Novant Health, Inc. and Affiliates

Combined Financial Statements
December 31, 2010 and 2009

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Report of Independent Auditors

To the Board of Trustees of
Novant Health, Inc. and Affiliates

In our opinion, the accompanying combined balance sheets and the related combined statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of Novant Health, Inc. and Affiliates "(the "Company") as of December 31, 2010 and 2009 and the combined results of their operations and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the combined financial statements, the Company adopted Accounting Standards Codification for Business Combinations, which changed the manner in which it accounts for mergers and acquisitions as of January 1, 2010 and required the Company to perform a transitional goodwill impairment analysis as of January 1, 2010. The Company also adopted Accounting Standards Codification for Consolidation, which changed the manner in which it accounts for noncontrolling interests.

PricewaterhouseCoopers LLP

March 31, 2011

Novant Health, Inc. and Affiliates
Combined Balance Sheets
December 31, 2010 and 2009

(in thousands of dollars)	2010	2009
Assets		
Current assets		
Cash and cash equivalents	$ 507,879	$ 788,206
Accounts receivable, net of allowance for doubtful accounts of $184,169 in 2010 and $165,551 in 2009	392,328	426,038
Short-term investments	45,088	34,731
Deferred tax asset	6,118	10,766
Assets held for sale	9,013	17,545
Other current assets	121,967	126,014
Total current assets	1,082,393	1,403,300
Assets limited as to use	205,928	144,694
Long-term investments	1,027,269	831,176
Property and equipment, net	1,626,548	1,615,267
Intangible assets and goodwill, net	462,232	490,449
Investments in affiliates	173,062	168,105
Deferred tax asset	3,325	-
Other assets	38,330	39,960
Total assets	$ 4,619,087	$ 4,692,951
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	155,421	496,779
Short-term borrowings	95,812	104,606
Accounts payable	116,870	118,847
Accrued liabilities	273,325	250,857
Estimated third-party payor settlements	5,056	3,197
Total current liabilities	646,484	974,286
Long-term debt, net of current portion	1,702,154	1,587,161
Deferred tax liability	-	308
Derivative financial instruments	40,752	27,736
Employee benefits and other liabilities	277,895	283,403
Total liabilities	2,667,285	2,872,894
Commitments and contingencies		
Net assets		
Unrestricted	1,909,918	1,775,542
Unrestricted - noncontrolling interests	7,503	9,352
Temporarily restricted	25,672	26,669
Permanently restricted	8,709	8,494
Total net assets	1,951,802	1,820,057
Total liabilities and net assets	$ 4,619,087	$ 4,692,951

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

Novant Health, Inc. and Affiliates
Combined Statements of Operations and Changes in Net Assets
Years Ended December 31, 2010 and 2009

(in thousands of dollars)	2010	2009
Unrestricted revenues, gains and other support		
Net patient service revenue	$ 3,248,604	$ 3,114,601
Premium revenue	4,694	1,279
Other revenue	138,917	151,891
Total unrestricted revenues, gains and other support	3,392,215	3,267,771
Expenses		
Salaries and employee benefits	1,772,617	1,730,842
Supplies and other	1,098,655	1,055,018
Depreciation expense	188,611	192,019
Amortization expense	7,912	14,732
Loss on impairment	16,041	-
Gain on sale of real estate	(6,118)	(10,607)
Interest expense	71,366	60,211
Provision for bad debts	177,685	146,605
Total expenses	3,326,769	3,188,820
Operating income	65,446	78,951
Other income (expense)		
Investment income	90,637	140,065
Loss on exchange of partnership interest	-	(18,252)
Unrealized gain (loss) on non-hedged derivative financial instruments	(253)	455
Income tax benefit	2,263	4,511
Other, net	(120)	(3,491)
Loss on defeasance of bonds	-	(265)
Excess of revenues over expenses	$ 157,973	$ 201,974

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

Novant Health, Inc. and Affiliates
Combined Statements of Operations and Changes in Net Assets
Years Ended December 31, 2010 and 2009

(in thousands of dollars)	**2010**	**2009**
Unrestricted net assets		
Excess of revenues over expenses	$ 157,973	$ 201,974
Change in pension liability	4,912	24,089
Cumulative effect of change in accounting principle	(24,312)	-
Unrealized gain (loss) on derivative financial instruments	(11,025)	31,760
Miscellaneous changes in unrestricted net assets	(2,835)	3,682
Increase in unrestricted net assets, before effects of discontinued operations	124,713	261,505
Discontinued operations		
Loss on discontinued operations	(4,431)	(5,220)
Gain on sale of discontinued operations	12,245	-
Increase in unrestricted net assets	132,527	256,285
Temporarily restricted net assets		
Contributions and investment income	5,808	6,035
Net assets released from restrictions for operations	(6,805)	(8,556)
Decrease in temporarily restricted net assets	(997)	(2,521)
Permanently restricted net assets		
Contributions	215	401
Increase in permanently restricted net assets	215	401
Increase in total net assets	131,745	254,165
Net assets, beginning of year	1,820,057	1,565,892
Net assets, end of year	$ 1,951,802	$ 1,820,057

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

Novant Health, Inc. and Affiliates
Combined Statements of Cash Flows
Years Ended December 31, 2010 and 2009

(in thousands of dollars)	2010	2009
Cash flows from operating activities		
Increase in net assets	$ 131,745	$ 254,165
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	198,407	212,604
Gain on sale of real estate	(6,118)	(10,441)
Loss on impairment	16,041	-
Gain on sale of discontinued operations	(12,245)	-
Cumulative effect of change in accounting principle	24,312	-
Loss on exchange of partnership interest	-	18,252
Provision for bad debts	182,021	151,414
Share of earnings in affiliates, net of distributions	(4,253)	15,514
Net gains on assets limited as to use and investments	(70,681)	(133,849)
Change in fair value of interest rate swap	13,016	(35,084)
Changes in operating assets and liabilities		
Accounts receivable	(148,311)	(185,594)
Investments and assets limited as to use	(152,056)	(36,540)
Accounts payable and accrued liabilities	25,417	37,155
Accrued pension liability	(725)	(20,078)
Deferred taxes, net	1,015	(12,069)
Other assets and liabilities, net	(1,024)	2,068
Net cash provided by operating activities	196,561	257,517
Cash flows from investing activities		
Purchases of property and equipment	(208,282)	(255,824)
Proceeds from sale of property and equipment	5,467	102,384
Proceeds from sale of affiliates	6,250	-
Proceeds from the liquidation of short-term investments	6,763	19,401
Repayment of notes receivable and other, net	3,653	1,162
Net cash used in investing activities	(186,149)	(132,877)
Cash flows from financing activities		
Proceeds from issuance of bonds	256,915	446,885
Bond proceeds (received from) deposited with trustee	(51,336)	19,452
Principal payments on long-term debt	(487,363)	(31,132)
Proceeds from line of credit and other financing	-	107,210
Payments on line of credit	(8,955)	(10,541)
Net cash provided by (used in) financing activities	(290,739)	531,874
Net increase (decrease) in cash and cash equivalents	(280,327)	656,514
Cash and cash equivalents		
Beginning of year	788,206	131,692
End of year	$ 507,879	$ 788,206

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

Novant Health, Inc. and Affiliates
Combined Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Supplemental disclosure of cash flow information		
Interest paid, net of amounts capitalized	$ 71,181	$ 57,716
Income taxes paid	1,296	4,321
Supplemental disclosure of noncash financing and investing activities		
Additions to property and equipment financed through current liabilities	4,926	15,980

During 2010 and 2009, the Company entered into capital lease obligations of $857 and $8,381, respectively, for land, property and equipment of $857 and $8,381.

During 2009, the Company restructured the partnership agreement with HMA. As a result of that transaction, the Company acquired the following assets and liabilities:

Accounts receivable	$ 12,439
Property and equipment	51,315
Intangible assets and goodwill	88,771
Investment in affiliate	(146,338)
Other assets and liabilities, net	(2,000)
Debt	(4,187)
Cash received for restructuring of HMA partnership	$ -

During 2010, the Company exchanged five MedQuest locations for three North Carolina based mobile imaging centers. As a result of that transaction, the Company exchanged the following assets:

Property and equipment received	$ 650
Intangible assets and goodwill received	8,550
Property and equipment exchanged	(1,113)
Intangible assets and goodwill exchanged	(2,465)
Gain on sale of discontinued operations	(4,922)
Cash paid for exchange	$ 700

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

(in thousands of dollars)

1. Reporting Entity

Novant Health, Inc. (“Novant” or the “Company”) is a nonprofit health care system with dual headquarters in Winston-Salem and Charlotte, North Carolina. Novant consists of twelve hospitals and a 1,092-physician medical group with approximately 358 clinic locations. Other facilities and programs of Novant include outpatient surgery and diagnostic centers, long-term care facilities, charitable foundations, a risk retention group, rehabilitation programs and community health outreach programs. Hospitals include Presbyterian Hospital, Presbyterian Orthopaedic Hospital, Presbyterian Hospital Huntersville and Presbyterian Hospital Matthews of the Charlotte, North Carolina area; Forsyth Medical Center and Medical Park Hospital in Winston-Salem, North Carolina; Thomasville Medical Center in Thomasville, North Carolina; Rowan Regional Medical Center in Salisbury, North Carolina; Brunswick Community Hospital in Supply, North Carolina; Prince William Hospital in Manassas, Virginia; Franklin Regional Medical Center in Louisburg, North Carolina; and Upstate Carolina Medical Center in Gaffney, South Carolina. Novant and its affiliates serve their communities with programs including health education, home health care, prenatal clinics, community clinics and immunization services.

On July 1, 2009, Prince William Health System (“PWHS”), a nonprofit healthcare system based in Manassas, Virginia, joined the Company by designating Novant as the sole member of PWHS. PWHS includes Prince William Hospital, a 170-bed acute care facility in Manassas, Virginia, and Heathcote Health Center, Marblestone Health Center, Lake Manassas Cancer Center, and Caton Merchant House, an assisted living facility, all in the surrounding area. The merger qualified as a tax-free reorganization and was accounted for under the pooling-of-interests accounting method.

2. Summary of Significant Accounting Policies

Principles of Combination

The combined financial statements include the accounts of all affiliates controlled by Novant. 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 Values of Financial Instruments

Carrying values of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments are disclosed in the Fair Value Measurements note.

(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 private patients. Novant manages these receivables by regularly reviewing the accounts and contracts and by providing appropriate allowances for uncollectible amounts. In evaluating the collectibility of accounts receivable, the Company considers several factors, including historical collection results, the age of the accounts, changes in collection patterns, the composition of accounts by payor type, the status of ongoing disputes with payors and general industry conditions.

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 and Assets Limited as to Use
Investments, excluding alternatives, consist principally of corporate stocks and bonds and U.S. government and agency securities, all of which are classified as trading securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying combined balance sheets. The Company also invests in alternative investments through limited partnerships and limited liability corporations ("LLCs") which are reported using the equity method of accounting based on information provided by the respective partnership or LLC. The values provided by the respective partnership or LLC are based on historical costs, market value, or other estimates that require varying degrees of judgment. The limited partnerships generally contract with a manager who has full discretionary authority over the investment decisions within guidelines established by the Company. 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. Investment income or loss and unrealized gains and losses on investments, interest and dividends is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

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, which are classified primarily as trading securities. Long-term investments and assets limited as to use are classified as noncurrent assets as the Company does not expect to use these funds to meet its current liabilities.

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.

(in thousands of dollars)

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.

The Company recognizes all derivatives as either assets or liabilities in the combined balance sheets and measures those instruments at their fair value in accordance with generally accepted accounting principles ("GAAP"). 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. GAAP requires the Company to measure the effectiveness, as defined by GAAP, of all derivatives that qualify for hedge accounting. The Company formally documents 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
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 and amortization expense.

Maintenance and repairs of property and equipment are expensed in the period incurred. All 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 GAAP, which requires the recognition of fixed rental payments, including rent escalations, on a straight-line basis over the term of the lease.

(in thousands of dollars)

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, Novant is required to operate the Hospital as a community general hospital open to the general public, and if Novant 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 $319,720 at December 31, 2010.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, 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 the 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

Prior to 2010, the Company recorded amortization expense for certain goodwill and intangible assets related to not-for-profit business acquisitions. In May 2009, the FASB issued a new standard on mergers and acquisitions for not-for-profit entities, with an effective date for the Company beginning in 2010. This standard provides guidance on improving the quality of information in financial reports provided by a not-for-profit organization regarding business combinations with one or more other not-for-profit entities, businesses or nonprofit activities. The guidance distinguishes mergers (carryover method) from acquisitions (acquisition method) and provides updated accounting for goodwill and intangibles. The standard also requires not-for-profit organizations to stop amortizing goodwill and indefinite-lived intangible assets and to test all such goodwill and intangible assets annually for impairment, in a manner similar to the annual impairment testing already being performed by the Company for its for-profit businesses.

(in thousands of dollars)

As a result of the new standard, the Company no longer amortizes any of its goodwill or indefinite-lived intangible assets, but tests them for impairment using a fair value approach. On an annual basis, absent any impairment indicators, the Company performs its goodwill and indefinite-lived intangibles impairment testing as of October 1. In the event the fair value of any reporting unit containing goodwill is less than the carrying values of such reporting units, impairment charges are recorded to reduce the goodwill in such reporting unit to its implied fair value. An impairment charge is recorded for any indefinite-lived intangible asset to the extent the current fair value of such asset is less than its carrying value.

The new impairment testing guidance required the Company to perform a transitional impairment evaluation as of January 1, 2010 for goodwill and indefinite-lived intangibles. The Company completed this evaluation and recorded a transitional impairment adjustment of $24,312. This charge is shown as cumulative effect of a change in accounting principle in the combined statements of operations and changes in net assets for 2010.

Investments in Affiliates
Investments in entities which Novant 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 are accounted for using the cost method The most significant of these investments include a hospital partnership, a clinical laboratory, a cancer center, and a home health, home infusion and durable medical equipment company.

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 hospital service costs related to various centers at the acute care facilities.

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.

Income Taxes
Novant 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 also operates various for-profit subsidiaries which operate in service lines that are complimentary to Novant’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.

(in thousands of dollars)

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 not 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.

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 combined balance sheets.

Excess of Revenues over Expenses
The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets, including donor restricted contributions for long-lived assets, changes in pension liabilities, the effects of discontinued operations and changes in accounting principles.

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. Financial Statement Revision

Certain prior year amounts have been revised to appropriately present money market investments as cash and cash equivalents instead of short term investments. The Company has revised its combined balance sheet as of December 31, 2009 and its combined statement of cash flows for the year ended December 31, 2009 for this item. As a result, the Company's money market investments of $19,401 which had previously been included in short term investments are now presented in cash and cash equivalents in the accompanying combined balance sheet as of December 31, 2009. In addition, the aggregate proceeds from the sale of certificates of deposit for the year ended December 31, 2009 should have been presented in the combined statement of cash flows as investing activities for 2009. These revisions had no impact on the Company's results of operations, changes in net assets, or cash flows from operating or financing activities. The effects of this revision are summarized in the table below:

	2009 Revised	2009 As Reported
Cash flows from investing activities:		
Proceeds from the liquidation of short-term investments	$ 19,401	$ -
Net increase in cash and cash equivalents	656,514	637,113
Cash and cash equivalents, beginning of year	131,692	131,692
Cash and cash equivalents, end of year	788,206	768,805

4. Organizational Changes

Acquisitions

On March 31, 2008, the Company entered into a partnership with Health Management Associates, Inc. ("HMA"). In exchange for a 27% ownership interest in a newly formed limited liability company, Novant contributed $300,000 in cash. HMA contributed the net assets and operations of seven hospitals located in North Carolina and South Carolina. Novant accounted for this investment using the equity method through September 30, 2009.

On October 1, 2009, HMA and the Company entered into a Restructuring Agreement (the "Restructuring Agreement") that terminated and replaced the agreement described above.

Pursuant to the Restructuring Agreement: (i) HMA received a 100% interest in each of Davis Regional Medical Center, Sandhills Regional Medical Center, Carolina Pines Regional Medical Center and Chester Regional Medical Center; (ii) Novant manages each of 70-bed Franklin Regional Medical Center and 125-bed Upstate Carolina Medical Center and received a 99% interest in the net profits, net losses and free cash flow of such hospitals; (iii) HMA manages 105-bed Lake Norman Regional Medical Center located in Mooresville, North Carolina (subject to certain management rights expressly delegated to Novant) and received a 70% interest in the net profits, losses and free cash flow of such hospital (with Novant receiving the remaining 30% interest in the net profits, net losses and free cash flow of such hospital); (iv) certain physician practices associated with Davis Regional Medical Center, Sandhills Regional Medical Center, Carolina Pines Regional Medical Center, Chester Regional Medical Center and Lake Norman Regional Medical Center have been transitioned back to HMA; and (v) Novant agreed to certain operational covenants for a four-year period with respect to the services offered at Presbyterian Hospital Huntersville located in Huntersville, North Carolina.

(in thousands of dollars)

The Company has accounted for the effects of the Restructuring Agreement as an exchange of interest, resulting in a loss on exchange of $18,252 in the combined statement of operations for 2009. As a result of the Restructuring Agreement, beginning October 1, 2009, the Company has recorded the financial position, operations, and cash flows of Franklin Regional Medical Center and Upstate Carolina Medical Center on a consolidated basis. Novant's restructured interest in Lake Norman Regional Medical Center continues to be recorded on the equity method.

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. Approximately 12 MedQuest locations were divested during 2010, and an additional 12 sites are expected to be sold during 2011. In addition to these divestitures, the Company has also entered into a letter of intent with an unrelated third party to sell the operations of one of its long-term care facilities. In accordance with GAAP, the operating results related to these locations have been reported as discontinued operations in the combined 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:

	2010	2009
Net operating revenue	$ 56,977	$ 71,056
Operating loss	(4,431)	(5,220)

The accompanying combined balance sheets include assets held for sale related to the above transactions. At December 31, 2010 and 2009, assets held for sale consist primarily of property and equipment and intangible assets.

5. Net Patient Service Revenue

Net patient service revenue is presented net of provisions for contractual adjustments and other allowances. Novant 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.

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

(in thousands of dollars)

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 is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Novant and audits thereof by the fiscal intermediary. Novant's cost reports have been audited and finalized by the Medicare intermediary through 2007 for Presbyterian Hospital Huntersville, and through 2006 for all other facilities. Medicaid cost reports are finalized through 2007.

Revenue from the Medicare and Medicaid programs accounted for approximately 31.5% and 8.6%, respectively, of Novant's net patient service revenue for the year ended 2010, and 30.5% and 8.8%, respectively for the year ended 2009. 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.

Other Payors
Novant also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Novant 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 $4,129,773 (or 53%) and $3,753,374 (or 52%) of 2010 and 2009 gross patient service revenue, respectively.

The provision for bad debts 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.

6. Charity Care and Community Benefit

In accordance with Novant's mission to improve the health of its communities one person at a time, all Novant 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 a specified percentage of the federal poverty level. The percentage was 300% for 2010 and 2009. Novant 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 our charity care program. In addition to these programs for our hospitals, Novant physician groups and outpatient centers also have charity care programs to assist patients in need. The Company's cost of providing care to indigent patients was $118,565 and $106,086 for the years ended December 31, 2010 and 2009, respectively.

(in thousands of dollars)

In addition to providing charity care to uninsured patients, Novant 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. The Company's cost of providing care to indigent patients and community benefit programs was $469,165 and $431,857 for the years ended December 31, 2010 and 2009, respectively. Novant has identified 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 and our neighborhoods:

- 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. Community benefit programs also include the cost of medical education and research.

The cost to Novant of providing care to indigent patients and community benefit programs for the year ended December 31, 2010 is as follows:

Traditional charity care	$ 118,565
Unpaid cost of Medicare	194,464
Unpaid cost of Medicaid	92,569
Community benefit programs	63,567
	$ 469,165

Novant estimates the costs of providing care to indigent patients and community benefit programs using each facility's estimated ratio of costs to charges.

(in thousands of dollars)

7. Assets Limited as to Use and Investments

Short-Term Investments

Novant 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:

	2010	2009
Certificates of deposit	$ 2,968	$ 9,731
Fixed income securities	44,523	27,922
	47,491	37,653
Less: Valuation allowance	(2,403)	(2,922)
	$ 45,088	$ 34,731

Assets Limited as to Use

The designation of assets limited as to use is as follows:

	2010	2009
Under indenture agreement held by trustee	$ 116,465	$ 62,555
Under general and professional liability funding arrangement held by trustee	42,310	29,404
Designated by board to service benefit plans	30,367	27,092
Restricted by bank agreements	16,777	25,627
Restricted by donor	9	16
	$ 205,928	$ 144,694

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

Long-Term Investments

The composition of long-term investments at December 31 is set forth in the following table:

	2010	2009
Cash and cash equivalents	$ 11,884	$ 22,500
US equities	261,288	220,533
International equities	218,674	169,769
Fixed income securities	130,884	155,281
Hedge funds	323,229	215,595
Emerging markets	69,486	39,457
Real estate and other	11,824	8,041
	$ 1,027,269	$ 831,176

(in thousands of dollars)

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.

Novant's investments in hedge funds represent 31.5% of total long-term investments held at December 31, 2010. 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 non-marketable investments), and nondisclosure of portfolio composition.

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

	2010	2009
Income (loss)		
Interest and dividend income	$ 14,072	$ 15,316
Net realized gains (losses)	5,884	(9,100)
Net gains	70,681	133,849
	$ 90,637	$ 140,065

8. Property and Equipment

Property and equipment consists of the following at December 31:

	2010	2009
Land and land improvements	$ 222,935	$ 225,695
Leasehold improvements	125,821	110,155
Buildings and building improvements	1,286,510	1,239,615
Buildings under capital lease obligations	27,099	26,763
Equipment	1,549,338	1,485,851
Equipment under capital lease obligations	18,201	17,258
Construction in progress	321,966	243,547
	3,551,870	3,348,884
Less: Accumulated depreciation	(1,925,322)	(1,733,617)
	$ 1,626,548	$ 1,615,267

At December 31, 2010 and 2009, land and buildings with a net book value of $20,313 and $13,451, 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, 2010 and 2009 amounted to $188,611 and $192,019, respectively. Accumulated amortization for buildings and equipment under capital lease obligations was $27,991

(in thousands of dollars)

and $23,359 at December 31, 2010 and 2009, respectively. Construction contracts of approximately $389,584 exist for the construction of new hospitals, expansion of existing hospitals and facility renovations. At December 31, 2010, the remaining commitment on these contracts was $116,759.

On July 24, 2006, Novant sold a portfolio of five medical office buildings in the Charlotte area to a third party real estate investor. The combined selling price of the buildings was $121,700. Novant has retained ownership of the land on which the buildings are situated. The buyer is leasing the land from Novant and Novant is leasing space in each of the five buildings from the buyer. The transaction was recorded as a sale–leaseback and resulted in a total gain of $63,021. Novant recognized previously deferred gains from this transaction of $3,866 and $8,241 in 2010 and 2009, respectively. The remaining deferred gain of $1,440 will be recognized in 2011.

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 a gain from this transaction of $4,002 and $2,001 in 2010 and 2009, respectively. The remaining deferred gain of $53,886 will be recognized over the average life of Novant's lease agreements with the buyer.

9. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	Gross Intangible	Accumulated Amortization	Net Intangible
Balance at December 31, 2009			
Unamortized intangible assets			
Certificates of need	$ 83,699	$ -	$ 83,699
Total unamortized intangible assets	83,699	-	83,699
Amortized intangible assets			
Business relationships	92,249	6,217	86,032
Corporate trade name and other intangibles	40,380	6,957	33,423
Total amortized intangible assets	132,629	13,174	119,455
Total intangible assets	$ 216,328	$ 13,174	$ 203,154
Balance at December 31, 2010			
Unamortized intangible assets			
Certificates of need	$ 87,420	$ -	$ 87,420
Total unamortized intangible assets	87,420	-	87,420
Amortized intangible assets			
Business relationships	92,173	10,682	81,491
Corporate trade name and other intangibles	40,371	9,265	31,106
Total amortized intangible assets	132,544	19,947	112,597
Total intangible assets	$ 219,964	$ 19,947	$ 200,017

(in thousands of dollars)

Amortization expense related to intangible assets (excluding goodwill in 2009) was $6,773 and $5,881 for the years ended December 31, 2010 and 2009, respectively. Estimated annual amortization expense for intangible assets for the years 2011 through 2015 is approximately $5,682, $5,597, $5,594, $5,593 and $5,593, respectively.

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

	2010	2009
As of January 1		
Goodwill, net of accumulated amortization	$ 309,908	$ 257,712
Accumulated impairment losses	(22,613)	(22,613)
	287,295	235,099
Goodwill transition adjustment	(24,312)	-
Goodwill acquired, net of purchase price adjustments and other	15,342	59,167
Amortization	-	(6,971)
Impairment	(16,041)	-
Goodwill related to discontinued operations	(69)	-
	262,215	287,295
As of December 31		
Goodwill, net of accumulated amortization	300,869	309,908
Accumulated impairment losses	(38,654)	(22,613)
	$ 262,215	$ 287,295

As a result of its annual impairment testing for 2010, Novant recorded impairment charges of $16,041 to reduce the carrying value of goodwill and other intangibles to their implied and estimated fair values, respectively for certain reporting units. This impairment charge was a result of lower than expected 2010 operating results at certain Novant facilities. Our impairment tests presume stable or improving results in our facilities, 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 may occur. Future restructuring of our markets that could potentially change our reporting units could also result in future impairments of goodwill.

Impairment tests are performed at the reporting unit level for units that have goodwill. GAAP prescribes a two step process for testing for goodwill impairments. 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 earning and sales methods. If the carrying value of the reporting unit is less than fair value of the reporting unit the goodwill is not considered impaired. If the carrying value is greater than 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

(in thousands of dollars)

allocation and compared to the carrying value with an impairment loss recognized if the carrying value is greater than the implied fair value. No impairment charges were recorded in 2009.

10. Investments in Affiliates

Novant has non-controlling interests in ten healthcare related entities. The Company's ownership interests in the entities range from 5% to 50%. 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 (losses) for the years ended December 31 is as follows:

	% Ownership		Investment Balance as of December 31,		Share of Earnings (Loss) of Investee	
Investee	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Hospital Partnership	30%	30%	$ 129,877	$ 125,471	$ 6,287	$ 14,471
Advanced Services	25%	25%	18,625	17,752	4,051	6,158
Solstas Lab Partners	5%	12%	11,167	13,204	-	-
Providence Plaza LLC	30%	30%	4,870	4,823	112	52
Cancer Center	50%	50%	1,970	1,314	1,217	950
Other	Various	Various	6,553	5,541	143	(187)
			$ 173,062	$ 168,105	$ 11,810	$ 21,444

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

	2010	**2009**
Assets	$ 225,557	$ 217,142
Liabilities	88,379	137,020
Equity	137,178	80,122
Total revenue	297,081	528,986
Total expenses	256,497	456,619
Net income	40,584	72,367
Novant's share of net income	11,810	21,444

(in thousands of dollars)

11. Other Assets

Other assets consist of the following at December 31:

	2010	2009
Notes receivable and other	$ 12,307	$ 16,008
Deferred financing costs, net of amortization	14,137	11,396
Cash surrender value of insurance policies	10,143	9,436
Pledges receivable	1,743	3,120
	$ 38,330	$ 39,960

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

Pledges Receivable
The Company's pledges receivable are expected to be collected as follows:

2011	$ 763
2012–2016	1,618
Thereafter	987
	3,368
Less: Allowance for doubtful accounts	(1,625)
	$ 1,743

12. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2010	2009
Accrued compensation	$ 161,344	$ 149,639
Payroll taxes and withholdings	2,528	2,457
Interest	11,820	11,540
Other accrued liabilities	62,490	60,308
Self-insurance		
Employee medical claims liability	16,900	12,964
Malpractice and workers' compensation liability	18,243	13,949
	$ 273,325	$ 250,857

(in thousands of dollars)

13. Long-Term Debt

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

	2010	2009
Tax-exempt revenue bonds	$ 971,295	$ 723,291
Mortgage revenue bonds	79,675	81,635
Hospital revenue bonds	77,005	78,750
Taxable revenue bonds	450,000	450,000
Taxable variable rate demand bonds	75,800	78,800
Total bonds	1,653,775	1,412,476
Term loan facility	125,000	125,000
Revolving credit facility	-	450,000
Capital lease obligations and other notes payable	70,681	82,200
	1,849,456	2,069,676
Unamortized premium or discount, net	8,119	14,264
	1,857,575	2,083,940
Less: Current maturities	(155,421)	(496,779)
	$ 1,702,154	$ 1,587,161

(in thousands of dollars)

Tax-Exempt Revenue Bonds

Novant has tax-exempt financing agreements through the North Carolina Medical Care Commission (the "Commission"), under which the Commission issued the tax-exempt revenue bonds. These bonds are comprised of the following at December 31:

	2010	2009
Series 2010 A Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 4.0% to 5.0% payable monthly and maturing through 2043; principal payments begin in 2023	$ 264,165	$ -
Series 2008 A,B and C Current Interest Term Bonds, bearing interest at variable rates payable monthly and maturing through 2028; principal payments began in 2009	183,465	187,910
Series 2006 Current Interest Term Bonds, bearing interest at rates ranging from 4.5% to 5.0% payable monthly and maturing through 2039; principal payments begin in 2023	250,000	250,000
Series 2004 A and B Current Interest Term Bonds, bearing interest at rates ranging from 1.5% to 2.0% 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	107,995	118,925
Series 1996 Current Interest Term Bonds, bearing interest at 5.0% to 5.5% payable semi-annually and maturing through 2026	26,155	27,195
Series 1996 Capital Appreciation Serial Bonds, bearing interest at 5.7% to 6.0% payable at maturity through 2014	4,515	4,261
	$ 971,295	$ 723,291

On November 2, 2010, Novant issued $264,165 of fixed rate bonds, bearing interest at rates ranging from 4.0% to 5.0%. Proceeds of the bonds are being used to finance and reimburse Novant for expenditures related to the construction of the following: Kernersville Medical Center, a new 50-bed hospital in Kernersville, North Carolina; a 74-bed replacement facility for Brunswick Community Hospital; and a 110,000 square foot, 4-story addition to Presbyterian Hospital.

In conjunction with the issuance of the 2003 bonds, Novant 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 and two of its affiliates that operate tertiary care hospitals, Forsyth Memorial Hospital, Inc. (d/b/a Forsyth Medical Center) and The Presbyterian Hospital, 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. Novant'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 subsequent to the issuance of the 2003 bonds are also collateralized by Novant's Obligated Group.

(in thousands of dollars)

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. The bond indentures require Novant 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, 2010, Novant is in compliance with all bond covenants.

In March of 2011, the documents related to the 2008 bonds were amended to allow the conversion of the bonds to bank direct purchase index floating rate bonds. The term of the direct purchase agreement is five years and it will expire in March 2016.

Mortgage Revenue Bonds

On August 18, 2004, Rowan issued $87,125 of fixed rate Federal Housing Administration insured mortgage revenue bonds, bearing interest at rates ranging from 3.00% to 5.25%. The bonds are payable in 50 semi-annual installments. The revenue bond indenture and related letter of credit reimbursement agreement place limits on the incurrence of additional borrowings and certain other transactions. These revenue bonds are collateralized by a first lien on all of Rowan's property, plant and equipment and all current or future properties and receipts, revenues, income, profits or proceeds from operations. The revenue bond indenture requires Rowan to comply with certain covenants, including the maintenance of a minimum debt service coverage ratio. Rowan is in compliance with all covenants as of December 31, 2010.

Hospital Revenue Bonds

PWHS has 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. These bonds are comprised of the following at December 31:

	2010	2009
Series 2002 Hospital Revenue Bonds, serial bonds bearing interest at rates ranging from 2.6% to 4.1%; annual payments of principal plus interest are due through 2012; and term bonds, which are due in 2023 and 2033, bearing interest at rates of 5.1% and 5.3%.	$ 67,695	$ 68,655
Series 1993 Hospital Revenue Refunding Bonds, payments of principal which are due in 2012 and 2019, bearing interest at rates of 5.6% and 5.3%.	9,310	10,095
	$ 77,005	$ 78,750

These bonds are secured by the revenue of PWHS, as defined in the related master trust indenture. Under the terms of the bond indentures, PWHS is required to maintain certain deposits with a trustee. Such deposits are included in assets limited as to use in the accompanying combined balance sheets. The indenture agreement contains restrictive covenants, the more significant of which places limits on the incurrence of additional borrowings and requires PWHS to satisfy certain measures of financial performance as long as the bonds are outstanding, including the maintenance of a minimum debt service coverage ratio. PWHS was in compliance with all bond covenants as of December 31, 2010.

(in thousands of dollars)

Taxable Revenue Bonds

On September 23, 2009, Novant 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 Novant’s revolving credit facility in January 2010.

On November 12, 2009, Novant 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 Novant’s revolving credit facility in January 2010.

Taxable Variable Rate Demand Bonds

In 1997, Novant 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, 2010 and 2009, the rate of interest on the variable bonds was 0.29% and 0.24%, respectively. The irrevocable letter of credit is currently available through March 1, 2014.

Term Loan

On October 10, 2008, Novant entered into a $125,000 term loan agreement (“term loan”). The proceeds of the loan were used to partially replenish cash from the initial investment in the HMA hospital partnership. The term loan accrues interest at floating LIBOR plus 1%. As of December 31, 2010 and 2009, the rate of interest on the loan was 1.26% and 1.23%, respectively. Interest payments are due monthly. The term loan matures on October 11, 2011.

Senior Revolving Credit Facility

On June 18, 2010, Novant entered into a $150,000 Senior Revolving Credit Facility. The line of credit bears interest at variable rates and has a 3 year term. As of December 31, 2010, there was no outstanding balance on the Senior Revolving Credit Facility.

Revolving Credit Facility

On January 28, 2008, Novant entered into a $450,000 revolving credit facility (the “Credit Facility”). The Credit Facility bears interest at a rate of LIBOR plus 0.275% and has a two year term, maturing in January 2010. As of December 31, 2009 the rate of interest was 2.24%, respectively. With the proceeds of the Credit Facility, Novant paid off the outstanding balance of short-term borrowings of $150,000 and called certain of MedQuest’s senior discount notes and senior subordinated notes. On January 28, 2010, the Company paid off the outstanding principal balance of $450,000 on the Credit Facility. The credit facility expired at that time.

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 0.76% to 12.15%.

(in thousands of dollars)

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

Years Ending December 31		
2011	$	155,421
2012		33,707
2013		49,284
2014		134,601
2015		41,934
Thereafter		1,434,509
	$	1,849,456

Novant capitalized $5,932 and $2,737 of interest in 2010 and 2009, respectively.

The fair values of Novant's tax-exempt revenue bonds and taxable variable rate demand bonds are based on current traded value. At December 31, 2010 and 2009, Novant's bonds had an approximate fair value of $1,554,652 and $1,343,931, respectively. All other debt approximates fair value.

Short-Term Borrowings

The Company entered into reverse repurchase agreements in February 2009. The reverse repurchase agreements involve the short term sale of US Treasury and Agency securities to brokers with the commitment to repurchase those securities within a stated term, generally between one and four weeks. The amount outstanding under the reverse repurchase agreements was $94,962 and $103,606 as of December 31, 2010 and 2009, respectively.

The Company has a loan with a commercial bank which bears interest at a rate of LIBOR plus 1.75%. The outstanding balance on the loan was $850 and $1,000 as of December 31, 2010 and 2009, respectively. The loan expires in May 2011.

Interest Rate Swaps

As of August 18, 2008, concurrent with the 2008 bond issuance, Novant entered into two interest rate swap agreements to hedge the variable interest rates of the 2008 bonds. The swaps have been designated as cash flow hedges and are carried on the balance sheet at fair value. The swaps are based on an aggregate notional amount of $183,465. Novant receives a variable rate which is tied to 68% of LIBOR, and pays a fixed rate of 3.679% and 3.621% for the $136,300 and $47,165 notional amounts, respectively. Both swaps are assessed for effectiveness on an ongoing basis at each quarter end using the hypothetical derivative method.

The Company recognized unrealized gains (losses) of $(4,465) and $12,603 as a change in unrestricted net assets related to the effective portion of the swaps, and income (losses) of $(848) and $502 in interest expense related to the ineffective portion of the swaps during 2010 and 2009, respectively.

(in thousands of dollars)

In July 2006, Novant 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. Under this agreement, the Company 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 interest rate swap agreement has been designated as a cash flow hedge and is carried on the balance sheet at fair value. This swap qualifies for hedge accounting and was assessed for effectiveness at the time the contract was entered into and is 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 swap 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. The Company recognized unrealized gains (losses) of $(6,560) and $19,157 as a change in unrestricted net assets related to the effective portion of the swap and income (losses) of $(890) and $2,369 in interest expense related to the ineffective portion of the swap for 2010 and 2009, respectively.

In August 2005, PWHS entered into an interest rate swap agreement with a notional amount of $8,219 in order to hedge its exposure to changes in interest rates. The interest rate swap matures on September 1, 2015, and the exchanges of cash flows with the counter party (a commercial bank) began on September 8, 2005. Pursuant to the swap agreement, PWHS 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 combined balance sheets as derivative financial instruments for the Company's interest rate swaps as of December 31, 2010 and 2009:

	2010	2009
Interest rate swaps designated as hedging instruments	$ 39,800	$ 27,037
Interest rate swaps not designated as hedging instruments	952	699
Total derivative financial instruments	$ 40,752	$ 27,736

(in thousands of dollars)

The following table summarizes the effect of the interest rate swaps on the combined statements of operations and changes in net assets for the years ended December 31, 2010 and 2009:

Interest rate swaps designated as hedging instruments

Classification of derivative gain (loss) on Statements of Operations	Amount of gain (loss) recognized in excess of revenues over expenses (ineffective portion)	
	2010	2009
Interest expense	$ (1,738)	$ 2,871

Classification of derivative gain (loss) on Statements of Operations	Amount of gain (loss) recognized as changes in unrestricted net assets	
	2010	2009
Unrealized gains (losses) on derivative financial instruments	$ (11,025)	$ 31,760

Interest rate swaps not designated as hedging instruments

Classification of derivative gain (loss) on Statements of Operations	Amount of gain (loss) recognized in excess of revenues over expenses	
	2010	2009
Unrealized gains (losses) on non-hedged derivative financial instrument	$ (253)	$ 455

14. Employee Benefits and Other Liabilities

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

	2010	2009
Retirement benefits	$ 33,119	$ 32,408
Other post-retirement benefits	19,864	18,264
Self-insurance malpractice and workers compensation, net of current portion	34,051	30,682
Employee benefits and other	84,913	85,746
Deferred gains	105,948	116,303
	$ 277,895	$ 283,403

(in thousands of dollars)

15. Income Taxes

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

	2010	2009
Current tax expense		
Federal	$ 184	$ 3,305
State	82	1,915
	266	5,220
Deferred tax benefit		
Federal	(2,705)	(8,208)
State	176	(1,523)
	(2,529)	(9,731)
	$ (2,263)	$ (4,511)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are:

	2010	2009
Deferred tax assets		
Loss carryforwards	$ 48,093	$ 42,827
Deferred charge for intercompany transfer	18,608	19,937
Accounts receivable	4,065	7,299
Other long-term liabilities	543	418
Other	2,304	2,368
Total deferred tax assets	73,613	72,849
Deferred tax liabilities		
Property and equipment	(1,116)	(2,966)
Intangible assets	(23,676)	(23,752)
Other assets	(23)	(122)
Total deferred tax liabilities	(24,815)	(26,840)
Valuation allowance	(39,355)	(35,551)
Net deferred tax asset	$ 9,443	$ 10,458

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.

(in thousands of dollars)

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, 2010, management has determined that based on all available evidence, a valuation allowance of $39,355 is appropriate.

As of December 31, 2010, the Company had approximately $102,643 of federal and $86,601 of state loss carryforwards available to reduce taxable income. The loss carryforwards expire through 2030.

The tax benefit differs from the amount that would be calculated by applying the federal statutory rate:

	2010	2009
Federal statutory rate	$ (2,521)	$ (4,903)
State income taxes	258	392
Income tax benefit	$ (2,263)	$ (4,511)

For the years ended December 31, 2010 and 2009, the Company was 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 statement of operations for the years ended December 31, 2010 and 2009.

16. Employee Benefit Plans and Other Postretirement Benefit Plans

GAAP requires an employer to recognize in its statement of financial position an asset for a plan's over funded status, or a liability for a plan's under funded status, measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur.

Employee Benefit Plans

Certain Novant 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 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.

(in thousands of dollars)

Certain Novant 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 intends only to fund the plans in amounts equivalent to the plans' annual benefit payments.

The following table outlines the changes in Novant's supplemental retirement income plan and defined benefit pension plan obligations, funded status, and the assumptions and components of net periodic benefit costs for the years ended December 31:

(in thousands of dollars)

	2010	2009
Accumulated benefit obligation	$ 307,397	$ 283,560
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 312,712	$ 290,279
Service cost	4,188	5,195
Interest cost	17,582	18,152
Actuarial loss	244	10,295
Assumption change	15,688	5,091
Plan amendments	(3,041)	-
Benefits paid	(16,817)	(16,300)
Projected benefit obligation at end of year	$ 330,556	$ 312,712
Change in plan assets		
Fair value of plan assets at beginning of year	$ 212,721	$ 170,210
Actual return on plan assets	27,851	45,925
Employer contribution	8,142	13,392
Benefits paid, including plan expenses	(17,424)	(16,806)
Fair value of plan assets at end of year	$ 231,290	$ 212,721
Funded status	$ (99,266)	$ (99,991)
Components of net periodic benefit cost		
Service cost	$ 4,188	$ 5,195
Interest cost	17,582	18,152
Estimated return on plan assets	(14,902)	(13,627)
Amortization of prior service cost	(1,684)	(1,654)
Recognized net actuarial loss	7,456	9,115
Recognized curtailment loss	219	-
Net periodic benefit cost	$ 12,859	$ 17,181
Amount recognized in the balance sheets		
Prepaid benefit cost at measurement date	$ 26,600	$ 29,840
Accrued benefit cost	(20,234)	(18,757)
Change in unrestricted net assets	(105,632)	(111,074)
Net liability recognized	$ (99,266)	$ (99,991)
Amounts recognized in unrestricted net assets		
Prior service cost	$ 976	$ (1,643)
Net actuarial loss	104,656	112,717
	$ 105,632	$ 111,074
Other changes in plan assets and benefit obligations		
Net gain	$ (6,485)	$ (23,444)
Prior service cost (credit)	935	-
Amortization of net loss	(1,577)	(2,042)
Amortization of prior service cost	1,684	1,618
Total recognized in unrestricted net assets	$ (5,443)	$ (23,868)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 7,416	$ (6,687)

(in thousands of dollars)

The assumption changes referenced above are a result of changes in the discount rate and mortality tables in 2010 and 2009.

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost in 2011 are $8,296 and $1,641, respectively.

The following ranges of weighted-average assumptions were used to determine plan benefit obligations for all Novant plans at December 31:

	2010	2009
Discount rate	4.50 - 5.50%	5.25 - 6.00%
Rate of compensation increase(1)(2)	5.00%	4.00 - 5.00%

(1) The compensation increase does not apply to the Rowan Plan as benefits under this plan were frozen at December 31, 2010 and 2009.
(2) The 2010 compensation increase does not apply to the Prince William Plan as benefits under this plan were frozen at December 31, 2010.

The following ranges of weighted-average assumptions were used to determine net periodic benefit cost for all Novant plans for the years ended December 31:

	2010	2009
Discount rate	5.25 - 6.00%	5.25 - 6.25%
Expected return on plan assets	6.00 - 8.00%	6.00 - 8.00%
Rate of compensation increase(1)(2)	4.00 - 5.00%	4.00 - 5.00%

(1) The compensation increase does not apply to the Rowan Plan as benefits under this plan were frozen at December 31, 2010 and 2009.
(2) The 2010 compensation increase does not apply to the Prince William Plan as benefits under this plan were frozen at December 31, 2010.

(in thousands of dollars)

Plan Assets

Novant's pension plan asset allocation at December 31, 2010 and 2009 and target allocation for 2010 by asset category are as follows:

	Target Range	Percentage of Plan Assets at December 31, 2010	2009
Asset Category			
Real estate and other	0–12%	5.0 %	7.0 %
Equity securities	25–70%	57.0	58.0
Debt securities	25–70%	38.0	35.0
		100.0 %	100.0 %

The Company's primary investment objective for the Novant Plan and the Rowan Plan (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, as well as Treasury Inflation-Protected Securities mutual funds. The investment guidelines, asset allocation, and investment performance are reviewed quarterly by the Novant Pension Restoration Committee.

The investment policy of the Prince William Plan is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The assets will be reallocated periodically to meet the above target allocations. The investment policy will be reviewed periodically, under the advisement of a certified investment advisor, to determine if the policy should be changed.

The fair values of the Company's Plan assets at December 31, 2010, 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				
US equity	$ 24,047	$ 51,832	$ -	$ 75,879
Developed non-US equity	4,670	40,146	-	44,816
Emerging markets equity	-	11,700	-	11,700
Fixed income securities				
US fixed income	16,894	71,491	-	88,385
Real estate and other	-	10,510	-	10,510
Total fair value of the Company's Plan assets	$ 45,611	$ 185,679	$ -	$ 231,290

(in thousands of dollars)

The fair values of the Company's Plan assets at December 31, 2009, 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:				
US equity	$ 22,020	$ 67,010	$ -	$ 89,030
Developed non-US equity	4,266	27,007	-	31,273
Emerging markets equity	-	3,278	-	3,278
Fixed income securities:				-
US fixed income	15,590	58,889	-	74,479
Real estate and other	-	14,661	-	14,661
Total fair value of the Company's Plan assets	$ 41,876	$ 170,845	$ -	$ 212,721

Cash Flows

Novant's contributions to the supplemental retirement income plan and defined benefit pension plan were $8,142 and $13,392 for the years ended December 31, 2010 and 2009 respectively.

The Company expects to make contributions to the defined benefit pension plan of approximately $11,264 in 2011. The Company expects to make contributions to the supplemental retirement income plan of approximately $10,014 for the 2011 fiscal year.

The following assumed benefit payments, under the Company's defined benefit and nonqualified supplemental retirement plans, which reflect expected future service, as appropriate, and were used in the calculation of projected benefit obligations, are estimated to be paid as follows:

Year Ending December 31	
2011	$ 23,445
2012	17,301
2013	19,498
2014	25,297
2015	17,091
2016–2020	104,562

In addition, Novant sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to $67,037 and $60,625 in 2010 and 2009, respectively.

Certain Novant 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 $153,834 in 2010 and $142,158 in 2009.

(in thousands of dollars)

Novant is self-insured for medical coverage exposures up to certain limits for all Novant employees. The Company has recorded an estimate of the liability for claims incurred but not reported as of December 31, 2010 and 2009.

Other Postretirement Benefit Plans

Novant provides certain 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 has the right to modify or terminate these benefits.

The following table outlines the changes in Novant's other post-retirement benefit plan obligations, funded status, and the components of net periodic benefit costs for the years ended December 31:

	2010	2009
Change in benefit obligation		
Benefit obligation at beginning of year	$ 18,264	$ 18,651
Service cost	185	189
Interest cost	1,027	1,035
Actuarial (gain) loss	1,430	(1,332)
Plan participants' contributions	192	404
Benefits paid	(1,235)	(683)
Benefit obligation at end of year	$ 19,863	$ 18,264
Funded status	$ (19,863)	$ (18,264)
Amounts recognized in the balance sheets		
Accrued benefit cost	$ (19,863)	$ (18,264)
Amounts recognized in unrestricted net assets		
Prior service cost	$ 457	$ 999
Net actuarial gain	1,254	3,549
	$ 1,711	$ 4,548
Components of net periodic benefit cost		
Service cost	$ 185	$ 189
Interest cost	1,027	1,035
Amortization of prior service cost	(629)	(616)
Recognized net actuarial gain	(779)	(727)
Net periodic benefit cost	$ (196)	$ (119)

The estimated net gain and prior service credit for the post-retirement plans that will be amortized from unrestricted net assets into net periodic benefit cost in 2011 are $511 and $457, respectively.

(in thousands of dollars)

The following weighted average assumptions were used to determine postretirement benefit plan obligations at December 31:

	2010	**2009**
Discount rate	2.75 - 5.25%	3.50 - 5.70%
Health care cost trend on covered charges	7.50 - 9.50% in 2011, grading to 5.00% in 2016	8.00 - 10.00% in 2010, grading to 5.00% in 2016

The following weighted average assumptions were used to determine postretirement benefit plan net periodic benefit cost for the years ended December 31:

	2010	**2009**
Discount rate	3.50 - 5.70%	6.25 - 6.30%
Health care cost trend on covered charges	8.00 - 10.00% in 2010, grading to 5.00% in 2016	8.50 - 10.50% in 2009, grading to 5.00% in 2016

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, 2010.

Cash Flows

The following assumed benefit payments under the Company's post-retirement benefit plans, which reflect expected future service, as appropriate, and were used in the calculation of projected benefit obligations, are expected to be paid as follows:

Years Ending December 31	
2011	$ 1,092
2012	1,120
2013	1,122
2014	1,146
2015	1,189
2016–2020	6,480

(in thousands of dollars)

17. 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, 2009	$ 1,528,609	$ 1,519,894	$ 8,715
Excess of revenues over expenses	201,974	202,061	(87)
Loss on discontinued operations	(5,220)	(5,220)	-
Change in pension liability	24,089	24,089	-
Unrealized gain on derivative financial instruments	31,760	31,760	-
Other changes in unrestricted net assets	3,682	2,958	724
Balance at December 31, 2009	1,784,894	1,775,542	9,352
Excess of revenues over expenses	157,973	157,751	222
Loss on discontinued operations	(4,431)	(4,431)	-
Gain on sale of discontinued operations	12,245	12,245	-
Change in pension liability	4,912	4,912	-
Cumulative effect of change in accounting principle	(24,312)	(24,312)	-
Unrealized loss on derivative financial instruments	(11,025)	(11,025)	-
Other changes in unrestricted net assets	(2,835)	(764)	(2,071)
Balance at December 31, 2010	$ 1,917,421	$ 1,909,918	$ 7,503

18. Fair Value Measurements

Novant adopted the FASB's authoritative accounting guidance on fair value measurements for the year ended December 31, 2009, as well as updated fair value measurement guidance for the year ended December 31, 2010. In accordance with this guidance, assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, 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. Novant'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 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 US 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 include an investment in a preferred stock fund.

Asset and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. Novant 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, 2010 and 2009, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

Cash and cash equivalents and short-term investments
Cash and cash equivalents and short-term investments designated as Level 2 investments are primarily comprised of certificates of deposit, whose fair value 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.

US equity securities
The fair value of investments in US equity securities is primarily determined using 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.

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.

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2010 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				
Cash and cash equivalents	$ 503,003	$ 4,876	$ -	$ 507,879
Short-term investments				
Cash and cash equivalents	283	2,685	-	2,968
Fixed income securities	-	42,120	-	42,120
Total short-term investments	283	44,805	-	45,088
Assets limited as to use				
Cash and cash equivalents	160,897	-	-	160,897
US equities	30,367	-	-	30,367
Fixed income securities	-	14,664	-	14,664
Total assets limited as to use	191,264	14,664	-	205,928
Long-term investments				
Cash and cash equivalents	11,884	-	-	11,884
US equities	222,956	21,908	6,000	250,864
International equities	189,174	-	-	189,174
Fixed income securities	4,055	126,829	-	130,884
Emerging markets	69,486	-	-	69,486
Total long-term investments	497,555	148,737	6,000	652,292
Total assets at fair value	$ 1,192,105	$ 213,082	$ 6,000	$ 1,411,187
Alternative investments, recorded using the equity method which approximates fair value				374,977
Total assets included in cash and cash equivalents, short-term investments, assets limited as to use and long-term investments				$ 1,786,164
Liabilities				
Derivative financial instruments	$ -	$ 40,752	$ -	$ 40,752
Employee benefits liabilities	14,703	-	-	14,703
Total liabilities at fair value	$ 14,703	$ 40,752	$ -	$ 55,455

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2009 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				
Cash and cash equivalents	$ 786,995	$ 1,211	$ -	$ 788,206
Short-term investments				
Cash and cash equivalents	399	9,332	-	9,731
Fixed income securities	-	25,000	-	25,000
Total short-term investments	399	34,332	-	34,731
Assets limited as to use				
Cash and cash equivalents	101,601	-	-	101,601
US equities	19,119	-	-	19,119
Fixed income securities	-	23,974	-	23,974
Total assets limited as to use	120,720	23,974	-	144,694
Long-term investments				
Cash and cash equivalents	22,500	-	-	22,500
US equities	175,580	33,867	6,000	215,447
International equities	142,893	2,553	-	145,446
Fixed income securities	1,512	153,769	-	155,281
Emerging markets	39,457	-	-	39,457
Total long-term investments	381,942	190,189	6,000	578,131
Total assets at fair value	$ 1,290,056	$ 249,706	$ 6,000	$ 1,545,762
Alternative investments, recorded using the equity method which approximates fair value				253,045
Total assets included in cash and cash equivalents, short-term investments, assets limited as to use and long-term investments				$ 1,798,807
Liabilities				
Derivative financial instruments	$ -	$ 27,736	$ -	$ 27,736
Employee benefit liabilities	14,486	-	-	14,486
Total liabilities at fair value	$ 14,486	$ 27,736	$ -	$ 42,222

(in thousands of dollars)

For the years ended December 31, 2010 and 2009, the changes in the fair value of the assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	US equities
Balance at December 31, 2008	$ -
Actual return on assets	-
Purchase and sales of assets, net	6,000
Transfers in/(out) of Level 3	-
Balance at December 31, 2009	6,000
Actual return on assets	-
Purchase and sales of assets, net	-
Transfers in/(out) of Level 3	-
Balance at December 31, 2010	$ 6,000

In accordance with the provisions of FASB Codification Topic 350, Intangibles – Goodwill and Other, goodwill with a carrying value of $60,159 was written down to its fair value of $44,118, resulting in an impairment charge of $16,041, which was included in the combined statement of operations for the year ended December 31, 2010. In addition, as discussed in footnote 2, the Company adopted new impairment guidance which required the Company to perform a transitional impairment evaluation as of January 1, 2010. This evaluation resulted in a transitional impairment adjustment of $24,312. The fair value measurements used in determining the fair value of the Company's goodwill were all deemed to be Level 3.

19. Professional and General Liability Insurance Coverage

Novant 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 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. Liabilities for self-insured professional and general liability risks, for both asserted and unasserted claims, are based on actuarially projected estimates discounted to present value at a rate of 3% for both malpractice and workers' compensation for December 31, 2010 and 2009, based on historical loss payment patterns.

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 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 Novant's operations or financial position.

(in thousands of dollars)

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.

As of December 31, 2010 and 2009, the Company was contingently liable for guarantees of indebtedness owed by third parties in the amount of $608 and $569, respectively. This amount represents the maximum potential future payments that the Company could be required to make under the guarantee. This guarantee represents a 25% guarantee of the third party's amount outstanding on a line of credit. The maturity date on the line of credit is June 30, 2012 and the total availability on the line of credit is $4,772. As of December 31, 2010 and 2009, this liability is included in employee benefits and other liabilities in the combined balance sheet.

21. Operating Leases

Certain operating properties and equipment are leased under noncancellable operating leases. Total rental expense under operating leases was $105,107 and $98,691 in 2010 and 2009, respectively. Future minimum rentals under noncancellable operating leases with terms of more than one year are as follows:

Years Ending December 31		
2011	$	90,282
2012		78,482
2013		69,595
2014		62,103
2015		55,871
Thereafter		242,841
	$	599,174

Novant leases six plots of land to a third party under long-term ground lease agreements. Total rental income under these lease agreements was $1,054 and $1,036 in 2010 and 2009, respectively. The future rental income related to the ground leases are as follows:

Years Ending December 31		
2011	$	1,074
2012		1,093
2013		1,127
2014		1,148
2015		1,168
Thereafter		98,479
	$	104,089

(in thousands of dollars)

22. Concentrations of Credit Risk

Novant 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:

	2010	2009
Medicare	25.5 %	23.3 %
Medicaid	14.6	17.5
Other third-party payors	30.9	30.1
Patients	29.0	29.1
	100.0 %	100.0 %

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

23. Functional Expenses

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

	2010	2009
Health care services	$ 2,416,786	$ 2,371,140
General and administrative	909,983	817,680
	$ 3,326,769	$ 3,188,820

24. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 30, 2011, the day the financial statements were issued.

25. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which codified FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*. The objective of ASU 2010-07 is to improve the relevance, representational faithfulness, and comparability of the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses or nonprofit activities. ASU 2010-07 also amends existing guidance on goodwill and other intangible assets and noncontrolling interests in consolidated financial statements to make previous guidance that was only applicable to for-profit entities fully applicable to not-for-profit entities. For Novant, ASU 2010-07 was effective beginning

(in thousands of dollars)

January 1, 2010. This guidance requires a transitional impairment evaluation of previously recognized goodwill. As discussed in Note 2, the company recorded a transitional impairment charge of $24,312 as of January 1, 2010.

In January 2010, the FASB released ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 was issued to improve disclosure requirements related to Fair Value Measurements and Disclosures (overall Subtopic 820-10) of the FASB Accounting Standards Codification. The new disclosures were effective for reporting periods beginning after December 15, 2009, except for the disclosures of the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. Novant adopted the disclosure requirements of ASU 2010-06 for the year ended December 31, 2010. The adoption of this guidance did not have a material impact on the combined financial position, results of operations or cash flows.

In February 2010, the FASB released ASU No. 2010-9, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. ASU 2010-09 clarified the application of subsequent events guidance for SEC filers and conduit bond obligors. Novant adopted this guidance for the year ended December 31, 2010. The adoption of this guidance did not have a material impact on the combined financial position, results of operations or cash flows of Novant.

In August 2010, the FASB released ASU No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. The objective of ASU 2010-23 is to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. The guidance requires that cost be used as the measurement basis for charity care disclosure, that cost be identified as the direct and indirect costs of providing charity care and that the method used to determine such costs be disclosed. The guidance is effective for fiscal years beginning after December 15, 2010. As this guidance is consistent with Novant's historical disclosures, Novant adopted this guidance for the year ended December 31, 2010 which resulted in no impact on the combined financial statements of Novant.

In August 2010, the FASB released ASU No. 2010-24, Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries. The objective of ASU 2010-24 is to reduce diversity in practice regarding the accounting by health care entities for medical malpractice claims and similar liabilities and the related anticipated insurance recoveries. The guidance clarifies that the amount of the claim liability should be determined without consideration of insurance recoveries and insurance recoveries should not be netted against a related claim liability. This guidance is effective for Novant on January 1, 2011. The adoption of this guidance will not have a material impact on the combined financial position, results of operations or cash flows of Novant.

In December 2010, the FASB released ASU No. 2010-28, Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. The objective of ASU 2010-28 is to address questions about reporting units with zero or negative carrying amounts and clarifies that an entity is required to perform Step 2 of the goodwill impairment test it if it more likely than not that a goodwill impairment exists based on qualitative factors. This guidance is effective for Novant on January 1, 2011. The adoption of this guidance will not have a material impact on the combined financial position, results of operations or cash flows of Novant.