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Our new world
of healthcare

2014 annual report

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HEALTH

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On the cover:

Marilyn Sutterlin and her husband, Joe, celebrated Marilyn's journey — and that of all cancer survivors — at the Novant Health Buddy Kemp Cancer Support Center on National Cancer Survivors Day. Marilyn is a two-time survivor of ovarian cancer and a patient of Novant Health.



Our new world

These are historic times for providers, payors and patients. Seismic shifts in healthcare are ushering in a new era for the industry. Today's consumers are rightfully demanding easier access to care that fits both their schedule and their budget, fracturing the old world's traditional care model.

At Novant Health, we embrace change, form a vision for reinventing the healthcare experience and then turn that vision into a reality. Our team has been working for years on laying the right foundation, allowing us to lead the industry when it comes to providing quality care for our patients and our communities. Nationally, all Novant Health facilities continue to rank in the top 10 percent of healthcare organizations on national indicators for quality.

While we have been transforming healthcare for some time, 2014 was the year we officially stepped out of the old world and into the new one. It also was the year the consumer truly became our epicenter as we promised to provide more affordable and more convenient healthcare. In this new world, many have the option of talking to their providers via video and e-visits. Patients now have access to their online electronic health record. More services like imaging, surgery and rehabilitation are moving from the

traditional hospital setting to the community, where patients can conveniently see a provider when and where it works best for them.

As a progressive industry leader, Novant Health is pioneering an integrated care model that puts the patient at the center of everything we do. This new approach will move us from a fee-for-service environment to a value-based one. We continue to offer free community health programs, grow our physician partnerships and seamlessly implement technology locally so we can connect to others nationally. You'll learn more in this report about each of these exciting initiatives.

Succeeding in today's new environment means we continue to allocate our resources where they best serve our communities. In 2014, that meant we divested our interests in Gaffney Medical Center in South Carolina, and we opened Novant Health Haymarket Medical Center, a new state-of-the-art facility serving Northern Virginia. We also grew in more nontraditional ways by expanding our shared services and management agreements. Hospitals that pursue these partnerships are able to create best-in-class services for their communities.

Finally, it takes tremendous teamwork to move a large health system into fresh space. Our strong physician partnerships and dedicated team are united in our mission to deliver the most remarkable patient experience and improve the health of our communities, one person at a time.

I'm proud to report that Novant Health is well-prepared to thrive in this new era.



Carl S. Armato
Novant Health president and CEO

Delight

Our team goes the extra mile to teach patients how to manage their health in a way that's more affordable and convenient. By planning ahead, we hope to exceed patient expectations.



Delivering value in healthcare

Population health management

Personalized care. Smooth transitions. Improved communication among providers who now work as a team. A proactive approach with high-risk patients. These are a few of the features of Novant Health's approach to population health management.

Our approach encourages wellness and preventive care, and it manages existing conditions to slow or reverse the progression of disease, all while lowering the overall cost of care.

Key to this model's success is coordinated care, with physicians, nurses, pharmacists, dietitians, social workers, referral coordinators and others working together to give patients the customized care they want and need. Ultimately, this type of care provides value — safe, more affordable care with better outcomes — and is centered on our patients' unique needs.

Consider how this approach treats those with chronic obstructive pulmonary disease (COPD) — the third leading cause of death in the United States. Novant Health patients work with a care coordinator to create a personalized action plan with 24/7

support. The plan is color-coded — green, yellow, red — and lists symptoms with appropriate steps to take. Green corresponds with good days when all is well. Yellow indicates symptoms are worsening, and red means urgent care is needed.

Here's one example showing how the model works. A patient was having difficulty breathing and he used his inhaler as his "yellow" care plan instructed, but it didn't help. The next step was to call his doctor who promptly called in a prescription, which brought him relief.

When the patient checked in with his care coordinator later that day, he shared his story. At one point he paused and said, "I think you just saved me from another hospitalization." It was an "aha" moment for the patient and proof for the care team that our population health model works. This patient was successfully coached on how to take care of himself so he could better manage his chronic condition at home.

In the old world, COPD patients were given medication and told to call their doctor as problems

arose. Their well-being became a medical emergency when they struggled to get air, and the crisis often resulted in an emergency room visit, which typically led to a hospital readmission.

With a focus on keeping people healthy, some traditional fee-for-service payments will be replaced by newly negotiated agreements focusing on value, where quality and outcomes factor into how much providers and facilities are paid.

Novant Health is collaborating with payors and partners to identify payment models that match our value-based care delivery. We have also been actively supporting our own team members and their families, and we continue to learn from the models we are deploying and how they can serve our broader patient populations.

Getting the right care in the right setting at the right price is the future of healthcare. It's what makes healthcare affordable and more sustainable. Also, it's our new approach to delivering remarkable healthcare, so people can get better and stay healthy.

Care

Our team provides free screenings to identify serious conditions early.



Becoming a partner in prevention

Remarkable You

When it comes to the health of Americans, the statistics are alarming.

Consider the prevalence of three potentially debilitating conditions. Prediabetes affects one out of every three Americans age 20 and older, and the same is true for hypertension and obesity.

Prevention and education have to be part of the cure. That's why Novant Health is working to improve the health of our patients and communities, educating people about preventing disease — and empowering them to take control of their health.

People need to know their blood sugar level, blood pressure and body mass index. To do that, Novant Health in January 2014 launched Remarkable You, a systemwide initiative that took our message on the road and into the communities we serve.

Throughout the year, our team traveled to fitness centers, libraries, colleges and senior centers to screen people where they live and work. Remarkable You also hosted "State of Your Health" forums in North Carolina and Virginia that were

attended by an array of local leaders committed to help improve the health of their communities.

By the end of 2014, 30,000 individuals received free health screenings for diabetes, high blood pressure and obesity. We also evaluated 500,000 people for these diseases at various inpatient and outpatient care sites.

We're investing in these disease-prevention steps because it's the right thing to do. Diabetes, hypertension and obesity together account for more than \$430 billion in related annual costs and contribute to hundreds of thousands of deaths every year, according to the Centers for Disease Control and Prevention. They also lead to a growing number of health complications, including heart disease, cancer and stroke — each among the top five leading causes of death for both men and women. Together, they are a deadly combination for a downward spiral of health — both for individuals and for communities.

The good news is, these preventable killers can be thwarted or controlled. Ways for doing so can be quite simple. Small changes can really make a big difference, but we first need to find those who need

medical help. Many do not know they are heading down this unhealthy path until it's too late.

Remarkable You helps us create a culture of wellness in our communities. We want our friends and neighbors to live healthy, happy lives. To help them achieve those goals, we're taking on what is a new role for a healthcare provider: a partner in prevention. It's a role we proudly pursue to help our patients and our communities get better and stay healthy.

By the end of 2014:

30,000

individuals received free health screenings for diabetes, high blood pressure and obesity at community locations

500,000

individuals were evaluated for diabetes, high blood pressure and obesity at our care sites

Respect

Our team respects patients' time by providing patients with a secure connection to access their medical records and communicate with providers.



Laying our groundwork to enable transformation

Technology

Delivering excellent healthcare to patients wherever they are requires clear communication among caregivers. Now Novant Health is harnessing the power of information technology to build that connection — and patients are benefiting as a result every day.

Novant Health made significant strides in 2014 toward interoperability, the capability to share data within the organization as well as with authorized third parties. For healthcare information to be shared locally, regionally and nationally, the new standardized electronic health record (EHR) and protocols allow data to be easily exchanged across secure systems.

This technological evolution is no small undertaking — it takes time and money. Over 10 years, Novant Health will spend \$650 million on Dimensions, the name for our EHR, allowing us to consolidate dozens of different computer systems, link providers with our medical centers, and exchange information with other health systems.

Locally, Novant Health providers — family practitioners, specialists and ER physicians — all have access to the same record. The EHR is now all-inclusive, with the results of CT scans, lab tests

and physician notes all in one place. That means fewer misunderstandings and, for the providers, less time spent searching for information.

Our ambulatory facilities are also operating at a Healthcare Information and Management Systems Society (HIMSS) Stage 7. At the time of the designation, Novant Health was one of only six systems in the country to attain the highest level of EHR use. HIMSS Stage 7 represents the successful transformation of care in Novant Health's more than 400 physician clinics.

On the national level, interoperability opens up a whole new world, allowing us to securely share information with thousands of hospitals and medical facilities across the country. This seamless connection saves time and money, and, more importantly, improves both the quality and safety of care.

For example, when a family from Manassas, Virginia, vacations at Disney World and the youngest breaks an arm, those X-rays taken in Orlando can now easily be sent home to the pediatrician for follow-up care. Or when a retired grandmother who has diabetes and a long list of other conditions goes into diabetic

shock while visiting her son in San Francisco, her Novant Health internist in North Carolina can forward her complete medical history to California within minutes.

Another milestone in 2014 was connecting to the eHealth Exchange, a secure federal platform that allows healthcare providers to instantly share appropriate patient data. In fact, Novant Health was the first North Carolina healthcare provider to connect to this exchange, which allows the organization to share records with any Veterans Affairs (VA) Medical Center. Now if a VA patient arrives at one of Novant Health's facilities using our electronic health record, the care team can immediately access that person's medical history.

"As an industry leader, Novant Health is in a position to truly take technology to the next level, allowing the organization to grow its business intelligence and analytics, and, ultimately, to provide a better patient experience," said Dave Garrett, Novant Health chief information officer.

The right system lays the foundation for everything to interconnect and work together today as well as tomorrow and for years to come.

Know

Our medical group team members are fully present with patients.
We give their well-being our full attention.



Growing to meet the needs of our patients

Novant Health medical group

Novant Health is committed to providing easier access to medical care, improving communication between providers and patients, and growing in the face of a challenging healthcare environment. In 2014, Novant Health medical group team members across the entire footprint achieved each of these markers of success and more.

“In a difficult healthcare environment and with significant headwinds, the medical group continues to grow and make major progress toward the Novant Health promise of remarkable care for patients,” said John Phipps, MD, president of Novant Health medical group.

It was a year that saw our medical group achieve internal targets for 92 percent of identified quality metrics and saw consistent quarters of rising patient satisfaction scores. Added to those achievements, the group realized a financial performance for the year that outpaced expectations. To help our providers thrive in an increasingly challenging industry, we invested in physician wellness and leadership development, with more than 200 providers participating in such programs during the year.

And what have we done for patients? The year’s biggest change was a dramatic expansion in access and convenience.

The medical group added 36 new clinic locations, bringing our total to 413. In the Charlotte market, we opened four new Express Care locations to meet patients’ need for affordable, walk-in, extended-hours care for common illnesses and minor injuries. With the addition of 71 physicians and 64 advanced practice clinicians — for a total of 1,286 physicians and 539 advanced practice clinicians — the medical group in 2014 charted a course for continued growth.

“We gave patients more locations for appointments, but just as important, we provided them with more choices,” said Dr. Phipps. “Our medical group providers expanded their hours and offered more video and e-visits to make care more convenient.”

Communication between providers and patients took a big leap forward, as well. By the end of 2014, more than 400,000 Novant Health patients were using MyChart, the online patient portal, making Novant Health a national leader in provider-patient electronic communication.

Many other healthcare organizations offer tools for patients to access their medical records, but Novant Health stands out for the volume of patients who make regular use of MyChart. Every month, patients use MyChart to send an average of 55,000 emails, schedule 4,600 appointments and receive some 360,000 medical results. What it all means for patients: quick-and-easy communication — and enhanced safety and quality.

“As growing numbers of patients and providers connect through MyChart, critical healthcare information can be shared with providers wherever patients receive care,” said Dr. Phipps, “helping ensure they get appropriate treatments and a seamless experience throughout the Novant Health system.”

The year’s biggest change was a dramatic expansion in access and convenience.

36 new clinic locations

71 physicians added

64 advanced practice clinicians added

Strong financials ensure healthy reinvestment in our communities

The story of Novant Health in 2014 is one of stability in a time of uncertainty, and of strength in a time of change. Our thoughtful stewardship of resources allowed us to widen access to top-quality healthcare and ready the organization for future growth.

Put simply: Our strong financial results mean we can invest in the health of each community we serve.

“As with the past several years, Novant Health managed itself with a strong sense of financial responsibility as we prepare for continued changes in the healthcare industry,” said Carl S. Armato, president and CEO of Novant Health. “Strong financial results are necessary for us to reinvest in our communities, facilities and team members.”

For the fiscal year 2014, Novant Health reported a net income of \$201.8 million on operating revenue of \$3.8 billion. The organization also reported a community benefit of \$639.2 million, including \$135.3 million of direct charity care. “We are committed to fulfilling our mission to improve the health of the communities we serve, regardless of a patient’s ability to pay,” said Armato.

In addition to community benefit and charity care, as a not-for-profit system, Novant Health reinvests operating and investment income into new technology and facilities, hospital improvements, equipment and community health needs.

Those initiatives touched patients across our four-state footprint, making their care better, safer and more convenient.

In 2014, we invested more than \$266 million in capital for construction projects, equipment upgrades and replacements at facilities and the implementation of the electronic health record at seven medical centers. We also made a significant expenditure to complete construction of the new and much-needed Novant Health Haymarket Medical Center in Northern Virginia.

Following the first open enrollment period for the Health Insurance Marketplace, Novant Health saw a slight decline in self-pay patients. Volumes remained neutral year-over-year. As patients pay more out-of-pocket with rising deductibles, elective procedures will continue to be carefully considered.

The economic environment in which we deliver care may change, but one thing will not: Our commitment to providing excellent, compassionate care to the patients and communities we serve.

“Our patients rely on our investments every time they trust us to care for them,” said Fred Hargett, Novant Health chief financial officer. “We have a responsibility to our communities to ensure we provide them with the very best care and attention available.”

“Our patients rely on our investments every time they trust us to care for them.”

**– Fred Hargett,
Novant Health chief financial officer**

Summary balance sheet

(in 000s) as of Dec. 31, 2014

Cash and investments	\$2,415,488
Other current assets	609,393
Property, plant and equipment, net	1,871,836
Other assets	506,306
Total assets	\$5,403,023
Current liabilities	\$676,700
Long-term debt	1,753,917
Other liabilities	307,242
Total liabilities	\$2,737,859
Net assets	
Unrestricted	\$2,613,781
Restricted	51,383
Total net assets	\$2,665,164
Total liabilities and net assets	\$5,403,023

Service volume growth

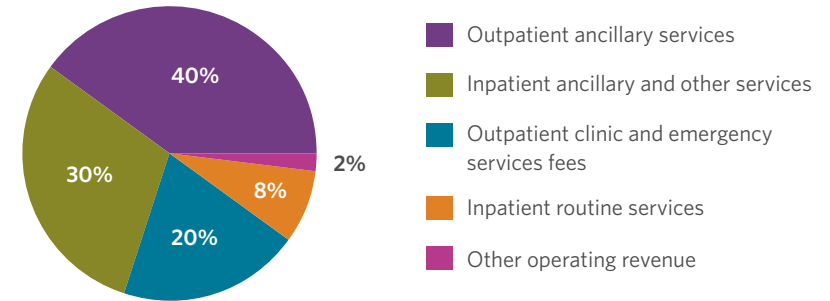
	2014	2013	2012
Licensed beds	2,710	2,795	2,795
Maintained beds	2,062	2,270	2,234
Inpatient discharges	123,770	123,116	122,231
Adjusted patient days	1,147,156	1,114,578	1,116,656
ER visits	536,046	541,346	541,806
Surgeries	121,598	121,784	121,610
Physician office visits	3,853,472	3,627,331	3,703,578
Newborn deliveries	18,755	17,779	17,986
Employees	25,684	25,595	24,363

Summary statement of revenue and expenses

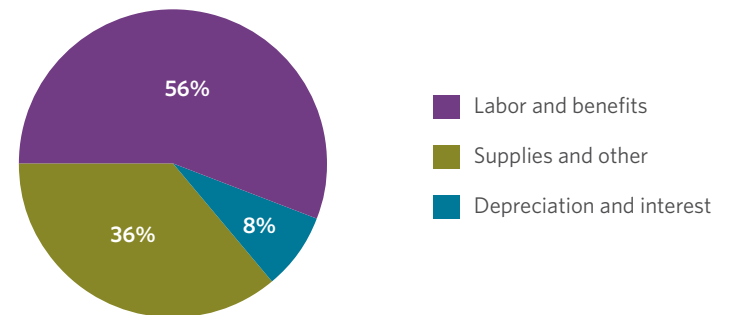
(in 000s) as of Dec. 31, 2014

Operating revenue	\$3,787,931
Operating expenses	
Labor and benefits	\$2,007,215
Supplies and other expenses	1,316,882
Depreciation and interest	285,503
Loss on impairment	11,409
Total operating expenses	\$3,621,009
Operating income	\$166,922
Nonoperating income (expense)	34,849
Excess of revenues over expenses	\$201,771

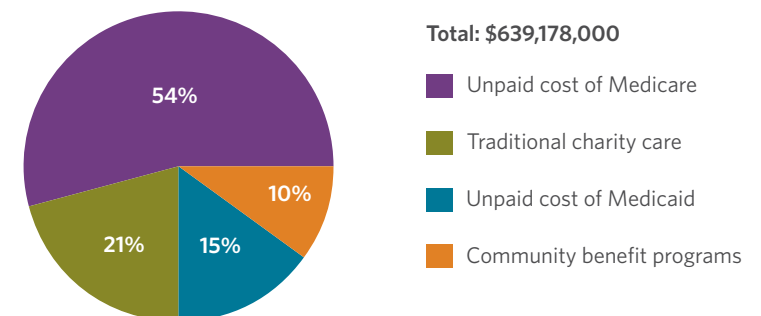
Sources of revenue



Distribution of expenses



Community benefits





Our leadership

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Jacqueline R. Daniels
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Fred M. Hargett
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Jeffery T. Lindsay
Executive vice president and chief operating officer

John D. Phipps, MD
Executive vice president of Novant Health and
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Executive vice president and chief medical officer

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NovantHealth.org    

Making healthcare remarkable