Novant Health, Inc. and Affiliates

Consolidated Financial Statements
December 31, 2015 and 2014

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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 Affiliates, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, 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 Affiliates as of December 31, 2015 and 2014, and the results of their operations and changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 28, 2016

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Novant Health, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2015 and 2014

(in thousands of dollars)	**2015**	**2014**
Assets		
Current assets		
Cash and cash equivalents	$ 354,403	$ 328,797
Accounts receivable, net of allowance for doubtful accounts of $209,606 in 2015 and $204,468 in 2014	432,512	405,539
Short-term investments	465,772	370,741
Current portion of assets limited as to use	13,736	16,603
Deferred tax asset	7,311	6,802
Receivable for settlement with third-party payors	10,599	16,095
Other current assets	170,690	164,354
Total current assets	1,455,023	1,308,931
Assets limited as to use	46,694	47,153
Long-term investments	1,806,599	1,715,950
Property and equipment, net	1,854,102	1,871,836
Intangible assets and goodwill, net	308,215	341,134
Investments in affiliates	33,246	29,624
Other assets	101,880	88,395
Total assets	$ 5,605,759	$ 5,403,023
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 178,347	$ 64,790
Short-term borrowings	86,785	83,038
Accounts payable	148,529	135,647
Accrued liabilities	383,086	375,656
Estimated third-party payor settlements	24,344	17,569
Total current liabilities	821,091	676,700
Long-term debt, net of current portion	1,603,046	1,753,917
Deferred tax liability	3,843	3,756
Derivative financial instruments	57,941	60,342
Employee benefits and other liabilities	231,069	243,144
Total liabilities	2,716,990	2,737,859
Commitments and contingencies		
Net assets		
Unrestricted - attributable to Novant Health	2,820,367	2,602,871
Unrestricted - noncontrolling interests	13,663	10,910
Total unrestricted net assets	2,834,030	2,613,781
Temporarily restricted	43,758	40,420
Permanently restricted	10,981	10,963
Total net assets	2,888,769	2,665,164
Total liabilities and net assets	$ 5,605,759	$ 5,403,023

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, 2015 and 2014

(in thousands of dollars)	**2015**	**2014**
Operating revenues		
Patient service revenues (net of contractual allowances and discounts)	$ 4,061,243	$ 3,750,782
Provision for bad debts	(195,958)	(189,956)
Net patient service revenues less provision for bad debts	3,865,285	3,560,826
Premium revenue	3,065	4,132
Other revenue	259,651	222,973
Total operating revenues	4,128,001	3,787,931
Operating expenses		
Salaries and employee benefits	2,153,132	2,007,215
Supplies and other	1,405,855	1,316,882
Depreciation expense	209,847	185,806
Amortization expense	4,535	5,332
Impairment charge	8,572	11,409
Interest expense	87,672	94,365
Total operating expenses	3,869,613	3,621,009
Operating income	258,388	166,922
Non-operating income (expense)		
Investment income (loss)	(60,039)	38,985
Unrealized gain on non-hedged derivative financial instruments	217	291
Income tax expense	(7,022)	(3,984)
Other, net	34	146
Loss on extinguishment of debt	-	(589)
Excess of revenues over expenses	$ 191,578	$ 201,771

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, 2015 and 2014

(in thousands of dollars)	2015	2014
Unrestricted net assets		
Excess of revenues over expenses	$ 191,578	$ 201,771
Change in funded status of defined benefit plans	23,514	(39,111)
Unrealized gain (loss) on derivative financial instruments	4,140	(14,335)
Other changes in unrestricted net assets	1,017	(2,417)
Increase in unrestricted net assets, before effects of discontinued operations	220,249	145,908
Discontinued operations		
Loss on discontinued operations	-	(13,853)
Loss on sale of discontinued operations	-	(29,071)
Increase in unrestricted net assets	220,249	102,984
Temporarily restricted net assets		
Contributions and investment income	8,930	10,220
Net assets released from restrictions for operations	(5,592)	(6,584)
Increase in temporarily restricted net assets	3,338	3,636
Permanently restricted net assets		
Contributions, net of reclassifications	18	151
Increase in permanently restricted net assets	18	151
Increase in total net assets	223,605	106,771
Net assets, beginning of year	2,665,164	2,558,393
Net assets, end of year	$ 2,888,769	$ 2,665,164

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, 2015 and 2014

(in thousands of dollars)	**2015**	**2014**
Cash flows from operating activities		
Increase in net assets	$ 223,605	$ 106,771
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	220,315	193,754
Gain on sale of real estate	(7,605)	(4,382)
Gain on sale of business	(40,027)	(39,617)
Impairment charge	8,572	11,409
Loss on extinguishment of debt	-	589
Loss on sale of discontinued operations	-	29,071
Change in funded status of defined benefit plans	(23,514)	39,111
Share of earnings in affiliates, net of distributions	(1,894)	9,391
Net realized and unrealized losses (gains) on assets limited as to use and investments	84,734	(3,113)
Change in fair value of interest rate swap	(2,401)	19,560
Contributions restricted for capital	(3,856)	(4,561)
Provision for bad debts	195,958	189,956
Changes in operating assets and liabilities		
Accounts receivable	(258,855)	(215,585)
Accounts payable and accrued liabilities	13,682	34,848
Deferred taxes, net	(422)	1,670
Other assets and liabilities, net	13,725	(49,859)
Net cash provided by operating activities	422,017	319,013
Cash flows from investing activities		
Capital expenditures	(227,793)	(266,856)
Proceeds from sale of affiliates	80,980	154,819
Proceeds from sales of long-term investments	521,832	307,041
Purchase of long-term investments	(696,028)	(330,032)
Proceeds from sales of short-term investments	465,050	350,529
Purchase of short-term investments	(560,059)	(395,081)
Proceeds from sale of property and equipment	9,338	4,494
Repayment of notes receivable and other, net	705	4,188
Net cash used in investing activities	(405,975)	(170,898)
Cash flows from financing activities		
Principal payments on long-term debt	(36,872)	(124,565)
Bond proceeds received from trustee	2,877	25,372
Proceeds from sale of accounts receivable, net	35,086	29,557
Proceeds from contributions restricted for capital and long-term investment	1,252	2,149
Cash receipts (payments) for repurchase agreements, net	3,556	(1,927)
Proceeds from line of credit and other financing	3,665	914
Net cash provided by (used in) financing activities	9,564	(68,500)
Net increase in cash and cash equivalents	25,606	79,615
Cash and cash equivalents		
Beginning of year	328,797	249,182
End of year	$ 354,403	$ 328,797

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, 2015 and 2014

(in thousands of dollars)		**2015**		**2014**
Supplemental disclosure of cash flow information				
Interest paid, net of amounts capitalized	$	87,090	$	91,006
Income taxes paid		7,257		949
Supplemental disclosure of noncash operating activities				
Settlement of patient receivables and other liabilities		2,733		5,228
Supplemental disclosure of noncash financing and investing activities				
Property and equipment financed through current liabilities		26,626		27,311

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 consolidated financial statements.

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, integrated health care network of physician clinics, outpatient centers and hospitals that serves patients and communities in North Carolina, Virginia and South Carolina. Novant Health consists of nearly 1,400 physicians and 24,000 employees at approximately 500 locations, including 13 medical centers and hundreds of outpatient facilities and physician clinics. Headquartered in Winston-Salem, North Carolina, Novant Health is committed to making healthcare remarkable for patients and communities, serving more than 4 million patients annually. 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 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 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 consolidated 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 $255,478 at December 31, 2015.

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

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

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

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

Business relationships	26 years
Corporate trade name	29 years

On an annual basis, Novant Health tests goodwill and indefinite-lived assets for impairment. If it is more likely than not that the indefinite-lived asset is impaired, additional testing for impairment is required. GAAP prescribes that impairment for indefinite-lived intangibles is evaluated by comparing the fair value of the asset with its carrying amount. If the carrying amount exceeds the fair value, an impairment loss is recognized as the amount of that excess.

(in thousands of dollars)

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

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.

(in thousands of dollars)

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 (loss), 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 2015, Novant Health received $141,745 and paid $74,008 for the GAP program. During 2014, Novant Health received $113,506 and paid $57,001 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 (losses) on derivative financial instruments that apply hedge accounting and the effects of discontinued operations.

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.

(in thousands of dollars)

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

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.

3. Revision of Prior Period Consolidated Financial Statements

As of December 31, 2014, the Company had incorrectly classified approximately $25,000 of variable rate demand obligations as cash instead of short-term investments. As a result, the net impact of these investments of $25,000 for the year ended December 31, 2014 should have been presented in the consolidated statement of cash flows as a use of cash flows from investing activities for 2014. To correct for this immaterial error, the Company has revised its consolidated balance sheet as of December 31, 2014 and its consolidated statement of cash flows for the year ended December 31, 2014. These revisions had no impact on the Company's results of operations, changes in net assets, or cash flows from operating or financing activities.

In addition, the Company revised its presentation of purchases and sales of short-term investments into its separate components. The effects of this revision are summarized in the table below:

	As reported in 2014	Adjustment	As revised in 2014
Consolidated balance sheet			
Cash and cash equivalents	$ 353,797	$ (25,000)	$ 328,797
Short-term investments	345,741	25,000	370,741
Consolidated statement of cash flows			
Investing cash flow changes:			
Net purchases and sales of short-term investments	(19,552)	19,552	-
Proceeds from sales of short-term investments	-	350,529	350,529
Purchase of short-term investments	-	(395,081)	(395,081)
Net cash used in investing activities*	(147,825)	(25,000)	(170,898)
Net increase (decrease) in cash and equivalents	104,615	(25,000)	79,615
Cash and cash equivalents			
End of year	353,797	(25,000)	328,797

* The Company reclassified $1,927 of cash payments for repurchase agreements, net from net cash used in investing activities to net cash used in financing activities for the year ended December 31, 2014.

(in thousands of dollars)

4. Organizational Changes

Acquisitions and Divestitures

In July 2015, the Company divested of its imaging centers in Georgia. These 22 locations with a net carrying value of $35,836 were sold to Northside Hospital, Inc. for cash of $80,500. These imaging centers contributed $29,192 and $49,116 in operating revenues and $(140) and $1,735 in operating income (loss) in 2015 and 2014, respectively. As a result of this transaction, the Company recognized a gain of $43,951. This gain is included in other revenue in the consolidated statements of operations and changes in net assets. Novant Health still manages these Georgia locations.

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 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 Health 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. On May 1, 2015, Novant Health’s remaining interest in the partnership was exchanged for all equity interests in NHFRMC.

The amounts of revenue and operating income that have been reported in discontinued operations are as follows:

	2015	2014
Net operating revenue	$ -	$ 36,007
Operating loss	-	(13,853)

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

	2015	2014
Property and equipment, net	$ -	$ 3,038

(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. During 2015, Novant Health recorded a favorable change in estimate of $82,000 related to the net realizable value of patient receivables. This change in estimate is reflected as an increase in net patient service revenues less provision for bad debts in the consolidated statements of operations and changes in net assets and was primarily the result of favorable collections from a previous patient accounting system, as well as from favorable collections from the Company's transition to an electronic health record in 2014. 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:

	2015	2014
Third-party payors	$ 3,995,854	$ 3,675,824
Self-pay	65,389	74,958
Total	$ 4,061,243	$ 3,750,782

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. The Company's Medicare cost reports are final settled through 2012 for all facilities with the exception of Novant Health Presbyterian Medical Center and Novant Health Brunswick Medical Center, which are finalized through 2011, and Novant Health Forsyth Medical Center which is finalized through 2010. Substantially all of the Company's Medicaid cost reports are final settled through 2011.

Revenue from the Medicare and Medicaid programs accounted for approximately 31.2% and 5.3%, respectively, of Novant Health's net patient service revenue for the year ended 2015, and 32.9% and 5.5%, respectively for the year ended 2014. 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 2015 and 2014, Novant Health recognized $16,177 and $10,725, 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 sheets at December 31, 2015 and 2014 is deferred revenue of $8,421 and $9,125, respectively. At December 31, 2015 and 2014, Novant Health had a receivable related to EHR funds of $5,100 and $5,567, 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 $5,528,484 (or 55%) and $5,061,117 (or 55%) of 2015 and 2014 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 (including charity care) were $586,546 in 2015 compared to $553,994 in 2014. Novant Health has not changed its charity care or uninsured discount policies during 2014 or 2015. 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, 2015, the factored notes and the related liabilities were $31,075 and $44,606 respectively. As of December 31, 2014, the factored notes and the related liabilities were $19,102 and $33,470, 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 $125,317 and $135,293 for the years ended December 31, 2015 and 2014, 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 $1,300 and $1,462 for the years ended December 31, 2015 and 2014, 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:

	2015	2014
Inventory	$ 75,568	$ 70,235
Prepaids	34,827	36,544
Other receivables	60,295	57,575
	$ 170,690	$ 164,354

8. Assets Limited as to Use and Investments

Short-Term Investments

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

	2015	2014
Certificates of deposit	$ 5,064	$ 5,107
Fixed income - government securities	430,566	325,353
Fixed income - corporate and other	30,142	40,281
	$ 465,772	$ 370,741

Assets Limited as to Use

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

	2015		2014	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Under general and professional liability funding arrangement held by trustee	$ 13,541	$ 39,508	$ 13,531	$ 39,554
Designated by board to service benefit plans	195	7,186	195	7,599
Under indenture agreement held by trustee	-	-	2,877	-
	$ 13,736	$ 46,694	$ 16,603	$ 47,153

Assets limited as to use are invested primarily in cash and cash equivalents and corporate, U.S. government and U.S. agency debt obligations. At December 31, 2015 and 2014, the Company had $889 and $813, respectively, in investments carried at net asset value per share ("NAV").

(in thousands of dollars)

Long-Term Investments

Investments are reported at either fair value, the equity method of accounting or at NAV as a practical expedient. The composition of long-term investments is as follows:

	December 31, 2015			
	At Fair Value	On Equity Method	At NAV	Total
Cash and cash equivalents	$ 122,800	$ -	$ -	$ 122,800
U.S. equities	275,374	21,810	185,494	482,678
International equities	118,568	49,530	159,915	328,013
Fixed income - Government securities	124,828	-	-	124,828
Fixed income - Corporate and other	28,456	51,519	15,479	95,454
Hedge funds	-	423,673	-	423,673
Emerging markets	18,789	15,078	79,011	112,878
Real estate and other	10,478	105,797	-	116,275
	$ 699,293	$ 667,407	$ 439,899	$ 1,806,599

	December 31, 2014			
	At Fair Value	On Equity Method	At NAV	Total
Cash and cash equivalents	$ 98,361	$ -	$ -	$ 98,361
U.S. equities	340,988	27,314	66,337	434,639
International equities	119,254	51,289	151,958	322,501
Fixed income - Government securities	78,466	-	-	78,466
Fixed income - Corporate and other	22,326	47,217	15,459	85,002
Hedge funds	-	484,592	-	484,592
Emerging markets	21,767	17,313	89,000	128,080
Real estate and other	7,728	76,581	-	84,309
	$ 688,890	$ 704,306	$ 322,754	$ 1,715,950

Long-term investments carried at NAV may be redeemed or liquidated only after giving notice to the fund manager. The notice period ranges from 5 to 30 days. These investments have been reported at NAV 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.

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 23.5% and 28.2% of total long-term investments held at December 31, 2015 and 2014, respectively. 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, 2015 and 2014, Novant Health had future commitments of $70,745 and $39,324, 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:

	2015	2014
Income (loss)		
Interest and dividend income	$ 24,695	$ 35,872
Net realized gains	31,081	30,461
Net unrealized losses	(115,815)	(27,348)
	$ (60,039)	$ 38,985

Investment income (loss) is shown net of related expenses on the consolidated statements of operations and changes in net assets. Investment related administrative expenses were $5,070 and $4,837 for the years ended December 31, 2015 and 2014, 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:

(in thousands of dollars)

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

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

Level 3: Inputs that are unobservable for the asset or liability. Investments classified in this level 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).

Novant Health elected to adopt the provisions of Accounting Standards Update ("ASU") 2015-7, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* retrospectively effective January 1, 2015. This guidance removes the requirement to categorize investments for which fair value is measured using net asset value per share in the fair value hierarchy.

As of December 31, 2015 and 2014, 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., international, emerging markets and real estate equity securities
The fair value of investments in U.S., international, emerging markets and real estate equity securities are 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.

(in thousands of dollars)

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 2015 and 2014, there were no transfers between Level 1 and 2.

The following table summarizes fair value measurements, by level, at December 31, 2015 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	$ -	$ 5,064	$ -	$ 5,064
Fixed income - Government securities	-	430,566	-	430,566
Fixed income - Corporate and other	-	30,142	-	30,142
Total short-term investments	-	465,772	-	465,772
Assets limited as to use:				
Cash and cash equivalents	592	-	-	592
U.S. equities	6,018	-	-	6,018
International equities	62	-	-	62
Fixed income - Government securities	-	36,765	-	36,765
Fixed income - Corporate and other	396	15,708	-	16,104
Total assets limited as to use	7,068	52,473	-	59,541
Long-term investments:				
Cash and cash equivalents	122,800	-	-	122,800
U.S. equities	275,374	-	-	275,374
International equities	118,568	-	-	118,568
Fixed income - Government securities	-	124,828	-	124,828
Fixed income - Corporate and other	15,289	13,167	-	28,456
Emerging markets	18,789	-	-	18,789
Real estate and other	10,478	-	-	10,478
Total long-term investments	561,298	137,995	-	699,293
Total assets at fair value	$ 568,366	$ 656,240	$ -	$ 1,224,606
Liabilities				
Derivative financial instruments	$ -	$ 57,941	$ -	$ 57,941
Employee benefits liabilities	5,547	-	-	5,547
Total liabilities at fair value	$ 5,547	$ 57,941	$ -	$ 63,488

(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	-	325,353	-	325,353
Fixed income - Corporate and other	-	40,281	-	40,281
Total short-term investments	-	370,741	-	370,741
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	16,325	-	17,307
Total assets limited as to use	8,269	54,674	-	62,943
Long-term investments:				
Cash and cash equivalents	98,361	-	-	98,361
U.S. equities	340,988	-	-	340,988
International equities	119,254	-	-	119,254
Fixed income - Government securities	-	78,466		78,466
Fixed income - Corporate and other	17,070	5,256	-	22,326
Emerging markets	21,767	-	-	21,767
Real estate and other	7,728	-	-	7,728
Total long-term investments	605,168	83,722	-	688,890
Total assets at fair value	$ 613,437	$ 509,137	$ -	$ 1,122,574
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)

As a result of its annual impairment testing for 2015, the Company recorded impairment charges of $8,572 to fully write-off long-lived property and equipment assets. 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. 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:

	2015	2014
Land and land improvements	$ 261,959	$ 250,932
Leasehold improvements	156,010	154,237
Buildings and building improvements	1,735,771	1,683,022
Buildings under capital lease obligations	26,854	30,301
Equipment	1,635,544	1,594,097
Equipment under capital lease obligations	5,307	5,758
Software	465,641	418,132
Construction-in-progress	94,541	171,032
	4,381,627	4,307,511
Less: Accumulated depreciation	(2,527,525)	(2,435,675)
	$ 1,854,102	$ 1,871,836

Novant Health reviews 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, $8,572 and $5,190 were recorded as impairment charges related to property and equipment assets in 2015 and 2014, respectively.

At December 31, 2015 and 2014, land and buildings with a net book value of $27,641 and $28,586 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, 2015 and 2014 amounted to $209,847 and $185,806, respectively. Accumulated amortization for buildings and equipment under capital lease obligations was $22,186 and $21,916 at December 31, 2015 and 2014, respectively. Construction contracts of approximately $161,163 exist for the expansion of existing hospitals and facility renovations. At December 31, 2015, the remaining commitment on these contracts was $92,792.

(in thousands of dollars)

On June 27, 2009, Novant Health 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 Health 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 Health recognized gains from this transaction of $3,997 in 2015 and 2014. The remaining deferred gain of $33,976 will be recognized over the average life of Novant Health'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, 2015			
Unamortized intangible assets			
Certificates of need	$ 66,378	$ -	$ 66,378
Total unamortized intangible assets	66,378	-	66,378
Amortized intangible assets			
Business relationships	46,851	(14,629)	32,222
Corporate trade name and other intangibles	24,831	(8,418)	16,413
Total amortized intangible assets	71,682	(23,047)	48,635
Total intangible assets	$ 138,060	$ (23,047)	$ 115,013
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 $3,644 and $4,337 for the years ended December 31, 2015 and 2014, respectively. Estimated annual amortization expense for intangible assets for the years 2016 through 2020 is approximately $2,692, $2,686, $2,675, $2,598 and $2,598, respectively.

(in thousands of dollars)

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

	2015	2014
As of January 1		
Goodwill, net of accumulated amortization	$ 261,636	$ 294,169
Accumulated impairment losses	(65,260)	(110,736)
	196,376	183,433
Goodwill acquired, net of purchase price adjustments and other	(737)	12,943
Disposals, net of accumulated amortization	(2,437)	-
	193,202	196,376
As of the end of the period		
Goodwill, net of accumulated amortization	230,765	261,636
Accumulated impairment losses	(37,563)	(65,260)
	$ 193,202	$ 196,376

Novant Health reviews long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. During 2015, no impairment charges were recorded as a result of this review. During 2014, $6,219 was recorded as an impairment charge related to amortized intangible assets. This impairment charge was 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 nine healthcare related entities. The Company's ownership interests in the entities range from 9.1% 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		Share of Earnings of Investee	
Investee	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Advanced Services	24%	24%	$ 21,582	$ 19,143	$ 2,439	$ 1,922
Providence Plaza LLC	30%	30%	4,501	4,482	181	170
Rowan Hospice & Palliative Care LLC	50%	50%	1,485	1,625	(140)	(680)
Other	Various	Various	5,678	4,374	(201)	333
			$ 33,246	$ 29,624	$ 2,279	$ 1,745

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

	2015	2014
Assets	$ 152,510	$ 135,622
Liabilities	52,449	46,334
Equity	100,061	89,288
Total revenue	197,689	182,821
Total expenses	187,754	174,934
Net income	9,935	7,887
Novant Health's share of net income	2,279	1,745

(in thousands of dollars)

13. Other Assets

Other assets consist of the following at December 31:

	2015	2014
Notes receivable and other	$ 43,296	$ 30,532
Cash surrender value of insurance policies	19,671	18,406
Pledges receivable	14,234	12,489
Reinsurance receivables	10,645	10,050
Deferred financing costs, net of amortization	9,789	10,676
Prepaid pension costs	4,245	6,242
	$ 101,880	$ 88,395

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:

	2015	2014
Accrued compensation	$ 202,294	$ 215,061
Legal accrual	32,000	-
Payroll taxes and withholdings	14,791	17,499
Interest	12,146	11,845
Postretirement benefit liability	1,305	1,219
Pension liability	217	219
Other accrued liabilities	82,052	90,146
Self-insurance		
Employee medical claims liability	19,324	20,544
Malpractice and workers' compensation liability	18,957	19,123
	$ 383,086	$ 375,656

The legal accrual is discussed further in Note 21, *Commitments and Contingencies*.

(in thousands of dollars)

15. Long-Term Debt

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

	2015	2014
Tax-exempt revenue bonds	$ 1,071,270	$ 1,088,050
Taxable revenue bonds	600,000	600,000
Taxable variable rate demand bonds	57,800	61,800
Total bonds	1,729,070	1,749,850
Capital lease obligations and other notes payable	36,435	51,295
	1,765,505	1,801,145
Unamortized premium or discount, net	15,888	17,562
	1,781,393	1,818,707
Less: Current maturities	(178,347)	(64,790)
	$ 1,603,046	$ 1,753,917

(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:

	2015	2014
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	$ 286,865	$ 293,265
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	135,240	145,620
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
	$ 1,071,270	$ 1,088,050

In 2003, 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 2003 are 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, 2015, Novant Health is in compliance with these bond covenants.

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, 2018. 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 $36,818 and $33,750 of the 2004 bonds as current at December 31, 2015 and 2014, respectively.

(in thousands of dollars)

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.

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 matured in 2014. Proceeds of the 2009A Bonds were used to refinance a portion of the Company’s revolving credit facility in January 2010.

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, 2015 and 2014, the rate of interest on the variable bonds was 0.42% and 0.16% respectively. The irrevocable letter of credit is currently available through November 1, 2018.

Other Long-Term Debt
Other long-term debt consists of a promissory note related to the redemption of a membership interest and various loans and notes on buildings and capital leases, bearing interest at rates ranging from 1.87% to 12.15%.

(in thousands of dollars)

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

Years Ending December 31	
2016	$ 141,529
2017	27,045
2018	30,536
2019	276,906
2020	26,891
Thereafter	1,262,598
	$ 1,765,505

Novant Health capitalized $889 and $1,890 of interest in 2015 and 2014, respectively.

The fair values of Novant Health's bonds are based on a pricing model. At December 31, 2015 and 2014, Novant Health's bonds had an approximate fair value of $1,801,748 and $1,844,831, respectively, as determined on a Level 2 measurement basis.

Short-Term Borrowings and Securities Repurchase Transactions

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, 2015 and 2014, there were no amounts outstanding.

Securities repurchase transactions are conducted by the Company under a standardized securities industry master agreement, amended to suit the specificites of each respective counter-party. These agreements generally provide detail as to the nature of the transaction, including provisions for payment netting, established parameters concerning the ownership and custody of the collateral securities, including the right to substitute collateral during the term of the agreement, and provide for remedies in the event of default by either party. The Company's securities repurchase agreements are accounted for as a secured borrowing and are reported in the consolidated balance sheets as a short-term borrowing. The Company posts collateral in the form of U.S. treasury and agency securities in an amount equal to approximately 98% of the fair value of the securities to be repurchased with maturities ranging between April 2016 and November 2024 at interest rates ranging from 0.33% to 2.65%. At December 31, 2015 and 2014, the fair value amounts outstanding were $86,588 and $83,038, respectively. Interest rates on the outstanding balances at December 31, 2015 ranged from 0.55% to 0.89%. The maturity dates of the agreements generally range from one to four weeks.

(in thousands of dollars)

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 $135,240. 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 $100,000 and $35,240 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, 2015 and 2014, 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 matured on September 1, 2015. 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 paid the counter party a fixed interest rate of approximately 5.6% and received interest at a variable rate equal to LIBOR plus one percent, calculated on the notional amount. The interest rate swap did not qualify for hedge accounting and therefore changes in the fair value of the interest rate swap were recorded in excess of revenues over expenses.

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:

	2015	2014
Interest rate swaps designated as hedged instruments	$ 57,941	$ 60,125
Interest rate swaps not designated as hedged instruments	-	217
Total derivative financial liabilities	$ 57,941	$ 60,342

(in thousands of dollars)

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:

	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	**2015**	**2014**	**2015**	**2014**
Derivatives designated as hedged instruments				
Change in fair value of hedged interest rate swaps	$ 4,140	$ (14,335)	$ -	$ -
Hedge ineffectiveness	-	-	(1,956)	(5,516)
Derivatives not designated as hedged instruments				
Change in fair value of non-hedged interest rate swaps	-	-	217	291
	$ 4,140	$ (14,335)	$ (1,739)	$ (5,225)

16. Employee Benefits and Other Liabilities

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

	2015	2014
Deferred gains	$ 70,197	$ 77,561
Self-insurance malpractice and workers' compensation, net of current portion	55,949	58,951
Employee benefits and other	51,590	40,965
Pension liability, net of current portion	32,734	42,891
Postretirement benefit liability, net of current portion	20,599	22,776
	$ 231,069	$ 243,144

(in thousands of dollars)

17. Income Taxes

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

	2015	2014
Current tax expense		
Federal	$ 3,975	$ 1,875
State	691	441
	4,666	2,316
Deferred tax expense (benefit)		
Federal	467	1,825
State	(888)	(157)
	(421)	1,668
Benefit applied to reduce goodwill	2,777	-
	$ 7,022	$ 3,984

The components of deferred taxes are as follows:

	2015	2014
Deferred tax assets		
Loss carryforwards	$ 38,376	$ 59,517
Deferred charge for intercompany transfer	12,033	13,315
Accounts receivable	5,230	6,036
Other long-term assets	1,401	-
Other	2,185	1,469
Total deferred tax assets	59,225	80,337
Deferred tax liabilities		
Property and equipment	(2,963)	(2,289)
Intangible assets	(11,670)	(21,305)
Other assets	(24)	(22)
Total deferred tax liabilities	(14,657)	(23,616)
Valuation allowance	(41,100)	(53,675)
Net deferred tax asset	$ 3,468	$ 3,046

(in thousands of dollars)

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, 2015, management has determined that based on all available evidence, a valuation allowance of $41,100 is appropriate.

As of December 31, 2015, the Company had approximately $97,432 of federal and $66,530 of state loss carryforwards available to reduce taxable income. The loss carryforwards expire through 2035.

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

	2015	2014
Federal taxes	$ 4,442	$ 3,700
State income taxes	(197)	284
Other- benefit applied to reduce goodwill	2,777	-
Income tax expense	$ 7,022	$ 3,984

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, 2015 and 2014.

(in thousands of dollars)

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 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.

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	
	2015	**2014**	**2015**	**2014**
Change in benefit obligations				
Projected benefit obligation at beginning of year	$ 374,403	$ 312,999	$ 23,995	$ 20,444
Service cost	1,147	1,150	147	169
Interest cost	13,768	14,275	828	893
Actuarial loss (gain)	(2,243)	(174)	(2,328)	3,702
Assumption change	(33,023)	62,512	-	-
Settlements	(3,484)	(2,767)	-	-
Benefits paid	(14,088)	(13,592)	(830)	(1,283)
Employee contributions	-	-	92	70
Projected benefit obligation at end of year	$ 336,480	$ 374,403	$ 21,904	$ 23,995

(in thousands of dollars)

The assumption change for 2015 is primarily a result of changes in the discount rate and a modification of the new mortality table that was adopted in 2014. The assumption change for 2014 is primarily a result of changes in the discount rate and adoption of a new mortality table. The settlement charges above are payments made to employees as the result of lump sum benefit payouts from the Prince William Plan.

Weighted-Average Assumptions Used to Determine End of Year Benefit Obligations	Defined Benefit Plans 2015	Defined Benefit Plans 2014	Postretirement Healthcare Benefit Plans 2015	Postretirement Healthcare Benefit Plans 2014
Discount rate	2.65% - 4.44%	2.70% - 3.82%	3.70% - 4.05%	0.70% - 3.75%
Rate of compensation increase[1]	5.00%	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	10.0% in 2016, grading to 5.0% in 2025	7.5% in 2015, 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, 2015 and 2014.

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, 2015.

Plan Assets

	Defined Benefit Plans 2015	Defined Benefit Plans 2014	Postretirement Healthcare Benefit Plans 2015	Postretirement Healthcare Benefit Plans 2014
Change in plan assets				
Fair value of plan assets at beginning of year	$ 337,535	$ 269,560	$ -	$ -
Actual return on plan assets	(11,836)	40,371	-	-
Employer contributions	177	45,061	738	1,213
Employee contributions	-	-	92	70
Settlements	(3,484)	(2,767)	-	-
Benefits paid	(14,088)	(13,592)	(830)	(1,283)
Plan expenses	(530)	(1,098)	-	-
Fair value of plan assets at end of year	$ 307,774	$ 337,535	$ -	$ -

The Company's primary investment objective for the defined benefit plans ("the Plans") is to invest the plan assets so that they will generate sufficient cash flows needed to fund future payments as they come due. The Plans' primary holdings are in fixed income mutual funds that are diversified by issuer and maturity. The Plans also hold equity mutual funds that are diversified by geography, capitalization, style and investment manager. 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 plan assets to be in compliance with the Company's primary investment objective.

(in thousands of dollars)

Novant Health's pension plan asset allocation and target allocation at December 31, 2015 by asset category are as follows:

	Target Range	Percentage of Plan Assets at December 31, 2015
Asset Category		
Debt securities	70–100%	81.8%
Equity securities	0–30%	18.1%
Cash and other	0–4%	0.1%
		100.0%

The fair values of the Company's plan assets at December 31, 2015, 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	$ -	$ 31,371	$ -	$ 31,371
Developed non-U.S. equity	-	19,451	-	19,451
Emerging markets equity	-	4,761	-	4,761
Fixed income securities				
U.S. fixed income	-	251,731	-	251,731
Cash and other	-	460	-	460
Total fair value of the Company's plan assets	$ -	$ 307,774	$ -	$ 307,774

(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
Cash and other	-	4,980	-	4,980
Total fair value of the Company's plan assets	$ -	$ 337,535	$ -	$ 337,535

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	
	2015	**2014**	**2015**	**2014**
End of Year				
Fair value of plan assets at end of year	$ 307,774	$ 337,535	$ -	$ -
Benefit obligation at end of year	336,480	374,403	21,904	23,995
Funded status	$ (28,706)	$ (36,868)	$ (21,904)	$ (23,995)
Amount recognized in the balance sheets				
Prepaid benefit cost at measurement date	$ 52,366	$ 65,339	$ -	$ -
Accrued benefit cost	(2,836)	(2,971)	(21,904)	(23,995)
Change in unrestricted net assets	(78,236)	(99,236)	-	-
Net liability recognized	$ (28,706)	$ (36,868)	$ (21,904)	$ (23,995)
Amounts recognized in unrestricted net assets				
Prior service cost	$ 2,030	$ 2,525	$ -	$ -
Net actuarial loss	76,206	96,711	705	3,220
	$ 78,236	$ 99,236	$ 705	$ 3,220
Other changes in plan assets and benefit obligations				
Net loss (gain)	$ (20,584)	$ 35,696	$ (2,328)	$ 3,702
Amortization of net loss (gain)	81	102	(189)	69
Amortization of prior service cost (credit)	(494)	(497)	-	38
Total recognized in unrestricted net assets	$ (20,997)	$ 35,301	$ (2,517)	$ 3,809

(in thousands of dollars)

At the end of 2015 and 2014, 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	2015	2014
Projected benefit obligation	$ 336,480	$ 374,403
Accumulated benefit obligation	325,349	359,666
Fair value of plan assets	307,774	337,535

Cash Flows

The Company does not plan to make any contributions to its defined benefit pension plans in 2016. The Company expects to make contributions to the supplemental retirement income plans of approximately $3,299 for the 2016 fiscal year.

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

Expected Benefit Payments	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
2016	$ 15,330	$ 1,305
2017	16,011	1,054
2018	16,590	1,099
2019	17,203	1,147
2020	17,795	1,192
2021–2025	99,925	6,430

Net periodic benefit cost	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2015	2014	2015	2014
Service cost	$ 1,147	$ 1,150	$ 147	$ 169
Interest cost	13,768	14,275	828	893
Estimated return on plan assets	(12,414)	(17,893)	-	-
Amortization of prior service cost (credit)	494	497	-	(38)
Recognized net actuarial loss (gain)	9,019	4,423	189	(69)
Settlements	1,000	737	-	-
Net periodic benefit cost	$ 13,014	$ 3,189	$ 1,164	$ 955
Total recognized in net periodic benefit cost and unrestricted net assets	$ (7,983)	$ 38,490	$ (1,353)	$ 4,764

(in thousands of dollars)

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost during the year ending December 31, 2016 are as follows:

	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
Actuarial net loss	$ 4,382	$ -
Prior service cost	491	-

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

	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2015	2014	2015	2014
Discount rate	2.70% - 3.82%	3.35% - 4.75%	3.50% - 3.75%	0.60% - 4.60%
Expected return on plan assets	4.00%	6.00%	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	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, 2015 and 2014.

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, 2015.

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 $62,205 and $57,235 in 2015 and 2014, 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 $216,097 in 2015 and $199,843 in 2014.

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, 2015 and 2014.

(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, 2014	$ 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
Excess of revenues over expenses	191,578	189,371	2,207
Change in funded status of defined benefit plans	23,514	23,514	-
Unrealized gain on derivative financial instruments	4,140	4,140	-
Other changes in unrestricted net assets	1,017	471	546
Balance at December 31, 2015	$ 2,834,030	$ 2,820,367	$ 13,663

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, 2015 and 2014, based on historical loss payment patterns. This resulted in a present value of $74,906 and $78,074 at December 31, 2015 and 2014, respectively, and represented a discount of $6,740 and $7,007 in 2015 and 2014, respectively. Expenses related to these plans amounted to $14,858 and $20,081 in 2015 and 2014, 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. Management has determined that a loss is probable and has recorded a reserve of $32,000 to estimate the Company's exposure to loss related to this claim as of December 31, 2015. This current loss reserve is reported within accrued liabilities in the consolidated balance sheets and as salaries and employee benefits expense in the consolidated statements of operations and changes in net assets. Actual losses may differ from management's estimates by material amounts.

22. Operating Leases

Certain operating properties and equipment are leased under noncancelable operating leases. Total rental expense under operating leases was $84,325 and $84,554 in 2015 and 2014, respectively. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows:

Years Ending December 31	
2016	$ 82,839
2017	69,463
2018	57,743
2019	42,372
2020	34,437
Thereafter	105,500
	$ 392,354

(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 $1,165 and $1,144 in 2015 and 2014, respectively. The future rental income related to the ground leases are as follows:

Years Ending December 31	
2016	$ 1,186
2017	1,207
2018	1,241
2019	1,263
2020	1,286
Thereafter	87,879
	$ 94,062

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:

	2015	**2014**
Medicare	26.3%	30.6%
Medicaid	5.5%	7.6%
Other third-party payors	56.9%	53.0%
Patients	11.3%	8.8%
	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.

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:

	2015	**2014**
Health care services	$ 2,752,587	$ 2,618,282
General and administrative	1,117,026	1,002,727
	$ 3,869,613	$ 3,621,009

(in thousands of dollars)

25. Subsequent Events

Effective January 1, 2016, Novant Health and The Rector and Visitors of the University of Virginia on behalf of its Medical Center ("UVAMC") entered into an integration and joint operating agreement (the "Integration Agreement"). The Integration Agreement provides for the creation of a regional healthcare alliance through the creation of a new not-for-profit corporation, Novant Health UVA Health System. Novant Health and UVAMC are the sole members of Novant Health UVA Health System. Novant Health agreed to exchange its sole membership in Prince William Health System for a 60% membership interest in Novant Health UVA Health System. UVAMC agreed to exchange its sole membership in Culpeper Memorial Hospital for a 40% membership interest in Novant Health UVA Health System.

Novant Health will recognize the fair value of Culpeper Memorial Hospital and its subsidiaries ("CMH") in its consolidated balance sheets and will include the operations of Novant Health UVA Health System in its consolidated statements of operations and changes in net assets beginning January 1, 2016. As of March 28, 2016, the fair value of the net assets of CMH had not been finalized.

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through March 28, 2016, 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 was effective for Novant Health on January 1, 2015 and requires modified retrospective application. The adoption of this guidance did not have an impact on Novant Health's consolidated financial statements.

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 was effective on a prospective basis for Novant Health beginning January 1, 2015. As it is effective prospectively, the adoption of this guidance did not have a significant impact on Novant Health's consolidated financial statements, however actions that may have qualified for presentation as discontinued operations in the past may not qualify for such presentation under the provisions of this new guidance.

(in thousands of dollars)

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. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-9. The guidance in ASU 2014-9 is effective for Novant Health beginning January 1, 2018 with comparative presentation of all prior years presented. Early adoption is permitted only as of the original effective date of January 1, 2017. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements, including the impact of additional clarifying guidance that has not yet been finalized.

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 was effective for Novant Health on January 1, 2016. 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. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-3, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that liability, consistent with debt discounts. This guidance was effective for Novant Health on January 1, 2016 with retrospective presentation required. As this guidance does not change the recognition or measurement of debt issuance costs, the adoption of this guidance is not expected to have a significant impact on Novant Health's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-5*, Intangibles- Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* This amendment provides guidance about whether a cloud computing arrangement includes a software license. This guidance was applicable to Novant Health beginning January 1, 2016 and is not expected to have a significant impact on Novant Health's consolidated financial statements.

(in thousands of dollars)

In May 2015, the FASB issued ASU 2015-7, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent).* This guidance removes the requirement to categorize investments for which fair value is measured using net asset value per share in the fair value hierarchy and limits certain required disclosures to those for which the fair value is being measured using the net asset value per share practical expedient. Novant Health elected to adopt this guidance as of January 1, 2015 and to apply the guidance retrospectively. The adoption of this guidance did not have a significant impact on Novant Health's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This guidance changes the measurement of inventory to which certain methods of inventory costing are being applied. Rather than being measured at the lower of cost or market, the guidance has been simplified to measure inventory at the lower of cost or net realizable value. This guidance is effective for Novant Health beginning January 1, 2017 with prospective application. The adoption of this guidance is not expected to have a significant impact on Novant Health's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16*, Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments.* This guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined with separate presentation of the portion of the amount recorded in current period earnings that would have been recorded in previous reporting periods if the adjustments to the provisional amounts had been recognized as of the requisition date. This guidance was effective for Novant Health on January 1, 2016 with prospective application. The adoption of this guidance is not expected to have a significant impact on Novant Health's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes.* This guidance removes the requirement that deferred tax liabilities be separated into current and noncurrent amounts on a classified balance sheet. Instead, deferred tax liabilities and assets are presented as noncurrent. This guidance is effective for Novant Health on January 1, 2017 and is not expected to have a significant impact on Novant Health's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-1, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This guidance supersedes the guidance to classify equity securities with readily determinable fair values into different categories, and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. This guidance allows equity investments without readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment and requires additional disclosures regarding these investments. This guidance is effective for Novant Health on January 1, 2019. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements.

(in thousands of dollars)

In February 2016, the FASB issued ASU 2016-2, *Leases (Topic 842)*. This guidance is effective for Novant Health on January 1, 2019. The most significant change from current practice is that this guidance requires the recognition of lease assets and liabilities for those leases classified as operating leases under current guidance. The guidance also provides guidance for the measurement of lease assets and liabilities and additional required disclosures. This guidance is effective for Novant Health on January 1, 2019 with modified retrospective presentation required. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-5, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. This guidance clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship, provided that all other hedge accounting criteria continue to be met. This guidance is effective for Novant Health on January 1, 2017 and may be applied prospectively or a modified retrospective basis. The adoption of this guidance is not expected to have a significant impact on Novant Health's consolidated financial statements.

Other Financial Information

Independent Auditor's Report
on Supplementary Information

To the Board of Trustees of
Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. Affiliates as of December 31, 2015 and 2014 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 consolidated financial statements taken as a whole. The Schedule of Cost of Community Benefit Programs as of December 31, 2015 and 2014 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 28, 2016

Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs
December 31, 2015 and 2014

(in thousands of dollars)

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

	2015	2014
Traditional charity care	$ 125,317	$ 135,293
Unpaid cost of Medicare	389,186	341,168
Unpaid cost of Medicaid	105,417	96,830
Community benefit programs	86,412	65,887
	$ 706,332	$ 639,178

As discussed in Note 2 in the accompanying financial statements, Novant Health received supplemental Medicaid payments during 2014 and 2015 which are included in the community benefit amounts for each year.

Independent Auditor's Report
on Supplementary Consolidating Information

To the Board of Trustees of
Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. and Affiliates as of December 31, 2015 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 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 28, 2016

Novant Health, Inc. and Affiliates
Consolidating Balance Sheet
December 31, 2015

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 302,757	$ 51,646	$ -	$ 354,403
Accounts receivable, net of allowance for doubtful accounts	387,753	44,759	-	432,512
Short-term investments	465,715	57	-	465,772
Current portion of assets limited as to use	195	13,541	-	13,736
Deferred tax asset	-	7,311	-	7,311
Receivable for settlement with third-party payors	10,181	418	-	10,599
Other current assets	150,285	20,465	(60)	170,690
Total current assets	1,316,886	138,197	(60)	1,455,023
Assets limited as to use	7,186	39,508	-	46,694
Long-term investments	1,533,438	273,161	-	1,806,599
Property and equipment, net	1,600,051	254,051	-	1,854,102
Intangible assets and goodwill, net	61,165	247,050	-	308,215
Investments in affiliates	83,525	7,872	(58,151)	33,246
Other assets	81,612	22,541	(2,273)	101,880
Total assets	$4,683,863	$ 982,380	$ (60,484)	$ 5,605,759
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 161,473	$ 16,874	$ -	$ 178,347
Short-term borrowings	86,594	191	-	86,785
Accounts payable	140,906	7,683	(60)	148,529
Accrued liabilities	334,921	50,438	(2,273)	383,086
Estimated third-party payor settlements	22,310	2,034	-	24,344
Due to (from) related organizations	(481,753)	481,753	-	-
Total current liabilities	264,451	558,973	(2,333)	821,091
Long-term debt, net of current portion	1,586,516	16,530	-	1,603,046
Deferred tax liability	-	3,843	-	3,843
Derivative financial instruments	57,941	-	-	57,941
Employee benefits and other liabilities	176,728	54,341	-	231,069
Total liabilities	2,085,636	633,687	(2,333)	2,716,990
Net assets				
Unrestricted-attributable to Novant	2,596,038	290,441	(66,112)	2,820,367
Unrestricted- noncontrolling interests	-	5,702	7,961	13,663
Temporarily restricted	2,189	41,569	-	43,758
Permanently restricted	-	10,981	-	10,981
Total net assets	2,598,227	348,693	(58,151)	2,888,769
Total liabilities and net assets	$4,683,863	$ 982,380	$ (60,484)	$ 5,605,759

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Consolidating Statement of Operations
Year Ended December 31, 2015

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Operating revenues				
Net patient service revenue	$ 3,600,703	$ 460,540	$ -	$ 4,061,243
Provision for bad debts	(171,686)	(24,272)	-	(195,958)
Net patient service revenues less provision for bad debts	3,429,017	436,268	-	3,865,285
Premium revenue	-	3,065	-	3,065
Other revenue	184,778	90,882	(16,009)	259,651
Total operating revenues	3,613,795	530,215	(16,009)	4,128,001
Operating expenses				
Salaries and employee benefits	1,939,143	219,722	(5,733)	2,153,132
Supplies and other	1,178,550	236,828	(9,523)	1,405,855
Depreciation expense	171,432	38,415	-	209,847
Amortization expense	793	3,742	-	4,535
Impairment charge	-	8,572	-	8,572
Interest expense	62,470	25,202	-	87,672
Total operating expenses	3,352,388	532,481	(15,256)	3,869,613
Operating income (loss)	261,407	(2,266)	(753)	258,388
Non-operating income (expense)				
Investment income (loss)	(55,590)	(5,326)	877	(60,039)
Unrealized gains on non-hedged derivative financial instruments	-	217	-	217
Income tax expense	(3,756)	(3,266)	-	(7,022)
Other, net	(1)	35	-	34
Excess (deficit) of revenues over expenses	$ 202,060	$ (10,606)	$ 124	$ 191,578

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Balance Sheet
December 31, 2015

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Assets				
Current assets				
Cash and cash equivalents	$ 279,567	$ 23,190	$ -	$ 302,757
Accounts receivable, net of allowance for doubtful accounts	257,232	130,521	-	387,753
Short-term investments	465,715	-	-	465,715
Current portion of assets limited as to use	195	-	-	195
Receivable for settlement with third-party payors	7,983	2,198	-	10,181
Other current assets	124,802	25,483	-	150,285
Total current assets	1,135,494	181,392	-	1,316,886
Assets limited as to use	6,479	707	-	7,186
Long-term investments	1,533,438	-	-	1,533,438
Property and equipment, net	1,160,728	439,323	-	1,600,051
Intangible assets and goodwill, net	49,243	11,922	-	61,165
Investments in affiliates	162,592	7,587	(86,654)	83,525
Other assets	217,806	(136,194)	-	81,612
Total assets	$ 4,265,780	$ 504,737	$ (86,654)	$ 4,683,863
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 161,473	$ -	$ -	$ 161,473
Short-term borrowings	86,594	-	-	86,594
Accounts payable	127,190	13,716	-	140,906
Accrued liabilities	252,743	82,178	-	334,921
Estimated third-party payor settlements	17,857	4,453	-	22,310
Due to (from) related organizations	(561,020)	79,267	-	(481,753)
Total current liabilities	84,837	179,614	-	264,451
Long-term debt, net of current portion	1,586,516	-	-	1,586,516
Derivative financial instruments	57,941	-	-	57,941
Employee benefits and other liabilities	156,266	20,462	-	176,728
Total liabilities	1,885,560	200,076	-	2,085,636
Net assets				
Unrestricted	2,380,209	302,483	(86,654)	2,596,038
Temporarily restricted	11	2,178	-	2,189
Total net assets	2,380,220	304,661	(86,654)	2,598,227
Total liabilities and net assets	$ 4,265,780	$ 504,737	$ (86,654)	$ 4,683,863

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Statement of Operations
Year Ended December 31, 2015

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Operating revenues				
Net patient service revenue	$ 2,257,167	$1,343,536	$ -	$ 3,600,703
Provision for bad debts	(87,915)	(83,771)	-	(171,686)
Net patient service revenues less provision for bad debts	2,169,252	1,259,765	-	3,429,017
Other revenue	155,731	29,916	(869)	184,778
Total operating revenues	2,324,983	1,289,681	(869)	3,613,795
Operating expenses				
Salaries and employee benefits	1,135,734	803,409	-	1,939,143
Supplies and other	777,060	402,359	(869)	1,178,550
Depreciation expense	112,155	59,277	-	171,432
Amortization expense	624	169	-	793
Interest expense	44,983	17,487	-	62,470
Total operating expenses	2,070,556	1,282,701	(869)	3,352,388
Operating income	254,427	6,980	-	261,407
Non-operating income (expense)				
Investment loss	(51,155)	(4,435)	-	(55,590)
Income tax expense	(3,753)	(3)	-	(3,756)
Other, net	(1)	-	-	(1)
Excess of revenues over expenses	$ 199,518	$ 2,542	$ -	$ 202,060

See accompanying notes to consolidating supplemental schedules.

1. Consolidated Financial Statements Reporting Entity

Novant Health, Inc. (“Novant Health” or the “Company”) is a nonprofit, integrated health care network of physician clinics, outpatient centers and hospitals that serves patients and communities in North Carolina, Virginia and South Carolina. Novant Health consists of nearly 1,400 physicians and 24,000 employees at approximately 500 locations, including 13 medical centers and hundreds of outpatient facilities and physician clinics. Headquartered in Winston-Salem, North Carolina, Novant Health is committed to making healthcare remarkable for patients and communities, serving more than 4 million patients annually. 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.

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 Health 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.