Novant Health, Inc. and Affiliates

Consolidated Financial Statements
December 31, 2014 and 2013

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December 31, 2014 and 2013

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Independent Auditor's Report

To the Board of Trustees of
Novant Health, Inc.

We have audited the accompanying consolidated financial statements of Novant Health, Inc. and its affiliates, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Novant Health, Inc. and its affiliates at December 31, 2014 and 2013 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, the 2013 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

March 31, 2015

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Novant Health, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2014 and 2013

(in thousands of dollars)	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 353,797	$ 249,182
Accounts receivable, net of allowance for doubtful accounts of $204,468 in 2014 and $190,802 in 2013	405,539	408,375
Short-term investments	345,741	325,205
Current portion of assets limited as to use	16,603	41,646
Deferred tax asset	6,802	5,765
Receivable for settlement with third-party payors	16,095	9,649
Other current assets	164,354	141,509
Total current assets	1,308,931	1,181,331
Assets limited as to use	47,153	57,471
Long-term investments	1,715,950	1,680,766
Property and equipment, net	1,871,836	1,818,341
Intangible assets and goodwill, net	341,134	348,552
Investments in affiliates	29,624	158,278
Other assets	88,395	83,875
Total assets	$ 5,403,023	$ 5,328,614
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 64,790	$ 157,490
Short-term borrowings	83,038	84,965
Accounts payable	135,647	125,432
Accrued liabilities	375,656	337,383
Estimated third-party payor settlements	17,569	20,284
Total current liabilities	676,700	725,554
Long-term debt, net of current portion	1,753,917	1,771,028
Deferred tax liability	3,756	1,049
Derivative financial instruments	60,342	40,782
Employee benefits and other liabilities	243,144	231,808
Total liabilities	2,737,859	2,770,221
Commitments and contingencies		
Net assets		
Unrestricted - attributable to Novant Health	2,602,871	2,499,333
Unrestricted - noncontrolling interests	10,910	11,464
Total unrestricted net assets	2,613,781	2,510,797
Temporarily restricted	40,420	36,784
Permanently restricted	10,963	10,812
Total net assets	2,665,164	2,558,393
Total liabilities and net assets	$ 5,403,023	$ 5,328,614

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

Novant Health, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2014 and 2013

(in thousands of dollars)	2014	2013
Operating revenues		
Patient service revenues (net of contractual allowances and discounts)	$ 3,750,782	$ 3,556,449
Provision for bad debts	(189,956)	(173,923)
Net patient service revenues less provision for bad debts	3,560,826	3,382,526
Premium revenue	4,132	3,959
Other revenue	222,973	161,390
Total operating revenues	3,787,931	3,547,875
Operating expenses		
Salaries and employee benefits	2,007,215	1,899,228
Supplies and other	1,316,882	1,246,114
Depreciation expense	185,806	163,568
Amortization expense	5,332	5,511
Impairment charge	11,409	36,321
Interest expense	94,365	77,892
Total operating expenses	3,621,009	3,428,634
Operating income	166,922	119,241
Non-operating income (expense)		
Investment income	38,985	166,958
Unrealized gain on non-hedged derivative financial instruments	291	305
Income tax expense	(3,984)	(2,529)
Other, net	146	(361)
Loss on extinguishment of debt	(589)	(1,207)
Excess of revenues over expenses	$ 201,771	$ 282,407

Continued on following page

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

Novant Health, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets, continued
Years Ended December 31, 2014 and 2013

(in thousands of dollars)	**2014**	**2013**
Unrestricted net assets		
Excess of revenues over expenses	$ 201,771	$ 282,407
Change in funded status of defined benefit plans	(39,111)	86,127
Unrealized gain (loss) on derivative financial instruments	(14,335)	25,261
Other changes in unrestricted net assets	(2,417)	(191)
Increase in unrestricted net assets, before effects of discontinued operations	145,908	393,604
Discontinued operations		
Loss on discontinued operations	(13,853)	(9,078)
Loss on sale of discontinued operations	(29,071)	-
Increase in unrestricted net assets	102,984	384,526
Temporarily restricted net assets		
Contributions and investment income	10,220	16,659
Net assets released from restrictions for operations	(6,584)	(6,828)
Increase in temporarily restricted net assets	3,636	9,831
Permanently restricted net assets		
Contributions	151	913
Increase in permanently restricted net assets	151	913
Increase in total net assets	106,771	395,270
Net assets, beginning of year	2,558,393	2,163,123
Net assets, end of year	$ 2,665,164	$ 2,558,393

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

Novant Health, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

(in thousands of dollars)	**2014**	**2013 Restated**
Cash flows from operating activities		
Increase in net assets	$ 106,771	$ 395,270
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	193,754	171,432
Gain on sale of real estate	(4,382)	(4,736)
Impairment charge	11,409	36,321
Loss on extinguishment of debt	589	1,207
Loss on sale of discontinued operations	29,071	-
Change in funded status of defined benefit plans	39,111	(86,127)
Gain on sale of business	(31,277)	-
Gain on redemption in joint venture	(8,340)	-
Share of earnings in affiliates, net of distributions	9,391	2,936
Net realized and unrealized gains on assets limited as to use and investments	(3,113)	(140,217)
Change in fair value of interest rate swap	19,560	(30,996)
Contributions restricted for capital and long-term investment	(4,561)	(11,600)
Provision for bad debts	189,956	173,923
Changes in operating assets and liabilities		
Accounts receivable	(215,585)	(192,118)
Accounts payable and accrued liabilities	34,848	7,903
Deferred taxes, net	1,670	1,957
Other assets and liabilities, net	(49,859)	(23,904)
Net cash provided by operating activities	319,013	301,251
Cash flows from investing activities		
Capital expenditures	(266,856)	(350,484)
Proceeds from sale of affiliates	154,819	635
Proceeds from sales of investments	307,041	677,871
Purchase of investments	(330,032)	(1,007,396)
Net purchases and sales of short-term investments	(19,552)	(17,421)
Proceeds from sale of property and equipment	4,494	5,904
Cash payments for repurchase agreements, net	(1,927)	(4,960)
Repayment of notes receivable and other, net	4,188	101
Net cash used in investing activities	(147,825)	(695,750)
Cash flows from financing activities		
Principal payments on long-term debt	(124,565)	(31,771)
Bond proceeds received from trustee	25,372	173,950
Proceeds from issuance of bonds, net of deferred issuance costs	-	247,920
Proceeds from sale of accounts receivable, net	29,557	31,241
Extinguishment of debt	-	(57,161)
Proceeds from contributions restricted for capital and long-term investment	2,149	2,786
Proceeds from line of credit and other financing	914	79
Net cash provided by (used in) financing activities	(66,573)	367,044
Net increase (decrease) in cash and cash equivalents	104,615	(27,455)
Cash and cash equivalents		
Beginning of year	249,182	276,637
End of year	$ 353,797	$ 249,182

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

Novant Health, Inc. and Affiliates
Consolidated Statements of Cash Flows, continued
Years Ended December 31, 2014 and 2013

(*in thousands of dollars)*

		2014		2013
Supplemental disclosure of cash flow information				
Interest paid, net of amounts capitalized	$	91,006	$	83,433
Income taxes paid		949		2,172
Supplemental disclosure of noncash operating activities				
Settlement of patient receivables and other liabilities		5,228		1,376
Supplemental disclosure of noncash financing and investing activities				
Property and equipment financed through current liabilities		27,311		23,328

In March 2014, the Company elected to call the Novant Health Series 2008B and Series 2008C Variable Rate Demand bonds and enter into new direct placement agreements. This was a non-cash transaction for the exchange of the bonds; the Company recorded a $589 charge for the extinguishment of debt and incurred $86 of new debt issuance costs associated with the exchange.

On January 1, 2014, the Company became the sole member in the Prince William-Fauquier Cancer Center L.L.C. and began consolidating the entity. The impact of this non cash transaction including assumption of debt is disclosed in Note 4 to the financial statements.

During 2013, the Company refunded the Novant Health Prince William Medical Center Series 2002 bonds and partially refunded the series 2003A bonds. The following amounts were noncash investing and financing activities related to this transaction:

Face value of Series 2013 A and B bonds	$	298,765
Premium received on issuance of 2013 bonds		16,368
Debt service funds used		6,817
Bond proceeds deposited with trustee		(197,153)
Extinguishment of 2002 Hospital Revenue bonds		(64,570)
Extinguishment of Series 2003A bonds		(24,720)
Repayment of line of credit		(32,912)
Debt issuance costs		(2,595)
Proceeds from issuance of Series 2013 A and B bonds	$	-

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

(in thousands of dollars)

1. Reporting Entity

Novant Health, Inc. ("Novant Health" or the "Company") is a nonprofit health care system with dual headquarters in Winston-Salem and Charlotte, North Carolina. Novant Health consists of fourteen hospitals and a 1,123-physician medical group with over 340 clinic locations. Other facilities and programs of Novant Health include outpatient surgery and diagnostic centers, a long-term care facility, charitable foundations, a risk retention group, rehabilitation programs and community health outreach programs. Hospitals include Novant Health Presbyterian Medical Center, Novant Health Charlotte Orthopedic Hospital, Novant Health Huntersville Medical Center, Novant Health Matthews Medical Center, Novant Health Forsyth Medical Center, Novant Health Medical Park Hospital, Novant Health Kernersville Medical Center, Novant Health Clemmons Medical Center, Novant Health Thomasville Medical Center, Novant Health Rowan Medical Center, Novant Health Brunswick Medical Center, Novant Health Franklin Medical Center, Novant Health Prince William Medical Center and Novant Health Haymarket Medical Center. Novant Health 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

Basis of Presentation
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation
The consolidated financial statements include the accounts of all affiliates controlled by Novant Health. 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 Value of Financial Instruments
The fair value of financial instruments approximates the carrying amount reported in the consolidated 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 9, Fair Value Measurements.

(in thousands of dollars)

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consist primarily of amounts owed by various governmental agencies, insurance companies and patients. Novant Health 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 Health considers several factors, including historical collection results, the age of the accounts, changes in collection patterns and general industry conditions. Novant Health 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. All investments are designated as trading at the time of acquisition. 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 and debt securities with readily determinable fair values are measured at fair value in the accompanying consolidated 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 consolidated 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 additional 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.

(in thousands of dollars)

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 consolidated balance sheets 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.

(in thousands of dollars)

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 Health, Novant Health is required to operate the Hospital as a community general hospital open to the general public, and if Novant Health 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 $255,869 at December 31, 2014.

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

(in thousands of dollars)

On an annual basis, Novant Health tests goodwill and indefinite-lived assets for impairment. In 2012, Novant Health adopted 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.

Impairment tests are performed at the reporting unit level for units that have goodwill. GAAP 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 Health 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.

Other Assets
Other assets consist of notes and pledges receivable, deferred financing costs, insurance receivables, prepaid pension costs 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 consolidated balance sheets.

(in thousands of dollars)

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.

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 various hospital service costs and community health programs.

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 consolidated statements of operations and changes in net assets 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 consolidated financial statements.

Statement of Operations
All activities of Novant Health 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 non-operating and include investment income, change in fair value of non-hedged derivative financial instruments, income tax expense and loss on extinguishment of debt.

Novant Health 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 Health records GAP payments received as net patient service revenue and GAP assessments paid as other operating expense on the consolidated statements of operations and changes in net assets. 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 2014, Novant Health received $113,506 and paid $57,001 for the GAP program. During 2013, Novant Health received $121,124 and paid $51,600 for the GAP program.

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include changes in funded status of defined benefit plans, unrealized gains on derivative financial instruments that apply hedge accounting and the effects of discontinued operations.

(in thousands of dollars)

Other Revenue
Other revenue consists primarily of earnings from investments in affiliates accounted for using the equity method of accounting, pharmacy revenue and contributions.

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

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

(in thousands of dollars)

3. Restatement of Prior Period Financial Statements

During the current fiscal year, the Company identified errors in the consolidated statements of cash flows regarding the classification of purchases and sales of investments and assets whose use is limited that were included in cash used in operating activities for the year ended December 31, 2013. These cash flow uses should have been recorded in cash flows used in investing activities. The total uses of cash for the purchase and sale of investments and assets whose use is limited, net, was $343,736.

There was no effect on net cash provided by financing activities nor was there an effect on total cash or the change in cash for the year then ended. The 2013 consolidated statement of cash flows has been restated to reflect the correction of these errors. The captions affected by the restatement are summarized below:

	As reported in 2013	Adjustment	Restated
Operating cash flow changes:			
Net realized and change in unrealized gains on assets limited as to use and investments	$ (113,972)	$ (26,245)	$ (140,217)
Changes in operating assets and liabilities:			
Investments and assets limited as to use	(368,897)	368,897	-
Net cash provided by (used in) operating activities	(42,485)	343,736	301,251
Investing cash flow changes:			
Proceeds from sales of investments	-	677,871	677,871
Purchase of investments	-	(1,007,396)	(1,007,396)
Net purchases and sales of short-term investments	-	(17,421)	(17,421)
Net proceeds from the purchase of short-term investments	(3,210)	3,210	-
Net cash used in investing activities	(352,014)	(343,736)	(695,750)

(in thousands of dollars)

4. Organizational Changes

Acquisitions and Divestitures

Prior to 2014, Novant Health Prince William Medical Center owned 50% of Prince William-Fauquier Cancer Center L.L.C. (the "Cancer Center"). Effective January 1, 2014, the Cancer Center redeemed the membership interest of the other partner in the joint venture in exchange for $2,239 in cash and a promissory note of $8,956. The promissory note bears interest at 3.49%. Payments of accrued interest and one third of the principal are due on January 1, 2018, 2021 and 2024. As a result of the redemption, Novant Health Prince William Medical Center became the sole member of the Cancer Center. At the date of redemption, Novant Health Prince William Medical Center's membership had a fair value of $11,195, estimated using the discounted present value of expected future cash flows. A gain of $8,340 was recognized in operating revenue as a result of this transaction. Beginning January 1, 2014, the Cancer Center is included in the consolidated financial statements of Novant Health. This resulted in the recognition of the following amounts in Novant Health's consolidated balance sheet as of January 1, 2014:

Cash and cash equivalents	$	3,380
Accounts receivable, net of allowance for doubtful accounts		1,092
Other current assets		338
Property and equipment, net		6,734
Intangible assets and goodwill, net		16,509
Current portion of long-term debt		228
Accounts payable		772
Accrued liabilities		181
Due to affiliates		1,166
Long-term debt		14,318
Net assets		11,616

(in thousands of dollars)

Since March 2008, Novant Health has been a member of a partnership with Health Management Associates, Inc. (“HMA”). Through this joint venture, Novant Health owned a 30% indirect noncontrolling interest in Lake Norman Regional Medical Center (“Lake Norman”) recorded on the equity basis and an indirect controlling interest of 99% in Upstate Carolina Medical Center (formerly “Novant Health Gaffney Medical Center (“NHGMC”) and Novant Health Franklin Regional Medical Center (“NHFRMC”). In January 2014, Community Health Systems and Health Management Associates, Inc. merged. The merger triggered a change in control provision that required CHS to purchase the 30% noncontrolling interest in Lake Norman held by the Company for the higher of fair value or $150,000 and required CHS to sell their 1% interest in NHGMC and NHFRMC. In lieu of this provision, CHS and Novant Health agreed to restructure the joint venture effective November 1, 2014. As a result of the restructured agreement, CHS and Novant Health agreed that CHS would purchase the indirect interest in Lake Norman for $150,000 and the indirect interest in NHGMC for $3,900. In addition, Novant Health received $4,700 as a settlement of prior claims. The sale of the Lake Norman investment resulted in a gain of $31,277 which is included in other revenue in operating income in the consolidated statements of operations and changes in net assets. The sale of the indirect interest in NHGMC, which is being treated as discontinued operations, resulted in a loss of $29,071 which is included in loss on sale of discontinued operations. As a result of this transaction, Novant notified affiliated physicians of its intent to exit the Gaffney market.

In February 2015, the physician transition was completed and all related assets were removed. The Company has reported the operating results of NHGMC and certain physician practices in discontinued operations in the consolidated 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:

	2014	2013
Net operating revenue	$ 36,007	$ 45,064
Operating loss	(13,853)	(9,078)

The consolidated balance sheets include assets for NHGMC and the identified physician practices as follows:

	2014	2013
Property and equipment, net	$ 3,038	$ 23,303
Intangible assets and goodwill, net	-	15,431

(in thousands of dollars)

5. Net Patient Service Revenue

Net patient service revenue is presented net of provisions for contractual adjustments and other allowances. Novant Health 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 Health recognizes revenue on the basis of its standard rates for services provided, less discounts for uninsured patients as provided by the Company's financial assistance policies. Based on historical experience, many of the Company's uninsured patients will be unable or unwilling to pay for the services provided. As a result, Novant Health 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:

	2014	2013
Third party payors	$ 3,675,824	$ 3,481,302
Self pay	74,958	75,147
Total	$ 3,750,782	$ 3,556,449

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 Health is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Novant Health and audits thereof by the fiscal intermediary. Substantially all of the Company's Medicare and Medicaid cost reports are final settled through 2011.

Revenue from the Medicare and Medicaid programs accounted for approximately 32.9% and 5.5%, respectively, of Novant's net patient service revenue for the year ended 2014, and 33.3% and 6.3%, respectively for the year ended 2013. 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 thousands of dollars)

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 Health 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 2014 and 2013, Novant Health recognized $10,725 and $9,800, respectively, of revenue related to EHR funds. These amounts are included in other revenue in the accompanying consolidated statements of operations and changes in net assets. This amount represents amounts that were received and/or amounts for which Novant Health has successfully met meaningful use criteria. Included in the Company’s consolidated balance sheet at December 31, 2014 is deferred revenue of $9,125. As of December 31, 2014 and 2013 Novant Health had receivables related to EHR funds of $5,567 and $8,075, respectively.

Other Payors

Novant Health also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Novant Health 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 $5,061,117 (or 55%) and $4,653,842 (or 54%) of 2014 and 2013 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. The Company’s self pay write-offs were $553,994 in 2014 compared to $583,854 in 2013. The decrease is primarily the result of slight declines in self pay revenue during 2014. Novant Health has not changed its charity care or uninsured discount policies during 2013 or 2014. Novant Health does not maintain a material allowance for doubtful accounts from third party payors, nor did it have significant write-offs from third party payors.

Novant Health has a program of factoring certain patient receivables with recourse to a third party. Novant Health is obligated to repurchase factored receivables upon occurrence of certain conditions of the program. Accordingly, Novant Health accounts for the factoring as a secured borrowing. The factored receivables are recorded at their estimated net realizable value and are shown as other assets in the consolidated balance sheets. An offsetting liability, representing Novant Health’s potential recourse for these receivables, is part of employee benefits and other liabilities in the consolidated balance sheets. As of December 31, 2014, the factored notes and the related liabilities were $19,102 and $33,470, respectively. As of December 31, 2013, the factored notes and the related liabilities were $17,127 and $24,809, respectively.

(in thousands of dollars)

6. Charity Care and Community Benefit

In accordance with Novant Health's mission to improve the health of its communities one person at a time, Novant Health 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 Health 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 Health physician groups and outpatient centers also have charity care programs to assist patients in need. The Company's approximate cost of providing care to indigent patients was $135,293 and $129,229 for the years ended December 31, 2014 and 2013, respectively. Novant Health estimates the costs of providing traditional charity care using each facility's estimated ratio of costs to charges. Funds received from gifts or grants to subsidize charity services provided were $1,462 and $1,384 for the years ended December 31, 2014 and 2013, respectively.

In addition to providing charity care to uninsured patients, Novant Health 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 Health 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:

- 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.

The amount of unpaid cost of Medicare, Medicaid, and other community benefit programs is reported on page 50 in the accompanying other financial information.

(in thousands of dollars)

7. Other Current Assets

Other current assets consist of the following at December 31:

	2014	2013
Inventory	$ 70,235	$ 64,327
Prepaids	36,544	35,994
Other receivables	57,575	41,188
	$ 164,354	$ 141,509

8. Assets Limited as to Use and Investments

Short-Term Investments

Novant Health 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:

	2014	2013
Certificates of deposit	$ 5,107	$ 5,209
Fixed income - Government securities	300,353	272,044
Fixed income - Corporate and other	40,281	47,952
	$ 345,741	$ 325,205

Assets Limited as to Use

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

	2014		2013	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Under indenture agreement held by trustee	$ 2,877	$ -	$ 28,250	$ -
Under general and professional liability funding arrangement held by trustee	13,531	39,554	13,202	39,918
Designated by board to service benefit plans	195	7,599	194	7,504
Restricted by bank agreements	-	-	-	10,049
	$ 16,603	$ 47,153	$ 41,646	$ 57,471

(in thousands of dollars)

Assets limited as to use 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 method of accounting. The composition of long-term investments is as follows:

	December 31, 2014			
	At Fair Value	On Equity Method	On Cost Method	Total
Cash and cash equivalents	$ 98,361	$ -	$ -	$ 98,361
U.S. equities	407,325	27,314	-	434,639
International equities	271,212	51,289	-	322,501
Fixed income - Government securities	78,466	-	-	78,466
Fixed income - Corporate and other	37,785	47,217	-	85,002
Hedge funds	-	484,592	-	484,592
Emerging markets	110,767	17,313	-	128,080
Real estate and other	7,728	76,581	-	84,309
	$ 1,011,644	$ 704,306	$ -	$ 1,715,950

	December 31, 2013			
	At Fair Value	On Equity Method	On Cost Method	Total
Cash and cash equivalents	$ 66,610	$ -	$ -	$ 66,610
U.S. equities	399,081	19,095	-	418,176
International equities	299,625	53,662	-	353,287
Fixed income - Government securities	69,374	-	-	69,374
Fixed income - Corporate and other	48,488	41,183		89,671
Hedge funds	-	488,009	-	488,009
Emerging markets	112,242	17,865	-	130,107
Real estate and other	6,340	59,192	-	65,532
	$ 1,001,760	$ 679,006	$ -	$ 1,680,766

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.

(in thousands of dollars)

The Company's investments in hedge funds represent 28.2% of total long-term investments held at December 31, 2014. 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 Health is obligated under certain investment agreements to periodically advance additional funding up to specified levels. As of December 31, 2014 and 2013, Novant Health had future commitments of $39,324 and $49,655, respectively, for which capital calls had not been exercised.

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

	2014	2013
Income		
Interest and dividend income	$ 35,872	$ 26,741
Net realized gains	30,461	26,245
Net unrealized gains (losses)	(27,348)	113,972
	$ 38,985	$ 166,958

Investment income is shown net of related expenses on the consolidated statement of operations and changes in net assets. Investment related administrative expenses were $4,837 and $4,539 for the years ended December 31, 2014 and 2013, respectively.

9. Fair Value Measurements

Novant Health 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. The Company'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 Health follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date. Investments classified in this level generally include exchange traded equity securities, futures, pooled short-term investment funds, options and exchange traded mutual funds.

(in thousands of dollars)

Level 2: Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Investments classified in this level generally include fixed income securities, including fixed income government obligations; asset-backed securities; certificates of deposit; derivatives; as well as certain 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 generally include investments in preferred stock.

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. Novant Health uses techniques consistent with the market approach and income approach for measuring fair value of its Level 2 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, 2014 and 2013, the Level 1 and Level 2 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 either quoted prices in active markets or 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. The investments in Level 2 may be redeemed or liquidated on a daily basis with no notice with the exception of $322,754 at December 31, 2014. These investments have been reported at net asset value by each fund as a practical expedient to estimate their fair value. Novant Health has the ability to redeem its interests at or near the financial statement date. Novant Health defines near term as within 90 days of the financial statement date.

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.

During 2014 and 2013, there were no transfers between Level 1 and 2.

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2014 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	$ -	$ 5,107	$ -	$ 5,107
Fixed income - Government securities	-	300,353	-	300,353
Fixed income - Corporate and other	-	40,281	-	40,281
Total short-term investments	-	345,741	-	345,741
Assets limited as to use:				
Cash and cash equivalents	1,286	-	-	1,286
U.S. equities	5,911	-	-	5,911
International equities	90	-	-	90
Fixed income - Government securities	-	38,349	-	38,349
Fixed income - Corporate and other	982	17,138	-	18,120
Total assets limited as to use	8,269	55,487	-	63,756
Long-term investments:				
Cash and cash equivalents	98,361	-	-	98,361
U.S. equities	340,988	66,337	-	407,325
International equities	119,254	151,958	-	271,212
Fixed income - Government securities	-	78,466		78,466
Fixed income - Corporate and other	17,070	20,715	-	37,785
Emerging markets	21,767	89,000	-	110,767
Real estate and other	7,728	-	-	7,728
Total long-term investments	605,168	406,476	-	1,011,644
Total assets at fair value	$ 613,437	$ 807,704	$ -	$ 1,421,141
Liabilities				
Derivative financial instruments	-	60,342	-	60,342
Employee benefits liabilities	6,735	-	-	6,735
Total liabilities at fair value	$ 6,735	$ 60,342	$ -	$ 67,077

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2013 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	$ -	$ 5,209	$ -	$ 5,209
Fixed income - Government securities	-	272,044	-	272,044
Fixed income - Corporate and other	-	47,952	-	47,952
Total short-term investments	-	325,205	-	325,205
Assets limited as to use:				
Cash and cash equivalents	13,864	-	-	13,864
U.S. equities	5,766	-	-	5,766
International equities	93	-	-	93
Fixed income - Government securities	-	36,092	-	36,092
Fixed income - Corporate and other	924	42,378	-	43,302
Total assets limited as to use	20,647	78,470	-	99,117
Long-term investments:				
Cash and cash equivalents	66,610	-	-	66,610
U.S. equities	338,173	60,908	-	399,081
International equities	126,213	173,412	-	299,625
Fixed income - Government securities	-	69,374	-	69,374
Fixed income - Corporate and other	16,266	32,222	-	48,488
Emerging markets	22,314	89,928	-	112,242
Real estate and other	6,340	-	-	6,340
Total long-term investments	575,916	425,844	-	1,001,760
Total assets at fair value	$ 596,563	$ 829,519	$ -	$ 1,426,082
Liabilities				
Derivative financial instruments	-	40,782	-	40,782
Employee benefits liabilities	5,995	-	-	5,995
Total liabilities at fair value	$ 5,995	$ 40,782	$ -	$ 46,777

(in thousands of dollars)

As a result of its annual impairment testing for 2014, the Company recorded impairment charges of $11,409 to reduce the carrying value of long-lived property and equipment assets from their carrying value of $8,290 to their estimated fair value of $3,100 and to write-off amortized intangible assets with a carrying value of $6,219. As a result of its annual impairment testing for 2013, the Company recorded impairment charges of $36,321 to reduce the carrying value of certificates of need from their carrying value of $64,513 to their estimated fair value of $61,090, to reduce the carrying value of goodwill from its carrying value of $25,236 to its implied and estimated fair value of $13,730 and to write off goodwill with a carrying value of $21,392. These impairment charges are included in the consolidated statements of operations and changes in net assets. 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.

10. Property and Equipment

Property and equipment consists of the following at December 31:

	2014	2013
Land and land improvements	$ 250,932	$ 236,277
Leasehold improvements	154,237	145,221
Buildings and building improvements	1,683,022	1,620,960
Buildings under capital lease obligations	30,301	30,675
Equipment	1,594,097	1,533,679
Equipment under capital lease obligations	5,758	8,247
Software	418,132	315,240
Construction in progress	171,032	253,805
	4,307,511	4,144,104
Less: Accumulated depreciation	(2,435,675)	(2,325,763)
	$ 1,871,836	$ 1,818,341

During 2014, Novant Health reviewed certain long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. As a result of this review, $5,190 was recorded as an impairment charge related to property and equipment assets.

At December 31, 2014 and 2013, land and buildings with a net book value of $28,586 and $27,424 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, 2014 and 2013 amounted to $185,806 and $163,568, respectively. Accumulated amortization for buildings and equipment under capital lease obligations was $21,916 and $21,777 at December 31, 2014 and 2013, respectively. Construction contracts of approximately $228,545 exist for the expansion of existing hospitals and facility renovations. At December 31, 2014, the remaining commitment on these contracts was $39,498.

(in thousands of dollars)

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 gains from this transaction of $3,997 in 2014 and 2013. The remaining deferred gain of $37,973 will be recognized over the average life of Novant's lease agreements with the buyer.

11. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	Gross Intangible	Accumulated Amortization	Net Intangible
Balance at December 31, 2013			
Unamortized intangible assets			
Certificates of need	$ 66,426	$ -	$ 66,426
Total unamortized intangible assets	66,426	-	66,426
Amortized intangible assets			
Business relationships	90,997	(22,372)	68,625
Corporate trade name and other intangibles	39,823	(9,755)	30,068
Total amortized intangible assets	130,820	(32,127)	98,693
Total intangible assets	$ 197,246	$ (32,127)	$ 165,119
Balance at December 31, 2014			
Unamortized intangible assets			
Certificates of need	$ 71,489	$ -	$ 71,489
Total unamortized intangible assets	71,489	-	71,489
Amortized intangible assets			
Business relationships	71,719	(19,674)	52,045
Corporate trade name and other intangibles	30,414	(9,190)	21,224
Total amortized intangible assets	102,133	(28,864)	73,269
Total intangible assets	$ 173,622	$ (28,864)	$ 144,758

Amortization expense related to intangible assets was $4,337 and $4,257 for the years ended December 31, 2014 and 2013, respectively. Estimated annual amortization expense for intangible assets for the years 2015 through 2019 is approximately $4,421, $3,753, $3,744, $3,732 and $3,655, respectively.

(in thousands of dollars)

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

	2014	2013
As of January 1		
Goodwill, net of accumulated amortization	$ 294,169	$ 294,169
Accumulated impairment losses	(110,736)	(77,838)
	183,433	216,331
Goodwill acquired, net of purchase price adjustments and other	12,943	-
Impairment	-	(32,898)
Disposals, net of accumulated amortization	-	-
	196,376	183,433
As of the end of the period		
Goodwill, net of accumulated amortization	261,636	294,169
Accumulated impairment losses	(65,260)	(110,736)
	$ 196,376	$ 183,433

During 2014, Novant Health reviewed certain long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. As a result of this review, $6,219 was recorded as an impairment charge related to amortized intangible assets.

As a result of its annual impairment testing for 2013, Novant Health recorded impairment charges of $3,423 to reduce the carrying value of certificates of need to their estimated fair value. The impairment charges were partial write-offs of the certificates of need.

As a result of its annual impairment testing in 2013, Novant Health also recorded impairment charges of $32,898 to reduce the carrying value of goodwill to its implied and estimated fair value for certain reporting units. Impairment charges of $21,392 represent a full write off of the remaining goodwill for certain reporting units and impairment charges of $11,506 represent a partial write-off of the goodwill for a reporting unit.

These impairment charges were the result of lower than expected operating results at certain Novant Health reporting units. Our impairment tests presume stable or improving results at certain Novant Health reporting units 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.

(in thousands of dollars)

12. Investments in Affiliates

Novant Health has noncontrolling interests in seven healthcare related entities. The Company's ownership interests in the entities range from 20% 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:

	% Ownership		Investment Balance at December 31,		Share of Earnings of Investee	
Investee	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Hospital Partnership	0%	30%	$ -	$124,685	$ -	$ 7,056
Advanced Services	24%	24%	19,143	17,221	1,922	2,071
Providence Plaza LLC	30%	30%	4,482	4,911	170	146
Rowan Hospice & Palliative Care LLC	50%	50%	1,625	2,305	(680)	(476)
Other	Various	Various	4,374	9,156	333	1,762
			$ 29,624	$ 158,278	$ 1,745	$ 10,559

During 2014, Novant Health divested its interest in the Hospital Partnership and redeemed the membership interest of the other partner in the Cancer Center as described in Note 4, Organizational Changes.

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

	2014	**2013**
Assets	$ 135,622	$ 333,090
Liabilities	46,334	229,243
Equity	89,288	103,847
Total revenue	182,821	309,827
Total expenses	174,934	275,776
Net income	7,887	34,051
Novant Health's share of net income	1,745	10,559

(in thousands of dollars)

13. Other Assets

Other assets consist of the following at December 31:

	2014	2013
Notes receivable and other	$ 30,532	$ 36,141
Deferred financing costs, net of amortization	10,676	12,166
Cash surrender value of insurance policies	18,406	16,094
Prepaid pension costs	6,242	-
Reinsurance receivables	10,050	9,343
Pledges receivable	12,489	10,131
	$ 88,395	$ 83,875

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

14. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2014	2013
Accrued compensation	$ 215,061	$ 196,780
Pension liability	219	230
Postretirement benefit liability	1,219	1,022
Payroll taxes and withholdings	17,499	16,779
Interest	11,845	12,235
Other accrued liabilities	90,146	71,173
Self-insurance		
Employee medical claims liability	20,544	20,511
Malpractice and workers' compensation liability	19,123	18,653
	$ 375,656	$ 337,383

(in thousands of dollars)

15. Long-Term Debt

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

	2014	2013
Tax-exempt revenue bonds	$ 1,088,050	$ 1,103,510
Taxable revenue bonds	600,000	700,000
Taxable variable rate demand bonds	61,800	65,800
Total bonds	1,749,850	1,869,310
Capital lease obligations and other notes payable	51,295	39,880
	1,801,145	1,909,190
Unamortized premium or discount, net	17,562	19,328
	1,818,707	1,928,518
Less: Current maturities	(64,790)	(157,490)
	$ 1,753,917	$ 1,771,028

(in thousands of dollars)

Tax-Exempt Revenue Bonds

Novant Health has tax-exempt financing agreements through conduit issuers. These bonds are comprised of the following at December 31, 2014 and 2013:

	2014	2013
Series 2013 A and B Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 3.0% to 5.0% payable semi-annually and maturing through 2046; principal payments began in 2014	$ 293,265	$ 298,765
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	145,620	155,580
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
	$ 1,088,050	$ 1,103,510

In conjunction with the issuance of the 2003 bonds, Novant Health 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 Health and two of its affiliates that operate tertiary care hospitals, Novant Health Forsyth Medical Center and Novant Health Presbyterian Medical Center, 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. The Company'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 Health subsequent to the issuance of the 2003 bonds are also collateralized by the 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 Health. The bond indentures require Novant Health 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, 2014, Novant Health is in compliance with these bond covenants.

(in thousands of dollars)

The Series 2004 A and B Variable Rate Demand Bonds are collateralized by a standby purchase agreement ("SBPA") issued by JP Morgan Chase Bank National Association. The SBPA expires January 31, 2016. If the SBPA should be used to fund tenders due to a failed remarketing, repayment in quarterly installments over three years is required. As a result, the Company has classified $33,750 of the 2004 bonds as current at December 31, 2014 and 2013.

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. In March 2014, the Series 2008 A, B, and C Variable Rate Demand Bonds were refinanced. Subsequent to the refinancing, the direct purchase agreement related to the Series 2008 A Variable Rate Demand Bonds has a term of three years and will expire in March 2017. Subsequent to the refinancing, the direct purchase agreement related to the Series 2008 B and 2008 C Variable Rate Demand Bonds has a term of seven years and will expire in March 2021.

On May 7, 2013, Novant Health issued $152,400 of Series 2013A bonds through the North Carolina Medical Care Commission and $146,365 of Series 2013B bonds through the Industrial Development Authority of the County of Prince William. The Series 2013 bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Proceeds of the bonds were used to refund a portion of the Series 2003A bonds, repay the outstanding balance on the Senior Revolving Credit Facility and refund the Novant Health Prince William Medical Center Series 2002 Hospital Revenue Bonds. The remaining proceeds were used to finance and reimburse Novant Health for expenditures primarily related to the construction of the following: a 60-bed community hospital in Haymarket, Virginia; the vertical expansion of Novant Health Huntersville Medical Center; the vertical expansion of Novant Health Matthews Medical Center; the construction of Novant Health Clemmons Medical Center; and the G-wing renovation at Novant Health Presbyterian Medical Center.

Mortgage Revenue Bonds
On August 18, 2004, Novant Health Rowan Medical Center 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, these bonds were defeased using cash flow from operations. On September 1, 2014, these bonds were called and redeemed.

Hospital Revenue Bonds
Novant Health Prince William Medical Center had 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. On May 6, 2013, the Series 1993 Hospital Revenue Refunding Bonds were redeemed with operating cash. On May 7, 2013, the Series 2002 Hospital Revenue Bonds were refunded with proceeds of the Novant Health Series 2013B bonds.

Taxable Revenue Bonds
On September 23, 2009, Novant Health 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 matured in 2014. Proceeds of the 2009A Bonds were used to refinance a portion of the Company's revolving credit facility in January 2010.

(in thousands of dollars)

On November 12, 2009, Novant Health 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 the Company's revolving credit facility in January 2010.

On April 23, 2013, Novant Health issued $250,000 of taxable fixed rate bonds (the "2013C Bonds"). The 2013C bonds bear interest at a rate of 4.37% and mature in 2043. Proceeds of the 2013C Bonds were used for eligible purposes, including the refinancing of long-term debt.

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 Health 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, 2014 and 2013, the rate of interest on the variable bonds was 0.16% and 0.17%, respectively. The irrevocable letter of credit is currently available through March 1, 2016.

Other Long-Term Debt

Other long-term debt consists of a promissory note related to the redemption of membership interest and various loans and notes on buildings and capital leases, bearing interest at rates ranging from 0.16% to 12.15%.

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

Years Ending December 31	
2015	$ 31,040
2016	144,029
2017	27,173
2018	30,683
2019	277,105
Thereafter	1,291,115
	$ 1,801,145

Novant capitalized $1,890 and $2,499 of interest in 2014 and 2013, respectively.

The fair values of Novant's bonds are based on a pricing model. At December 31, 2014 and 2013, Novant's bonds had an approximate fair value of $1,844,831 and $1,832,191, respectively, as determined on a Level 2 measurement basis.

(in thousands of dollars)

Short-Term Borrowings

On June 13, 2013, Novant Health entered into a $200,000 Senior Revolving Credit Facility. The line of credit bears interest at variable rates and has a five year term. At December 31, 2014 and 2013, there were no amounts outstanding.

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 with maturities ranging between May 2014 and February 2022 at interest rates ranging from 0.25% to 3.75%. At December 31, 2014 and 2013 the fair value amounts outstanding were $84,459 and $86,138, respectively, which approximates carrying value. The amount outstanding under the reverse repurchase agreements at December 31, 2014 and 2013 was $83,038 and $84,965, respectively. Interest rates on the outstanding balances at December 31, 2014 ranged from 0.26% to 0.32%. The agreements generally mature between one and four weeks.

Interest Rate Swaps

As of August 18, 2008, concurrent with the 2008 bond issuance, Novant Health entered into two interest rate swap agreements to hedge the variable interest rates of the 2008 bonds. The swaps are based on an aggregate notional amount of $145,620. Novant Health receives a variable rate which is tied to 68% of LIBOR, and pays a fixed rate of 3.679% and 3.621% for the $107,800 and $37,820 notional amounts, respectively. In July 2006, Novant Health 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. Novant Health 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 swaps have been designated as cash flow hedges and are carried on the consolidated balance sheets at fair value. These swaps qualify for hedge accounting and were assessed for effectiveness at the time the contracts were entered into and are 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 swaps 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 as interest expense. As of December 31, 2014 and 2013, Novant Health's swaps are recorded as long-term liabilities in the consolidated balance sheets.

In August 2005, Novant Health Prince William Medical Center 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 $6,645. The exchanges of cash flows with the counter party (a commercial bank) began on September 8, 2005. Pursuant to the swap agreement, Novant Health Prince William Medical Center 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.

(in thousands of dollars)

The following table summarizes the fair value as presented in the consolidated balance sheets as derivative financial instruments for the Company's interest rate swaps as of December 31:

	2014	**2013**
Interest rate swaps designated as hedged instruments	$ 60,125	$ 40,275
Interest rate swaps not designated as hedged instruments	217	507
Total derivative financial liabilities	$ 60,342	$ 40,782

The following table summarizes the effect of the interest rate swaps on the consolidated statements of operations and changes in net assets for the years ended December 31, 2014 and 2013:

	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 and Changes in Net Assets Location	**2014**	**2013**	**2014**	**2013**
Derivatives desginated as hedged instruments				
Change in fair value of hedged interest rate swaps	$ (14,335)	$ 25,261	$ -	$ -
Hedge ineffectiveness	-	-	(5,516)	5,430
Derivatives not designated as hedged instruments				
Change in fair value of non-hedged interest rate swaps	-	-	291	305
	$ (14,335)	$ 25,261	$ (5,225)	$ 5,735

(in thousands of dollars)

16. Employee Benefits and Other Liabilities

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

	2014	2013
Pension liability, net of current portion	$ 42,891	$ 43,209
Postretirement benefit liability, net of current portion	22,776	19,422
Self-insurance malpractice and workers' compensation, net of current portion	58,951	53,863
Employee benefits and other	40,965	32,626
Deferred gains	77,561	82,688
	$ 243,144	$ 231,808

17. Income Taxes

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

	2014	2013
Current tax expense		
Federal	$ 1,875	$ 50
State	441	522
	2,316	572
Deferred tax expense (benefit)		
Federal	1,825	2,176
State	(157)	(219)
	1,668	1,957
	$ 3,984	$ 2,529

(in thousands of dollars)

The components of deferred taxes are as follows:

	2014	2013
Deferred tax assets		
Loss carryforwards	$ 59,517	$ 56,290
Deferred charge for intercompany transfer	13,315	14,643
Accounts receivable	6,036	5,568
Other long-term liabilities	-	566
Other	1,469	1,313
Total deferred tax assets	80,337	78,380
Deferred tax liabilities		
Property and equipment	(2,289)	(2,376)
Intangible assets	(21,305)	(21,783)
Other assets	(22)	(19)
Total deferred tax liabilities	(23,616)	(24,178)
Valuation allowance	(53,675)	(49,486)
Net deferred tax asset	$ 3,046	$ 4,716

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, 2014, management has determined that based on all available evidence, a valuation allowance of $53,675 is appropriate.

As of December 31, 2014, the Company had approximately $96,760 of federal and $91,043 of state loss carryforwards available to reduce taxable income. The loss carryforwards expire through 2034.

(in thousands of dollars)

Income tax expense reported in the consolidated statements of operations and changes in net assets is shown below:

	2014	2013
Federal taxes	$ 3,700	$ 2,226
State income taxes	284	303
Income tax expense	$ 3,984	$ 2,529

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 consolidated statements of operations and changes in net assets for the years ended December 31, 2014 and 2013.

18. Employee Benefit Plans and Other Postretirement Benefit Plans

Certain Novant Health 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 Health 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 Health intends only to fund the plans in amounts equivalent to the plans' annual benefit payments. During 2013, the Company terminated one of its plans covering certain highly compensated employees and, as a result, recorded expense of $5,858. Also during the year the Company implemented a new supplemental retirement income plan that covers certain highly compensated employees. This plan acts as a defined contribution plan and annual funding requirements are determined under provisions of the plan.

Novant Health 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 Health has the right to modify or terminate these benefits.

(in thousands of dollars)

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	
	2014	2013	2014	2013
Change in benefit obligations				
Projected benefit obligation at beginning of year	$ 312,999	$ 401,666	$ 20,444	$ 24,118
Service cost	1,150	2,568	169	193
Interest cost	14,275	13,789	893	798
Actuarial loss (gain)	(174)	(2,812)	3,702	(3,594)
Assumption change	62,512	(36,168)	-	-
Plan amendments	-	(17,918)	-	-
Settlements	(2,767)	(32,515)	-	-
Benefits paid	(13,592)	(15,611)	(1,283)	(1,222)
Employee contributions	-	-	70	151
Projected benefit obligation at end of year	$ 374,403	$ 312,999	$ 23,995	$ 20,444

The assumption change above for 2014 is primarily a result of changes in the discount rate and adoption of a new mortality table. The assumption change for 2013 was primarily the result of a change in the discount rate. The plan amendment changes above are primarily the acceleration of the amortization of actuarial losses in unrestricted net assets due to the termination of a supplemental retirement income plan. The settlement charges above are payments made to employees as the result of termination of a supplemental retirement income plan and also lump sum benefit payouts from the Prince William Plan.

Weighted-Average Assumptions Used to Determine End of Year Benefit Obligations	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2014	2013	2014	2013
Discount rate	2.70 - 3.82%	2.35 - 4.75%	0.70 - 3.75%	0.60 - 4.60%
Rate of compensation increase(1)	5.00%	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	7.5% in 2015, grading to 5.0% in 2020	8.0% in 2014, 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, 2014 and 2013.

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, 2014.

(in thousands of dollars)

Plan Assets

	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2014	**2013**	**2014**	**2013**
Change in plan assets				
Fair value of plan assets at beginning of year	$ 269,560	$ 267,621	$ -	$ -
Actual return on plan assets	40,371	20,655	-	-
Employer contribution	45,061	30,151	1,213	1,071
Employee contributions	-	-	70	151
Settlements	(2,767)	(32,515)	-	-
Benefits paid	(13,592)	(15,611)	(1,283)	(1,222)
Plan expenses	(1,098)	(741)	-	-
Fair value of plan assets at end of year	$ 337,535	$ 269,560	$ -	$ -

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 by the Novant Health Administrative Committee.

In January 2014, the Company contributed $44,853 to its three defined benefit plans and reallocated its investment asset categories. Going forward the primary investment objective is to invest the plan assets so that they will generate sufficient cash flows needed to fund future payments as they come due.

Novant Health's pension plan asset allocation and target allocation at December 31, 2014 by asset category are as follows:

	Target Range	Percentage of Plan Assets at December 31, 2014
Asset Category		
Debt securities	85–100%	94.0%
Equity securities	0–10%	5.0%
Cash and other	0–4%	1.0%
		100.0%

(in thousands of dollars)

The fair values of the Company's plan assets at December 31, 2014, 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	$ -	$ 8,672	$ -	$ 8,672
Developed non-U.S. equity	-	5,976	-	5,976
Emerging markets equity	-	1,554	-	1,554
Fixed income securities				
U.S. fixed income	-	316,353	-	316,353
Real estate and other	-	4,980	-	4,980
Total fair value of the Company's plan assets	$ -	$ 337,535	$ -	$ 337,535

The fair values of the Company's plan assets at December 31, 2013, 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	$ -	$ 45,838	$ -	$ 45,838
Developed non-U.S. equity	-	39,480	-	39,480
Emerging markets equity	-	30,427	-	30,427
Fixed income securities				
U.S. fixed income	-	133,762	-	133,762
Alternative asset funds	-	11,983	-	11,983
Real estate and other	-	8,070	-	8,070
Total fair value of the Company's plan assets	$ -	$ 269,560	$ -	$ 269,560

(in thousands of dollars)

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		Postretirement Healthcare Benefit Plans	
	2014	2013	2014	2013
End of Year				
Fair value of plan assets at end of year	$ 337,535	$ 269,560	$ -	$ -
Benefit obligation at end of year	374,403	312,999	23,995	20,444
Funded status	$ (36,868)	$ (43,439)	$ (23,995)	$ (20,444)
Amount recognized in the balance sheets				
Prepaid benefit cost at measurement date	$ 65,339	$ 23,650	$ -	$ -
Accrued benefit cost	(2,971)	(3,154)	(23,995)	(20,444)
Change in unrestricted net assets	(99,236)	(63,935)	-	-
Net liability recognized	$ (36,868)	$ (43,439)	$ (23,995)	$ (20,444)
Amounts recognized in unrestricted net assets				
Prior service cost	$ 2,525	$ 3,022	$ -	$ -
Net actuarial loss (gain)	96,711	60,913	3,220	(589)
	$ 99,236	$ 63,935	$ 3,220	$ (589)
Other changes in plan assets and benefit obligations				
Net loss (gain)	$ 35,696	$ (54,551)	$ 3,702	$ (3,594)
Prior service credit	-	(1,758)		-
Amortization of net loss (gain)	102	(1,243)	69	51
Amortization of prior service credit	(497)	(1,725)	38	-
Settlement credit	-	(4,396)	-	-
Curtailment credit	-	(18,911)	-	-
Total recognized in unrestricted net assets	$ 35,301	$ (82,584)	$ 3,809	$ (3,543)

At the end of 2014 and 2013, 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	**2014**	**2013**
Projected benefit obligation	$ 374,403	$ 312,999
Accumulated benefit obligation	359,666	300,467
Fair value of plan assets	337,535	269,560

(in thousands of dollars)

Cash Flows
The Company does not plan to make any contributions to its defined benefit pension plans in 2015. The Company expects to make contributions to the supplemental retirement income plans of approximately $3,451 for the 2015 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:

	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
Expected Benefit Payments		
2015	$ 14,782	$ 1,218
2016	15,146	1,064
2017	15,914	1,082
2018	16,617	1,134
2019	17,173	1,185
2020–2024	95,985	6,559

Net periodic benefit cost	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2014	**2013**	**2014**	**2013**
Service cost	$ 1,150	$ 2,568	$ 169	$ 193
Interest cost	14,275	13,789	893	798
Estimated return on plan assets	(17,893)	(16,029)	-	-
Amortization of prior service cost	497	732	(38)	-
Recognized net actuarial loss (gain)	4,423	11,708	(69)	(51)
Settlements	737	6,610	-	-
Recognized curtailment loss	-	2,751	-	-
Net periodic benefit cost	$ 3,189	$ 22,129	$ 955	$ 940
Total recognized in net periodic benefit cost and unrestricted net assets	$ 38,490	$ (60,455)	$ 4,764	$ (2,603)

(in thousands of dollars)

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost during the year ending December 31, 2015 are as follows:

	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
Actuarial net loss	$ 9,029	$ 304
Prior service cost	494	-

The weighted-average assumptions used to determine net periodic benefit cost were as follows:

	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2014	2013	2014	2013
Discount rate	3.35 - 4.75%	2.45 - 3.82%	0.60 - 4.60%	1.25 - 3.70%
Expected return on plan assets	6.00%	6.00 - 7.00%	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	8.0% in 2014, grading to 5.0% in 2020	8.5% in 2013, 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, 2014 and 2013.

In developing the expected return on plan assets, the Company considers the plan assets' historical actual return, targeted asset allocations, and the anticipated future economic environment and long-term performance of individual asset classes, based on the Company's investment strategy. While appropriate consideration is given to recent and historical investment performance, the assumption represents management's best estimate of the long-term prospective return.

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, 2014.

In addition to these plans, Novant Health sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to $57,235 and $54,222 in 2014 and 2013, respectively.

Certain Novant Health 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 $199,843 in 2014 and $180,599 in 2013.

Novant Health is self-insured for medical coverage exposures up to certain limits for all Novant Health employees. The Company has recorded an estimate of the liability for claims incurred but not reported as of December 31, 2014 and 2013.

(in thousands of dollars)

19. 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, 2013	$ 2,126,271	$ 2,116,534	$ 9,737
Excess of revenues over expenses	282,407	280,355	2,052
Loss on discontinued operations	(9,078)	(9,078)	-
Change in funded status of defined benefit plans	86,127	86,127	-
Unrealized gain on derivative financial instruments	25,261	25,261	-
Other changes in unrestricted net assets	(191)	134	(325)
Balance at December 31, 2013	2,510,797	2,499,333	11,464
Excess of revenues over expenses	201,771	199,932	1,839
Loss on discontinued operations	(13,853)	(13,853)	-
Loss on sale of discontinued operations	(29,071)	(29,071)	-
Change in funded status of defined benefit plans	(39,111)	(39,111)	-
Unrealized loss on derivative financial instruments	(14,335)	(14,335)	-
Other changes in unrestricted net assets	(2,417)	(24)	(2,393)
Balance at December 31, 2014	$ 2,613,781	$ 2,602,871	$ 10,910

20. Professional and General Liability Insurance Coverage

Novant Health 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 Health 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 Health. 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, 2014 and 2013, based on historical loss payment patterns. This resulted in a present value of $78,074 and $72,516 at December 31, 2014 and 2013, respectively, and represented a discount of $7,007 and $5,943 in 2014 and 2013, respectively.

(in thousands of dollars)

21. 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 Health 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 the Company'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.

On March 12, 2014, a putative class action lawsuit was filed in the U.S. District Court, Middle District of North Carolina, against Novant Health and individual fiduciaries regarding alleged breaches of fiduciary duties in the administration of certain Novant Health retirement plans. The Company filed a motion to dismiss the suit in its entirety on May 20, 2014. The Court has not yet ruled on that motion. No monetary demand has yet been made. An estimate of any possible loss cannot be made as of the date the financial statements were issued.

22. Operating Leases

Certain operating properties and equipment are leased under noncancelable operating leases. Total rental expense under operating leases was $84,554 and $85,685 in 2014 and 2013, respectively. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows:

Years Ending December 31	
2015	$ 78,440
2016	69,249
2017	58,272
2018	47,026
2019	32,831
Thereafter	109,421
	$ 395,239

(in thousands of dollars)

Novant Health leases six plots of land to a third party under long-term ground lease agreements. Total rental income under these lease agreements was $1,144 and $1,124 in 2014 and 2013, respectively. The future rental income related to the ground leases are as follows:

Years Ending December 31	
2015	$ 1,165
2016	1,186
2017	1,207
2018	1,241
2019	1,263
Thereafter	89,165
	$ 95,227

23. Concentrations of Credit Risk

Novant Health 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:

	2014	**2013**
Medicare	31.2%	31.7%
Medicaid	7.3%	13.1%
Other third-party payors	52.1%	43.7%
Patients	9.4%	11.5%
	100.0%	100.0%

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

(in thousands of dollars)

24. Functional Expenses

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

	2014	2013
Health care services	$ 2,618,282	$ 2,466,513
General and administrative	1,002,727	962,121
	$ 3,621,009	$ 3,428,634

25. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through March 31, 2015, the day the consolidated financial statements were issued.

26. Recent Accounting Pronouncements

In April 2013, the FASB issued ASU 2013-6, *Not-for-Profit Entities: Services Received from Personnel of an Affiliate*. This guidance requires that a not-for-profit entity recognize all personnel services for which the affiliate does not seek compensation that directly benefit the recipient not-for-profit and that such services should be measured at cost unless the cost significantly differs from the value received. This guidance is effective for Novant Health on January 1, 2015 and requires modified retrospective approach. The adoption of this guidance is not expected to have an impact on Novant Health's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. This guidance allows entities to use the Fed Funds Effective Swap Rate, in addition to U.S. Treasury Rates and LIBOR as a benchmark interest rate in accounting for fair value and cash flow hedges and eliminates the provision that prohibits the use of different benchmark rates for similar hedges except in rare and justifiable circumstances. This guidance is effective prospectively for qualifying new hedging relationships entered into on or after July 17, 2013 and for hedging relationships redesignated on or after that date. The adoption of this guidance had no impact on Novant Health's consolidated statements of financial position and results of operations.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists*. This guidance clarifies the presentation of unrecognized tax benefits in the financial statements. This guidance is effective for Novant Health beginning January 1, 2014. The adoption of this guidance did not have a significant impact on Novant Health's consolidated statements of financial position.

(in thousands of dollars)

In April 2014, the FASB issued ASU 2014-8, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This guidance changes the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. This guidance is effective on a prospective basis for Novant Health beginning January 1, 2015. The adoption of this guidance is not expected to have a significant impact on Novant Health's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-9, *Revenue from Contracts with Customers (Topic 606)*. This guidance replaces existing industry-specific guidance and provides guidelines based on the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration. This guidance is effective for Novant Health beginning January 1, 2017. Early adoption is not permitted. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* This guidance makes it management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance is effective for Novant Health on January 1, 2016 and early application is permitted. The adoption of this guidance is not expected to have a significant impact on Novant Health's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation – Amendments to the Consolidation Analysis.* This guidance amends the current consolidation guidance with amendments affecting both the variable interest entity (VIE) and voting interest entity (VOE) consolidation models. This guidance is effective for Novant Health beginning January 1, 2017 and early adoption is permitted. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements.

Other Financial Information

Report of Independent Auditors on Supplementary Information

To the Board of Trustees of
Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. and its affiliates as of December 31, 2014 and 2013 and for the years then ended and our report thereon appears at the beginning of this document. Those audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Cost of Community Benefit Programs as of December 31, 2014 and 2013 is presented for purposes of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 31, 2015

PricewaterhouseCoopers LLP, 800 Green Valley Road, Suite 500, Greensboro, NC 27408
T: (336)665 2700, F: (336)665 2699, www.pwc.com/us

Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs
December 31, 2014 and 2013

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

(in thousands of dollars)	2014	2013
Traditional charity care	$ 135,293	$ 129,229
Unpaid cost of Medicare	341,168	294,325
Unpaid cost of Medicaid	96,830	63,952
Community benefit programs	65,887	78,594
	$ 639,178	$ 566,100

As discussed in Note 2 in the accompanying financial statements, Novant Health received supplemental Medicaid payments during 2013 and 2014 which are included in the community benefit amounts for each year.

Report of Independent Auditors
on Accompanying Consolidating Information

To the Board of Trustees of
Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. and its affiliates as of December 31, 2014 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 consolidated financial statements taken as a whole. The consolidating balance sheet and statement of operations of Novant Health, Inc. and its affiliates, and the combining balance sheet and statement of operations arriving at the Combined Group total (collectively the "consolidating information") is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position or results of operations of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position or results of operations of the individual companies.

PricewaterhouseCoopers LLP

March 31, 2015

PricewaterhouseCoopers LLP, 800 Green Valley Road, Suite 500, Greensboro, NC 27408
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Novant Health, Inc. and Affiliates
Consolidating Balance Sheet
December 31, 2014

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 306,728	$ 47,069	$ -	$ 353,797
Accounts receivable, net of allowance for doubtful accounts	357,015	48,524	-	405,539
Short-term investments	345,634	107	-	345,741
Current portion of assets limited as to use	3,072	13,531	-	16,603
Deferred tax asset	-	6,802	-	6,802
Receivable for settlement with third-party payors	13,921	2,174		16,095
Other current assets	140,642	23,712	-	164,354
Total current assets	1,167,012	141,919	-	1,308,931
Assets limited as to use	7,599	39,554	-	47,153
Long-term investments	1,564,455	151,495	-	1,715,950
Property and equipment, net	1,604,314	267,522	-	1,871,836
Intangible assets and goodwill, net	61,165	279,969	-	341,134
Investments in affiliates	246,579	7,309	(224,264)	29,624
Other assets	71,412	19,362	(2,379)	88,395
Total assets	$4,722,536	$ 907,130	$ (226,643)	$ 5,403,023
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 56,751	$ 8,039	$ -	$ 64,790
Short-term borrowings	83,038	-	-	83,038
Accounts payable	129,365	6,282	-	135,647
Accrued liabilities	320,610	57,425	(2,379)	375,656
Estimated third-party payor settlements	15,330	2,239	-	17,569
Due to (from) related organizations	(539,960)	539,960	-	-
Total current liabilities	65,134	613,945	(2,379)	676,700
Long-term debt, net of current portion	1,716,164	37,753	-	1,753,917
Deferred tax liability	-	3,756	-	3,756
Derivative financial instruments	60,125	217	-	60,342
Employee benefits and other liabilities	187,486	55,658	-	243,144
Total liabilities	2,028,909	711,329	(2,379)	2,737,859
Net assets				
Unrestricted-attributable to Novant	2,691,440	142,602	(231,171)	2,602,871
Unrestricted- noncontrolling interests	-	4,003	6,907	10,910
Total unrestricted net assets	2,691,440	146,605	(224,264)	2,613,781
Temporarily restricted	2,187	38,233	-	40,420
Permanently restricted	-	10,963	-	10,963
Total net assets	2,693,627	195,801	(224,264)	2,665,164
Total liabilities and net assets	$4,722,536	$ 907,130	$ (226,643)	$ 5,403,023

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Consolidating Statement of Operations
Year Ended December 31, 2014

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Operating revenues				
Patient service revenues (net of contractual allowances and discounts)	$3,272,694	$ 478,088	$ -	$ 3,750,782
Provision for bad debts	(161,718)	(28,238)	-	(189,956)
Net patient service revenues less provision for bad debts	3,110,976	449,850	-	3,560,826
Premium revenue	-	4,132	-	4,132
Other revenue	203,358	42,180	(22,565)	222,973
Total operating revenues	3,314,334	496,162	(22,565)	3,787,931
Operating expenses				
Salaries and employee benefits	1,794,617	218,552	(5,954)	2,007,215
Supplies and other	1,089,800	242,856	(15,774)	1,316,882
Depreciation expense	157,284	28,522	-	185,806
Amortization expense	901	4,431	-	5,332
Impairment charge	-	11,409	-	11,409
Interest expense	64,054	30,311	-	94,365
Total operating expenses	3,106,656	536,081	(21,728)	3,621,009
Operating income (loss)	207,678	(39,919)	(837)	166,922
Non-operating income (expense)				
Investment income	35,007	3,141	837	38,985
Unrealized gain on non-hedged derivative financial instruments	-	291	-	291
Income tax expense	(1,432)	(2,552)	-	(3,984)
Other, net	(2)	148	-	146
Loss on extinguishment of debt	(589)	-	-	(589)
Excess (deficit) of revenues over expenses	$ 240,662	$ (38,891)	$ -	$ 201,771

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Balance Sheet
December 31, 2014

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Assets				
Current assets				
Cash and cash equivalents	$ 279,912	$ 26,816	$ -	$ 306,728
Accounts receivable, net of allowance for doubtful accounts	241,998	115,017	-	357,015
Short-term investments	325,630	20,004	-	345,634
Current portion of assets limited as to use	3,072	-	-	3,072
Receivable for settlement with third-party payors	9,210	4,711	-	13,921
Other current assets	115,878	24,764	-	140,642
Total current assets	975,700	191,312	-	1,167,012
Assets limited as to use	6,801	798	-	7,599
Long-term investments	1,432,262	132,193	-	1,564,455
Property and equipment, net	1,166,323	437,991	-	1,604,314
Intangible assets and goodwill, net	49,243	11,922	-	61,165
Investments in affiliates	292,846	9,618	(55,885)	246,579
Other assets	210,629	(139,217)	-	71,412
Total assets	$ 4,133,804	$ 644,617	$ (55,885)	$ 4,722,536
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 56,683	$ 68	$ -	$ 56,751
Short-term borrowings	83,038	-	-	83,038
Accounts payable	120,276	9,089	-	129,365
Accrued liabilities	244,524	76,086	-	320,610
Estimated third-party payor settlements	12,094	3,236	-	15,330
Due to (from) related organizations	(654,470)	114,510	-	(539,960)
Total current liabilities	(137,855)	202,989	-	65,134
Long-term debt, net of current portion	1,716,164	-	-	1,716,164
Derivative financial instruments	60,125	-	-	60,125
Employee benefits and other liabilities	171,459	16,027	-	187,486
Total liabilities	1,809,893	219,016	-	2,028,909
Net assets				
Unrestricted	2,323,902	423,423	(55,885)	2,691,440
Temporarily restricted	9	2,178	-	2,187
Total net assets	2,323,911	425,601	(55,885)	2,693,627
Total liabilities and net assets	$ 4,133,804	$ 644,617	$ (55,885)	$ 4,722,536

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Statement of Operations
Year Ended December 31, 2014

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Operating revenues				
Patient service revenues (net of contractual allowances and discounts)	$ 2,024,283	$1,248,411	$ -	$ 3,272,694
Provision for bad debts	(81,698)	(80,020)	-	(161,718)
Net patient service revenues less provision for bad debts	1,942,585	1,168,391	-	3,110,976
Other revenue	170,005	34,704	(1,351)	203,358
Total operating revenues	2,112,590	1,203,095	(1,351)	3,314,334
Operating expenses				
Salaries and employee benefits	1,042,068	752,549	-	1,794,617
Supplies and other	726,599	364,552	(1,351)	1,089,800
Depreciation expense	115,572	41,712	-	157,284
Amortization expense	722	179	-	901
Interest expense	46,145	17,909	-	64,054
Total operating expenses	1,931,106	1,176,901	(1,351)	3,106,656
Operating income	181,484	26,194	-	207,678
Non-operating income (expense)				
Investment income	32,010	2,997	-	35,007
Income tax expense	(1,432)	-	-	(1,432)
Other, net	(2)	-	-	(2)
Loss on extinguishment of debt	(589)	-	-	(589)
Excess of revenues over expenses	$ 211,471	$ 29,191	$ -	$ 240,662

See accompanying notes to consolidating supplemental schedules.

1. Consolidated Financial Statements Reporting Entity

Novant Health, Inc. (“Novant Health” or the “Company”) is a nonprofit health care system with dual headquarters in Winston-Salem and Charlotte, North Carolina. Novant Health consists of fourteen hospitals and a 1,123-physician medical group with over 340 clinic locations. Other facilities and programs of Novant Health include outpatient surgery and diagnostic centers, a long-term care facility, charitable foundations, a risk retention group, rehabilitation programs and community health outreach programs. Hospitals include Novant Health Presbyterian Medical Center, Novant Health Charlotte Orthopedic Hospital, Novant Health Huntersville Medical Center, Novant Health Matthews Medical Center, Novant Health Forsyth Medical Center, Novant Health Medical Park Hospital, Novant Health Kernersville Medical Center, Novant Health Clemmons Medical Center, Novant Health Thomasville Medical Center, Novant Health Rowan Medical Center, Novant Health Brunswick Medical Center, Novant Health Franklin Medical Center, Novant Health Prince William Medical Center and Novant Health Haymarket Medical Center. Novant Health and its affiliates serve their communities with programs including health education, home health care, prenatal clinics, community clinics and immunization services.

2. Basis of Presentation and Summary of Significant Accounting Policies

Novant Health, Inc. Consolidating Balance Sheet and Consolidating Statement of Operations (which Combines the Information of the Combined Group and Remaining Unrestricted Affiliates)

The Total column reconciles to the consolidated financial statements of Novant Health, Inc. and includes the accounts of all affiliates controlled by Novant Health, Inc. The Total is comprised of the Combined Group (as described below, which is comprised of the Obligated Group and Restricted Affiliates) and the Unrestricted Affiliates, which represent affiliates not meeting the definition of the Obligated Group or Restricted Affiliates as defined below.

The Eliminations column represents the elimination of intercompany transactions and balances between the Combined Group and the Unrestricted Affiliates.

The consolidating balance sheet and consolidating statement of operations are otherwise prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America, as a result of the exclusion of all required disclosures.

Novant Health, Inc.
Notes to Consolidating Supplemental Schedules
December 31, 2014

Combined Group Combining Balance Sheet and Statement of Operations

As noted in footnote 15 to the consolidated financial statements, the Company is subject to a Master Trust Indenture (the "Agreement") which authorizes the creation of a Combined Group, which consists of the members of the Obligated Group and the Restricted Affiliates.

The members of the Obligated Group are jointly and severally liable for the payment of all obligations under the Agreement. The members of the Obligated Group are Novant Health and its two affiliates that operate tertiary care hospitals, Forsyth Memorial Hospital, Inc. d/b/a Novant Health Forsyth Medical Center and The Presbyterian Hospital d/b/a Novant Health Presbyterian Medical Center, both of which are North Carolina nonprofit corporations. In the accompanying Combined Group combining balance sheet and combining statement of operations, the Obligated Group column presents information of the aforementioned entities.

Restricted Affiliates represent entities that 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. The Company has designated twelve of its affiliates as Restricted Affiliates. Seven of these Restricted Affiliates, Medical Park Hospital, Inc. d/b/a Novant Health Medical Park Hospital, Community General Health Partners, Inc. d/b/a Novant Health Thomasville Medical Center, Presbyterian Medical Care Corp. d/b/a Novant Health Matthews Medical Center, Brunswick Community Hospital d/b/a Novant Health Brunswick Medical Center, Presbyterian Orthopaedic Hospital, LLC d/b/a Novant Health Charlotte Orthopaedic Hospital, Prince William Hospital Corporation d/b/a Novant Health Prince William Medical Center, and Prince William Hospital System, 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. All of the Members of the Combined Group, except Salem Health Services, Inc., are exempt from federal and state income taxation.

The Eliminations column represents the elimination of intercompany transactions and balances between the Obligated Group and the Restricted Affiliates.

The Combined Group combining balance sheet and combining statement of operations are otherwise prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America, as a result of the exclusion of all required disclosures.