Novant Health, Inc.
and Affiliates

Combined Financial Statements
December 31, 2012 and 2011

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Report of Independent Auditors

Combined Financial Statements

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Independent Auditor's Report

To the Board of Trustees of
Novant Health, Inc.

We have audited the accompanying combined financial statements of Novant Health, Inc. and Affiliates (the "Company"), which comprise the combined balance sheets as of December 31, 2012 and 2011, and the related combined statements of operations and changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Novant Health, Inc. and Affiliates at December 31, 2012 and 2011, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 29, 2013

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Novant Health, Inc. and Affiliates
Combined Balance Sheets
December 31, 2012 and 2011

(in thousands of dollars)	**2012**	**2011**
Assets		
Current assets		
Cash and cash equivalents	$ 276,637	$ 301,708
Accounts receivable, net of allowance for doubtful accounts of $197,913 in 2012 and $198,654 in 2011	390,180	393,211
Short-term investments	308,696	185,450
Current portion of assets limited as to use	23,851	34,340
Deferred tax asset	3,728	5,266
Assets held for sale	-	2,918
Receivable for settlement with third-party payors	12,599	11,008
Other current assets	141,527	116,581
Total current assets	1,157,218	1,050,482
Assets limited as to use, net of current portion	81,394	118,229
Long-term investments	1,192,288	1,081,962
Property and equipment, net	1,656,968	1,607,736
Intangible assets and goodwill, net	389,782	412,660
Investments in affiliates	162,145	173,189
Deferred tax asset	2,945	5,714
Other assets	51,114	42,987
Total assets	$ 4,693,854	$ 4,492,959
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 78,423	$ 167,623
Short-term borrowings	124,071	80,876
Accounts payable	134,163	112,237
Accrued liabilities	333,305	310,552
Estimated third-party payor settlements	26,453	26,645
Total current liabilities	696,415	697,933
Long-term debt, net of current portion	1,472,993	1,531,976
Derivative financial instruments	71,778	71,810
Employee benefits and other liabilities	289,545	313,950
Total liabilities	2,530,731	2,615,669
Commitments and contingencies		
Net assets		
Unrestricted - attributable to Novant	2,116,534	1,831,679
Unrestricted - noncontrolling interests	9,737	10,972
Temporarily restricted	26,953	25,743
Permanently restricted	9,899	8,896
Total net assets	2,163,123	1,877,290
Total liabilities and net assets	$ 4,693,854	$ 4,492,959

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, 2012 and 2011

(in thousands of dollars)	**2012**	**2011**
Operating revenues		
Patient service revenues (net of contractual allowances and discounts)	$ 3,576,979	$ 3,315,396
Provision for bad debts	(179,524)	(185,579)
Net patient service revenues less provision for bad debts	3,397,455	3,129,817
Premium revenue	5,452	2,948
Other revenue	152,366	134,785
Total operating revenues	3,555,273	3,267,550
Operating expenses		
Salaries and employee benefits	1,832,776	1,797,221
Supplies and other	1,250,379	1,138,192
Depreciation expense	181,870	184,246
Amortization expense	6,719	6,836
Impairment charge	18,388	44,118
Interest expense	80,413	76,714
Total operating expenses	3,370,545	3,247,327
Operating income	184,728	20,223
Non-operating income (expense)		
Investment income (loss)	108,838	(19,817)
Unrealized gain (loss) on non-hedged derivative financial instruments	207	(68)
Income tax benefit (expense)	(8,967)	488
Other, net	(3,280)	64
Loss on extinguishment of debt	(7,936)	-
Excess of revenues over expenses	$ 273,590	$ 890

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, 2012 and 2011

(in thousands of dollars)	**2012**	**2011**
Unrestricted net assets		
Excess of revenues over expenses	$ 273,590	$ 890
Change in funded status of defined benefit plans	11,039	(56,591)
Unrealized loss on derivative financial instruments	(2,078)	(32,363)
Other changes in unrestricted net assets	2,188	2,397
Increase (decrease) in unrestricted net assets, before effects of discontinued operations	284,739	(85,667)
Discontinued operations		
Loss on discontinued operations	(2,840)	(4,391)
Income tax benefit	-	395
Gain on sale of discontinued operations	1,721	14,893
Increase (decrease) in unrestricted net assets	283,620	(74,770)
Temporarily restricted net assets		
Contributions and investment income	6,768	4,644
Net assets released from restrictions for operations	(5,558)	(4,573)
Increase in temporarily restricted net assets	1,210	71
Permanently restricted net assets		
Contributions	1,003	187
Increase in permanently restricted net assets	1,003	187
Increase (decrease) in total net assets	285,833	(74,512)
Net assets, beginning of year	1,877,290	1,951,802
Net assets, end of year	$ 2,163,123	$ 1,877,290

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, 2012 and 2011

(in thousands of dollars)	2012	2011
Cash flows from operating activities		
Increase (decrease) in net assets	$ 285,833	$ (74,512)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	192,748	190,461
Loss (gain) on sale of real estate	(4,693)	887
Gain on sale of business	(7,998)	-
Impairment charge	18,388	44,118
Loss on extinguishment of debt	7,936	-
Loss on sale of investment	3,167	-
Gain on sale of discontinued operations	(1,721)	(14,893)
Change in funded status of defined benefit plans	(11,039)	56,591
Share of earnings in affiliates, net of distributions	263	1,488
Net (gains) losses on assets limited as to use and investments	(74,952)	23,804
Change in fair value of interest rate swap	(32)	31,058
Provision for bad debts	179,524	185,579
Changes in operating assets and liabilities		
Accounts receivable	(176,493)	(186,462)
Investments and assets limited as to use	(159,093)	(221,576)
Accounts payable and accrued liabilities	37,404	19,326
Deferred taxes, net	4,307	(1,537)
Other assets and liabilities, net	(43,052)	10,558
Net cash provided by operating activities	250,497	64,890
Cash flows from investing activities		
Capital expenditures	(242,799)	(188,040)
Proceeds from sale of affiliates	11,324	24,051
Proceeds from sale of property and equipment	2,882	10,632
Cash paid for acquisitions	(363)	(4,616)
Net proceeds from the liquidation (purchase) of short-term investments	6,895	(6,127)
Repayment of notes receivable and other, net	(21)	865
Net cash used in investing activities	(222,082)	(163,235)
Cash flows from financing activities		
Principal payments on long-term debt	(32,175)	(157,141)
Bond proceeds received from trustee	13,827	62,203
Extinguishment of debt	(83,154)	-
Payments on line of credit	-	(14,086)
Proceeds from line of credit and other financing, net	48,016	1,198
Net cash used in financing activities	(53,486)	(107,826)
Net decrease in cash and cash equivalents	(25,071)	(206,171)
Cash and cash equivalents		
Beginning of year	301,708	507,879
End of year	$ 276,637	$ 301,708

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, 2012 and 2011

	2012	2011
Supplemental disclosure of cash flow information		
Interest paid, net of amounts capitalized	$ 80,724	$ 76,960
Income taxes paid	3,956	824
Supplemental disclosure of noncash financing and investing activities		
Additions to property and equipment financed through current liabilities	19,880	3,062

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 1,123-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

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

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

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

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying 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 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.

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

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

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

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

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

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

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

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

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

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

Under the terms of the 1984 deed in which the Forsyth County Board of County Commissioners conveyed the assets of Forsyth Memorial Hospital (the "Hospital") to Novant, 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 $282,954 at December 31, 2012.

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

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

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

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

Business relationships	26 years
Corporate trade name	29 years

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

Statement of Operations
All activities of Novant deemed by management to be ongoing, major and central to the provision of healthcare services are reported as operating revenue and expenses. Other activities are deemed to be nonoperating and include investment income (loss), change in fair value of nonhedged derivative financial instruments, income tax benefit (expense) and loss on extinguishment of bonds.

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

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

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include changes in pension liabilities, unrealized gains and losses on derivative financial instruments and the effects of discontinued operations.

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.

Other Assets

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

Compensated Absences

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

Self-Insurance Reserves

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

Reclassifications

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

3. Organizational Changes

Discontinued Operations

During 2010, the Company made the decision to close or sell certain of its MedQuest outpatient imaging locations to unrelated third parties. This decision was the result of management's efforts to more closely align the geographic locations of MedQuest facilities with the Company's long-term business plans. During 2012 and 2011, four and seven MedQuest locations, respectively, were divested. In addition to these divestitures, the Company sold the operations of one of its long-term care facilities in 2011 and sold an additional long-term care location in 2012. At December 31, 2012, there are no locations remaining in discontinued operations. In accordance with GAAP, the operating results related to these locations have been reported as discontinued operations in the 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:

	2012	2011
Net operating revenue	$ 10,456	$ 29,680
Operating income (loss)	(1,119)	10,502

The accompanying combined balance sheets include assets held for sale related to the above transactions. At December 31, 2011, assets held for sale consisted 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. For uninsured patients that do not qualify for charity care, Novant recognizes revenue on the basis of its standard rates for services provided, less discounts for uninsured patients as provided by Novant's financial assistance policies. Based on historical experience, many of Novant's uninsured patients will be unable or unwilling to pay for the services provided. As a result, Novant records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	Third-Party Payors	Self Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 3,520,600	$ 56,379	$ 3,576,979

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

Medicare and Medicaid
Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services, and defined capital and medical education costs related to beneficiaries are paid based on a cost reimbursement methodology. Outpatient services are paid at a prospectively determined rate. Novant 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 2007 for Prince William Hospital, and through 2006 for all other facilities. 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 33.2% and 7.1%, respectively, of Novant's net patient service revenue for the year ended 2012, and 32.4% and 7.1%, respectively for the year ended 2011. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

In July 2010, the Department of Health and Human Services published final regulations implementing the health information technology provisions of the American Recovery and Reinvestment Act. The regulation defines the "meaningful use" of Electronic Health Records ("EHR") and established the requirements for the Medicare and Medicaid EHR payment incentive programs. These programs allow Medicare and Medicaid incentive payments to be paid to eligible hospitals, physicians, and certain other health professionals that implement and achieve meaningful use of certified EHR technology. The implementation period for these new Medicare and Medicaid incentive payments started in federal fiscal year 2011 and can end as late as 2016 for Medicare and 2021 for the state Medicaid programs. Novant recognizes income related to Medicare and Medicaid incentive payments using a gain contingency model that is based upon when our eligible providers and hospitals have demonstrated meaningful use of certified EHR technology for the applicable period, and, if applicable, the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available. During 2012, Novant recognized $7,123 of revenue related to EHR funds. These amounts are included in other revenue in the accompanying combined statements of operations. This amount represents amounts that were received and/or amounts for which Novant has successfully met meaningful use criteria. Included in the Company's combined balance sheets at December 31, 2012 are receivables related to EHR funds of $5,500. No amounts were recorded by the Company in 2011, as meaningful use criteria had not yet been successfully met.

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 $4,369,454 (or 53%) and $4,322,535 (or 54%) of 2012 and 2011 gross patient service revenue, respectively.

The allowance for doubtful accounts is determined based on management's assessment of historical and expected net collections, business and economic conditions, the age of the accounts, trends in federal and state governmental health care coverage and other collection indicators. Novant's self pay write-offs were $548,934 in 2012 compared to $538,867 in 2011. The increase is the result of increases in self pay revenue as well as negative trends experienced in the collection of amounts from self pay patients during 2012. Novant has not changed its charity care or uninsured discount policies during 2011 or 2012. Novant does not maintain a material allowance for doubtful accounts from third party payors, nor did it have significant write-offs from third party payors.

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 $123,475 and $124,117 for the years ended December 31, 2012 and 2011, 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 $700 and $1,250 for the years ended December 31, 2012 and 2011, 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 46 in the accompanying other financial information.

6. Other Current Assets

Other current assets consist of the following at December 31:

	2012	2011
Inventory	57,763	52,822
Prepaids	31,812	30,269
Other receivables	51,952	33,490
	$ 141,527	$ 116,581

7. Assets Limited as to Use and Investments

Short-Term Investments

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

	2012	2011
Certificates of deposit	$ 2,200	$ 9,095
Fixed income securities	306,496	176,355
	$ 308,696	$ 185,450

Assets Limited as to Use

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

	2012		2011	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Under indenture agreement held by trustee	$ 9,397	$ 7,275	$ 24,081	$ 32,855
Under general and professional liability funding arrangement held by trustee	7,631	46,193	7,495	45,508
Designated by board to service benefit plans	6,823	17,277	2,764	28,069
Restricted by bank agreements	-	10,649	-	11,797
	$ 23,851	$ 81,394	$ 34,340	$ 118,229

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

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

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

	December 31, 2011			
	At Fair Value	On Equity Method	On Cost Method	Total
Cash and cash equivalents	$ 81,169	$ -	$ -	$ 81,169
U.S. equities	273,182	11,976	-	285,158
International equities	124,305	27,884	-	152,189
Fixed income securities	121,272	-	-	121,272
Hedge funds	-	356,317	-	356,317
Emerging markets	65,727	-	-	65,727
Real estate and other	-	19,786	344	20,130
	$ 665,655	$ 415,963	$ 344	$ 1,081,962

The Company's investments in hedge funds include limited partnerships, limited liability corporations, and off-shore investment funds. The underlying investments of the limited partnerships and limited liability corporations include, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments may result in loss due to changes in the market (market risk). Alternative investments are less liquid than the Company's other investments.

Novant's investments in hedge funds represent 31.5% of total long-term investments held at December 31, 2012. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Novant is obligated under certain investment agreements to periodically advance additional funding up to specified levels. As of December 31, 2012 and 2011, Novant had future commitments of $56,422 and $59,825, respectively, for which capital calls had not been exercised.

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

	2012	2011
Income (loss)		
Interest and dividend income	$ 27,651	$ 17,661
Net realized gains (losses)	6,235	(13,674)
Net gains (losses)	74,952	(23,804)
	$ 108,838	$ (19,817)

8. 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, 2012 and 2011, 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, 2012 for all financial assets and liabilities measured at fair value on a recurring basis in the financial statements:

	Fair Value Measurements at Reporting Date Using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Short-term investments:				
Certificates of deposit	$ -	$ 2,200	$ -	$ 2,200
Fixed income securities	-	306,496	-	306,496
Total short-term investments	-	308,696	-	308,696
Assets limited as to use:				
Cash and cash equivalents	16,056	-	-	16,056
US equities	21,097	-	-	21,097
Fixed income securities	-	68,092	-	68,092
Total assets limited as to use	37,153	68,092	-	105,245
Long-term investments:				
Cash and cash equivalents	24,262	-	-	24,262
US equities	254,630	33,194	4,000	291,824
International equities	176,836	-	-	176,836
Fixed income securities	8,542	101,928	-	110,470
Emerging markets	90,156	-	-	90,156
Total long-term investments	554,426	135,122	4,000	693,548
Total assets at fair value	$ 591,579	$ 511,910	$ 4,000	$ 1,107,489
Liabilities				
Derivative financial instruments	-	71,778	-	71,778
Employee benefits liabilities	5,471	-	-	5,471
Total liabilities at fair value	$ 5,471	$ 71,778	$ -	$ 77,249

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				
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
US 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
US 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	$ 591,952	$ 401,722	$ 10,000	$ 1,003,674
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

For the years ended December 31, 2012 and 2011, 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, 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
Actual return on assets	-
Purchase and sales of assets, net	(6,000)
Transfers in/(out) of Level 3	-
Balance at December 31, 2012	$ 4,000

As a result of its annual impairment testing for 2012, Novant recorded impairment charges of $18,388 to reduce the carrying value of certificates of need from their original carrying value of $59,048 to their implied and estimated fair value of $40,660. As a result of its annual impairment testing for 2011, Novant determined that goodwill with a carrying value of $44,118 was fully impaired. These impairment charges are included in the combined statements of operations. The fair value measurements used in determining the fair value of the Company's certificates of need and goodwill were all deemed to be Level 3.

9. Property and Equipment

Property and equipment consists of the following at December 31:

	2012	2011
Land and land improvements	$ 236,167	$ 234,239
Leasehold improvements	141,001	130,714
Buildings and building improvements	1,561,591	1,511,115
Buildings under capital lease obligations	27,220	25,773
Equipment	1,512,481	1,453,760
Equipment under capital lease obligations	7,599	8,897
Software	223,163	189,551
Construction in progress	137,984	93,289
	3,847,206	3,647,338
Less: Accumulated depreciation	(2,190,238)	(2,039,602)
	$ 1,656,968	$ 1,607,736

At December 31, 2012 and 2011, land and buildings with a net book value of $21,716 and $16,058 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, 2012 and 2011 amounted to $181,870 and $184,246, respectively. Accumulated amortization for buildings and equipment under capital lease obligations was $18,952 and $18,597 at December 31, 2012 and 2011, respectively. Construction contracts of approximately $376,060 exist for the construction of new hospitals, expansion of existing hospitals and facility renovations. At December 31, 2012, the remaining commitment on these contracts was $188,363.

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 2012 and 2011. The remaining deferred gain of $45,882 will be recognized over the average life of Novant's lease agreements with the buyer.

10. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	Gross Intangible	Accumulated Amortization	Net Intangible
Balance at December 31, 2011			
Unamortized intangible assets			
Certificates of need	$ 87,831	$ -	$ 87,831
Total unamortized intangible assets	87,831	-	87,831
Amortized intangible assets			
Business relationships	90,420	(14,479)	75,941
Corporate trade name and other intangibles	39,415	(7,048)	32,367
Total amortized intangible assets	129,835	(21,527)	108,308
Total intangible assets	$ 217,666	$ (21,527)	$ 196,139
Balance at December 31, 2012			
Unamortized intangible assets			
Certificates of need	$ 69,781	$ -	$ 69,781
Total unamortized intangible assets	69,781	-	69,781
Amortized intangible assets			
Business relationships	90,930	(18,404)	72,526
Corporate trade name and other intangibles	39,500	(8,356)	31,144
Total amortized intangible assets	130,430	(26,760)	103,670
Total intangible assets	$ 200,211	$ (26,760)	$ 173,451

Amortization expense related to intangible assets was $5,456 and $5,689 for the years ended December 31, 2012 and 2011, respectively. Estimated annual amortization expense for intangible assets for the years 2013 through 2017 is approximately $5,458, $5,458, $5,450, $5,438 and $5,428, respectively.

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

	2012	2011
As of January 1		
Goodwill, net of accumulated amortization	$ 305,742	$ 303,651
Accumulated impairment losses	(89,221)	(45,103)
	216,521	258,548
Goodwill acquired, net of purchase price adjustments and other	(190)	2,091
Impairment	-	(44,118)
	216,331	216,521
As of the end of the period		
Goodwill, net of accumulated amortization	305,552	305,742
Accumulated impairment losses	(89,221)	(89,221)
	$ 216,331	$ 216,521

As a result of its annual impairment testing for 2012, Novant recorded impairment charges of $18,388 to reduce the carrying value of certificates of need to their implied and estimated fair values. This impairment charge was a partial write off of the certificate of need. As a result of its annual impairment testing for 2011, Novant recorded impairment charges of $44,118 to reduce the carrying value of goodwill and other intangibles to their implied and estimated fair values for certain reporting units. This impairment charge represents a full write off of the remaining goodwill for these reporting units. These impairment charges were a result of lower than expected operating results at certain Novant 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 and other intangible assets may occur. Future restructuring of our markets that could potentially change our reporting units could also result in future impairments of goodwill.

11. Investments in Affiliates

Novant has noncontrolling interests in twelve healthcare related entities. The Company's ownership interests in the entities range from 5% to 51%. These investments are accounted for using either the cost or equity method.

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

Investee	% Ownership 2012	% Ownership 2011	Investment Balance at December 31, 2012	Investment Balance at December 31, 2011	Share of Earnings of Investee 2012	Share of Earnings of Investee 2011
Hospital Partnership	30%	30%	$ 128,104	$ 129,126	$ 8,928	$ 7,257
Advanced Services	25%	25%	17,313	17,247	2,936	1,328
Laboratory Group Holdings LLC	5%	5%	-	11,167	-	-
Providence Plaza LLC	30%	30%	4,945	4,896	135	108
Rowan Hospice & Palliative Care LLC	50%	50%	2,781	2,551	229	72
Cancer Center	50%	50%	1,931	1,465	1,966	1,595
Other	Various	Various	7,071	6,737	152	899
			$ 162,145	$ 173,189	$ 14,346	$ 11,259

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

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

	2012	2011
Assets	$ 226,813	$ 216,650
Liabilities	57,079	58,590
Equity	169,734	158,060
Total revenue	330,563	301,934
Total expenses	284,174	267,972
Net income	46,389	33,962
Novant's share of net income	14,346	11,259

12. Other Assets

Other assets consist of the following at December 31:

	2012	2011
Notes receivable and other	$ 19,462	$ 9,669
Deferred financing costs, net of amortization	9,311	12,700
Cash surrender value of insurance policies	13,351	11,598
Reinsurance receivables	7,631	7,495
Pledges receivable	1,359	1,525
	$ 51,114	$ 42,987

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

13. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2012	2011
Accrued compensation	$ 166,700	$ 150,280
Pension liability	19,009	15,271
Postretirement benefit liability	1,079	1,059
Payroll taxes and withholdings	17,549	15,398
Interest	9,972	11,574
Other accrued liabilities	82,229	78,722
Self-insurance		
Employee medical claims liability	18,688	19,878
Malpractice and workers' compensation liability	18,079	18,370
	$ 333,305	$ 310,552

14. Long-Term Debt

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

	2012	2011
Tax-exempt revenue bonds	$ 903,305	$ 951,972
Mortgage revenue bonds	-	77,635
Hospital revenue bonds	73,260	75,175
Taxable revenue bonds	450,000	450,000
Taxable variable rate demand bonds	69,800	73,800
Total bonds	1,496,365	1,628,582
Capital lease obligations and other notes payable	48,978	64,594
	1,545,343	1,693,176
Unamortized premium or discount, net	6,073	6,423
	1,551,416	1,699,599
Less: Current maturities	(78,423)	(167,623)
	$ 1,472,993	$ 1,531,976

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:

	2012	2011
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	165,175	174,450
Series 2006 Current Interest Term Bonds, bearing interest at rates ranging from 4.5% to 5.0% payable semi-annually and maturing through 2039; principal payments begin in 2023	250,000	250,000
Series 2004 A and B Variable Rate Demand Bonds, bearing interest at variable rates payable monthly and maturing through 2034; principal payments begin in 2025	135,000	135,000
Series 2003 A Current Interest Serial Bonds, bearing interest at rates ranging from 2.0% to 5.0% payable semi-annually and maturing through 2020	88,965	98,720
Series 1996 Current Interest Term Bonds, bearing interest at 5.0% to 5.5% payable semi-annually and maturing through 2026	-	26,155
Series 1996 Capital Appreciation Serial Bonds, bearing interest at 5.7% to 6.0% payable at maturity through 2014	-	3,482
	$ 903,305	$ 951,972

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, 2012, Novant is in compliance with these bond covenants.

The Series 2004 A and B Variance Rate Demand Bonds are collateralized by a standby purchase agreement ("SBPA") issued by JP Morgan Chase Bank National Association. At December 31, 2011, the SBPA was due to expire on December 8, 2012. Because the agreement expired less than a year from the date of the balance sheet, the 2004 bonds were classified as current in the December 31, 2011 balance sheet. The SBPA was extended in November 2012 to expire January 31, 2016. If the SBPA should be used to fund tenders due to a failed remarketing, repayments in quarterly installments over three years are required. As a result, the Company has classified $33,750 of the 2004 bonds as current at December 31, 2012.

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

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

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%. On July 18, 2012, Rowan defeased these bonds using cash flow from operations and cancelled the mortgage insurance. At December 31, 2012, the defeased bonds had an outstanding balance of $75,495.

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:

	2012	2011
Series 2002 Hospital Revenue Bonds, term bonds which are due in 2023 and 2033, bearing interest at rates of 5.1% and 5.3%.	$ 65,655	$ 66,695
Series 1993 Hospital Revenue Refunding Bonds, due in 2019, bearing interest at 5.3%.	7,605	8,480
	$ 73,260	$ 75,175

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, 2012.

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, 2012 and December 31, 2011, the rate of interest on the variable bonds was 0.21% and 0.22%, respectively. The irrevocable letter of credit is currently available through March 1, 2014.

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 1.21% to 12.15%.

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

Years Ending December 31	
2013	$ 44,673
2014	129,901
2015	38,643
2016	128,341
2017	34,545
Thereafter	1,175,313
	$ 1,551,416

Novant capitalized $1,237 and $3,691 of interest in 2012 and 2011, respectively.

The fair values of Novant's bonds are based on a pricing model. At December 31, 2012 and 2011, Novant's bonds had an approximate fair value of $1,588,218 and $1,680,218, respectively.

Short-Term Borrowings

On June 18, 2010, Novant entered into a $150,000 Senior Revolving Credit Facility. The line of credit bears interest at variable rates and has a three year term. In December 2012, proceeds from the Senior Revolving Credit Facility were used to redeem the Series 1996 Current Interest Term Bonds and the Series 1996 Capital Appreciation Serial Bonds. The amount outstanding under the Senior Revolving Credit Facility was $34,246, bearing interest at 1.36%. As of December 31, 2011, there was no outstanding balance on the Senior Revolving Credit Facility.

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 $89,825 and $80,876 as of December 31, 2012 and December 31, 2011, respectively.

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 $165,175. 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 $122,500 and $42,675 notional amounts, respectively. Both swaps are assessed for effectiveness on an ongoing basis at each quarter end using the hypothetical derivative method.

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.

In August 2005, PWHS entered into an interest rate swap agreement in order to hedge its exposure to changes in interest rates. The interest rate swap matures on September 1, 2015, and has a notional amount of $7,442. 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, 2012 and 2011:

	2012	2011
Interest rate swaps designated as hedging instruments	$ 70,966	$ 70,790
Interest rate swaps not designated as hedging instruments	812	1,020
Total derivative financial liabilities	$ 71,778	$ 71,810

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, 2012 and 2011:

	Amount of Gain (Loss) Recognized in Change in Unrestricted Net Assets		Amount of Gain (Loss) Recognized in Excess of Revenues Over Expenses	
Statement of Operations Location	**2012**	**2011**	**2012**	**2011**
Derivatives desginated as hedging instruments				
Change in fair value of hedging interest rate swaps	$ (2,078)	$ (32,363)	$ -	$ -
Hedge ineffectiveness	-	-	(2,253)	1,373
Derivatives not designated as hedging instruments				
Change in fair value of nonhedging interest rate swaps	-	-	207	(68)
	$ (2,078)	$ (32,363)	$ (2,046)	$ 1,305

15. Employee Benefits and Other Liabilities

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

	2012	2011
Pension liability, net of current portion	$ 115,036	$ 133,101
Postretirement benefit liability, net of current portion	23,039	21,857
Self-insurance malpractice and workers compensation, net of current portion	49,993	49,544
Employee benefits and other	12,352	16,398
Deferred gains	89,125	93,050
	$ 289,545	$ 313,950

16. Income Taxes

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

	2012	2011
Current tax expense (benefit)		
Federal	$ 4,695	$ 39
State	(35)	616
	4,660	655
Deferred tax expense (benefit)		
Federal	4,128	(1,723)
State	179	185
	4,307	(1,538)
	$ 8,967	$ (883)

The components of deferred taxes are as follows:

	2012	2011
Deferred tax assets		
Loss carryforwards	$ 55,474	$ 53,439
Deferred charge for intercompany transfer	15,974	17,279
Accounts receivable	2,511	3,941
Other long-term liabilities	510	890
Other	1,272	1,775
Total deferred tax assets	75,741	77,324
Deferred tax liabilities		
Property and equipment	(2,176)	(3,165)
Intangible assets	(22,938)	(22,751)
Other assets	(18)	(18)
Total deferred tax liabilities	(25,132)	(25,934)
Valuation allowance	(43,936)	(40,410)
Net deferred tax asset	$ 6,673	$ 10,980

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, 2012, management has determined that based on all available evidence, a valuation allowance of $43,936 is appropriate.

As of December 31, 2012, the Company had approximately $131,417 of federal and $94,344 of state loss carryforwards available to reduce taxable income. The loss carryforwards expire through 2032.

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

	2012	2011
Federal statutory rate	$ 8,823	$ (1,684)
State income taxes	144	801
Income tax expense (benefit)	$ 8,967	$ (883)

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, 2012 and 2011.

17. Employee Benefit Plans and Other Postretirement 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.

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

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

	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2012	**2011**	**2012**	**2011**
Change in benefit obligations				
Projected benefit obligation at beginning of year	$ 380,119	$ 330,556	$ 22,916	$ 19,863
Service cost	3,453	3,127	201	188
Interest cost	15,460	16,799	905	990
Actuarial loss	1,071	6,878	849	2,724
Assumption change	19,564	45,100	-	-
Plan amendments	-	2,608	-	-
Settlements	-	(11,058)	-	-
Benefits paid	(18,001)	(13,891)	(933)	(1,056)
Employee contributions	-	-	180	207
Projected benefit obligation at end of year	$ 401,666	$ 380,119	$ 24,118	$ 22,916

The accumulated benefit obligation for all defined benefit pension plans at the end of 2012 and 2011 was $367,739 and $367,891, respectively. The assumption changes above are primarily a result of changes in the discount rate in 2012 and 2011. The settlement charges 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.

Weighted-Average Assumptions Used to Determine End of Year Benefit Obligations	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2012	**2011**	**2012**	**2011**
Discount rate	2.45 - 3.82 %	3.65 - 4.30%	1.25 - 3.70%	2.20 - 4.15%
Rate of compensation increase[(1)]	5.00%	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	8.5% in 2013, grading to 5.0% in 2020	9.0% in 2012, grading to 5.0% in 2020

(1) The compensation increase does not apply to the Rowan Plan or the Prince William Plan as benefits under these plans were frozen at December 31, 2012 and 2011.

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, 2012.

Plan Assets

	Defined Benefit Plans 2012	Defined Benefit Plans 2011	Postretirement Healthcare Benefit Plans 2012	Postretirement Healthcare Benefit Plans 2011
Change in plan assets				
Fair value of plan assets at beginning of year	$ 231,747	$ 231,290	$ -	$ -
Actual return on plan assets	35,640	5,959	-	-
Employer contribution	18,752	9,214	752	849
Employee contributions	-	-	180	207
Settlements	-	11,058	-	-
Benefits paid, including plan expenses	(18,518)	(25,774)	(932)	(1,056)
Fair value of plan assets at end of year	$ 267,621	$ 231,747	$ -	$ -

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

Novant's pension plan asset allocation at December 31, 2012 and 2011 and target allocation for 2012 by asset category are as follows:

	Target Range	Percentage of Plan Assets at December 31, 2012	Percentage of Plan Assets at December 31, 2011
Asset Category			
Real estate and other	0–10%	3.0 %	3.0 %
Alternative asset funds	0–15%	7.0	7.0
Equity securities	25–70%	44.0	46.0
Debt securities	25–70%	46.0	44.0
		100.0 %	100.0 %

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

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

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

Funded Status

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

	Defined Benefit Plans 2012	Defined Benefit Plans 2011	Postretirement Healthcare Benefit Plans 2012	Postretirement Healthcare Benefit Plans 2011
End of Year				
Fair value of plan assets at end of year	$ 267,621	$ 231,747	$ -	$ -
Benefit obligation at end of year	401,666	380,119	24,118	22,916
Funded status	$ (134,045)	$ (148,372)	$ (24,118)	$ (22,916)
Amount recognized in the balance sheets				
Prepaid benefit cost at measurement date	$ 33,450	$ 28,139	$ -	$ -
Accrued benefit cost	(20,976)	(18,155)	(24,118)	(22,916)
Change in unrestricted net assets	(146,519)	(158,356)	-	-
Net liability recognized	$ (134,045)	$ (148,372)	$ (24,118)	$ (22,916)
Amounts recognized in unrestricted net assets				
Prior service cost	$ 6,503	$ 5,179	$ -	$ -
Net actuarial loss	140,016	153,177	2,954	2,156
	$ 146,519	$ 158,356	$ 2,954	$ 2,156
Other changes in plan assets and benefit obligations				
Net loss (gain)	$ (11,068)	$ 54,912	$ 849	$ 2,724
Prior service cost (credit)	(15)	2,608	-	-
Amortization of net loss (gain)	(2,093)	(6,390)	89	685
Amortization of prior service cost (credit)	1,339	1,595	(140)	457
Total recognized in unrestricted net assets	$ (11,837)	$ 52,725	$ 798	$ 3,866

At the end of 2012 and 2011, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets were as follows:

Accumulated Benefit Obligation in Excess of Plan Assets	2012	2011
Projected benefit obligation	$ 401,666	$ 380,119
Accumulated benefit obligation	367,739	367,891
Fair value of plan assets	267,621	231,747

Cash Flows

The Company expects to make contributions to the defined benefit pension plan of approximately $4,940 in 2013. The Company expects to make contributions to the supplemental retirement income plan of approximately $6,778 for the 2013 fiscal year.

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

Expected Benefit Payments	Employee Benefit Plans	Postretirement Healthcare Benefit Plans
2013	$ 18,964	$ 1,057
2014	23,196	1,108
2015	14,250	1,158
2016	13,955	1,204
2017	13,743	1,232
2018–2022	107,566	6,760

Net periodic benefit cost	Defined Benefit Plans 2012	Defined Benefit Plans 2011	Postretirement Healthcare Benefit Plans 2012	Postretirement Healthcare Benefit Plans 2011
Service cost	$ 3,453	$ 3,127	$ 201	$ 188
Interest cost	15,460	16,799	905	990
Estimated return on plan assets	(14,716)	(15,212)	-	-
Amortization of prior service cost	(1,339)	(1,595)	-	(511)
Recognized net actuarial loss (gain)	13,651	8,369	51	(633)
Settlements	-	5,166	-	-
Recognized curtailment loss	(245)	-	-	-
Net periodic benefit cost	$ 16,264	$ 16,654	$ 1,157	$ 34
Total recognized in net periodic benefit cost and unrestricted net assets	$ 4,427	$ 69,379	$ 1,955	$ 3,900

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost during the year ending December 31, 2013 are as follows:

	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
Actuarial net loss	$ 25,678	$ 206
Prior service cost	1,457	-

Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost	Defined Benefit Plans 2012	Defined Benefit Plans 2011	Postretirement Healthcare Benefit Plans 2012	Postretirement Healthcare Benefit Plans 2011
Discount rate	3.65 - 4.30%	4.50 - 5.50%	2.20 - 4.15%	2.75 - 5.25%
Expected return on plan assets	6.00 - 7.00%	6.00 - 8.00%	N/A	N/A
Rate of compensation increase(1)	5.00%	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	9.0% in 2012, grading to 5.0% in 2020	7.5 - 9.5% in 2011, grading to 5.0% in 2016

(1) The compensation increase does not apply to the Row an Plan or the Prince William Plan as benefits under these plans w ere frozen at December 31, 2012 and 2011.

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, 2012.

In addition to these plans, Novant sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to $54,895 and $53,728 in 2012 and 2011, 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 $166,476 in 2012 and $161,418 in 2011.

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, 2012 and 2011.

18. Noncontrolling Interests

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

	Total	Controlling Interest	Noncontrolling Interests
Balance at January 1, 2011	$ 1,917,421	$ 1,909,918	$ 7,503
Excess 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 funded status of defined benefit plans	(56,591)	(56,591)	-
Unrealized loss on derivative financial instruments	(32,363)	(32,363)	-
Other changes in unrestricted net assets	2,397	733	1,664
Balance at December 31, 2011	1,842,651	1,831,679	10,972
Excess of revenues over expenses	273,590	272,428	1,162
Loss on discontinued operations	(2,840)	(2,840)	-
Gain on sale of discontinued operations	1,721	1,721	-
Change in funded status of defined benefit plans	11,039	11,039	-
Unrealized loss on derivative financial instruments	(2,078)	(2,078)	-
Other changes in unrestricted net assets	2,188	4,585	(2,397)
Balance at December 31, 2012	$ 2,126,271	$ 2,116,534	$ 9,737

19. Professional and General Liability Insurance Coverage

Novant is self-insured for professional and general liability exposures up to certain limits. The Company has umbrella policies in place above those limits. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for reported claims and claims incurred but not reported. Novant also participates in a self-insured program for workers' compensation and is self-insured for certain health benefits options. A portion of these self-insured professional liabilities is funded through a revocable trust fund operated by Novant. Liabilities for self-insured professional and general liability risks, for both asserted and unasserted claims were discounted, assuming a 3% rate for both malpractice and workers' compensation for December 31, 2012 and 2011, based on historical loss payment patterns. This resulted in a present value of $68,072 and $67,914 at December 31, 2012 and 2011, respectively, and represented a discount of $5,945 and $5,672 in 2012 and 2011, respectively.

20. Commitments and Contingencies

The Company and its affiliates are presently involved in various personal injury, regulatory investigations, tort actions and other claims and assessments arising out of the normal course of business. Management believes that Novant has adequate legal defenses, self-insurance reserves and/or insurance coverage for these asserted claims, as well as any unasserted claims and does not believe these claims will have a material effect on Novant's operations or financial position.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

21. Operating Leases

Certain operating properties and equipment are leased under noncancelable operating leases. Total rental expense under operating leases was $93,197 and $96,416 in 2012 and 2011, respectively. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows:

Years Ending December 31	
2013	$ 85,913
2014	78,104
2015	71,534
2016	62,448
2017	51,505
Thereafter	169,521
	$ 519,025

Novant leases six plots of land to a third party under long-term ground lease agreements. Total rental income under these lease agreements was $1,094 and $1,064 in 2012 and 2011, respectively. The future rental income related to the ground leases are as follows:

Years Ending December 31	
2013	$ 1,124
2014	1,144
2015	1,165
2016	1,186
2017	1,207
Thereafter	91,668
	$ 97,494

22. Concentrations of Credit Risk

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

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

	2012	2011
Medicare	27.5%	26.6%
Medicaid	9.4%	10.8%
Other third-party payors	54.8%	55.1%
Patients	8.3%	7.5%
	100.0%	100.0%

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

23. Functional Expenses

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

	2012	2011
Health care services	$ 2,424,151	$ 2,304,705
General and administrative	946,394	942,622
	$ 3,370,545	$ 3,247,327

24. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 29, 2013, the day the financial statements were issued.

25. Recent Accounting Pronouncements

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

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

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.

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

Other Financial Information

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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, 2012 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 and results of operations of the individual companies.

PricewaterhouseCoopers LLP

March 29, 2013

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Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs
December 31, 2012 and 2011

(in thousands of dollars)	2012	2011
Traditional charity care	$ 123,475	$ 124,117
Unpaid cost of Medicare	256,903	239,520
Unpaid cost of Medicaid	111,141	67,696
Community benefit programs	54,587	86,627
	$ 546,106	$ 517,960

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

Novant Health, Inc. and Affiliates
Combining Balance Sheet
December 31, 2012

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 189,825	$ 86,812	$ -	$ 276,637
Accounts receivable, net of allowance for doubtful accounts	306,585	83,595	-	390,180
Short-term investments	308,376	320	-	308,696
Current portion of assets limited as to use	13,669	10,182	-	23,851
Deferred tax asset	-	3,728	-	3,728
Receivable for settlement with third-party payors	10,611	1,988		12,599
Other current assets	119,831	21,696	-	141,527
Total current assets	948,897	208,321	-	1,157,218
Assets limited as to use, net of current portion	27,286	54,108	-	81,394
Long-term investments	944,508	247,780	-	1,192,288
Property and equipment, net	1,232,634	424,334	-	1,656,968
Intangible assets and goodwill, net	31,750	358,032	-	389,782
Investments in affiliates	394,642	8,408	(240,905)	162,145
Deferred tax asset	-	2,945	-	2,945
Other assets	44,420	9,417	(2,723)	51,114
Total assets	$3,624,137	$ 1,313,345	$ (243,628)	$ 4,693,854
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 58,021	$ 20,402	$ -	$ 78,423
Short-term borrowings	124,071	-	-	124,071
Accounts payable	120,805	13,358	-	134,163
Accrued liabilities	266,370	69,658	(2,723)	333,305
Estimated third-party payor settlements	21,056	5,397	-	26,453
Due to (from) related organizations	(513,630)	513,630	-	-
Total current liabilities	76,693	622,445	(2,723)	696,415
Long-term debt, net of current portion	1,384,595	88,398	-	1,472,993
Derivative financial instruments	70,966	812	-	71,778
Employee benefits and other liabilities	224,188	65,357	-	289,545
Total liabilities	1,756,442	777,012	(2,723)	2,530,731
Net assets				
Unrestricted-attributable to Novant	1,867,685	489,754	(240,905)	2,116,534
Unrestricted- noncontrolling interests	-	9,737	-	9,737
Temporarily restricted	10	26,943	-	26,953
Permanently restricted	-	9,899	-	9,899
Total net assets	1,867,695	536,333	(240,905)	2,163,123
Total liabilities and net assets	$3,624,137	$ 1,313,345	$ (243,628)	$ 4,693,854

See accompanying note to combining supplemental schedules.

Novant Health, Inc.
Combining Statement of Operations
Year Ended December 31, 2012

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Operating revenues				
Patient service revenues (net of contractual allowances and discounts)	$ 2,832,036	$ 744,943	$ -	$ 3,576,979
Provision for bad debts	(109,563)	(69,961)	-	(179,524)
Net patient service revenues less provision for bad debts	2,722,473	674,982	-	3,397,455
Premium revenue	-	5,452	-	5,452
Other revenue	138,638	26,454	(12,726)	152,366
Total operating revenues	2,861,111	706,888	(12,726)	3,555,273
Operating expenses				
Salaries and employee benefits	1,524,348	309,485	(1,057)	1,832,776
Supplies and other	959,782	301,402	(10,805)	1,250,379
Depreciation expense	136,037	45,833	-	181,870
Amortization expense	1,027	5,692	-	6,719
Impairment charge	-	18,388	-	18,388
Interest expense	48,338	32,075	-	80,413
Total operating expenses	2,669,532	712,875	(11,862)	3,370,545
Operating income (loss)	191,579	(5,987)	(864)	184,728
Non-operating income (expense)				
Investment income (loss)	84,989	23,122	727	108,838
Unrealized losses on non-hedged derivative financial instruments	-	207	-	207
Income tax expense	(1,659)	(7,308)	-	(8,967)
Other, net	(3,199)	(81)	-	(3,280)
Loss on extinguishment of debt	(710)	(7,226)	-	(7,936)
Excess (deficit) of revenues over expenses	$ 271,000	$ 2,727	$ (137)	$ 273,590

See accompanying note to combining supplemental schedules.

Novant Health, Inc.
Combined Group Combining Balance Sheet
December 31, 2012

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Assets				
Current assets				
Cash and cash equivalents	$ 185,934	$ 3,891	$ -	$ 189,825
Accounts receivable, net of allowance for doubtful accounts	217,898	88,687	-	306,585
Short-term investments	308,376	-	-	308,376
Current portion of assets limited as to use	13,669	-	-	13,669
Receivable for settlement with third-party payors	9,756	855	-	10,611
Other current assets	98,933	20,898	-	119,831
Total current assets	834,566	114,331	-	948,897
Assets limited as to use, net of current portion	27,286	-	-	27,286
Long-term investments	944,508	-	-	944,508
Property and equipment, net	965,222	267,412	-	1,232,634
Intangible assets and goodwill, net	1,600	30,150	-	31,750
Investments in affiliates	448,224	2,303	(55,885)	394,642
Other assets	36,272	8,148	-	44,420
Total assets	$ 3,257,678	$ 422,344	$ (55,885)	$ 3,624,137
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 57,874	$ 147	$ -	$ 58,021
Short-term borrowings	124,071	-	-	124,071
Accounts payable	112,808	7,997	-	120,805
Accrued liabilities	212,108	54,262	-	266,370
Estimated third-party payor settlements	17,434	3,622	-	21,056
Due to (from) related organizations	(541,369)	27,739	-	(513,630)
Total current liabilities	(17,074)	93,767	-	76,693
Long-term debt, net of current portion	1,384,370	225	-	1,384,595
Derivative financial instruments	70,966	-	-	70,966
Employee benefits and other liabilities	214,002	10,186	-	224,188
Total liabilities	1,652,264	104,178	-	1,756,442
Net assets				
Unrestricted	1,605,404	318,166	(55,885)	1,867,685
Temporarily restricted	10	-	-	10
Total net assets	1,605,414	318,166	(55,885)	1,867,695
Total liabilities and net assets	$ 3,257,678	$ 422,344	$ (55,885)	$ 3,624,137

See accompanying note to combining supplemental schedules.

Novant Health, Inc.
Combined Group Combining Statement of Operations
Year Ended December 31, 2012

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Operating revenues				
Patient service revenues (net of contractual allowances and discounts)	$ 1,824,796	$1,007,515	$ (275)	$ 2,832,036
Provision for bad debts	(68,260)	(41,303)	-	(109,563)
Net patient service revenues less provision for bad debts	1,756,536	966,212	(275)	2,722,473
Other revenue	120,624	20,497	(2,483)	138,638
Total operating revenues	1,877,160	986,709	(2,758)	2,861,111
Operating expenses				
Salaries and employee benefits	935,742	588,606	-	1,524,348
Supplies and other	644,148	318,077	(2,443)	959,782
Depreciation expense	93,673	42,364	-	136,037
Amortization expense	872	155	-	1,027
Interest expense	37,096	11,242	-	48,338
Total operating expenses	1,711,531	960,444	(2,443)	2,669,532
Operating income (loss)	165,629	26,265	(315)	191,579
Non-operating income (expense)				
Investment income (loss)	84,989	(315)	315	84,989
Income tax benefit (expense)	(1,664)	5	-	(1,659)
Other, net	(32)	(3,167)	-	(3,199)
Loss on extinguishment of debt	(710)	-	-	(710)
Excess of revenues over expenses	$ 248,212	$ 22,788	$ -	$ 271,000

See accompanying note to combining supplemental schedules.

The Amended and Restated Master Trust Indenture dated June 1, 2003, with Wachovia Bank, National Association authorizes the creation of a Combined Group, which consists of the Members of the Obligated Group and Restricted Affiliates designated as such by a Member of the Obligated Group with Novant's consent. Novant and its two affiliates that operate tertiary care hospitals, Forsyth Memorial Hospital, Inc. d/b/a Forsyth Medical Center and The Presbyterian Hospital, both of which are North Carolina nonprofit corporations, are the Members of the Obligated Group. The Members of the Obligated Group are jointly and severally liable for the payment of all Master Obligations issued under the Master Indenture.

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