



Transforming healthcare

2013 annual report



Novant Health exists to improve the health of our communities, one person at a time.

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(until March 31, 2014)

Tom N. Zweng, MD
Chief medical officer
(effective April 1, 2014)

We, the employees of Novant Health and our physician partners, will deliver the most remarkable patient experience, in every dimension, every time.



An industry in transformation: leading change in healthcare

It is no secret that the healthcare industry is changing at a rapid pace. The primary force driving this change is the need to make healthcare more affordable and easier to access. At Novant Health, this transformation has largely been powered by a single mission: to make healthcare remarkable for our patients and our communities.

Long before the Affordable Care Act passed, Novant Health was transforming and reinventing processes, procedures, operations and administration to better meet the needs of its patients and communities.

In fact, reinvention began when Novant Health formed in 1997. Linking hospitals, physician practices and other providers together into an integrated system of care, the newly formed system was designed to effectively leverage best practices, lower costs, improve outcomes and create a better patient experience.

Today, that integrated system of providers has demonstrated their dedication to success in achieving all four goals. Equally as important is

putting patients at the center of care, Novant Health has empowered patients with both a voice and choice in managing their health.

While its final shape and form may still be a work in progress, the Affordable Care Act has created an opportunity to bring care to millions of uninsured or underinsured through the Health Insurance Marketplace.

Now, Novant Health has an unprecedented opportunity to improve the health of entire communities through education and screenings that serve as gateways to preventive care and disease management delivered through physician clinics.

In 2013, Novant Health led educational events to engage and inform consumers about the Health Insurance Marketplace and how the new mandate for health insurance affects them. For the communities that Novant Health serves, this was not only the right thing to do, but it further established Novant Health as a trusted resource for improving health. In all, more than

400 people attended Novant Health's events in the fourth quarter of 2013.

Population health management (PHM) is an approach that aims to improve the health of the entire population and to reduce health inequities. It includes studying a broad range of factors and conditions that have a strong influence on health — such as healthcare delivery, policy and personal decisions — and taking action accordingly. Through PHM, Novant Health will create an epidemic of health and wellness for the communities it serves.

In 2014, Novant Health committed to be a national leader in health industry transformation by aligning our internal and external resources system-wide to coordinate care for specific populations who are obese, have high blood pressure or have a chronic illness such as heart disease or diabetes. This includes identifying those who are at risk for chronic disease and reducing their propensity for illness. Through this community wellness initiative, Novant Health will screen 500,000 people for prediabetes, obesity and high blood

pressure in 2014. Expanding on earlier “search and rescue” efforts to diagnose and educate patients with diabetes in its hospitals, Novant Health is now tackling the precursors to this often preventable (and even reversible) disease. With this initiative, Novant Health will reach out to consumers where they work and live, by way of our clinics and community screenings, to help people live longer and spend more time doing the things they enjoy with the people they love.

“The purpose of the Novant Health community wellness initiative is to inform, educate and activate the citizens in the Novant Health footprint in managing their wellness,” said Ophelia Garmon-Brown, MD, Novant Health lead executive for the initiative.

As the healthcare industry transforms, overall health and wellness will continue to be a focus for Novant Health. As part of its promise to help communities get better and stay healthy, transformation at Novant Health will continue to keep patients at the heart of their care.

Compassion

We treat our customers and their families, staff and other healthcare providers as family members with kindness, patience, empathy and respect.



Leading by design

Novant Health physicians play a critical role in our transformation

With more than 1,200 physicians serving patients during more than 3.4 million appointments in 2013 in North Carolina, South Carolina and Virginia, Novant Health's medical group is the fifth largest in the country.

Novant Health has physician leaders at every level who are an integral part of the decision-making process. Some are partnering with hospital leaders to influence system-wide programming, while others are spearheading critical transformation efforts within individual service lines. Federal healthcare reform only plays a small role in Novant Health's transformation activities; every decision Novant Health makes begins and ends with the patient.

"Federal reimbursement programs like value-based purchasing — which ties reimbursement rates to outcomes and results — are important, but we, as a system, have always been focused on improving performance and affordability for people in our

communities," explained Stephen Wallenhaupt, MD, chief medical officer for Novant Health in 2013. "As long as we're focused on those goals every day, the federal measures will all work out."

One of the most promising innovations is Novant Health's strategic population health management (PHM) effort. This involves moving beyond the traditional doctor-patient relationship, such as sick visits and annual physicals, to help people become healthier versions of themselves through a comprehensive community care network.

Led by David Cook, MD, PHM links together hospitals, primary care physicians, specialists and community organizations to ensure patients receive accessible, coordinated and cost-effective care. This new way of delivering care means defining health more broadly — spanning mental, physical and social well-being — to address more than just the absence of disease.

The goal of PHM is not just to treat illness but to prevent its occurrence in the first place. That means reducing emergency room visits and hospital admissions, managing chronic conditions such as high blood pressure and diabetes more efficiently, and educating patients about how best to care for themselves.

The full implementation of the electronic health record (EHR) at all Novant Health physician clinics in 2013 was another significant milestone in how we deliver care and manage the health of patients. Richard Capps, MD, and Keith Griffin, MD, have been instrumental in the success of Dimensions (our name for EHR at Novant Health) — most impressively completing the rollout three years ahead of schedule. Novant Health earned the prestigious Health Information and Management Systems Society (HIMSS) Stage 7 Ambulatory Award, making us one of only six systems in the country to

attain the highest level of EHR use at the time of the award. Additionally, Novant Health Presbyterian Medical Center in Charlotte became the system's first hospital to implement EHR when it rolled out Dimensions in October 2013 — kicking off a rolling series of go-lives throughout the system that will continue until all of Novant Health is connected.

"The healthcare industry is on a journey toward delivering value in ways that are different than those currently offered today," said John Phipps, MD, executive vice president with Novant Health and president of the Novant Health medical group. "This work is spread across our entire footprint and requires a major focus on integration, care coordination, closing gaps in care and more. At Novant Health, we believe the healthcare changes that are necessary in America need to be led by physicians, and we are engaged in doing just that."

Diversity

We recognize that every person is different, each shaped by unique life experiences. This enables us to better understand each other and our customers.



Making healthcare easier and more convenient

In 2013, Novant Health opened new pathways to ease patients' ability to see a physician when and where they needed by expanding access to healthcare in convenient ways for consumers.

One new way Novant Health is expanding access is through a partnership with three Target Clinics that opened in the greater Charlotte market in 2013. The clinics are operated by Target and staffed by Target-employed nurse practitioners, with Novant Health physicians providing clinical oversight. These clinics give Novant Health an opportunity to deliver care to people in places they already visit. Consumers have the added benefit of being able to rely on nearby Novant Health practices and medical facilities if they need a higher level of care.

Making healthcare more convenient is an important feature of Novant Health's brand promise. Nothing is more inconvenient than getting sick after 5 p.m. or on a weekend and not being able to see a doctor. Novant Health Easy Care addresses that problem by providing an alternative to

daytime primary care appointments for north Davidson County and Forsyth County. Easy Care offers after-hours family medicine clinics at existing practice locations on weekday evenings from 5:30 to 8:30 p.m., and on Saturdays from 8 a.m. to 1 p.m., allowing sick patients to get help when they need it most.

Additionally, Novant Health is developing innovative programs to save patients time and energy that can then be spent on getting better and staying healthy. The "Hold My Place" program makes emergency room and urgent care visits easier and more convenient. Patients can reserve an appointment time online before leaving their house, which has helped reduce wait times. Additionally, Novant Health pharmacies have added mail order home delivery as an added convenience for patients and MyChart allows patients the ability to review their medications at any time through the convenient online patient portal.

Also in 2013, many Novant Health facilities launched a new service called Care Now which directs people experiencing an unplanned medical

event (injury or illness) to the most appropriate location for their condition: an emergency department, urgent or convenient care center, or primary care physician office. Consumers can make a free call, 24 hours a day, to 1-855-251-8808 and speak with a triage nurse. This nurse evaluates callers' symptoms based upon established protocols and directs people accordingly.

Novant Health also opened its first concierge-style medical practice, Novant Health Hallmark Care, in 2013. Offering patients 24/7 access to their medical team, comprehensive physical exams, same-day or next-day appointments, and low doctor-to-patient ratios, Hallmark Care is a new approach to the healthcare experience. Patients pay an annual fee of \$2,400 for an array of enhanced services and extended personal attention. The practice also offers travel medicine services, such as prescription refills, vaccinations and house calls, making this the perfect care delivery method for some individuals. Hallmark Care is currently only available in the Charlotte market,

but we are exploring the possibility of opening other concierge practices in the future.

Another new service that adds convenience for patients is the Ready At Home program introduced at Novant Health Forsyth Medical Center and Novant Health Presbyterian Medical Center. The program's team coordinates details around a patient's discharge and at-home medications. If patients need medications or other healthcare supplies, the team's transition specialists provide affordable solutions. Since discharge medications and supplies are not included in the hospital bill, Ready At Home helps make sure they are properly processed by the insurer. Nearly half of all Americans never fill their prescriptions, fill them but never take the drug, or don't take the full dose. Ready At Home is addressing these problems.

Such innovative offerings are just the tip of the iceberg. In 2014, Novant Health will continue to make healthcare more convenient for patients and more remarkable for the communities we serve.

Personal excellence

We strive to grow personally and professionally and approach each service opportunity with a positive, flexible attitude. Honesty and personal integrity guide all we do.



New technology puts patients in charge

Technology is changing the way we view the world and interact with one another. Today there are 4 billion active smartphones in the world. While it took 17 years to reach that number, it is estimated that it will take only three years for that number to double to 8 billion.

As the world continues to embrace technology, so does Novant Health.

Carl Armato, Novant Health president and CEO, said “new technologies are empowering each of us to deliver remarkable patient experiences by enhancing care and communication.”

In 2013, Novant Health launched video visits to allow patients to connect with their healthcare providers from the

comfort of their home or office. Used for non-emergent health concerns, video visits work best for patients needing chronic disease management or follow-up care without a physical exam.

Telemedicine enables Novant Health to deliver high-level clinical care anywhere by connecting smaller hospitals with specialists at major medical centers. Delivering on its brand promise to make healthcare remarkable, telemedicine allows Novant Health to provide patients the best care possible through innovation.

New technologies are also empowering Novant Health patients to take charge of their own healthcare. MyChart gives patients direct access to their medical records online and

through the Novant Health mobile app. With hundreds of thousands of Novant Health patients using the tool, MyChart has transformed the way patients manage their healthcare, interact with their care team, schedule appointments and request prescription refills. Other Novant Health mobile apps making healthcare simpler for patients include MobileRx, which allows patients to place and refill prescriptions on their phone, and ER Wait Times, which alerts patients to the wait times at Novant Health emergency rooms.

Each year, Novant Health will start using newer and more exciting technologies that will push the organization forward into the future, such as iris scanning, which is

currently being piloted as a patient identification tool at check-in. Every new advance will allow Novant Health to continue reinventing the healthcare experience by using innovation to make patients' experiences simpler and more convenient. Overall, Novant Health is committed to making innovative strides toward improving the patient experience through the use of technology.

With additional progress in mobile applications, telemedicine and open scheduling (the ability to allow both established and non-established patients to make an appointment online with our doctors in real time), Novant Health is transforming to make healthcare more convenient and easier than ever before for patients.

Teamwork

The needs and expectations of any one customer are greater than what one person's service efforts can satisfy. We support each other so that together as a team, we can be successful in the eye of the customer as a quality service provider.



New relationships for remarkable care

Growing our geographic footprint, improving access to care

In the ever-changing healthcare industry, it is important for all healthcare organizations to look for ways to improve patient care and lower costs. Investment in facilities and technology allows Novant Health to accomplish both.

In 2013, Novant Health continued to expand its geographic footprint through the opening of new facilities, expansion of current facilities and engagement in strategic partnerships with other hospitals and health systems. Some accomplishments include:

- The opening of Novant Health Clemmons Medical Center. The \$26 million first phase includes two operating suites for outpatient surgery, a 24/7 emergency department, and imaging and lab services.
- A new 7,500-square-foot geriatric behavioral health unit at Novant Health Franklin Medical Center. The 13-bed unit provides inpatient care to adults ages 55 and older who suffer from a variety of health issues, such as Alzheimer's, dementia and depression.
- A partnership between Novant Health and Memorial Health to establish a freestanding children's hospital in Savannah, GA. The new \$28 million facility will be a four-year phased project and house a pediatric intensive care unit, a two-room surgical suite, pediatric ancillary services and a 24-hour emergency department.
- A \$19 million, 26,000-square-foot expansion with 23 inpatient rooms, nine observation rooms and three hospice beds at Novant Health Matthews Medical Center intended to ease the transition for patients between the intensive care unit and intermediate care unit, now both on the same floor.
- A 55,000-square-foot expansion project adding 15 new beds at Novant Health Huntersville Medical Center including a new intensive care unit and extra room for women's support services.

Equally important is the ability to grow Novant Health to achieve economies of size and scale. In 2012, Novant Health Shared Services was formed to help assist hospitals by offering a wide range of partnerships.

For every size facility — from large metropolitan health systems to small rural community hospitals — Novant Health helps partners improve the health of their communities while preserving their local market ownership and autonomy.

In 2013, Novant Health Shared Services significantly increased the number of facilities that are now partners through shared service or management agreements, including Ashe Memorial Hospital, Jefferson, NC; Cape Fear Valley Health System, Fayetteville, NC; Halifax Regional Medical Center, Roanoke Rapids, NC; Liberty Regional Medical Center, Hinesville, GA; Spartanburg Regional Healthcare System, Spartanburg, SC; and University Health Care System, Augusta, GA.

Strong finances ensure healthy reinvestments in facilities and communities

For fiscal year 2013, Novant Health announced a net income of \$273 million on operating revenue of \$3.6 billion comprised of \$110 million of operating income and investment gain of \$163 million. The system also reported a community benefit of \$566 million, including \$129 million of direct charity care.

Carl S. Armato, president and CEO of Novant Health, commented that the organization remained vigilant in 2013 to control costs in a turbulent environment.

“As we continue to operate in a challenging market, I am proud of Novant Health’s ability to remain nimble and control costs while keeping the focus on delivering the best care to our patients,” said Armato. “Strong financial results are necessary for us to reinvest in our communities, facilities and employees. A strong organization ensures our future ability to provide needed services.”

Novant Health provided more than \$566 million of community benefit, including over \$129 million in charity (free) care to uninsured and indigent patients, in 2013. As a not-for-profit healthcare system, the organization is committed to fulfilling its mission to improve the health of communities — regardless of a patient’s ability to pay.

In 2013, Novant Health provided services ranging from education to full disease treatment to indigent and uninsured patients at no cost to them. The organization served more than 130,500 individuals through community health service offerings (health education, screenings and support groups), professional education and other community outreach activities and investments focused on improving the health of communities.

In addition to community benefit and charity care, as a not-for-profit system, the organization reinvests operating and investment income into new technology, hospital

improvements, equipment and community health needs.

In 2013, significant milestones for key investments were reached. Novant Health physician clinics completed the rollout of the electronic health record at all clinics three years early and under the projected budget. The project is part of the \$600 million investment the organization expects to make implementing the electronic health record across all facilities. Additionally, the first of the system’s medical centers made the transition to the electronic health record in October 2013. Novant Health Presbyterian Medical Center completed the transition with no significant disruption to operations.

In all, the organization invested more than \$350 million in capital for construction projects, routine equipment replacements at facilities and the implementation of the electronic health record.

Fred Hargett, CFO for Novant Health, commented that this investment was made possible by healthy financial results.

“Strong years such as 2013 allow for continued investment in our communities, facilities and state-of-the-art treatment equipment,” said Hargett. “We have a responsibility to provide our patients with the very best care available. A large part of that is ongoing investment in the tools needed to provide the highest degree of care.”

Since 2010, Novant Health has focused on clinical transformation to gain efficiency, lower costs and, most importantly, return nurses to the patient bedside. As a result of the changes, the organization has recorded a 32 percent decrease in patient falls across all hospitals and a 17 percent reduction in reported medication error rate. Medication overrides, a precursor to medication errors, have also declined.

Summary balance sheet

(in 000s) as of Dec. 31, 2013

Cash and investments	\$2,255,153
Other current assets	606,944
Property and equipment, net	1,818,341
Other assets	648,176
Total assets	\$5,328,614
Current liabilities	\$739,593
Long-term debt	1,771,028
Other liabilities	259,600
Total liabilities	\$2,770,221
Net assets	
Unrestricted	\$2,510,797
Restricted	47,596
Total net assets	\$2,558,393
Total liabilities and net assets	\$5,328,614

Service volume growth

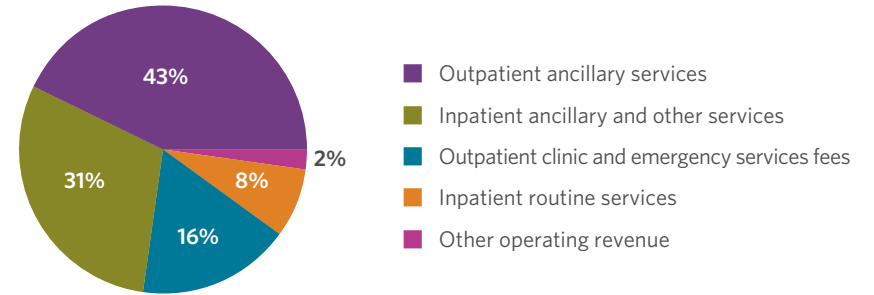
	2013	2012	2011
Licensed beds	2,795	2,795	2,952
Inpatient discharges	123,116	122,231	120,336
Adjusted patient days	1,119,995	1,116,656	1,133,850
ER visits	542,474	541,806	518,297
Surgeries	123,446	121,610	121,724
Physician office visits	3,627,331	3,703,578	3,749,753
Newborn deliveries	17,779	17,986	18,117
Employees	25,595	24,363	24,155

Summary statement of revenue and expenses

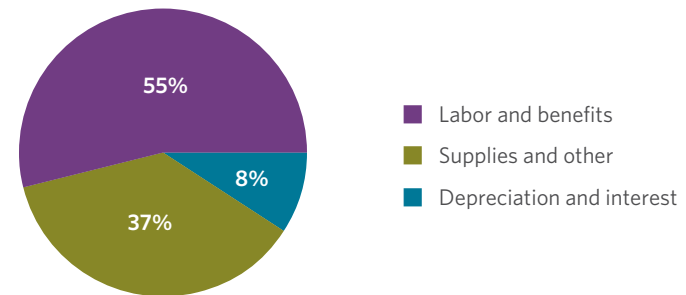
(in 000s) as of Dec. 31, 2013

Operating revenue	\$3,592,695
Operating expenses	
Labor and benefits	\$1,924,394
Supplies and other expenses	1,270,710
Depreciation and interest	251,464
Loss on impairment	36,321
Total operating expenses	\$3,482,889
Operating income	\$109,806
Non-operating income (expense)	163,161
Excess of revenue over expenses	\$272,967

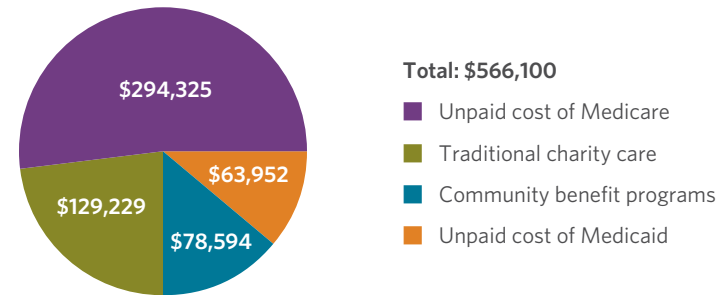
Sources of revenue



Distribution of expenses



Community benefits



Non-discrimination and access to healthcare: Novant Health does not discriminate against any person on the basis of race, color, national origin, religion, disability, sex, veteran's status, sexual orientation, gender identity or age with regard to admission, treatment or participation in its programs, services and activities, or in employment. Free foreign language interpreters are available for individuals with limited English proficiency. Free sign language and oral interpreters, TTYs and other services are available to deaf and hard-of-hearing persons. For further information about this policy, contact: Novant Health director of internal audit & compliance, 1-704-384-7638 or TDD 1-800-735-8262.

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Making healthcare remarkable

