recorded at their estimated net realizable value and are shown as other assets in the consolidated balance sheets. An offsetting liability, representing Novant Health's potential recourse for these receivables, is part of employee benefits and other liabilities in the consolidated balance sheets. As of December 31, 2013, the factored notes and the related liabilities were $17,127 and $24,809, respectively. As of December 31, 2012, the factored notes and the related liabilities were $880 and $4,821, respectively.

(in thousands of dollars)

5. Charity Care and Community Benefit

In accordance with Novant Health's mission to improve the health of its communities one person at a time, Novant Health facilities accept patients regardless of their ability to pay. At acute facilities, uninsured patients qualify for a full write-off of their bills if their household income is at or below 300% of the federal poverty level. Novant Health also offers a catastrophic discount for patients with an account balance greater than $5, flexible payment plans, and discounts for uninsured patients who do not qualify for the charity care program. In addition to these programs for hospitals, Novant Health physician groups and outpatient centers also have charity care programs to assist patients in need. The Company's approximate cost of providing care to indigent patients was $129,229 and $123,475 for the years ended December 31, 2013 and 2012, respectively. Novant Health estimates the costs of providing traditional charity care using each facility's estimated ratio of costs to charges. Funds received from gifts or grants to subsidize charity services provided were $1,384 and $700 for the years ended December 31, 2013 and 2012, respectively.

In addition to providing charity care to uninsured patients, Novant Health also provides services to beneficiaries of public programs and various other community health services intended to improve the health of the communities in which the Company operates. Novant Health uses the following four categories to identify the resources utilized for the care of persons who are underserved and for providing community benefit programs to the needy:

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and who are uninsured.
- Unpaid cost of Medicare represents the unpaid cost of services provided to persons through the government program for individuals age 65 and older as well as those that qualify for federal disability benefits.
- Unpaid cost of Medicaid represents the unpaid cost of services provided to persons covered by the government program for medically indigent patients.
- Community benefit programs consists of the unreimbursed costs of certain programs and services for the general community, mainly for indigent patients but also for people with chronic health risks. Examples of these programs include health promotion and education, free clinics and screenings, and other community services.

The amount of unpaid cost of Medicare, Medicaid, and other community benefit programs is reported on page 48 in the accompanying other financial information.

(in thousands of dollars)

6. Other Current Assets

Other current assets consist of the following at December 31:

	2013	2012
Inventory	$ 64,327	$ 57,763
Prepaids	35,994	31,812
Other receivables	41,188	51,952
	$ 141,509	$ 141,527

7. Assets Limited as to Use and Investments

Short-Term Investments
Novant Health holds certain investments that are short-term in nature and have maturity dates ranging from three to twelve months. Short-term investments consist of the following at December 31:

	2013	2012
Certificates of deposit	$ 5,209	$ 2,200
Fixed income securities	319,996	306,496
	$ 325,205	$ 308,696

Assets Limited as to Use
The designation of assets limited as to use is as follows:

	2013		2012	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Under indenture agreement held by trustee	$ 28,250	$ -	$ 9,397	$ 7,275
Under general and professional liability funding arrangement held by trustee	13,202	39,918	7,631	46,193
Designated by board to service benefit plans	194	7,504	6,823	17,277
Restricted by bank agreements	-	10,049	-	10,649
	$ 41,646	$ 57,471	$ 23,851	$ 81,394

Assets limited as to use are invested primarily in cash and cash equivalents and corporate, U.S. government and U.S. agency debt obligations.

(in thousands of dollars)

Long-Term Investments

Investments are reported at either fair value or on the equity or cost methods of accounting. The composition of long-term investments is as follows:

	December 31, 2013			
	At Fair Value	On Equity Method	On Cost Method	Total
Cash and cash equivalents	$ 55,346	$ -	$ -	$ 55,346
U.S. equities	415,821	19,095	-	434,916
International equities	293,686	53,661	-	347,347
Fixed income securities	116,364	41,183	-	157,547
Hedge funds	-	488,009	-	488,009
Emerging markets	112,242	17,865	-	130,107
Real estate and other	6,340	61,154	-	67,494
	$ 999,799	$ 680,967	$ -	$ 1,680,766

	December 31, 2012			
	At Fair Value	On Equity Method	On Cost Method	Total
Cash and cash equivalents	$ 24,262	$ -	$ -	$ 24,262
U.S. equities	291,824	12,677	-	304,501
International equities	176,836	35,679	-	212,515
Fixed income securities	110,470	24,049	-	134,519
Hedge funds	-	375,716	-	375,716
Emerging markets	90,156	10,000	-	100,156
Real estate and other	-	40,513	106	40,619
	$ 693,548	$ 498,634	$ 106	$ 1,192,288

The Company's investments in hedge funds include limited partnerships, limited liability corporations, and off-shore investment funds. The underlying investments of the limited partnerships and limited liability corporations include, 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 may result in loss due to changes in the market (market risk). Alternative investments are less liquid than the Company's other investments.

(in thousands of dollars)

The Company's investments in hedge funds represent 29.0% of total long-term investments held at December 31, 2013. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Novant Health is obligated under certain investment agreements to periodically advance additional funding up to specified levels. As of December 31, 2013 and 2012, Novant Health had future commitments of $49,655 and $56,422, respectively, for which capital calls had not been exercised.

Investment income for assets limited as to use and investments is comprised of the following for the years ended December 31, 2013 and 2012:

	2013	2012
Income		
Interest and dividend income	$ 26,741	$ 27,651
Net realized gains	26,245	6,235
Net unrealized gains	113,972	74,952
	$ 166,958	$ 108,838

8. Fair Value Measurements

Novant Health categorizes, for disclosure purposes, assets and liabilities measured at fair value in the financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs which are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Novant Health follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date. Investments classified in this level generally include exchange traded equity securities, futures, pooled short-term investment funds, options and exchange traded mutual funds.

(in thousands of dollars)

Level 2: Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Investments classified in this level generally include fixed income securities, including fixed income government obligations; asset-backed securities; certificates of deposit; derivatives; as well as certain U.S. and international equities which are not traded on an active exchange.

Level 3: Inputs that are unobservable for the asset or liability. Investments classified in this level generally include investments in preferred stock.

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. Novant Health uses techniques consistent with the market approach and income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

As of December 31, 2013 and 2012, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

Certificates of deposit
The fair value of certificates of deposit is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

Fixed income and debt securities
The fair value of investments in fixed income and debt securities is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

U.S. equity securities
The fair value of investments in U.S. equity securities is primarily determined using either quoted prices in active markets or the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals. The investments in Level 2 may be redeemed or liquidated on a daily basis with no notice with the exception of $351,658 at December 31, 2013. These investments have been reported at net asset value by each fund as a practical expedient to estimate their fair value. Novant Health has the ability to redeem its interests at or near the financial statement date. Novant Health defines near term as within 90 days of the financial statement date.

(in thousands of dollars)

Derivatives
The fair value of derivative contracts is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, credit spreads, volatilities and maturity.

During 2013 and 2012, there were no transfers between Level 1 and 2.

The following table summarizes fair value measurements, by level, at December 31, 2013 for all financial assets and liabilities measured at fair value on a recurring basis in the financial statements:

	Fair Value Measurements at Reporting Date Using			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets				
Short-term investments:				
Certificates of deposit	$ -	$ 5,209	$ -	$ 5,209
Fixed income securities	-	319,996	-	319,996
Total short-term investments	-	325,205	-	325,205
Assets limited as to use:				
Cash and cash equivalents	13,863	-	-	13,863
U.S. equities	5,766	-	-	5,766
International equities	93	-	-	93
Fixed income securities	874	78,521	-	79,395
Total assets limited as to use	20,596	78,521	-	99,117
Long-term investments:				
Cash and cash equivalents	55,346	-	-	55,346
U.S. equities	354,913	60,908	-	415,821
International equities	120,274	173,412	-	293,686
Fixed income securities	16,266	100,098	-	116,364
Emerging markets	22,314	89,928	-	112,242
Real estate and other	6,340	-	-	6,340
Total long-term investments	575,453	424,346	-	999,799
Total assets at fair value	$ 596,049	$ 828,072	$ -	$ 1,424,121
Liabilities				
Derivative financial instruments	-	40,782	-	40,782
Employee benefits liabilities	5,995	-	-	5,995
Total liabilities at fair value	$ 5,995	$ 40,782	$ -	$ 46,777

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2012 for all financial assets and liabilities measured at fair value on a recurring basis in the financial statements:

	Fair Value Measurements at Reporting Date Using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Short-term investments:				
Certificates of deposit	$ -	$ 2,200	$ -	$ 2,200
Fixed income securities	-	306,496	-	306,496
Total short-term investments	-	308,696	-	308,696
Assets limited as to use:				
Cash and cash equivalents	16,056	-	-	16,056
U.S. equities	21,097	-	-	21,097
Fixed income securities	-	68,092	-	68,092
Total assets limited as to use	37,153	68,092	-	105,245
Long-term investments:				
Cash and cash equivalents	24,262	-	-	24,262
U.S. equities	233,518	54,306	4,000	291,824
International equities	70,468	106,368	-	176,836
Fixed income securities	8,542	101,928	-	110,470
Emerging markets	19,356	70,800	-	90,156
Total long-term investments	356,146	333,402	4,000	693,548
Total assets at fair value	$ 393,299	$ 710,190	$ 4,000	$ 1,107,489
Liabilities				
Derivative financial instruments	-	71,778	-	71,778
Employee benefits liabilities	5,471	-	-	5,471
Total liabilities at fair value	$ 5,471	$ 71,778	$ -	$ 77,249

(in thousands of dollars)

For the years ended December 31, 2013 and 2012, the changes in the fair value of the assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	U.S. Equities
Balance at December 31, 2011	$ 10,000
Sale of assets	(6,000)
Balance at December 31, 2012	4,000
Sale of assets	(4,000)
Balance at December 31, 2013	$ -

As a result of its annual impairment testing for 2013, the Company recorded impairment charges of $36,321 to reduce the carrying value of certificates of need from their carrying value of $64,513 to their estimated fair value of $61,090, to reduce the carrying value of goodwill from its carrying value of $25,236 to its implied and estimated fair value of $13,730 and to write off goodwill with a carrying value of $21,392. As a result of its annual impairment testing for 2012, Novant recorded impairment charges of $18,388 to reduce the carrying value of certificates of need from their carrying value of $59,048 to their estimated fair value of $40,660. These impairment charges are included in the consolidated statements of operations. The fair value measurements used in determining the fair value of the Company's certificates of need and goodwill were all deemed to be Level 3.

9. Property and Equipment

Property and equipment consists of the following at December 31:

	2013	2012
Land and land improvements	$ 236,277	$ 236,167
Leasehold improvements	145,221	141,001
Buildings and building improvements	1,620,960	1,561,591
Buildings under capital lease obligations	30,675	27,220
Equipment	1,533,679	1,512,481
Equipment under capital lease obligations	8,247	7,599
Software	315,240	223,163
Construction in progress	253,805	137,984
	4,144,104	3,847,206
Less: Accumulated depreciation	(2,325,763)	(2,190,238)
	$ 1,818,341	$ 1,656,968

(in thousands of dollars)

At December 31, 2013 and 2012, land and buildings with a net book value of $27,424 and $21,716 respectively, were leased to various unrelated health care organizations, with terms ranging from six months to five years. Depreciation expense and capital lease related amortization expense for the years ended December 31, 2013 and 2012 amounted to $166,587 and $181,870, respectively. Accumulated amortization for buildings and equipment under capital lease obligations was $21,777 and $18,952 at December 31, 2013 and 2012, respectively. Construction contracts of approximately $357,619 exist for the construction of new hospitals, expansion of existing hospitals and facility renovations. At December 31, 2013, the remaining commitment on these contracts was $72,876.

On June 27, 2009, Novant sold a portfolio of 22 medical office buildings to a third party real estate investor. The combined selling price of the buildings was $122,280. Novant is leasing space in each of the buildings from the buyer. The transaction was recorded as a sale-leaseback and resulted in a total gain of $59,889. Novant recognized gains from this transaction of $3,997 and $4,002 in 2013 and 2012, respectively. The remaining deferred gain of $41,970 will be recognized over the average life of Novant's lease agreements with the buyer.

10. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	Gross Intangible	Accumulated Amortization	Net Intangible
Balance at December 31, 2012			
Unamortized intangible assets			
Certificates of need	$ 69,781	$ -	$ 69,781
Total unamortized intangible assets	69,781	-	69,781
Amortized intangible assets			
Business relationships	90,930	(18,404)	72,526
Corporate trade name and other intangibles	39,500	(8,356)	31,144
Total amortized intangible assets	130,430	(26,760)	103,670
Total intangible assets	$ 200,211	$ (26,760)	$ 173,451
Balance at December 31, 2013			
Unamortized intangible assets			
Certificates of need	$ 66,426	$ -	$ 66,426
Total unamortized intangible assets	66,426	-	66,426
Amortized intangible assets			
Business relationships	90,997	(22,372)	68,625
Corporate trade name and other intangibles	39,823	(9,755)	30,068
Total amortized intangible assets	130,820	(32,127)	98,693
Total intangible assets	$ 197,246	$ (32,127)	$ 165,119

(in thousands of dollars)

Amortization expense related to intangible assets was $5,462 and $5,456 for the years ended December 31, 2013 and 2012, respectively. Estimated annual amortization expense for intangible assets for the years 2014 through 2018 is approximately $5,549, $5,540, $5,528, $5,519 and $5,507, respectively.

The following table summarizes the changes in the carrying amount of goodwill for the years ended December 31:

	2013	2012
As of January 1		
Goodwill, net of accumulated amortization	$ 294,169	$ 294,359
Accumulated impairment losses	(77,838)	(77,838)
	216,331	216,521
Goodwill acquired, net of purchase price adjustments and other	-	(190)
Impairment	(32,898)	-
	183,433	216,331
As of the end of the period		
Goodwill, net of accumulated amortization	294,169	294,169
Accumulated impairment losses	(110,736)	(77,838)
	$ 183,433	$ 216,331

As a result of its annual impairment testing for 2013 and 2012, Novant Health recorded impairment charges of $3,423 and $18,388, respectively, to reduce the carrying value of certificates of need to their estimated fair value. The impairment charges were partial write offs of the certificates of need.

As a result of its annual impairment testing in 2013, Novant Health also recorded impairment charges of $32,898 to reduce the carrying value of goodwill to its implied and estimated fair value for certain reporting units. Impairment charges of $21,392 represent a full write off of the remaining goodwill for certain reporting units and impairment charges of $11,506 represent a partial write off of the goodwill for a reporting unit.

These impairment charges were the result of lower than expected operating results at certain Novant Health reporting units. Our impairment tests presume stable or improving results at certain Novant Health reporting units which are based on the implementation of programs and initiatives that are designed to achieve projected results. If these projections are not met, or in the future negative trends occur which would impact our future outlook, further impairments of goodwill and other intangible assets may occur. Future restructuring of our markets that could potentially change our reporting units could also result in future impairments of goodwill.

(in thousands of dollars)

11. Investments in Affiliates

Novant Health has noncontrolling interests in ten healthcare related entities. The Company's ownership interests in the entities range from 20% to 51%. These investments are accounted for using either the cost or equity method.

A summary of investments, ownership percentages, investment amounts and the Company's share of earnings for the years ended December 31 is as follows:

Investee	% Ownership 2013	% Ownership 2012	Investment Balance at December 31, 2013	Investment Balance at December 31, 2012	Share of Earnings of Investee 2013	Share of Earnings of Investee 2012
Hospital Partnership	30%	30%	$124,685	$ 128,104	$ 7,056	$ 8,928
Advanced Services	24%	25%	17,221	17,313	2,071	2,936
Providence Plaza LLC	30%	30%	4,911	4,945	146	135
Rowan Hospice & Palliative Care LLC	50%	50%	2,305	2,781	(476)	229
Cancer Center	50%	50%	2,988	1,931	1,557	1,966
Other	Various	Various	6,168	7,071	205	152
			$ 158,278	$ 162,145	$ 10,559	$ 14,346

On December 29, 2012, Novant Health exercised its option to put its investment in Laboratory Group Holdings LLC in exchange for notes receivable of $8,000. The loss on the sale of this investment was recorded as other non-operating expense in the consolidated statement of operations.

Effective January 1, 2014, the Cancer Center redeemed the membership interest of the other partner in exchange for cash and a note payable, making the Novant Health affiliate the sole member of the LLC.

The following table presents summarized financial information related to investments in the above noncontrolled entities as of December 31:

	2013	2012
Assets	$ 333,090	$ 331,303
Liabilities	229,243	161,514
Equity	103,847	169,789
Total revenue	309,827	330,563
Total expenses	275,776	284,174
Net income	34,051	46,389
Novant Health's share of net income	10,559	14,346

(in thousands of dollars)

12. Other Assets

Other assets consist of the following at December 31:

	2013	2012
Notes receivable and other	$ 36,141	$ 19,462
Deferred financing costs, net of amortization	12,166	9,311
Cash surrender value of insurance policies	16,094	13,351
Reinsurance receivables	9,343	7,631
Pledges receivable	10,131	1,359
	$ 83,875	$ 51,114

Deferred financing costs are amortized using the effective interest method over the life of the related debt agreements and instruments.

13. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2013	2012
Accrued compensation	$ 196,780	$ 166,700
Pension liability	14,269	19,009
Postretirement benefit liability	1,022	1,079
Payroll taxes and withholdings	16,779	17,549
Interest	12,235	9,972
Other accrued liabilities	71,173	82,229
Self-insurance		
Employee medical claims liability	20,511	18,688
Malpractice and workers' compensation liability	18,653	18,079
	$ 351,422	$ 333,305

(in thousands of dollars)

14. Long-Term Debt

Following is a summary of long-term debt at December 31:

	2013	2012
Tax-exempt revenue bonds	$ 1,103,510	$ 903,305
Hospital revenue bonds	-	73,260
Taxable revenue bonds	700,000	450,000
Taxable variable rate demand bonds	65,800	69,800
Total bonds	1,869,310	1,496,365
Capital lease obligations and other notes payable	39,880	48,978
	1,909,190	1,545,343
Unamortized premium or discount, net	19,328	6,073
	1,928,518	1,551,416
Less: Current maturities	(157,490)	(78,423)
	$ 1,771,028	$ 1,472,993

(in thousands of dollars)

Tax-Exempt Revenue Bonds

Novant Health has tax-exempt financing agreements through conduit issuers. These bonds are comprised of the following at December 31, 2013 and 2012:

	2013	2012
Series 2013 A and B Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 3.0% to 5.0% payable semi-annually and maturing through 2046; principal payments begin in 2014	$ 298,765	$ -
Series 2010 A Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 4.0% to 5.0% payable semi-annually and maturing through 2043; principal payments begin in 2023	264,165	264,165
Series 2008 A, B and C Variable Rate Demand Bonds, bearing interest at variable rates payable monthly and maturing through 2028; principal payments began in 2009	155,580	165,175
Series 2006 Current Interest Term Bonds, bearing interest at rates ranging from 4.5% to 5.0% payable semi-annually and maturing through 2039; principal payments begin in 2023	250,000	250,000
Series 2004 A and B Variable Rate Demand Bonds, bearing interest at variable rates payable monthly and maturing through 2034; principal payments begin in 2025	135,000	135,000
Series 2003 A Current Interest Serial Bonds, bearing interest at rates ranging from 2.0% to 5.0% payable semi-annually and maturing through 2020	-	88,965
	$ 1,103,510	$ 903,305

In conjunction with the issuance of the 2003 bonds, Novant Health entered into a new Master Trust Indenture (the ”Agreement”). The Agreement authorizes the creation of a Combined Group, which consists of the members of the Obligated Group and the Restricted Affiliates. Novant Health and two of its affiliates that operate tertiary care hospitals, Novant Health Forsyth Medical Center and Novant Health Presbyterian Medical Center, are the members of the Obligated Group. The members of the Obligated Group are jointly and severally liable for the payment of all obligations under the Agreement. The Company’s Restricted Affiliates, which include certain other subsidiaries of the Company, are not directly obligated to pay obligations under the Agreement, but the members of the Obligated Group have covenanted in the Agreement to cause the Restricted Affiliates to provide funds to the members of the Obligated Group to pay obligations under the Agreement. All bonds issued by Novant Health subsequent to the issuance of the 2003 bonds are also collateralized by the Obligated Group.

The bond agreements provide for early redemption periods of the bonds prior to mandatory redemption, subject to a premium, generally ranging from 0.0% to 2.0%, as defined in the agreements. In accordance with the bond indenture agreements, the bonds are general, unsecured obligations of Novant Health. The bond indentures require Novant Health to cause the Restricted Affiliates to comply with certain covenants, including the maintenance of a minimum debt service coverage ratio and a minimum number of days cash on hand. As of December 31, 2013, Novant Health is in compliance with these bond covenants.

(in thousands of dollars)

The Series 2004 A and B Variable Rate Demand Bonds are collateralized by a standby purchase agreement (“SBPA”) issued by JP Morgan Chase Bank National Association. The SBPA expires January 31, 2016. If the SBPA should be used to fund tenders due to a failed remarketing, repayment in quarterly installments over three years are required. As a result, the Company has classified $33,750 of the 2004 bonds as current at December 31, 2013 and 2012.

In March 2011, the documents related to the Series 2008 A, B and C Variable Rate Demand Bonds were amended to allow the conversion of the bonds to bank direct purchase index floating rate bonds. In March 2014, the Series 2008 A, B, and C Variable Rate Demand Bonds were refinanced. Subsequent to the refinancing, the direct purchase agreement related to the Series 2008 A Variable Rate Demand Bonds has a term of three years and will expire in March 2017. Subsequent to the refinancing, the direct purchase agreement related to the Series 2008 B and 2008 C Variable Rate Demand Bonds has a term of five years and will expire in March 2021.

In December 2012, the Series 1996 Current Interest Term Bonds and the Series 1996 Capital Appreciation Serial Bonds were redeemed with proceeds from the Senior Revolving Credit Facility.

On May 7, 2013, Novant Health issued $152,400 of Series 2013A bonds through the North Carolina Medical Care Commission and $146,365 of Series 2013B bonds through the Industrial Development Authority of the County of Prince William. The Series 2013 bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Proceeds of the bonds were used to refund a portion of the Series 2003A bonds, repay the outstanding balance on the Senior Revolving Credit Facility and refund the Novant Health Prince William Medical Center Series 2002 Hospital Revenue Bonds. The remaining proceeds are being used to finance and reimburse Novant Health for expenditures primarily related to the construction of the following: a 60-bed community hospital in Haymarket, Virginia; the vertical expansion of Novant Health Huntersville Medical Center; the vertical expansion of Novant Health Matthews Medical Center; the construction of Novant Health Clemmons Medical Center; and the G-wing renovation at Novant Health Presbyterian Medical Center.

Mortgage Revenue Bonds

On August 18, 2004, Novant Health Rowan Medical Center issued $87,125 of fixed rate Federal Housing Administration insured mortgage revenue bonds, bearing interest at rates ranging from 3.00% to 5.25%. On July 18, 2012, these bonds were defeased using cash flow from operations. At December 31, 2013, the defeased bonds had an outstanding balance of $73,240.

(in thousands of dollars)

Hospital Revenue Bonds

Novant Health Prince William Medical Center had promissory notes to the Industrial Development Authority of the City of Manassas, Virginia and the Industrial Development Authority of the County of Prince William, Virginia, under which hospital revenue bonds were issued. On May 6, 2013, the Series 1993 Hospital Revenue Refunding Bonds were redeemed with operating cash. On May 7, 2013, the Series 2002 Hospital Revenue Bonds were refunded with proceeds of the Novant Health Series 2013B bonds.

		2012
Series 2002 Hospital Revenue Bonds, term bonds which are due in 2023 and 2033, bearing interest at rates of 5.1% and 5.3%.	$	65,655
Series 1993 Hospital Revenue Refunding Bonds, due in 2019, bearing interest at 5.3%.		7,605
	$	73,260

Taxable Revenue Bonds

On September 23, 2009, Novant Health issued $350,000 of taxable fixed rate bonds (the “2009A Bonds”). $250,000 of these bonds bear interest at a rate of 5.85% and mature in 2019. The remaining $100,000 of these bonds bear interest at a rate of 4.65% and mature in 2014. Proceeds of the 2009A Bonds were used to refinance a portion of the Company’s revolving credit facility in January 2010.

On November 12, 2009, Novant Health issued $100,000 of taxable fixed rate bonds (the “2009B Bonds”). The 2009B Bonds bear interest at a rate of 5.35% and mature in 2016. Proceeds of the 2009B Bonds were used to refinance the remaining portion of the Company’s revolving credit facility in January 2010.

On April 23, 2013, Novant Health issued $250,000 of taxable fixed rate bonds (the “2013C Bonds”). The 2013C bonds bear interest at a rate of 4.37% and mature in 2043. Proceeds of the 2013C Bonds were used for eligible purposes, including the refinancing of long-term debt.

The taxable revenue bonds are subject to the same covenant requirements that are included in the bond agreements for the tax-exempt revenue bonds.

Taxable Variable Rate Demand Bonds

In 1997, Novant Health issued Taxable Variable Rate Demand Bonds, totaling $87,800, collateralized by an irrevocable letter of credit issued by Wachovia Bank of North Carolina, N.A. The irrevocable letter of credit is collateralized by the bonds, all income, earnings, profits, interest, premium or other payments on the bonds, and all proceeds arising from the sale, exchange or collection of the bonds. Interest on the bonds is payable on a quarterly basis. Mandatory sinking fund requirements began in 2001 and will continue until their final maturity of June 1, 2022. At December 31, 2013 and 2012, the rate of interest on the variable bonds was 0.17% and 0.21%, respectively. The irrevocable letter of credit is currently available through March 1, 2016.

(in thousands of dollars)

Other Long-Term Debt

Other long-term debt consists of various loans and notes on buildings and capital leases, bearing interest at rates ranging from 1.16% to 12.15%.

Scheduled maturities of all long-term debt are as follows:

Years Ending December 31	
2014	$ 123,739
2015	30,459
2016	138,638
2017	26,917
2018	27,416
Thereafter	1,562,021
	$ 1,909,190

Novant capitalized $2,499 and $1,237 of interest in 2013 and 2012, respectively.

The fair values of Novant's bonds are based on a pricing model. At December 31, 2013 and 2012, Novant's bonds had an approximate fair value of $1,832,191 and $1,588,218, respectively, as determined on a Level 2 measurement basis.

Short-Term Borrowings

On June 18, 2010, Novant Health entered into a $150,000 Senior Revolving Credit Facility. The line of credit bears interest at variable rates and has a three year term. In December 2012, proceeds from the Senior Revolving Credit Facility were used to redeem the Series 1996 Current Interest Term Bonds and the Series 1996 Capital Appreciation Serial Bonds. The amount outstanding under the Senior Revolving Credit Facility at December 31, 2012 was $34,246, bearing interest at 1.36%. Proceeds from the Series 2013A bonds were used to pay off the outstanding balance and the facility expired in June 2013.

On June 13, 2013, Novant Health entered into a $200,000 Senior Revolving Credit Facility. The line of credit bears interest at variable rates and has a five year term. At December 31, 2013, there were no amounts outstanding.

The Company entered into reverse repurchase agreements in February 2009. The reverse repurchase agreements involve the short term sale of U.S. Treasury and Agency securities with maturities ranging between May 2014 and February 2022 at interest rates ranging from 0.25% to 3.75%. At December 31, 2013 and 2012 the fair value amounts outstanding were $86,138 and $91,853, respectively, which approximates carrying value. The amount outstanding under the reverse repurchase agreements at December 31, 2013 and 2012 was $84,965 and $89,825, respectively. Interest rates on the outstanding balances at December 31, 2013 ranged from 0.15% to 0.25%. The agreements generally mature between one and four weeks.

(in thousands of dollars)

Interest Rate Swaps

As of August 18, 2008, concurrent with the 2008 bond issuance, Novant Health entered into two interest rate swap agreements to hedge the variable interest rates of the 2008 bonds. The swaps are based on an aggregate notional amount of $155,580. Novant Health receives a variable rate which is tied to 68% of LIBOR, and pays a fixed rate of 3.679% and 3.621% for the $115,300 and $40,280 notional amounts, respectively. In July 2006, Novant Health entered into a floating-to-fixed swap agreement with a notional amount of $135,000 and a term of 28 years to hedge the floating rate 2004 bonds. Novant Health receives a variable rate which is tied to 64.8% of LIBOR plus 12 basis points and pays a fixed interest rate of 3.8%. The swaps have been designated as cash flow hedges and are carried on the balance sheet at fair value. These swaps qualify for hedge accounting and were assessed for effectiveness at the time the contracts were entered into and are assessed for effectiveness on an ongoing basis at each quarter end using the hypothetical derivative method. Unrealized gains and losses related to the effective portion of the swaps are recognized as a change in unrestricted net assets and gains or losses related to ineffective portions are recognized in excess of revenues over expenses as interest expense. As of December 31, 2013 and 2012, Novant Health's swaps are recorded as long-term liabilities in the consolidated balance sheets.

In August 2005, Novant Health Prince William Medical Center entered into an interest rate swap agreement in order to hedge its exposure to changes in interest rates. The interest rate swap matures on September 1, 2015, and has a notional amount of $7,043. The exchanges of cash flows with the counter party (a commercial bank) began on September 8, 2005. Pursuant to the swap agreement, Novant Health Prince William Medical Center pays the counter party a fixed interest rate of approximately 5.6% and receives interest at a variable rate equal to LIBOR plus one percent, calculated on the notional amount. The interest rate swap does not qualify for hedge accounting and therefore changes in the fair value of the interest rate swap are recorded in excess of revenues over expenses.

The following table summarizes the fair value as presented in the consolidated balance sheets as derivative financial instruments for the Company's interest rate swaps as of December 31:

	2013	2012
Interest rate swaps designated as hedging instruments	$ 40,275	$ 70,966
Interest rate swaps not designated as hedging instruments	507	812
Total derivative financial liabilities	$ 40,782	$ 71,778

(in thousands of dollars)

The following table summarizes the effect of the interest rate swaps on the consolidated statements of operations and changes in net assets for the years ended December 31, 2013 and 2012:

	Amount of Gain Recognized in Change in Unrestricted Net Assets		Amount of Gain (Loss) Recognized in Excess of Revenues Over Expenses	
Statement of Operations Location	**2013**	**2012**	**2013**	**2012**
Derivatives desginated as hedging instruments				
Change in fair value of hedging interest rate swaps	$ 25,261	$ 2,078	$ -	$ -
Hedge ineffectiveness	-	-	5,430	(2,253)
Derivatives not designated as hedging instruments				
Change in fair value of non-hedging interest rate swaps	-	-	305	207
	$ 25,261	$ 2,078	$ 5,735	$ (2,046)

15. Employee Benefits and Other Liabilities

Employee benefits and other liabilities consist of the following at December 31:

	2013	2012
Pension liability, net of current portion	$ 29,170	$ 115,036
Postretirement benefit liability, net of current portion	19,422	23,039
Self-insurance malpractice and workers compensation, net of current portion	53,863	49,993
Employee benefits and other	32,626	12,352
Deferred gains	82,688	89,125
	$ 217,769	$ 289,545

(in thousands of dollars)

16. Income Taxes

The provision for federal and state income taxes is as follows:

	2013	2012
Current tax expense (benefit)		
Federal	$ 50	$ 4,695
State	522	(35)
	572	4,660
Deferred tax expense (benefit)		
Federal	2,176	4,128
State	(219)	179
	1,957	4,307
	$ 2,529	$ 8,967

The components of deferred taxes are as follows:

	2013	2012
Deferred tax assets		
Loss carryforwards	$ 56,290	$ 55,474
Deferred charge for intercompany transfer	14,643	15,974
Accounts receivable	5,568	2,511
Other long-term liabilities	566	510
Other	1,313	1,272
Total deferred tax assets	78,380	75,741
Deferred tax liabilities		
Property and equipment	(2,376)	(2,176)
Intangible assets	(21,783)	(22,938)
Other assets	(19)	(18)
Total deferred tax liabilities	(24,178)	(25,132)
Valuation allowance	(49,486)	(43,936)
Net deferred tax asset	$ 4,716	$ 6,673

(in thousands of dollars)

GAAP requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. In making this determination, management considers all available positive and negative evidence affecting specific deferred tax assets, including the Company's past and anticipated future performance, reversal of deferred tax liabilities, length of carryback and carryforward periods and implementation of tax planning strategies.

Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of deferred tax assets when significant negative evidence exists.

Cumulative losses in recent years are the most compelling form of negative evidence considered by management in this determination. For the year ended December 31, 2013, management has determined that based on all available evidence, a valuation allowance of $49,486 is appropriate.

As of December 31, 2013, the Company had approximately $134,425 of federal and $91,915 of state loss carryforwards available to reduce taxable income. The loss carryforwards expire through 2033.

Income tax expense reported in the consolidated statements of operations is shown below:

	2013	2012
Federal taxes	$ 2,226	$ 8,823
State income taxes	303	144
Income tax expense	$ 2,529	$ 8,967

The Company is required to evaluate uncertain tax positions. This evaluation includes a quantification of tax risk in areas such as unrelated business taxable income and the taxation of our for-profit subsidiaries. This evaluation did not have a material effect on the Company's statements of operations for the years ended December 31, 2013 and 2012.

(in thousands of dollars)

17. Employee Benefit Plans and Other Postretirement Benefit Plans

Certain Novant Health affiliates participate in the Pension Restoration Plan of Novant Health, Inc. (the "Novant Plan"), a noncontributory defined benefit pension plan covering substantially all the affiliates' employees of record as of December 1998. Participation is limited to vested employees as of December 31, 1998. Effective January 1, 2008, and July 1, 2009, the Company assumed two noncontributory defined benefit plans, the Pension Plan for the Employees of Rowan Regional Medical Center (the "Rowan Plan") and the Prince William Hospital Corporation Cash Balance Pension Plan (the "Prince William Plan"), respectively. Participation in the Rowan Plan was closed to new entrants and the accrued benefits were frozen as of December 31, 2003. Participation in the Prince William Plan was closed to new entrants and the accrued benefits were frozen as of April 1, 2010. The assets of the plans are primarily invested in common trust funds, common stocks, bonds, notes and U.S. government securities.

Certain Novant Health affiliates have supplemental retirement income plans covering highly compensated employees. These are nonqualified plans which are not subject to ERISA funding requirements. As such, Novant Health intends only to fund the plans in amounts equivalent to the plans' annual benefit payments. During 2013 the Company terminated one of its plans covering certain highly compensated employees and, as a result, recorded expense of $5,858. Also during the year the Company implemented a new supplemental retirement income plan that covers certain highly compensated employees. This plan acts as a defined contribution plan and annual funding requirements are determined under provisions of the plan.

Novant Health also provides fixed dollar amounts for health care and life insurance benefits to certain retired employees. Covered employees may become eligible for these benefits if they meet minimum age and service requirements, and if they are eligible for retirement benefits. Novant Health has the right to modify or terminate these benefits.

Information regarding benefit obligations, plan assets, funded status, expected cash flows and net periodic benefit cost follows within this footnote.

(in thousands of dollars)

	Defined Benefit Plans 2013	Defined Benefit Plans 2012	Postretirement Healthcare Benefit Plans 2013	Postretirement Healthcare Benefit Plans 2012
Change in benefit obligations				
Projected benefit obligation at beginning of year	$ 401,666	$ 380,119	$ 24,118	$ 22,915
Service cost	2,568	3,453	193	201
Interest cost	13,789	15,460	798	905
Actuarial loss (gain)	(2,812)	1,071	(3,594)	849
Assumption change	(36,168)	19,564	-	-
Plan amendments	(17,918)	-	-	-
Settlements	(32,515)	-	-	-
Benefits paid	(15,611)	(18,001)	(1,222)	(932)
Employee contributions	-	-	151	180
Projected benefit obligation at end of year	$ 312,999	$ 401,666	$ 20,444	$ 24,118

The assumption changes above are primarily a result of changes in the discount rate in 2013 and 2012. The plan amendment changes above are primarily the acceleration of the amortization of actuarial losses in unrestricted net assets due to the termination of a supplemental retirement income plan. The settlement charges above are payments made to employees as the result of termination of a supplemental retirement income plan and also lump sum benefit payouts from the Prince William Plan.

Weighted-Average Assumptions Used to Determine End of Year Benefit Obligations	Defined Benefit Plans 2013	Defined Benefit Plans 2012	Postretirement Healthcare Benefit Plans 2013	Postretirement Healthcare Benefit Plans 2012
Discount rate	2.35 - 4.75%	2.45 - 3.82 %	0.60 - 4.60%	1.25 - 3.70%
Rate of compensation increase(1)	5.00%	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	8.0% in 2013, grading to 5.0% in 2020	8.5% in 2013, grading to 5.0% in 2020

(1) The compensation increase does not apply to the Rowan Plan or the Prince William Plan as benefits under these plans were frozen at December 31, 2013 and 2012.

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would not have a significant effect on the amounts reported as of December 31, 2013.

(in thousands of dollars)

Plan Assets

	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2013	2012	2013	2012
Change in plan assets				
Fair value of plan assets at beginning of year	$ 267,621	$ 231,747	$ -	$ -
Actual return on plan assets	20,655	35,640	-	-
Employer contribution	30,151	18,752	1,071	752
Employee contributions	-	-	151	180
Settlements	(32,515)	-	-	-
Benefits paid	(15,611)	(18,001)	(1,222)	(932)
Plan expenses	(741)	(517)	-	-
Fair value of plan assets at end of year	$ 269,560	$ 267,621	$ -	$ -

The Company's primary investment objective for the defined benefit plans ("the Plans") is to invest plan assets in a manner that maximizes the probability of meeting the plans' liabilities when due. The Plans hold equity mutual funds that are diversified by geography, capitalization, style and investment manager. The Plans also hold fixed income mutual funds that are diversified by issuer and maturity. In addition, the Plans may hold Treasury Inflation-Protected Securities, alternative asset, real estate and commodity mutual funds. The investment guidelines, asset allocation, and investment performance are reviewed by the Novant Health Administrative Committee.

Subsequent to year-end the Company contributed $44,853 to its three defined benefit plans, reallocated its investment asset categories and essentially fully funded the plans. Going forward the primary investment objective is to invest the plan assets so that they will generate sufficient cash flows needed to fund future payments as they come due.

Novant Health's pension plan asset allocation at December 31, 2013 and 2012 and target allocation for 2013 by asset category are as follows:

	Target Range	Percentage of Plan Assets at December 31, 2013	Percentage of Plan Assets at December 31, 2012
Asset Category			
Debt securities	25–70%	50.0%	46.0%
Equity securities	25–70%	43.0%	44.0%
Alternative asset funds	0–15%	4.0%	7.0%
Real estate and other	0–10%	3.0%	3.0%
		100.0%	100.0%

(in thousands of dollars)

The fair values of the Company's plan assets at December 31, 2013, by asset category are as follows:

	Fair Value Measurements at Reporting Date Using			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Equity securities				
U.S. equity	$ -	$ 45,838	$ -	$ 45,838
Developed non-U.S. equity	-	39,480	-	39,480
Emerging markets equity	-	30,427	-	30,427
Fixed income securities				
U.S. fixed income	-	133,762	-	133,762
Alternative asset funds	-	11,983	-	11,983
Real estate and other	-	8,070	-	8,070
Total fair value of the Company's plan assets	$ -	$ 269,560	$ -	$ 269,560

The fair values of the Company's plan assets at December 31, 2012, by asset category are as follows:

	Fair Value Measurements at Reporting Date Using			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Equity securities				
U.S. equity	$ -	$ 51,016	$ -	$ 51,016
Developed non-U.S. equity	-	37,666	-	37,666
Emerging markets equity	-	30,225	-	30,225
Fixed income securities				
U.S. fixed income	-	122,349	-	122,349
Alternative asset funds	-	19,825	-	19,825
Real estate and other	-	6,540	-	6,540
Total fair value of the Company's plan assets	$ -	$ 267,621	$ -	$ 267,621

(in thousands of dollars)

Funded Status

The funded status of the plans recognized in the balance sheet and the amounts recognized in unrestricted net assets follows:

	Defined Benefit Plans 2013	Defined Benefit Plans 2012	Postretirement Healthcare Benefit Plans 2013	Postretirement Healthcare Benefit Plans 2012
End of Year				
Fair value of plan assets at end of year	$ 269,560	$ 267,621	$ -	$ -
Benefit obligation at end of year	312,999	401,666	20,444	24,118
Funded status	$ (43,439)	$ (134,045)	$ (20,444)	$ (24,118)
Amount recognized in the balance sheets				
Prepaid benefit cost at measurement date	$ 23,650	$ 33,450	$ -	$ -
Accrued benefit cost	(3,154)	(20,976)	(20,444)	(24,118)
Change in unrestricted net assets	(63,935)	(146,519)	-	-
Net liability recognized	$ (43,439)	$ (134,045)	$ (20,444)	$ (24,118)
Amounts recognized in unrestricted net assets				
Prior service cost	$ 3,022	$ 6,503	$ -	$ -
Net actuarial loss (gain)	60,913	140,016	(589)	2,954
	$ 63,935	$ 146,519	$ (589)	$ 2,954
Other changes in plan assets and benefit obligations				
Net loss (gain)	$ (54,551)	$ (11,068)	$ (3,594)	$ 849
Prior service credit	(1,758)	(15)	-	-
Amortization of net loss (gain)	(1,243)	(2,093)	51	89
Amortization of prior service cost (credit)	(1,725)	1,339	-	(140)
Settlement credit	(4,396)	-	-	-
Curtailment credit	(18,911)	-	-	-
Total recognized in unrestricted net assets	$ (82,584)	$ (11,837)	$ (3,543)	$ 798

At the end of 2013 and 2012, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets were as follows:

Accumulated Benefit Obligation in Excess of Plan Assets	2013	2012
Projected benefit obligation	$ 312,999	$ 401,666
Accumulated benefit obligation	300,467	367,739
Fair value of plan assets	269,560	267,621

(in thousands of dollars)

Cash Flows
The Company made contributions to its defined benefit pension plans of $44,853 in January 2014. The Company expects to make contributions to the supplemental retirement income plans of approximately $2,424 for the 2014 fiscal year.

The following assumed benefit payments, which reflect expected future service, as appropriate, and were used in the calculation of projected benefit obligations, are estimated to be paid as follows:

	Employee Benefit Plans	Postretirement Healthcare Benefit Plans
Expected Benefit Payments		
2014	$ 14,252	$ 1,014
2015	14,763	1,064
2016	15,030	1,110
2017	15,881	1,150
2018	16,573	1,195
2019–2023	92,617	6,534

Net periodic benefit cost	**Defined Benefit Plans**		**Postretirement Healthcare Benefit Plans**	
	2013	**2012**	**2013**	**2012**
Service cost	$ 2,568	$ 3,453	$ 193	$ 201
Interest cost	13,789	15,460	798	905
Estimated return on plan assets	(16,029)	(14,716)	-	-
Amortization of prior service cost (credit)	732	(1,339)	-	-
Recognized net actuarial loss (gain)	11,708	13,651	(51)	51
Settlements	6,610	-	-	-
Recognized curtailment loss (gain)	2,751	(245)	-	-
Net periodic benefit cost	$ 22,129	$ 16,264	$ 940	$ 1,157
Total recognized in net periodic benefit cost and unrestricted net assets	$ (60,455)	$ 4,427	$ (2,603)	$ 1,955

(in thousands of dollars)

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost during the year ending December 31, 2014 are as follows:

	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
Actuarial net loss (gain)	$ 4,435	$ (78)
Prior service cost	497	-

The weighted-average assumptions used to determine net periodic benefit cost were as follows:

	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2013	2012	2013	2012
Discount rate	2.45 - 3.82%	3.65 - 4.30%	1.25 - 3.70%	2.20 - 4.15%
Expected return on plan assets	6.00 - 7.00%	6.00 - 7.00%	N/A	N/A
Rate of compensation increase[1]	5.00%	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	8.5% in 2013, grading to 5.0% in 2020	9.0% in 2012, grading to 5.0% in 2020

(1) The compensation increase does not apply to the Rowan Plan or the Prince William Plan as benefits under these plans were frozen at December 31, 2013 and 2012.

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would not have a significant effect on the amounts reported as of December 31, 2013.

In addition to these plans, Novant Health sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to $54,912 and $54,895 in 2013 and 2012, respectively.

Certain Novant Health affiliates participate in cafeteria plans which provide certain benefits, including basic medical and dental coverage, long-term disability benefits, reimbursement of supplemental dependent care expenses and group life insurance benefits. The affiliates contribute predetermined amounts for each full-time and part-time employee, which is allocated to the various benefit options in accordance with the participant’s election. Affiliate contributions to these plans were approximately $183,274 in 2013 and $166,476 in 2012.

Novant Health is self-insured for medical coverage exposures up to certain limits for all Novant Health employees. The Company has recorded an estimate of the liability for claims incurred but not reported as of December 31, 2013 and 2012.

(in thousands of dollars)

18. Noncontrolling Interests

The following table reconciles the carrying amounts of the Company's controlling interest and the noncontrolling interests for unrestricted net assets:

	Total	Controlling Interest	Noncontrolling Interests
Balance at January 1, 2012	$ 1,842,651	$ 1,831,679	$ 10,972
Excess of revenues over expenses	273,590	272,428	1,162
Loss on discontinued operations	(2,840)	(2,840)	-
Gain on sale of discontinued operations	1,721	1,721	-
Change in funded status of defined benefit plans	11,039	11,039	-
Unrealized gain on derivative financial instruments	2,078	2,078	-
Other changes in unrestricted net assets	(1,968)	429	(2,397)
Balance at December 31, 2012	2,126,271	2,116,534	9,737
Excess of revenues over expenses	272,967	270,915	2,052
Change in funded status of defined benefit plans	86,127	86,127	-
Unrealized gain on derivative financial instruments	25,261	25,261	-
Other changes in unrestricted net assets	171	496	(325)
Balance at December 31, 2013	$ 2,510,797	$ 2,499,333	$ 11,464

19. Professional and General Liability Insurance Coverage

Novant Health is self-insured for professional and general liability exposures up to certain limits. The Company has umbrella policies in place above those limits. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for reported claims and claims incurred but not reported. Novant Health also participates in a self-insured program for workers' compensation and is self-insured for certain health benefits options. A portion of these self-insured professional liabilities is funded through a revocable trust fund operated by Novant Health. Liabilities for self-insured professional and general liability risks, for both asserted and unasserted claims were discounted, assuming a 3% rate for both malpractice and workers' compensation for December 31, 2013 and 2012, based on historical loss payment patterns. This resulted in a present value of $72,516 and $68,072 at December 31, 2013 and 2012, respectively, and represented a discount of $5,943 and $5,945 in 2013 and 2012, respectively.

(in thousands of dollars)

20. Commitments and Contingencies

The Company and its affiliates are presently involved in various personal injury, regulatory investigations, tort actions and other claims and assessments arising out of the normal course of business. Management believes that Novant Health has adequate legal defenses, self-insurance reserves and/or insurance coverage for these asserted claims, as well as any unasserted claims and does not believe these claims will have a material effect on the Company's operations or financial position. The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

21. Operating Leases

Certain operating properties and equipment are leased under noncancelable operating leases. Total rental expense under operating leases was $86,781 and $93,197 in 2013 and 2012, respectively. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows:

Years Ending December 31	
2014	$ 81,178
2015	72,865
2016	63,607
2017	53,693
2018	41,837
Thereafter	117,570
	$ 430,750

Novant Health leases six plots of land to a third party under long-term ground lease agreements. Total rental income under these lease agreements was $1,124 and $1,094 in 2013 and 2012, respectively. The future rental income related to the ground leases are as follows:

Years Ending December 31	
2014	$ 1,144
2015	1,165
2016	1,186
2017	1,207
2018	1,241
Thereafter	90,428
	$ 96,371

(in thousands of dollars)

22. Concentrations of Credit Risk

Novant Health provides services primarily to the residents of various counties within North Carolina, South Carolina and Virginia without collateral or other proof of ability to pay. Most patients are local residents who are insured partially or fully under third-party payor arrangements.

The mix of receivables from patients and third-party payors at December 31 is as follows:

	2013	2012
Medicare	31.7%	27.5%
Medicaid	13.1%	9.4%
Other third-party payors	43.7%	54.8%
Patients	11.5%	8.3%
	100.0%	100.0%

Novant Health places the majority of its cash and investments with corporate and financial institutions. Novant Health maintains cash balances in excess of FDIC insured limits; however, the Company has not experienced any losses on such deposits.

23. Functional Expenses

Novant Health provides general health care services to residents within its geographic region. Expenses relating to providing these services at December 31 are as follows:

	2013	2012
Health care services	$ 2,511,470	$ 2,424,151
General and administrative	971,419	946,394
	$ 3,482,889	$ 3,370,545

24. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 28, 2014, the day the financial statements were issued.

On March 24, 2014, the Company exercised its option under the provisions of the Limited Liability Company Agreement of Carolinas Holdings, LLC. This option allows the Company to exchange its right to 30% of the earnings of the Hospital Partnership for the greater of the fair market value or $150,000. Fair market value will be determined based on the provisions of the agreement.

25. Recent Accounting Pronouncements

In April 2013, the FASB issued ASU 2013-6, *Not-for-Profit Entities: Services Received from Personnel of an Affiliate*. This guidance requires that a not-for-profit entity recognize all personnel

(in thousands of dollars)

services for which the affiliate does not seek compensation that directly benefit the recipient not-for-profit and that such services should be measured at cost unless the cost significantly differs from the value received. This guidance is effective for Novant Health on January 1, 2015 and requires modified retrospective approach. The adoption of this guidance is not expected to have an impact on Novant Health's financial statements.

In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. This guidance allows entities to use the Fed Funds Effective Swap Rate, in addition to U.S. Treasury Rates and LIBOR as a benchmark interest rate in accounting for fair value and cash flow hedges and eliminates the provision that prohibits the use of different benchmark rates for similar hedges except in rare and justifiable circumstances. This guidance is effective prospectively for qualifying new hedging relationships entered into on or after July 17, 2013 and for hedging relationships redesignated on or after that date. The adoption of this guidance had no impact on Novant Health's consolidated statements of financial position and results of operations.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists*. This guidance clarifies the presentation of unrecognized tax benefits in the financial statements. This guidance is effective for Novant Health beginning January 1, 2014. The adoption of this guidance is not expected to have a significant impact on Novant Health's consolidated statements of financial position.

In May 2011, the FASB issued ASU 2011-4, *Fair Value Measurement (Topic 820),* which amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and also the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements but for which the fair value is required to be disclosed. ASU 2011-4 also requires additional disclosures for Level 3 measurements including a description of the valuation process, sensitivity, and quantitative disclosures of unobservable inputs. This guidance was effective for Novant Health beginning January 1, 2012.

In July 2011, the FASB issued ASU 2011-7, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires certain health care entities to present the provision for bad debts related to patient service revenues as a deduction from revenue, net of contractual allowances and discounts, versus as an expense in the statement of operations. In addition, it also requires enhanced disclosures regarding revenue recognition policies and the assessment of bad debt. This guidance was effective for Novant Health beginning January 1, 2012 and was retrospectively applied.

In July 2012, the FASB issued ASU 2012-2, *Testing Indefinite-Lived Intangible Assets for Impairment*. This guidance provides the option to perform a qualitative assessment of whether it is more likely than not that the indefinite-lived asset is impaired. ASU 2012-2 is effective for fiscal years beginning after September 15, 2012. Novant Health elected to early adopt this standard effective in 2012. The adoption of this guidance had no impact on Novant Health's consolidated statements of financial position and results of operations.

Other Financial Information

Report of Independent Auditors on Supplementary Information

To the Board of Trustees of
Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. and Affiliates as of December 31, 2013 and 2012 and for the years then ended and our report thereon appears at the beginning of this document. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Cost of Community Benefit Programs is presented for purposes of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 28, 2014

PricewaterhouseCoopers LLP, 800 Green Valley Road, Suite 500, Greensboro, NC 27408
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Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs
December 31, 2013 and 2012

The net cost, excluding the provision of bad debts, of providing care to indigent patients and community benefit programs is as follows:

(in thousands of dollars)	2013	2012
Traditional charity care	$ 129,229	$ 123,475
Unpaid cost of Medicare	294,325	256,903
Unpaid cost of Medicaid	63,952	111,141
Community benefit programs	78,594	54,587
	$ 566,100	$ 546,106

As discussed in Note 2 in the accompanying financial statements, Novant received supplemental Medicaid payments during 2012 related to both 2011 and 2012. The community benefit amounts for 2012 include only the supplemental payments related to 2012. The community benefit amounts for 2013 include the supplemental payments related to 2013.

Report of Independent Auditors
on Accompanying Combining Information

To the Board of Trustees of
Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. and Affiliates as of December 31, 2013 and for the year then ended and our report thereon appears at the beginning of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations and changes in net assets of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations and changes in net assets of the individual companies.

PricewaterhouseCoopers LLP

March 28, 2014

PricewaterhouseCoopers LLP, 800 Green Valley Road, Suite 500, Greensboro, NC 27408
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Novant Health, Inc. and Affiliates
Combining Balance Sheet
December 31, 2013

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 207,794	$ 41,388	$ -	$ 249,182
Accounts receivable, net of allowance for doubtful accounts	350,720	57,655	-	408,375
Short-term investments	325,098	107	-	325,205
Current portion of assets limited as to use	28,444	13,202	-	41,646
Deferred tax asset	-	5,765	-	5,765
Receivable for settlement with third-party payors	8,116	1,533	-	9,649
Other current assets	124,820	16,689	-	141,509
Total current assets	1,044,992	136,339	-	1,181,331
Assets limited as to use	17,553	39,918	-	57,471
Long-term investments	1,529,900	150,866	-	1,680,766
Property and equipment, net	1,530,650	287,691	-	1,818,341
Intangible assets and goodwill, net	61,165	287,387	-	348,552
Investments in affiliates	389,475	6,392	(237,589)	158,278
Other assets	70,352	16,038	(2,515)	83,875
Total assets	$4,644,087	$ 924,631	$ (240,104)	$ 5,328,614
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 154,931	$ 2,559	$ -	$ 157,490
Short-term borrowings	84,965	-	-	84,965
Accounts payable	119,456	5,976	-	125,432
Accrued liabilities	295,732	58,205	(2,515)	351,422
Estimated third-party payor settlements	17,114	3,170	-	20,284
Due to (from) related organizations	(525,554)	525,554	-	-
Total current liabilities	146,644	595,464	(2,515)	739,593
Long-term debt, net of current portion	1,737,416	33,612	-	1,771,028
Deferred tax liability	-	1,049	-	1,049
Derivative financial instruments	40,275	507	-	40,782
Employee benefits and other liabilities	165,883	51,886	-	217,769
Total liabilities	2,090,218	682,518	(2,515)	2,770,221
Net assets				
Unrestricted-attributable to Novant	2,551,680	191,412	(243,759)	2,499,333
Unrestricted- noncontrolling interests	-	5,294	6,170	11,464
Total unrestricted net assets	2,551,680	196,706	(237,589)	2,510,797
Temporarily restricted	2,189	34,595	-	36,784
Permanently restricted	-	10,812	-	10,812
Total net assets	2,553,869	242,113	(237,589)	2,558,393
Total liabilities and net assets	$4,644,087	$ 924,631	$ (240,104)	$ 5,328,614

See accompanying note to combining supplemental schedules.

Novant Health, Inc.
Combining Statement of Operations
Year Ended December 31, 2013

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Operating revenues				
Net patient service revenue	$3,106,332	$ 503,613	$ -	$ 3,609,945
Provision for bad debts	(143,125)	(39,851)	-	(182,976)
Net patient service revenues less provision for bad debts	2,963,207	463,762	-	3,426,969
Premium revenue	-	3,959	-	3,959
Other revenue	149,364	26,774	(14,371)	161,767
Total operating revenues	3,112,571	494,495	(14,371)	3,592,695
Operating expenses				
Salaries and employee benefits	1,705,373	220,108	(1,087)	1,924,394
Supplies and other	1,044,872	238,341	(12,503)	1,270,710
Depreciation expense	132,874	33,713	-	166,587
Amortization expense	1,118	5,598	-	6,716
Impairment charge	-	36,321	-	36,321
Interest expense	49,307	28,854	-	78,161
Total operating expenses	2,933,544	562,935	(13,590)	3,482,889
Operating income (loss)	179,027	(68,440)	(781)	109,806
Non-operating income (expense)				
Investment income	151,575	14,604	779	166,958
Unrealized gains on non-hedged derivative financial instruments	-	305	-	305
Income tax benefit (expense)	706	(3,235)	-	(2,529)
Other, net	(312)	(54)	-	(366)
Loss on extinguishment of debt	(1,207)	-	-	(1,207)
Excess (deficit) of revenues over expenses	$ 329,789	$ (56,820)	$ (2)	$ 272,967

See accompanying note to combining supplemental schedules.

Novant Health, Inc.
Combined Group Combining Balance Sheet
December 31, 2013

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Assets				
Current assets				
Cash and cash equivalents	$ 178,499	$ 29,295	$ -	$ 207,794
Accounts receivable, net of allowance for doubtful accounts	216,647	134,073	-	350,720
Short-term investments	278,926	46,172	-	325,098
Current portion of assets limited as to use	28,444	-	-	28,444
Receivable for settlement with third-party payors	7,192	924	-	8,116
Other current assets	96,526	28,294	-	124,820
Total current assets	806,234	238,758	-	1,044,992
Assets limited as to use	16,791	762	-	17,553
Long-term investments	1,400,575	129,325	-	1,529,900
Property and equipment, net	1,063,428	467,222	-	1,530,650
Intangible assets and goodwill, net	31,015	30,150	-	61,165
Investments in affiliates	442,366	2,994	(55,885)	389,475
Other assets	190,565	(120,213)	-	70,352
Total assets	$ 3,950,974	$ 748,998	$ (55,885)	$ 4,644,087
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 154,769	$ 162	$ -	$ 154,931
Short-term borrowings	84,965	-	-	84,965
Accounts payable	110,335	9,121	-	119,456
Accrued liabilities	228,450	67,282	-	295,732
Estimated third-party payor settlements	12,931	4,183	-	17,114
Due to (from) related organizations	(544,518)	18,964	-	(525,554)
Total current liabilities	46,932	99,712	-	146,644
Long-term debt, net of current portion	1,737,348	68	-	1,737,416
Derivative financial instruments	40,275	-	-	40,275
Employee benefits and other liabilities	151,070	14,813	-	165,883
Total liabilities	1,975,625	114,593	-	2,090,218
Net assets				
Unrestricted	1,975,338	632,227	(55,885)	2,551,680
Temporarily restricted	11	2,178	-	2,189
Total net assets	1,975,349	634,405	(55,885)	2,553,869
Total liabilities and net assets	$ 3,950,974	$ 748,998	$ (55,885)	$ 4,644,087

See accompanying note to combining supplemental schedules.

Novant Health, Inc.
Combined Group Combining Statement of Operations
Year Ended December 31, 2013

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Operating revenues				
Net patient service revenue	$ 1,836,124	$1,270,208	$ -	$ 3,106,332
Provision for bad debts	(66,442)	(76,683)	-	(143,125)
Net patient service revenues less provision for bad debts	1,769,682	1,193,525	-	2,963,207
Other revenue	123,555	27,666	(1,857)	149,364
Total operating revenues	1,893,237	1,221,191	(1,857)	3,112,571
Operating expenses				
Salaries and employee benefits	981,432	723,941	-	1,705,373
Supplies and other	666,707	380,021	(1,857)	1,044,871
Depreciation expense	85,564	47,310	-	132,874
Amortization expense	896	222	-	1,118
Interest expense	34,033	15,274	-	49,307
Total operating expenses	1,768,632	1,166,768	(1,857)	2,933,543
Operating income	124,605	54,423	-	179,028
Non-operating income (expense)				
Investment income	136,000	15,575	-	151,575
Income tax benefit (expense)	708	(2)	-	706
Gain (loss) on extinguishment of debt	1,262	(2,469)	-	(1,207)
Other, net	(312)	-	-	(312)
Excess of revenues over expenses	$ 262,263	$ 67,527	$ -	$ 329,790

See accompanying note to combining supplemental schedules.

The Master Indenture authorizes the creation of a Combined Group, which consists of the Members of the Obligated Group and Restricted Affiliates designated as such by a Member of the Obligated Group with Novant Health's consent. Novant Health and its two affiliates that operate tertiary care hospitals, Forsyth Memorial Hospital, Inc. d/b/a Novant Health Forsyth Medical Center and The Presbyterian Hospital d/b/a Novant Health Presbyterian Medical Center, both of which are North Carolina nonprofit corporations, are the Members of the Obligated Group. The Members of the Obligated Group are jointly and severally liable for the payment of all Master Obligations issued under the Master Indenture.

Novant Health has designated twelve of its affiliates as Restricted Affiliates. Seven of these Restricted Affiliates, Medical Park Hospital, Inc. d/b/a Novant Health Medical Park Hospital, Community General Health Partners, Inc. d/b/a Novant Health Thomasville Medical Center, Presbyterian Medical Care Corp. d/b/a Novant Health Matthews Medical Center, Brunswick Community Hospital d/b/a Novant Health Brunswick Medical Center, Presbyterian Orthopaedic Hospital, LLC d/b/a Novant Health Charlotte Orthopaedic Hospital, Prince William Hospital Corporation d/b/a Novant Health Prince William Medical Center, and Prince William Hospital System, operate, or maintain a significant investment in, hospitals. The other five Restricted Affiliates, Carolina Medicorp Enterprises, Inc., Forsyth Medical Group, LLC, Foundation Health Systems Corp., Novant Medical Group, Inc. f/k/a Presbyterian Regional Healthcare Corp. and Salem Health Services, Inc., provide, or invest in subsidiaries or joint ventures which provide, health care and ancillary services. Restricted Affiliates are not directly obligated to pay Master Obligations, but the Members of the Obligated Group have covenanted in the Master Indenture to cause the Restricted Affiliates to provide funds to the Members of the Obligated Group to pay Master Obligations. All of the Members of the Combined Group, except Salem Health Services, Inc., are exempt from federal and North Carolina income taxation.