Novant Health, Inc.
and Affiliates
Combined Financial Statements
December 31, 2011 and 2010

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Report of Independent Auditors

To the Board of Trustees of
Novant Health, Inc.

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") at December 31, 2011 and 2010 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 noted in Note 2 to the consolidated financial statements, the Company adopted *ASU 2011-08 Testing Goodwill for Impairment* in 2011 and performed a qualitative assessment on whether it is more likely than not that the fair value of the reporting unit exceeds the carrying value of the reporting unit for certain reporting units.

PricewaterhouseCoopers LLP

March 30, 2012

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Novant Health, Inc. and Affiliates
Combined Balance Sheets
December 31, 2011 and 2010

(in thousands of dollars)	**2011**	**2010**
Assets		
Current assets		
Cash and cash equivalents	$ 301,708	$ 507,879
Accounts receivable, net of allowance for doubtful accounts of $198,654 in 2011 and $184,169 in 2010	393,211	392,328
Short-term investments	185,450	45,088
Deferred tax asset	5,266	6,118
Assets held for sale	2,918	10,566
Other current assets	116,581	121,967
Total current assets	1,005,134	1,083,946
Assets limited as to use	152,569	205,928
Long-term investments	1,081,962	1,027,269
Property and equipment, net	1,558,386	1,581,273
Intangible assets and goodwill, net	462,010	505,954
Investments in affiliates	173,189	173,062
Deferred tax asset	5,714	3,325
Other assets	42,987	45,492
Total assets	$ 4,481,951	$ 4,626,249
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 167,623	$ 155,421
Short-term borrowings	80,876	95,812
Accounts payable	112,237	116,870
Accrued liabilities	294,222	273,325
Estimated third-party payor settlements	15,637	5,056
Total current liabilities	670,595	646,484
Long-term debt, net of current portion	1,531,976	1,702,154
Derivative financial instruments	71,810	40,752
Employee benefits and other liabilities	330,280	285,057
Total liabilities	2,604,661	2,674,447
Commitments and contingencies		
Net assets		
Unrestricted - attributable to Novant	1,831,679	1,909,918
Unrestricted - noncontrolling interests	10,972	7,503
Temporarily restricted	25,743	25,672
Permanently restricted	8,896	8,709
Total net assets	1,877,290	1,951,802
Total liabilities and net assets	$ 4,481,951	$ 4,626,249

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, 2011 and 2010

(in thousands of dollars)	**2011**	**2010**
Unrestricted revenues, gains and other support		
Net patient service revenue	$ 3,315,396	$ 3,234,389
Premium revenue	2,948	4,694
Other revenue	134,785	139,107
Total unrestricted revenues, gains and other support	3,453,129	3,378,190
Expenses		
Salaries and employee benefits	1,797,221	1,757,466
Supplies and other	1,138,192	1,098,716
Depreciation expense	157,202	172,789
Amortization expense	32,993	22,689
Goodwill impairment	44,118	16,019
Loss (gain) on sale of real estate	887	(8,125)
Interest expense	76,714	71,258
Provision for bad debts	185,579	176,869
Total expenses	3,432,906	3,307,681
Operating income	20,223	70,509
Other income (expense)		
Investment income (loss)	(19,817)	90,637
Unrealized loss on non-hedged derivative financial instruments	(68)	(253)
Income tax benefit	488	1,369
Other, net	64	(120)
Excess of revenues over expenses	$ 890	$ 162,142

Continued on following page

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, 2011 and 2010

(in thousands of dollars)	**2011**	**2010**
Unrestricted net assets		
Excess of revenues over expenses	$ 890	$ 162,142
Change in pension liability	(52,173)	4,912
Cumulative effect of change in accounting principle	-	(24,312)
Unrealized loss on derivative financial instruments	(32,363)	(11,025)
Miscellaneous changes in unrestricted net assets	(2,021)	(2,853)
Increase (decrease) in unrestricted net assets, before effects of discontinued operations	(85,667)	128,864
Discontinued operations		
Loss on discontinued operations	(4,391)	(7,469)
Income tax benefit	395	894
Gain on sale of discontinued operations	14,893	10,238
Increase (decrease) in unrestricted net assets	(74,770)	132,527
Temporarily restricted net assets		
Contributions and investment income	4,644	5,808
Net assets released from restrictions for operations	(4,573)	(6,805)
Increase (decrease) in temporarily restricted net assets	71	(997)
Permanently restricted net assets		
Contributions	187	215
Increase in permanently restricted net assets	187	215
Increase (decrease) in total net assets	(74,512)	131,745
Net assets, beginning of year	1,951,802	1,820,057
Net assets, end of year	$ 1,877,290	$ 1,951,802

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, 2011 and 2010

(in thousands of dollars)	2011	2010
Cash flows from operating activities		
Increase (decrease) in net assets	$ (74,512)	$ 131,745
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	190,461	198,407
Loss (gain) on sale of real estate	887	(8,125)
Goodwill impairment	44,118	16,019
Gain on sale of discontinued operations	(14,893)	(10,238)
Cumulative effect of change in accounting principle	-	24,312
Share of earnings in affiliates, net of distributions	1,488	(4,253)
Net losses (gains) on assets limited as to use and investments	23,804	(70,681)
Change in fair value of interest rate swap	31,058	13,016
Provision for bad debts	185,579	176,869
Changes in operating assets and liabilities		
Accounts receivable	(186,462)	(143,159)
Investments and assets limited as to use	(221,576)	(152,056)
Accounts payable and accrued liabilities	19,326	25,417
Accrued pension liability	49,106	(725)
Deferred taxes, net	(1,537)	1,015
Other assets and liabilities, net	18,043	(1,002)
Net cash provided by operating activities	64,890	196,561
Cash flows from investing activities		
Capital expenditures	(188,040)	(208,282)
Proceeds from sale of affiliates	24,051	6,250
Proceeds from sale of property and equipment	10,632	5,467
Cash paid for acquisitions	(4,616)	-
Net proceeds from the liquidation (purchase) of short-term investments	(6,127)	6,763
Repayment of notes receivable and other, net	865	3,653
Net cash used in investing activities	(163,235)	(186,149)
Cash flows from financing activities		
Principal payments on long-term debt	(157,141)	(487,363)
Bond proceeds received from (deposited with) trustee	62,203	(51,336)
Proceeds from issuance of bonds	-	256,915
Payments on line of credit	(14,086)	(8,955)
Proceeds from line of credit and other financing	1,198	-
Net cash used in financing activities	(107,826)	(290,739)
Net decrease in cash and cash equivalents	(206,171)	(280,327)
Cash and cash equivalents		
Beginning of year	507,879	788,206
End of year	$ 301,708	$ 507,879

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, 2011 and 2010

	2011	2010
Supplemental disclosure of cash flow information		
Interest paid, net of amounts capitalized	$ 76,960	$ 70,978
Income taxes paid	824	1,296
Supplemental disclosure of noncash financing and investing activities		
Additions to property and equipment financed through current liabilities	3,062	4,926

During 2011 and 2010, the Company entered into capital lease obligations of $827 and $857, respectively, for land, property and equipment of $827 and $857.

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.

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 thirteen hospitals and a 1,124-physician medical group with over 350 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; Kernersville Medical Center in Kernersville, North Carolina; Thomasville Medical Center in Thomasville, North Carolina; Rowan Regional Medical Center (“Rowan”) in Salisbury, North Carolina; Brunswick Novant Medical Center in Bolivia, North Carolina; Prince William Hospital (“PWHS”) 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.

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.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consist primarily of amounts owed by various governmental agencies, insurance companies and patients. Novant 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 and assets limited as to use are classified as trading securities. Accordingly, unrealized gains and losses on investments are included in excess of revenues over expenses, unless the income or loss is restricted by donor or law. Long-term investments 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. 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.

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"). These investments are recorded using the equity method of accounting (which approximates fair value) with the related earnings reported as investment income in the accompanying combined financial statements. 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. 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.

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.

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

Property and Equipment

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

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

Buildings	30–40 years
Machinery and equipment	3–15 years
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 amortization expense.

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

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

Under the terms of the 1984 deed in which the Forsyth County Board of County Commissioners conveyed the assets of Forsyth Memorial Hospital (the "Hospital") to Novant, 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 $296,065 at December 31, 2011.

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

Goodwill and Other Intangible Assets

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

The Company considers certificates of need, which are required by certain states prior to the acquisition of high cost capital items, to be indefinite lived intangible assets. The Company also has intangible assets with identifiable useful lives, related to business acquisitions. These assets include business relationships and corporate trade names. The Company also capitalizes the cost of software developed for internal use. 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
Software	3 - 10 years

In 2010, the Company adopted the FASB's new standard on mergers and acquisitions for not-for-profit entities. This standard required not-for-profit organizations to stop amortizing goodwill and indefinite lived intangible assets and to test all such goodwill and indefinite lived intangible assets annually for impairment. This new guidance also 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.

Impairment tests are performed at the reporting unit level for units that have goodwill. In 2011, Novant elected to early adopt ASU 2011-8, *Testing Goodwill for Impairment.* This guidance provides the option to perform a qualitative assessment of whether it is more likely than not that the fair value of the reporting unit exceeds the carrying value of the reporting unit. If it is more likely than not that the fair value of the reporting unit exceeds the carrying value of the reporting unit, additional impairment testing is not required. If it is more likely than not that the carrying value of the reporting unit exceeds the fair value of the reporting unit, additional testing for impairment is required. GAAP prescribes a two step process for testing for goodwill impairments after applying the qualitative assessment. The first step is to determine if the carrying value of the reporting unit with goodwill is less than the related fair value of the reporting unit. The fair value of the reporting unit is determined through use of discounted cash flow methods and/or market based multiples of earnings and sales methods. If the carrying value of the reporting unit is less than the fair value of the reporting unit the goodwill is not considered impaired. If the carrying value is greater than the fair value, the potential for impairment of goodwill exists. The goodwill impairment is determined by allocating the current fair value of the reporting unit among the assets and liabilities based on a purchase price allocation methodology as if the reporting unit was being acquired in a business combination. The fair value of the goodwill is implied from this allocation and compared to the carrying value with an impairment loss recognized if the carrying value is greater than the implied fair value.

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

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

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

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, unrealized gains and losses on derivative financial instruments, 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 the accompanying 2010 combined balance sheet, the Company adjusted $44,078 of software from property and equipment to intangible assets. Related expense of $14,754 was moved from depreciation expense to amortization expense in the accompanying 2010 combined statement of operations and changes in net assets.

3. Organizational Changes

Discontinued Operations
During 2010, the Company made the decision to close or sell certain of its MedQuest outpatient imaging locations to unrelated third parties. This decision was the result of management's efforts to more closely align the geographic locations of MedQuest facilities with the Company's long-term business plans. Approximately 7 and 12 MedQuest locations were divested during 2011 and 2010, respectively, and an additional 5 sites are expected to be sold during 2012. In addition to these divestitures, the Company sold the operations of one of its long-term care facilities in 2011 and anticipates selling an additional long-term care location in 2012. 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:

	2011	2010
Net operating revenue	$ 31,998	$ 71,188
Operating income	10,502	2,769

The accompanying combined balance sheets include assets held for sale related to the above transactions. At December 31, 2011 and 2010, assets held for sale consist primarily of property and equipment and intangible assets.

4. 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:

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 nonacute 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 settled by the Medicare intermediary through 2006. Medicare cost reports for 2007-2009 have been audited but not finalized. Medicaid cost reports are finalized through 2009.

Revenue from the Medicare and Medicaid programs accounted for approximately 32.4% and 7.1%, respectively, of Novant's net patient service revenue for the year ended 2011, and 31.5% and 8.6%, respectively for the year ended 2010. 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 $4,322,535 (or 54%) and $4,004,663 (or 53%) of 2011 and 2010 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.

5. Charity Care and Community Benefit

In accordance with Novant's mission to improve the health of its communities one person at a time, 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 300% of the federal poverty level. 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 the charity care program. In addition to these programs for 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 $124,117 and $118,565 for the years ended December 31, 2011 and 2010, respectively. Novant estimates the costs of providing traditional charity care using each facility's estimated ratio of costs to charges. Funds received from gifts or grants to subsidize charity services provided were $1,250 and $1,797 for the years ended December 31, 2011 and 2010, respectively.

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. Novant uses the following four categories to identify the resources utilized for the care of persons who are underserved and for providing community benefit programs to the needy 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 amount of unpaid cost of Medicare, Medicaid, and other community benefit programs is reported on page 42 in the accompanying other financial information.

6. 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:

	2011	2010
Certificates of deposit	$ 9,095	$ 2,968
Fixed income securities	176,355	44,523
	185,450	47,491
Less: Valuation allowance	-	(2,403)
	$ 185,450	$ 45,088

Assets Limited as to Use

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

	2011	2010
Under indenture agreement held by trustee	$ 56,936	$ 116,465
Under general and professional liability funding arrangement held by trustee	53,003	42,310
Designated by board to service benefit plans	30,833	30,367
Restricted by bank agreements	11,790	16,777
Restricted by donor	7	9
	$ 152,569	$ 205,928

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:

	2011	2010
Cash and cash equivalents	$ 81,169	$ 11,884
U.S. equities	285,158	261,288
International equities	152,189	218,674
Fixed income securities	121,272	130,884
Hedge funds	356,317	323,229
Emerging markets	65,727	69,486
Real estate and other	20,130	11,824
	$ 1,081,962	$ 1,027,269

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 32.9% of total long-term investments held at December 31, 2011. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition.

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

	2011	2010
Income (loss)		
Interest and dividend income	$ 17,661	$ 14,072
Net realized gains (losses)	(13,674)	5,884
Net gains (losses)	(23,804)	70,681
	$ (19,817)	$ 90,637

7. Property and Equipment

Property and equipment consists of the following at December 31:

	2011	2010
Land and land improvements	$ 234,239	$ 222,935
Leasehold improvements	130,714	124,950
Buildings and building improvements	1,511,115	1,286,510
Buildings under capital lease obligations	25,773	27,099
Equipment	1,453,760	1,384,061
Equipment under capital lease obligations	8,897	18,201
Construction in progress	93,289	325,566
	3,457,787	3,389,322
Less: Accumulated depreciation	(1,899,401)	(1,808,049)
	$ 1,558,386	$ 1,581,273

At December 31, 2011 and 2010, land and buildings with a net book value of $16,058 and $20,313, 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, 2011 and 2010 amounted to $157,202 and $172,789, respectively. Accumulated amortization for buildings and equipment under capital lease obligations was $18,597 and $27,991 at December 31, 2011 and 2010, respectively. Construction contracts of approximately $366,025 exist for the construction of new hospitals, expansion of existing hospitals and facility renovations. At December 31, 2011, the remaining commitment on these contracts was $79,842.

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 in 2011 and 2010. The remaining deferred gain of $49,884 will be recognized over the average life of Novant's lease agreements with the buyer.

8. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	Gross Intangible	Accumulated Amortization	Net Intangible
Balance at December 31, 2010			
Unamortized intangible assets			
Certificates of need	$ 86,603	$ -	$ 86,603
Total unamortized intangible assets	86,603	-	86,603
Amortized intangible assets			
Software	157,513	(113,435)	44,078
Business relationships	91,571	(10,773)	80,798
Corporate trade name and other intangibles	40,981	(6,075)	34,906
Total amortized intangible assets	290,065	(130,283)	159,782
Total intangible assets	$ 376,668	$ (130,283)	$ 246,385
Balance at December 31, 2011			
Unamortized intangible assets			
Certificates of need	$ 86,810	$ -	$ 86,810
Total unamortized intangible assets	86,810	-	86,810
Amortized intangible assets			
Software	189,551	(140,201)	49,350
Business relationships	90,420	(14,479)	75,941
Corporate trade name and other intangibles	39,415	(7,048)	32,367
Total amortized intangible assets	319,386	(161,728)	157,658
Total intangible assets	$ 406,196	$ (161,728)	$ 244,468

Amortization expense related to intangible assets was $31,749 and $21,527 for the years ended December 31, 2011 and 2010, respectively. Estimated annual amortization expense for intangible assets for the years 2012 through 2016 is approximately $30,064, $15,764, $14,130, $13,299 and $10,378, respectively.

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

	2011	2010
As of January 1		
Goodwill, net of accumulated amortization	$ 304,650	$ 315,886
Accumulated impairment losses	(45,081)	(29,062)
	259,569	286,824
Goodwill transition adjustment	-	(24,312)
Goodwill acquired, net of purchase price adjustments and other	2,091	13,076
Impairment	(44,118)	(16,019)
	217,542	259,569
As of December 31		
Goodwill, net of accumulated amortization	306,741	304,650
Accumulated impairment losses	(89,199)	(45,081)
	$ 217,542	$ 259,569

As a result of its annual impairment testing for 2011 and 2010, Novant recorded impairment charges of $44,118 and $16,109, respectively, to reduce the carrying value of goodwill and other intangibles to their implied and estimated fair values for certain reporting units. This impairment charge was a result of lower than expected operating results at certain Novant reporting units. The 2011 impairment charge represents a full write off of the remaining goodwill for these reporting units. 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.

9. Investments in Affiliates

Novant has noncontrolling interests in eleven 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 for the years ended December 31 is as follows:

Investee	% Ownership 2011	% Ownership 2010	Investment Balance as of December 31, 2011	Investment Balance as of December 31, 2010	Share of Earnings of Investee 2011	Share of Earnings of Investee 2010
Hospital Partnership	30%	30%	$ 129,126	$ 129,877	$ 7,257	$ 6,287
Advanced Services	25%	25%	17,247	18,625	1,328	4,051
Solstas Lab Partners	5%	5%	11,167	11,167	-	-
Providence Plaza LLC	30%	30%	4,896	4,870	108	112
Rowan Hospice & Palliative Care LLC	50%	0%	2,551	-	72	-
Cancer Center	50%	50%	1,465	1,970	1,595	1,217
Other	Various	Various	6,737	6,553	899	143
			$ 173,189	$ 173,062	$ 11,259	$ 11,810

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

	2011	2010
Assets	$ 216,650	$ 225,242
Liabilities	58,590	88,405
Equity	158,060	136,837
Total revenue	301,934	296,940
Total expenses	267,972	256,813
Net income	33,962	40,127
Novant's share of net income	11,259	11,810

10. Other Assets

Other assets consist of the following at December 31:

	2011	2010
Notes receivable and other	$ 9,669	$ 12,307
Deferred financing costs, net of amortization	12,700	14,137
Cash surrender value of insurance policies	11,598	10,143
Reinsurance receivables	7,495	7,162
Pledges receivable	1,525	1,743
	$ 42,987	$ 45,492

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:

2012	$ 961
2013–2016	900
Thereafter	988
	2,849
Less: Allowance for doubtful accounts	(1,324)
	$ 1,525

11. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2011	2010
Accrued compensation	$ 150,280	$ 161,344
Payroll taxes and withholdings	15,398	2,528
Interest	11,574	11,820
Other accrued liabilities	78,722	62,490
Self-insurance		
Employee medical claims liability	19,878	16,900
Malpractice and workers' compensation liability	18,370	18,243
	$ 294,222	$ 273,325

12. Long-Term Debt

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

	2011	2010
Tax-exempt revenue bonds	$ 951,972	$ 971,295
Mortgage revenue bonds	77,635	79,675
Hospital revenue bonds	75,175	77,005
Taxable revenue bonds	450,000	450,000
Taxable variable rate demand bonds	73,800	75,800
Total bonds	1,628,582	1,653,775
Term loan facility	-	125,000
Capital lease obligations and other notes payable	64,594	70,681
	1,693,176	1,849,456
Unamortized premium or discount, net	6,423	8,119
	1,699,599	1,857,575
Less: Current maturities	(167,623)	(155,421)
	$ 1,531,976	$ 1,702,154

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:

	2011	2010
Series 2010 A Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 4.0% to 5.0% payable semi-annually and maturing through 2043; principal payments begin in 2023	$ 264,165	$ 264,165
Series 2008 A,B and C Variable Rate Demand Bonds, bearing interest at variable rates payable monthly and maturing through 2028; principal payments began in 2009	174,450	183,465
Series 2006 Current Interest Term Bonds, bearing interest at rates ranging from 4.5% to 5.0% payable semi-annually and maturing through 2039; principal payments begin in 2023	250,000	250,000
Series 2004 A and B Variable Rate Demand Bonds, bearing interest at variable rates payable monthly and maturing through 2034; principal payments begin in 2025	135,000	135,000
Series 2003 A Current Interest Serial Bonds, bearing interest at rates ranging from 2.0% to 5.0% payable semi-annually and maturing through 2020	98,720	107,995
Series 1996 Current Interest Term Bonds, bearing interest at 5.0% to 5.5% payable semi-annually and maturing through 2026	26,155	26,155
Series 1996 Capital Appreciation Serial Bonds, bearing interest at 5.7% to 6.0% payable at maturity through 2014	3,482	4,515
	$ 951,972	$ 971,295

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 March 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.

The 2004 A and B variable rate demand bonds are collateralized by a standby purchase agreement issued by JP Morgan Chase Bank National Association that expires December 8, 2012. Although Novant intends to provide for the collateralization of these bonds prior to that date, because the agreement expires less than a year from the date of the balance sheet, the 2004 A and B bonds are classified as current.

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.

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, 2011, Novant is in compliance with these bond covenants.

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, 2011, with the exception of the debt service coverage ratio. Rowan has undertaken or will be undertaking all requirements related to the failure to meet this covenant, including assessing and implementing steps necessary to bring the Company into compliance. The failure to meet this ratio does not require an acceleration of the debt maturities, and therefore no change in the classification of the bonds is required.

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:

	2011	2010
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%.	$ 66,695	$ 67,695
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%.	8,480	9,310
	$ 75,175	$ 77,005

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, 2011.

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.

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

Taxable Variable Rate Demand Bonds

In 1997, Novant 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, 2011 and 2010, the rate of interest on the variable bonds was 0.22% and 0.29%, 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 accrued interest at floating LIBOR plus 1%. As of December 31, 2010, the rate of interest on the loan was 1.26%. In 2011, the term loan matured, and was paid in July.

Other Long-Term Debt
Other long-term debt consists of various loans and notes on buildings and capital leases, bearing interest at rates ranging from 1.25% to 12.15%.

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

Years Ending December 31	
2012	$ 167,623
2013	48,856
2014	134,235
2015	42,090
2016	135,530
Thereafter	1,164,842
	$ 1,693,176

Novant capitalized $3,691 and $5,932 of interest in 2011 and 2010, respectively.

The fair values of Novant's tax-exempt revenue bonds and taxable variable rate demand bonds are based on a pricing model. At December 31, 2011 and 2010, Novant's bonds had an approximate fair value of $1,680,218 and $1,630,430, 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 U.S. 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 $80,876 and $94,962 as of December 31, 2011 and 2010, respectively.

The Company had a loan with a commercial bank which bore interest at a rate of LIBOR plus 1.75%. The outstanding balance on the loan was $850 as of December 31, 2010. The loan expired 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 $174,450. 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 $129,500 and $44,950 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 losses of $(9,939) and $(4,465) as a change in unrestricted net assets related to the effective portion of the swaps, and losses of $(124) and $(848) in interest expense related to the ineffective portion of the swaps during 2011 and 2010, respectively.

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 losses of $(22,424) and $(6,560) as a change in unrestricted net assets related to the effective portion of the swap and income (losses) of $1,497 and $(890) in interest expense related to the ineffective portion of the swap for 2011 and 2010, respectively.

In August 2005, PWHS entered into an interest rate swap agreement with a notional amount of $7,841 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, 2011 and 2010:

	2011	**2010**
Interest rate swaps designated as hedging instruments	$ 70,790	$ 39,800
Interest rate swaps not designated as hedging instruments	1,020	952
Total derivative financial liabilities	$ 71,810	$ 40,752

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, 2011 and 2010:

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)	
	2011	2010
Interest expense	$ 1,373	$ (1,738)

Classification of derivative gain (loss) on Statements of Operations	Amount of gain (loss) recognized as changes in unrestricted net assets	
	2011	2010
Unrealized losses on derivative financial instruments	$ (32,363)	$ (11,025)

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	
	2011	2010
Unrealized losses on non-hedged derivative financial instrument	$ (68)	$ (253)

13. Employee Benefits and Other Liabilities

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

	2011	2010
Retirement benefits	$ 39,704	$ 33,119
Other post-retirement benefits	23,071	19,864
Self-insurance malpractice and workers compensation, net of current portion	49,544	41,213
Employee benefits and other	124,911	84,913
Deferred gains	93,050	105,948
	$ 330,280	$ 285,057

14. Income Taxes

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

	2011	2010
Current tax expense		
Federal	$ 39	$ 184
State	616	82
	655	266
Deferred tax benefit		
Federal	(1,723)	(2,705)
State	185	176
	(1,538)	(2,529)
	$ (883)	$ (2,263)

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

	2011	2010
Deferred tax assets		
Loss carryforwards	$ 53,439	$ 48,093
Deferred charge for intercompany transfer	17,279	18,608
Accounts receivable	3,941	4,065
Other long-term liabilities	890	543
Other	1,775	2,304
Total deferred tax assets	77,324	73,613
Deferred tax liabilities		
Property and equipment	(3,165)	(1,116)
Intangible assets	(22,751)	(23,676)
Other assets	(18)	(23)
Total deferred tax liabilities	(25,934)	(24,815)
Valuation allowance	(40,410)	(39,355)
Net deferred tax asset	$ 10,980	$ 9,443

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

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

Cumulative losses in recent years are the most compelling form of negative evidence considered by management in this determination. For the year ended December 31, 2011, management has determined that based on all available evidence, a valuation allowance of $40,410 is appropriate.

As of December 31, 2011, the Company had approximately $120,959 of federal and $88,025 of state loss carryforwards available to reduce taxable income. The loss carryforwards expire through 2031.

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

	2011	2010
Federal statutory rate	$ (1,684)	$ (2,521)
State income taxes	801	258
Income tax benefit	$ (883)	$ (2,263)

The Company is required to evaluate uncertain tax positions. This evaluation includes a quantification of tax risk in areas such as unrelated business taxable income and the taxation of our for-profit subsidiaries. This evaluation did not have a material effect on the Company's statement of operations for the years ended December 31, 2011 and 2010.

15. 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 the Prince William Hospital Corporation Cash Balance Pension Plan (the "Prince William Plan"), respectively. Participation in the Rowan Plan was closed to new entrants and the accrued benefits were frozen as of December 31, 2003. Participation in the Prince William Plan was closed to new entrants and the accrued benefits were frozen as of April 1, 2010. The assets of the plans are primarily invested in common trust funds, common stocks, bonds, notes and U.S. government securities.

Certain Novant 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:

	2011	2010
Accumulated benefit obligation	$ 367,891	$ 307,397
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 330,556	$ 312,712
Service cost	3,127	4,188
Interest cost	16,799	17,582
Actuarial loss	6,878	244
Assumption change	45,100	14,534
Plan amendments	2,608	(1,887)
Settlements	(11,058)	-
Benefits paid	(13,891)	(16,817)
Projected benefit obligation at end of year	$ 380,119	$ 330,556
Change in plan assets		
Fair value of plan assets at beginning of year	$ 231,290	$ 212,721
Actual return on plan assets	5,959	27,851
Employer contribution	9,214	8,142
Settlements	11,058	-
Benefits paid, including plan expenses	(25,774)	(17,424)
Fair value of plan assets at end of year	$ 231,747	$ 231,290
Funded status	$ (148,372)	$ (99,266)
Components of net periodic benefit cost		
Service cost	$ 3,127	$ 4,188
Interest cost	16,799	17,582
Estimated return on plan assets	(15,212)	(14,902)
Amortization of prior service cost	(1,595)	(1,684)
Recognized net actuarial loss	8,369	7,456
Settlements	5,166	-
Recognized curtailment loss	-	219
Net periodic benefit cost	$ 16,654	$ 12,859
Amount recognized in the balance sheets		
Prepaid benefit cost at measurement date	$ 28,139	$ 26,600
Accrued benefit cost	(18,155)	(20,234)
Change in unrestricted net assets	(158,356)	(105,632)
Net liability recognized	$ (148,372)	$ (99,266)
Amounts recognized in unrestricted net assets		
Prior service cost	$ 5,179	$ 976
Net actuarial loss	153,177	104,656
	$ 158,356	$ 105,632
Other changes in plan assets and benefit obligations		
Net loss (gain)	$ 54,912	$ (6,485)
Prior service cost	2,608	935
Amortization of net loss	(6,390)	(1,577)
Amortization of prior service cost	1,595	1,684
Total recognized in unrestricted net assets	$ 52,725	$ (5,443)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 69,379	$ 7,416

The assumption changes referenced above are primarily a result of changes in the discount rate in 2011 and 2010. The settlement charges referenced above are a result of the application of settlement accounting requiring the acceleration of the amortization of actuarial loss in unrestricted net assets due to the timing of benefit payout.

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 2012 are $11,556 and $1,815, respectively.

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

	2011	**2010**
Discount rate	3.65 - 4.30%	4.50 - 5.50%
Rate of compensation increase(1)	5.00%	5.00%

(1) The compensation increase does not apply to the Rowan Plan or the Prince William Plan as benefits under these plans were frozen at December 31, 2011 and 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:

	2011	**2010**
Discount rate	4.50 - 5.50%	5.25 - 6.00%
Expected return on plan assets	6.00 - 8.00%	6.00 - 8.00%
Rate of compensation increase(1)	5.00%	4.00 - 5.00%

(1) The compensation increase does not apply to the Rowan Plan or the Prince William Plan as benefits under these plans were frozen at December 31, 2011 and 2010.

Plan Assets

Novant's pension plan asset allocation at December 31, 2011 and 2010 and target allocation for 2011 by asset category are as follows:

	Target Range	**Percentage of Plan Assets at December 31, 2011**	**2010**
Asset Category			
Real estate and other	0–10%	3.0 %	5.0 %
Alternative asset funds	0–15%	7.0	0.0
Equity securities	25–70%	46.0	57.0
Debt securities	25–70%	44.0	38.0
		100.0 %	100.0 %

The Company's primary investment objective for the Novant Plan, the Prince William 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. In addition, the Plans may hold Treasury Inflation-Protected Securities, alternative asset, real estate and commodity mutual funds. The investment guidelines, asset allocation, and investment performance are reviewed quarterly by the Novant Pension Restoration Committee. During 2011, the assets in the Prince William Plan were liquidated and reinvested in assets similar to those utilized by the Novant Plan. As a result of this transfer, certain plan assets in the Prince William Plan that were reported as Level 1 in 2010 are reported as Level 2 in 2011.

The fair values of the Company's Plan assets at December 31, 2011, by asset category are as follows:

	Fair Value Measurements at Reporting Date Using			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Equity securities				
U.S. equity	$ -	$ 50,184	$ -	$ 50,184
Developed non-U.S. equity	-	42,144	-	42,144
Emerging markets equity	-	13,475	-	13,475
Fixed income securities				
U.S. fixed income	-	101,508	-	101,508
Alternative asset funds	-	16,923	-	16,923
Real estate and other	-	7,513	-	7,513
Total fair value of the Company's Plan assets	$ -	$ 231,747	$ -	$ 231,747

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:				
U.S. equity	$ 24,047	$ 51,832	$ -	$ 75,879
Developed non-U.S. equity	4,670	40,146	-	44,816
Emerging markets equity	-	11,700	-	11,700
Fixed income securities:				
U.S. 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

Cash Flows

Novant's contributions to the supplemental retirement income plan and defined benefit pension plan were $9,214 and $8,142 for the years ended December 31, 2011 and 2010, respectively.

The Company expects to make contributions to the defined benefit pension plan of approximately $16,310 in 2012. The Company expects to make contributions to the supplemental retirement income plan of approximately $2,764 for the 2012 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		
2012	$	15,271
2013		19,419
2014		23,309
2015		16,081
2016		16,358
2017–2021		111,911

In addition, Novant sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to $53,728 and $67,129 in 2011 and 2010, 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 $161,418 in 2011 and $152,395 in 2010.

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, 2011 and 2010.

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:

	2011	2010
Change in benefit obligation		
Benefit obligation at beginning of year	$ 19,863	$ 18,264
Service cost	188	185
Interest cost	990	1,027
Actuarial loss	2,724	1,430
Plan participants' contributions	207	192
Benefits paid	(1,056)	(1,235)
Benefit obligation at end of year	$ 22,916	$ 19,863
Funded status	$ (22,916)	$ (19,863)
Amounts recognized in the balance sheets		
Accrued benefit cost	$ (22,916)	$ (19,863)
Amounts recognized in unrestricted net assets		
Prior service credit	$ -	$ (457)
Net actuarial loss (gain)	2,156	(1,254)
	$ 2,156	$ (1,711)
Components of net periodic benefit cost		
Service cost	$ 188	$ 185
Interest cost	990	1,027
Amortization of prior service credit	(511)	(629)
Recognized net actuarial gain	(633)	(779)
Net periodic benefit cost (credit)	$ 34	$ (196)

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 2012 are $60 and $0, respectively.

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

	2011	2010
Discount rate	2.20 - 4.15%	2.75 - 5.25%
Health care cost trend on covered charges	9.0% in 2012, grading to 5.00% in 2020	7.50 - 9.50% in 2011, 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:

	2011	**2010**
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

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, 2011.

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	
2012	$ 1,059
2013	1,079
2014	1,127
2015	1,172
2016	1,215
2017–2021	6,622

16. 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, 2010	$ 1,784,894	$ 1,775,542	$ 9,352
Excess of revenues over expenses	162,142	161,920	222
Loss on discontinued operations	(6,575)	(6,575)	-
Gain on sale of discontinued operations	10,238	10,238	-
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	(2,853)	(782)	(2,071)
Balance at December 31, 2010	1,917,421	1,909,918	7,503
Excess (deficit) of revenues over expenses	890	(915)	1,805
Loss on discontinued operations	(3,996)	(3,996)	-
Gain on sale of discontinued operations	14,893	14,893	-
Change in pension liability	(52,173)	(52,173)	-
Unrealized loss on derivative financial instruments	(32,363)	(32,363)	-
Other changes in unrestricted net assets	(2,021)	(3,685)	1,664
Balance at December 31, 2011	$ 1,842,651	$ 1,831,679	$ 10,972

17. Fair Value Measurements

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. 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.

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

Level 3: Inputs that are unobservable for the asset or liability. Investments classified in this level include an investment in a preferred stock fund.

Assets 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, 2011 and 2010, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

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

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

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

The following table summarizes fair value measurements, by level, at December 31, 2011 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	$ 301,708	$ -	$ -	$ 301,708
Short-term investments				
Certificates of deposit	-	9,095	-	9,095
Fixed income securities	-	176,355	-	176,355
Total short-term investments	-	185,450	-	185,450
Assets limited as to use				
Cash and cash equivalents	61,759	-	-	61,759
U.S. equities	24,270	-	-	24,270
Fixed income securities	-	66,540	-	66,540
Total assets limited as to use	86,029	66,540	-	152,569
Long-term investments				
Cash and cash equivalents	81,169	-	-	81,169
U.S. equities	225,980	37,202	10,000	273,182
International equities	124,305	-	-	124,305
Fixed income securities	8,742	112,530	-	121,272
Emerging markets	65,727	-	-	65,727
Total long-term investments	505,923	149,732	10,000	665,655
Total assets at fair value	$ 893,660	$ 401,722	$ 10,000	$ 1,305,382
Alternative investments, recorded using the equity method which approximates fair value				416,307
Total assets included in cash and cash equivalents, short-term investments, assets limited as to use and long-term investments				$ 1,721,689
Liabilities				
Derivative financial instruments	$ -	$ 71,810	$ -	$ 71,810
Employee benefits liabilities	14,085	-	-	14,085
Total liabilities at fair value	$ 14,085	$ 71,810	$ -	$ 85,895

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				
Certificates of deposit	-	2,968	-	2,968
Fixed income securities	-	42,120	-	42,120
Total short-term investments	-	45,088	-	45,088
Assets limited as to use				
Cash and cash equivalents	160,897	-	-	160,897
U.S. 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
U.S. 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	$ 1,191,822	$ 213,365	$ 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

For the years ended December 31, 2011 and 2010, the changes in the fair value of the assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	U.S. Equities
Balance at December 31, 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
Actual return on assets	-
Purchase and sales of assets, net	4,000
Transfers in/(out) of Level 3	-
Balance at December 31, 2011	$ 10,000

In accordance with the provisions of FASB Codification Topic 350, Intangibles - Goodwill and Other, goodwill with a carrying value of $44,118 was determined to be fully impaired during 2011. During 2010, this goodwill was partially impaired and an impairment charge of $16,019 was recorded. These impairment charges are included in the combined statements of operations. 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.

18. 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 were discounted, assuming a 3% rate for both malpractice and workers' compensation for December 31, 2011 and 2010, based on historical loss payment patterns. This resulted in a present value of $67,914 and $59,457 at December 31, 2011 and 2010, respectively, and represented a discount of $5,672 and $4,078 in 2011 and 2010, respectively.

19. 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.

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, 2011 and 2010, the Company was contingently liable for guarantees of indebtedness owed by third parties in the amount of $170 and $608, 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, 2011, this liability is included in accrued liabilities in the combined balance sheet.

20. Operating Leases

Certain operating properties and equipment are leased under noncancelable operating leases. Total rental expense under operating leases was $96,416 and $105,107 in 2011 and 2010, respectively. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows:

Years Ending December 31		
2012	$	83,003
2013		72,511
2014		65,459
2015		60,147
2016		52,896
Thereafter		208,479
	$	542,495

Novant leases six plots of land to a third party under long-term ground lease agreements. Total rental income under these lease agreements was $1,064 and $1,054 in 2011 and 2010, respectively. The future rental income related to the ground leases are as follows:

Years Ending December 31		
2012	$	1,083
2013		1,117
2014		1,137
2015		1,158
2016		1,179
Thereafter		96,528
	$	102,202

21. 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:

	2011	2010
Medicare	26.6 %	26.7 %
Medicaid	11.3	10.4
Other third-party payors	54.6	54.8
Patients	7.5	8.1
	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.

22. 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:

	2011	2010
Health care services	$ 2,486,155	$ 2,416,797
General and administrative	946,751	890,884
	$ 3,432,906	$ 3,307,681

23. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 30, 2012, the day the financial statements were issued.

24. Recent Accounting Pronouncements

In August 2010, the FASB issued ASU No. 2010-23, which requires a company in the healthcare industry to use its direct and indirect costs of providing charity care as the measurement basis for charity care disclosures. This guidance also requires additional disclosures of the methods used to identify such costs. This guidance was effective for Novant on January 1, 2011. The additional disclosures required by this guidance are consistent with the presentation that Novant has historically used for charity care disclosures. This guidance will have no impact on the combined statements of financial position and results of operations 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 was effective for Novant on January 1, 2011. 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 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 was effective for Novant on January 1, 2011. 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 May 2011, the FASB issued ASU 2011-4, which amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and also the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements but for which the fair value is required to be disclosed. ASU 2011-4 also requires additional disclosures for Level 3 measurements, including a description of the valuation process, sensitivity, and quantitative disclosure of unobservable inputs. This guidance is effective for Novant beginning January 1, 2012. The adoption of this guidance will have no impact on Novant's combined statements of financial position and results of operations, but may result in additional disclosures.

In July 2011, the FASB issued ASU 2011-7, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities, which requires certain health care entities to present the provision for bad debts related to patient service revenues as a deduction from revenue, net of contractual allowances and discounts, versus as an expense in the statement of operations. In addition, it also requires enhanced disclosures regarding revenue recognition policies and the assessment of bad debt. This guidance is effective for Novant beginning January 1, 2012 and will be retrospectively applied. This will result in a reduction of operating revenue and operating expenses but will have no impact on operating income in the statement of operations and changes in net assets.

In September 2011, the FASB issued ASU 2011-8, Intangibles, Goodwill and Other (Topic 350) - Testing Goodwill for Impairment. This guidance provides entities with the option of first assessing qualitative factors about the likelihood of goodwill impairment to determine whether further impairment assessment is necessary. This guidance is effective for Novant beginning January 1, 2012. Novant elected to early adopt this new guidance in 2011. The adoption of this guidance had no impact on Novant's combined statements of financial position and results of operations.

Other Financial Information

Report of Independent Auditors on Accompanying Information

To the Board of Trustees of
Novant Health, Inc.

We have audited the combined financial statements of Novant Health, Inc. and Affiliates as of December 31, 2011 and for the year then ended and our report thereon appears at the beginning of this document. That audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The Combining Supplemental Schedules and the Schedule of Cost of Community Benefit Programs are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the combined financial statements. The Combining Supplemental Schedules and Schedule of Cost of Community Benefit Programs have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Supplemental Schedules and Schedule of Cost of Community Benefit Programs are fairly stated, in all material respects, in relation to the combined financial statements taken as a whole. The Combining Supplemental Schedules are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and are not required parts of the combined financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

March 30, 2012

Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs
Years Ended December 31, 2011 and 2010

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

(in thousands of dollars)	2011	2010
Traditional charity care	$ 124,117	$ 118,565
Unpaid cost of Medicare	239,520	194,464
Unpaid cost of Medicaid	116,731	92,569
Community benefit programs	86,627	63,567
	$ 566,995	$ 469,165

Novant Health, Inc. and Affiliates
Combining Balance Sheet
December 31, 2011

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 195,102	$ 106,606	$ -	$ 301,708
Accounts receivable, net of allowance for doubtful accounts	305,122	88,089	-	393,211
Short-term investments	178,221	7,229	-	185,450
Deferred tax asset	-	5,266	-	5,266
Assets held for sale	421	2,497		2,918
Other current assets	94,580	24,401	(2,400)	116,581
Total current assets	773,446	234,088	(2,400)	1,005,134
Assets limited as to use	62,794	89,775	-	152,569
Long-term investments	845,479	236,483	-	1,081,962
Property and equipment, net	1,186,200	372,186	-	1,558,386
Intangible assets and goodwill, net	50,324	411,686	-	462,010
Investments in affiliates	410,865	6,875	(244,551)	173,189
Deferred tax asset	-	5,714	-	5,714
Other assets	38,424	7,063	(2,500)	42,987
Total assets	$ 3,367,532	$ 1,363,870	$ (249,451)	$ 4,481,951
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 159,645	$ 7,978	$ -	$ 167,623
Short-term borrowings	80,876	-	-	80,876
Accounts payable	103,787	8,450	-	112,237
Accrued liabilities	231,088	68,034	(4,900)	294,222
Estimated third-party payor settlements	13,222	2,415	-	15,637
Due to (from) related organizations	(489,532)	489,532	-	-
Total current liabilities	99,086	576,409	(4,900)	670,595
Long-term debt, net of current portion	1,345,152	186,824	-	1,531,976
Derivative financial instruments	70,790	1,020	-	71,810
Employee benefits and other liabilities	250,147	80,133	-	330,280
Total liabilities	1,765,175	844,386	(4,900)	2,604,661
Net assets				
Unrestricted-attributable to Novant	1,602,178	474,052	(244,551)	1,831,679
Unrestricted- noncontrolling interests	-	10,972	-	10,972
Temporarily restricted	179	25,564	-	25,743
Permanently restricted	-	8,896	-	8,896
Total net assets	1,602,357	519,484	(244,551)	1,877,290
Total liabilities and net assets	$ 3,367,532	$ 1,363,870	$ (249,451)	$ 4,481,951

Novant Health, Inc.
Combining Statement of Operations
Year Ended December 31, 2011

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Unrestricted revenues, gains and other support				
Net patient service revenue	$ 2,580,043	$ 735,353	$ -	$ 3,315,396
Premium revenue	-	2,948	-	2,948
Other revenue	122,123	21,698	(9,036)	134,785
Total unrestricted revenues, gains and other support	2,702,166	759,999	(9,036)	3,453,129
Expenses				
Salaries and employee benefits	1,488,051	310,177	(1,007)	1,797,221
Supplies and other	848,195	297,294	(7,297)	1,138,192
Depreciation expense	111,374	45,828	-	157,202
Amortization expense	23,044	9,949	-	32,993
Goodwill impairment	-	44,118	-	44,118
Loss on sale of real estate	664	223	-	887
Interest expense	44,224	32,490	-	76,714
Provision for bad debts	102,615	82,964	-	185,579
Total expenses	2,618,167	823,043	(8,304)	3,432,906
Operating income (loss)	83,999	(63,044)	(732)	20,223
Other income (expense)				
Investment income (loss)	(17,219)	(3,307)	709	(19,817)
Unrealized losses on non-hedged derivative financial instruments	-	(68)	-	(68)
Income tax benefit (expense)	(789)	1,277	-	488
Other, net	-	64	-	64
Excess (deficit) of revenues over expenses	$ 65,991	$ (65,078)	$ (23)	$ 890

Novant Health, Inc.
Combined Group Combining Balance Sheet
December 31, 2011

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Assets				
Current assets				
Cash and cash equivalents	$ 192,600	$ 2,502	$ -	$ 195,102
Accounts receivable, net of allowance for doubtful accounts	199,960	105,162	-	305,122
Short-term investments	178,221	-	-	178,221
Assets held for sale	-	421	-	421
Other current assets	79,905	14,675	-	94,580
Total current assets	650,686	122,760	-	773,446
Assets limited as to use	62,794	-	-	62,794
Long-term investments	845,479	-	-	845,479
Property and equipment, net	916,152	270,048	-	1,186,200
Intangible assets and goodwill, net	19,906	30,418	-	50,324
Investments in affiliates	451,065	15,685	(55,885)	410,865
Other assets	38,424	-	-	38,424
Total assets	$ 2,984,506	$ 438,911	$ (55,885)	$ 3,367,532
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 159,504	$ 141	$ -	$ 159,645
Short-term borrowings	80,876	-	-	80,876
Accounts payable	98,265	5,522	-	103,787
Accrued liabilities	184,093	46,995	-	231,088
Estimated third-party payor settlements	12,951	271	-	13,222
Due to (from) related organizations	(569,188)	79,656	-	(489,532)
Total current liabilities	(33,499)	132,585	-	99,086
Long-term debt, net of current portion	1,344,781	371	-	1,345,152
Derivative financial instruments	70,790	-	-	70,790
Employee benefits and other liabilities	240,660	9,487	-	250,147
Total liabilities	1,622,732	142,443	-	1,765,175
Net assets				
Unrestricted	1,361,595	296,468	(55,885)	1,602,178
Temporarily restricted	179	-	-	179
Total net assets	1,361,774	296,468	(55,885)	1,602,357
Total liabilities and net assets	$ 2,984,506	$ 438,911	$ (55,885)	$ 3,367,532

Novant Health, Inc.
Combined Group Combining Statement of Operations
Year Ended December 31, 2011

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Unrestricted revenues, gains and other support				
Net patient service revenue	$ 1,599,109	$ 981,232	$ (298)	$ 2,580,043
Other revenue	109,462	15,104	(2,443)	122,123
Total unrestricted revenues, gains and other support	1,708,571	996,336	(2,741)	2,702,166
Expenses				
Salaries and employee benefits	893,565	594,486	-	1,488,051
Supplies and other	543,531	306,128	(1,464)	848,195
Depreciation expense	79,519	31,855	-	111,374
Amortization expense	17,619	5,425	-	23,044
Loss (gain) on sale of real estate	736	(72)	-	664
Interest expense	35,107	9,117	-	44,224
Provision for bad debts	60,841	41,774	-	102,615
Total expenses	1,630,918	988,713	(1,464)	2,618,167
Operating income (loss)	77,653	7,623	(1,277)	83,999
Other income (expense)				
Investment income (loss)	(17,219)	(1,277)	1,277	(17,219)
Income tax expense	(299)	(490)	-	(789)
Excess of revenues over expenses	$ 60,135	$ 5,856	$ -	$ 65,991