Novant Health, Inc.
and Affiliates

Consolidated Financial Statements and Supplemental Information
December 31, 2018 and 2017

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Report of Independent Auditors

To the Board of Trustees of
Novant Health, Inc.

We have audited the accompanying consolidated financial statements of Novant Health, Inc. and Affiliates (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, 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.

Auditors' 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, 2018 and 2017, and the results of their operations, their 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 29, 2019

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

Novant Health, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2018 and 2017

(in thousands of dollars)	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 228,653	$ 408,698
Accounts receivable, net	570,074	518,502
Short-term investments	485,452	300,071
Current portion of assets limited as to use	20,896	18,713
Receivable for settlement with third-party payors	13,240	21,232
Other current assets	201,183	197,048
Total current assets	1,519,498	1,464,264
Assets limited as to use	180,031	181,140
Long-term investments	2,156,877	2,314,684
Property and equipment, net	2,173,021	2,018,908
Intangible assets and goodwill, net	323,091	325,916
Investments in affiliates	50,083	43,476
Deferred tax asset	10,725	4,594
Other assets	109,231	111,089
Total assets	$ 6,522,557	$ 6,464,071
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 305,095	$ 67,609
Short-term borrowings	87,558	88,049
Accounts payable	210,925	194,738
Accrued liabilities	400,144	414,351
Estimated third-party payor settlements	35,547	39,706
Total current liabilities	1,039,269	804,453
Long-term debt, net of current portion	1,060,877	1,343,676
Deferred tax liability	5,928	1,158
Derivative financial instruments	36,370	44,832
Employee benefits and other liabilities	341,213	340,074
Total liabilities	2,483,657	2,534,193
Commitments and contingencies		
Net assets		
Without donor restrictions - attributable to Novant Health	3,877,651	3,778,254
Without donor restrictions - noncontrolling interests	83,716	77,639
Total net assets without donor restrictions	3,961,367	3,855,893
With donor restrictions	77,533	73,985
Total net assets	4,038,900	3,929,878
Total liabilities and net assets	$ 6,522,557	$ 6,464,071

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, 2018 and 2017

(in thousands of dollars)	2018	2017
Operating revenues		
Net patient service revenues	$ 4,697,425	$ 4,319,314
Other revenue	288,451	276,078
Total operating revenues	4,985,876	4,595,392
Operating expenses		
Salaries and employee benefits	2,736,346	2,543,037
Supplies and other	1,657,375	1,568,236
Depreciation expense	246,780	237,957
Amortization expense	2,854	3,004
Interest expense	70,318	68,719
Total operating expenses	4,713,673	4,420,953
Operating income	272,203	174,439
Non-operating (expense) income		
Investment (loss) income	(160,509)	307,847
Income tax benefit (expense)	530	(3,028)
Other net periodic pension costs	(18,212)	(1,388)
Excess of revenues over expenses	$ 94,012	$ 477,870
Other changes in net assets without donor restrictions		
Change in funded status of defined benefit plans	3,064	(739)
Unrealized gain on derivative financial instruments	9,787	7,330
Purchase of noncontrolling interest	-	(9,800)
Other changes in net assets without donor restrictions	(1,389)	(7,057)
Increase in net assets without donor restrictions	105,474	467,604
Net assets with donor restrictions		
Contributions and investment income	12,246	20,568
Net assets released from restrictions for operations	(8,698)	(6,631)
Increase in net assets with donor restrictions	3,548	13,937
Increase in total net assets	109,022	481,541
Net assets, beginning of year	3,929,878	3,448,337
Net assets, end of year	$ 4,038,900	$ 3,929,878

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, 2018 and 2017

(in thousands of dollars)

	2018	2017
Cash flows from operating activities		
Increase in net assets	$ 109,022	$ 481,541
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	249,739	244,278
Gain on sale of real estate	(3,534)	(3,997)
Actuarial loss on pension and postretirement benefits	19,063	684
Change in funded status of defined benefit plans	(3,064)	739
Share of earnings in affiliates, net of distributions	(12,599)	(1,688)
Net realized and unrealized losses (gains) on assets limited as to use and investments	203,400	(282,612)
Change in fair value of interest rate swaps	(8,462)	(5,473)
Contributions restricted for capital	(6,296)	(10,288)
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed		
Accounts receivable	(88,370)	(32,589)
Accounts payable and accrued liabilities	(8,168)	74,560
Deferred taxes, net	(1,361)	(1,595)
Other assets and liabilities, net	(14,140)	(6,702)
Net cash provided by operating activities	435,230	456,858
Cash flows from investing activities		
Capital expenditures	(390,843)	(286,213)
Proceeds from sales of long-term investments	1,516,947	1,548,043
Purchase of long-term investments	(1,549,561)	(1,582,752)
Proceeds from sales of short-term investments	680,178	495,034
Purchase of short-term investments	(863,874)	(534,421)
Proceeds from sale of property and equipment	6,594	5,535
Investments in unconsolidated affiliates	(1,519)	(8,898)
Other investing activities	(2,659)	(4,524)
Net cash used in investing activities	(604,737)	(368,196)
Cash flows from financing activities		
Principal payments on long-term debt	(82,832)	(141,650)
Proceeds from issuance of bonds, net of deferred issuance costs	-	113,235
Proceeds from sale of accounts receivable, net	37,788	34,333
Cash (payments on) proceeds from repurchase agreements, net	(483)	4,513
Cash proceeds from revolving credit facility	31,500	49,000
Cash paid for consolidated entities	-	(9,800)
Other financing activities	3,489	9,417
Net cash (used in) provided by financing activities	(10,538)	59,048
Net (decrease) increase in cash and cash equivalents	(180,045)	147,710
Cash and cash equivalents		
Beginning of year	408,698	260,988
End of year	$ 228,653	$ 408,698

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, 2018 and 2017

(in thousands of dollars)

		2018		2017
Supplemental disclosure of cash flow information				
Interest paid	$	73,474	$	69,914
Income taxes paid		1,635		5,988
Supplemental disclosure of noncash operating activities				
Settlement of patient receivables and other liabilities		204		475
Supplemental disclosure of noncash financing and investing activities				
Property and equipment financed through current liabilities		58,778		50,150
Contribution of business		14,600		-

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 over 1,500 physicians and 28,000 team members at over 500 locations, including 15 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 5 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 price concessions, 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 7, *Fair Value Measurements*.

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

(in thousands of dollars)

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 recording appropriate price concessions. Amounts the Company receives for treatment of patients covered by governmental programs and third-party payors as well as directly from patients are subject to both explicit and implicit price concessions. The Company estimates these price concessions using contractual agreements, discount policies, and historical experience. Novant Health records price concessions in the period of service based on the analysis and consideration of these factors.

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 primarily 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 and private equity 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.

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 and assets designated for specific purposes by the Board of Trustees.

(in thousands of dollars)

Derivatives

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

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 highly effective, the change in fair value is recorded as an other change in net assets without donor restrictions. 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.

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

(in thousands of dollars)

Under the terms of the 1984 deed in which the Forsyth County Board of County Commissioners conveyed the assets of Forsyth Memorial Hospital (the “Hospital”) to Novant 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 $221,940 at December 31, 2018.

Gifts of long-lived assets such as land, buildings, or equipment are excluded from 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, insurance receivables, prepaid pension costs and the cash surrender value of insurance policies.

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.

Pension and Postretirement Benefit Plans
Our defined benefit plans are measured using actuarial techniques that reflect management's assumptions for discount rate, investment returns on plan assets, salary increases, expected retirement, mortality, employee turnover and future increases in healthcare costs. We determine the discount rate (which is required to be the rate at which the projected benefit obligation could be effectively settled as of the measurement date) with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better) with cash flows that are designed to match our expected benefit payments in future years. Our expected rate of return is a judgmental matter which is reviewed on an annual basis and revised as appropriate.

The accounting guidance related to employers' accounting for defined benefit pension and other postretirement plans requires recognition in the balance sheet of the funded status of these plans. We use mark-to-market ("MTM") accounting and immediately recognize changes in the fair value of plan assets and actuarial gains or losses in our operating results annually in the fourth quarter. The remaining components of pension and postretirement healthcare expense, primarily service and interest costs and the expected return on plan assets, are recorded on a quarterly basis.

(in thousands of dollars)

Self-Insurance Reserves

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

Net Assets

Net assets without donor restrictions include undesignated amounts as well as amounts designated by the board for a specific purpose. Net assets with donor restrictions are held by related foundations and consist primarily of amounts contributed to foundations by donors with purpose restrictions. The Company also has net assets with donor restrictions that are perpetual in nature. Earnings on these assets are available for use as specified by the donors.

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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions 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 net assets without donor restrictions 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 (loss) income, income tax benefit (expense) and other net periodic pension costs.

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. 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 2018, Novant Health received $138,733 and paid $69,754 for the GAP program. During 2017, Novant Health received $156,623 and paid $75,518 for the GAP program.

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses include changes in funded status of defined benefit plans, purchase of noncontrolling interest and unrealized gains on derivative financial instruments that apply hedge accounting.

(in thousands of dollars)

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

Income Taxes
Novant Health is classified as a nonprofit organization pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on revenue earned from its tax-exempt purposes. Novant Health also operates various for-profit subsidiaries which operate in service lines that are complimentary to the Company's tax-exempt purpose. Income from activities that are determined by IRS regulations to be unrelated to the tax-exempt purposes as well as income from activities of for-profit subsidiaries of the Company are subject to federal and state taxation.

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

Recently Adopted Accounting Pronouncement
Beginning in May 2014, the Financial Accounting Standards Board ("FASB") issued several Accounting Standards Updates which established Topic 606, *Revenue from Contracts with Customers* (the "standard"). This standard supersedes existing revenue recognition requirements and seeks to eliminate most industry-specific guidance under current GAAP. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

(in thousands of dollars)

The Company adopted the new standard on January 1, 2018, using the full retrospective transition method. Adoption of the standard impacted Novant Health's reported results as follows:

	Year Ended December 31, 2017		
	As Reported	**As Adjusted**	**Adoption Impact**
Consolidated Statement of Operations and Changes in Net Assets			
Net patient services revenues	$ 4,532,188	$ 4,319,314	$ (212,874)
Provision for bad debts	(212,874)	-	212,874
Consolidated Statement of Cash Flows			
Provision for bad debts	212,874	-	(212,874)
Change in accounts receivable	(245,463)	(32,589)	212,874

Adoption of the standard had no impact on the Company's 2017 opening net assets. This new standard requires new disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The applicable disclosures are included in this footnote.

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Novant Health expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. Generally, the Company bills the patient and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Company. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Novant Health believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. The Company measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Company does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Company has elected to apply the practical expedient provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

(in thousands of dollars)

Novant Health determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Novant Health's policies, and/or implicit price concessions provided to uninsured patients. The Company determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Company determines its estimate of implicit price concessions based on historical collection experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. For services provided under Medicare and Medicaid programs, 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. Physician services are paid based upon established fee schedules. 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. Payment arrangements with commercial insurance carriers include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Novant Health's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Company. In addition, the contracts the Company has with commercial payors also provide for retroactive audit and review of claims.

Cost report settlements under reimbursement agreements with Medicare and Medicaid for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Company's historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates will changes by a material amount in the near term. Adjustments arising from a change in the transaction price were not significant in 2018 and 2017.

(in thousands of dollars)

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Novant Health also provides services to uninsured patients. The transaction price for both uninsured patients as well as insured patients with deductibles and coinsurance is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2018 and 2017, additional revenue of $49,800 and $21,500, respectively, was recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the results of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense is reported as a component of supplies and other in the consolidated statements of operations and changes in net assets and was not significant for the years ended December 31, 2018 and 2017.

The composition of net patient service revenues by payor and type of service is as follows:

	December 31, 2018		
	Acute Care Facilities	Outpatient Locations	Total
Medicare	$ 973,440	$ 404,555	$ 1,377,995
Medicaid	320,627	68,735	389,362
Managed care	1,815,581	918,141	2,733,722
Other	110,135	34,684	144,819
Self pay	19,259	32,268	51,527
Total	$ 3,239,042	$ 1,458,383	$ 4,697,425

	December 31, 2017		
	Acute Care Facilities	Outpatient Locations	Total
Medicare	$ 864,254	$ 370,413	$ 1,234,667
Medicaid	337,420	64,855	402,275
Managed care	1,660,734	849,536	2,510,270
Other	99,412	34,462	133,874
Self pay	11,419	26,809	38,228
Total	$ 2,973,239	$ 1,346,075	$ 4,319,314

Novant Health has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Company's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Company does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

(in thousands of dollars)

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, the Company 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, 2018, the factored notes and the related liabilities were $49,017 and $61,545, respectively. As of December 31, 2017, the factored notes and the related liabilities were $43,653 and $55,191, respectively.

Other Revenue
In addition to patient service revenue, Novant Health also recognizes revenue related to other, non-patient related transactions. These transactions primarily include retail pharmacy revenue, revenue from management services agreements, revenue from pay-for-performance contracts, and rental income. Revenue from these transactions is recognized when obligations under the terms of the respective contract are satisfied. Revenue from these transactions is measured as the amount of consideration the Company expects to receive from those services. The Company recognizes rental income on a straight-line basis over the lease term in accordance with ASC 840-10, *Leases*.

4. 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 $154,698 and $138,927 for the years ended December 31, 2018 and 2017, 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 $1,940 and $2,270 for the years ended December 31, 2018 and 2017, 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, which 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, which 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, which represents the unpaid cost of services provided to persons covered by the government program for medically indigent patients.

(in thousands of dollars)

- Community benefit programs consist 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.

5. Other Current Assets

Other current assets consist of the following at December 31:

	2018	2017
Inventory	$ 94,320	$ 90,869
Prepaids	43,761	45,217
Other receivables	63,102	60,962
	$ 201,183	$ 197,048

6. 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:

	2018	2017
Certificates of deposit	$ 10,364	$ 10,218
Fixed income - government securities	475,088	289,853
	$ 485,452	$ 300,071

Assets Limited as to Use
The designation of assets limited as to use is as follows:

	2018		2017	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Under general and professional liability funding arrangement held by trustee	$ 11,419	$ 44,956	$ 12,229	$ 43,613
Designated by board to service benefit plans	9,477	135,075	6,484	137,527
	$ 20,896	$ 180,031	$ 18,713	$ 181,140

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

(in thousands of dollars)

Long-Term Investments

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

	December 31, 2018			
	At Fair Value	On Equity Method	At NAV	Total
Cash and cash equivalents	$ 64,697	$ -	$ -	$ 64,697
U.S. equities	492,205	25,553	123,693	641,451
International equities	302,876	-	114,562	417,438
Fixed income - government securities	201,336	-	-	201,336
Fixed income - corporate and other	11,213	65,826	-	77,039
Hedge funds	-	372,776	-	372,776
Private equity	-	36,009	-	36,009
Emerging markets	5,015	-	151,769	156,784
Real estate and other	20,009	169,338	-	189,347
	$ 1,097,351	$ 669,502	$ 390,024	$ 2,156,877

	December 31, 2017			
	At Fair Value	On Equity Method	At NAV	Total
Cash and cash equivalents	$ 125,777	$ -	$ -	$ 125,777
U.S. equities	491,394	30,572	207,130	729,096
International equities	330,348	60,604	159,147	550,099
Fixed income - government securities	189,197	-	-	189,197
Fixed income - corporate and other	12,736	56,682	10,149	79,567
Hedge funds	-	314,661	-	314,661
Private equity	-	6,198	-	6,198
Emerging markets	1,435	-	163,166	164,601
Real estate and other	46,213	109,275	-	155,488
	$ 1,197,100	$ 577,992	$ 539,592	$ 2,314,684

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.

(in thousands of dollars)

The Company's investments in hedge funds include limited partnerships, limited liability corporations, and off-shore investment funds. The underlying investments of the limited partnerships and limited liability corporations include, among others, futures and forward contracts, options, and securities sold short, 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) and are less liquid than the Company's other investments.

The Company's investments in hedge funds represent 17.3% and 13.6% of total long-term investments held at December 31, 2018 and 2017, 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, 2018 and 2017, Novant Health had future commitments of $196,031 and $121,952, respectively, for which capital calls had not been exercised.

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

	2018	2017
Income (loss)		
Interest and dividend income	$ 42,891	$ 25,235
Net realized gains	123,142	111,997
Net unrealized (losses) gains	(326,542)	170,615
	$ (160,509)	$ 307,847

Investment income is shown net of related expenses on the consolidated statements of operations and changes in net assets. Investment related administrative expenses were $7,176 and $5,382 for the years ended December 31, 2018 and 2017, respectively.

(in thousands of dollars)

Liquidity and Availability

As of December 31, 2018, Novant Health has a working capital of $480,229 and average days cash on hand of 232.

Financial assets at year-end:		
Cash and cash equivalents	$	228,653
Accounts receivable, net		570,074
Short-term investments		485,452
Assets limited as to use		200,927
Receivable for settlement with third-party payor		13,240
Other current assets		63,102
Long-term investments		2,156,877
Other assets		36,154
Total financial assets	$	3,754,479
Less amounts not available:		
Donor restricted funds		77,533
Assets limited as to use		200,927
Long-term investments with liquidity horizons greater than one year		241,217
Pledges receivable		10,987
Financial assets not available to be used within one year	$	530,664
Financial assets available to meet general expenditures within one year	$	3,223,815

As part of the Company’s liquidity management plan, cash in excess of daily requirements is invested in either money market funds, short-term investments or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due. Additionally, Novant Health maintains a $200,000 line of credit, as discussed in Note 13, *Long-Term Debt*. As of December 31, 2018, $119,500 was available on the line of credit.

As of December 31, 2018, the Company was in compliance with financial covenants as discussed in Note 13, *Long-Term Debt*.

(in thousands of dollars)

7. Fair Value Measurements

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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

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

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).

(in thousands of dollars)

As of December 31, 2018 and 2017, 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. equities, international equities, emerging markets and other exchange-traded funds
The fair value of investments in U.S. equities, international equities, emerging markets and other exchange-traded funds 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.

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 2018 and 2017, there were no transfers between Level 1 and 2.

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2018 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	$ -	$ 10,364	$ -	$ 10,364
Fixed income - government securities	-	475,088	-	475,088
Total short-term investments	-	485,452	-	485,452
Assets limited as to use:				
Cash and cash equivalents	8,981	-	-	8,981
U.S. equities	118,606	-	-	118,606
International equities	4,892	-	-	4,892
Fixed income - government securities	12,307	41,967	-	54,274
Fixed income - corporate and other	886	13,288	-	14,174
Total assets limited as to use	145,672	55,255	-	200,927
Long-term investments:				
Cash and cash equivalents	64,697	-	-	64,697
U.S. equities	492,205	-	-	492,205
International equities	302,085	791	-	302,876
Fixed income - government securities	-	201,336	-	201,336
Fixed income - corporate and other	8,884	2,329	-	11,213
Emerging markets	5,015	-	-	5,015
Other exchange-traded funds	20,009	-	-	20,009
Total long-term investments	892,895	204,456	-	1,097,351
Total assets at fair value	$ 1,038,567	$ 745,163	$ -	$ 1,783,730
Liabilities				
Accrued liabilities	$ 9,282	$ -	$ -	$ 9,282
Derivative financial instruments	-	36,370	-	36,370
Deferred compensation liabilities	131,404	-	-	131,404
Total liabilities at fair value	$ 140,686	$ 36,370	$ -	$ 177,056

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2017 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	$ -	$ 10,218	$ -	$ 10,218
Fixed income - government securities	-	289,853	-	289,853
Total short-term investments	-	300,071	-	300,071
Assets limited as to use:				
Cash and cash equivalents	8,361	-	-	8,361
U.S. equities	121,602	-	-	121,602
International equities	5,053	-	-	5,053
Fixed income - government securities	10,749	38,397	-	49,146
Fixed income - corporate and other	384	15,307	-	15,691
Total assets limited as to use	146,149	53,704	-	199,853
Long-term investments:				
Cash and cash equivalents	125,777	-	-	125,777
U.S. equities	491,394	-	-	491,394
International equities	330,348	-	-	330,348
Fixed income - government securities	-	189,197	-	189,197
Fixed income - corporate and other	10,308	2,428	-	12,736
Emerging markets	1,435	-	-	1,435
Other exchange-traded funds	46,213	-	-	46,213
Total long-term investments	1,005,475	191,625	-	1,197,100
Total assets at fair value	$ 1,151,624	$ 545,400	$ -	$ 1,697,024
Liabilities				
Accrued liabilities	$ 6,289	$ -	$ -	$ 6,289
Derivative financial instruments	-	44,832	-	44,832
Deferred compensation liabilities	133,745	-	-	133,745
Total liabilities at fair value	$ 140,034	$ 44,832	$ -	$ 184,866

(in thousands of dollars)

8. Property and Equipment

Property and equipment consists of the following at December 31:

	2018	2017
Land and land improvements	$ 352,710	$ 289,897
Leasehold improvements	198,465	175,673
Buildings and building improvements	2,062,319	1,932,255
Equipment	1,908,274	1,795,520
Equipment under capital lease obligations	2,355	2,108
Software	510,757	496,704
Construction-in-progress	216,545	195,802
	5,251,425	4,887,959
Less: Accumulated depreciation	(3,078,404)	(2,869,051)
	$ 2,173,021	$ 2,018,908

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. No impairment charges were recorded in 2018 or 2017.

At December 31, 2018 and 2017, land and buildings with a net book value of $18,609 and $21,393, 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, 2018 and 2017 amounted to $246,780 and $237,957, respectively. Accumulated amortization for buildings and equipment under capital lease obligations was $1,827 and $1,527 at December 31, 2018 and 2017, respectively. Construction contracts of approximately $588,564 exist for the expansion of existing hospitals and facility renovations. At December 31, 2018, the remaining commitment on these contracts was $280,906.

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 $3,650 and $3,997 in 2018 and 2017, respectively. The remaining deferred gain of $22,332 will be recognized over the average life of Novant Health’s lease agreements with the buyer.

(in thousands of dollars)

9. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	Gross Intangible	Accumulated Amortization	Net Intangible
Balance at December 31, 2018			
Unamortized intangible assets			
Certificates of need	$ 70,416	$ -	$ 70,416
Total unamortized intangible assets	70,416	-	70,416
Amortized intangible assets			
Business relationships	45,300	(19,065)	26,235
Corporate trade name and other intangibles	27,188	(7,772)	19,416
Total amortized intangible assets	72,488	(26,837)	45,651
Total intangible assets	$ 142,904	$ (26,837)	$ 116,067
Balance at December 31, 2017			
Unamortized intangible assets			
Certificates of need	$ 70,416	$ -	$ 70,416
Total unamortized intangible assets	70,416	-	70,416
Amortized intangible assets			
Business relationships	45,300	(17,287)	28,013
Corporate trade name and other intangibles	27,188	(6,725)	20,463
Total amortized intangible assets	72,488	(24,012)	48,476
Total intangible assets	$ 142,904	$ (24,012)	$ 118,892

Amortization expense related to intangible assets was $2,825 and $2,971 for the years ended December 31, 2018 and 2017, respectively. Estimated annual amortization expense for intangible assets for the years 2019 through 2023 is approximately $2,716 per year.

(in thousands of dollars)

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

	2018	2017
As of January 1		
Goodwill, net of accumulated amortization	$ 244,587	$ 208,621
Accumulated impairment losses	(37,563)	(14,760)
	207,024	193,861
Goodwill reclassified from assets held for sale	-	13,163
	207,024	207,024
As of the end of the period		
Goodwill, net of accumulated amortization	244,587	244,587
Accumulated impairment losses	(37,563)	(37,563)
	$ 207,024	$ 207,024

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.

The Company tests goodwill and indefinite-lived assets for impairment on an annual basis. No impairment charges to amortizable intangible assets were recorded as a result of this review in 2018 or 2017. 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.

10. Investments in Affiliates

Novant Health has noncontrolling interests in fourteen healthcare related entities. The Company's ownership interests in the entities range from 8.0% to 51.0%. These investments are accounted for using either the cost or equity method.

In October 2018, Novant Health contributed its Winston-Salem rehabilitation business to its investee, Novant Health Rehabilitation Hospital. The other partner contributed cash equal to the fair value of the contributed business. As a result of this contribution, the Company recognized a $14,600 gain for the difference between the fair value and the book value of the business.

(in thousands of dollars)

A summary of investments, ownership percentages, investment amounts and the Company's share of earnings for the years ended December 31, 2018 and 2017 is as follows:

	% Ownership		Investment Balance		Share of Earnings of Investee	
Investee	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Advanced Services	23%	23%	$ 24,916	$ 23,680	$ 1,691	$ 1,926
Novant Health Rehabilitation Hospital	50%	50%	13,288	-	(1,279)	-
Providence Plaza LLC	30%	30%	4,548	4,521	224	216
Provider-Lead Patient-Centered Care of NC	9%	9%	2,918	2,918	-	-
Other	Various	Various	4,413	12,357	(591)	867
			$ 50,083	$ 43,476	$ 45	$ 3,009

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

	2018	2017
Assets	$ 234,662	$ 194,838
Liabilities	95,801	55,091
Equity	138,861	139,747
Total revenue	136,904	194,742
Total expenses	137,552	187,187
Net (loss) income	(648)	7,555
Novant Health's share of net (loss) income	45	3,009

11. Other Assets

Other assets consist of the following at December 31:

	2018	2017
Notes receivable and other	$ 61,808	$ 56,182
Cash surrender value of insurance policies	25,167	24,257
Pledges receivable	10,987	17,019
Reinsurance receivables	8,632	9,552
Prepaid pension costs	2,637	4,079
	$ 109,231	$ 111,089

(in thousands of dollars)

12. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2018	2017
Accrued compensation	$ 287,478	$ 263,348
Payroll taxes and withholdings	3,814	20,284
Interest	8,693	9,815
Postretirement benefit liability	1,350	1,345
Pension liability	251	223
Other accrued liabilities	60,255	84,152
Self-insurance		
Employee medical claims liability	22,128	17,966
Malpractice and workers' compensation liability	16,175	17,218
	$ 400,144	$ 414,351

13. Long-Term Debt

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

	2018	2017
Tax-exempt revenue bonds	$ 770,095	$ 787,150
Taxable revenue bonds	500,000	500,000
Taxable variable rate demand bonds	-	44,800
Total bonds	1,270,095	1,331,950
Borrowings on revolving credit facility	80,500	49,000
Capital lease obligations and other notes payable	17,214	31,919
	1,367,809	1,412,869
Unamortized premium or discount, net	5,164	6,035
Unamortized debt issuance costs, net	(7,001)	(7,619)
	1,365,972	1,411,285
Less: Current maturities	(305,095)	(67,609)
	$ 1,060,877	$ 1,343,676

(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:

	2018	2017
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	$ 269,320	$ 274,750
Series 2010 A Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 4.0% to 5.3% 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	101,610	113,235
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
	$ 770,095	$ 787,150

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 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, 2018 and 2017, 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, 2021. 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 of the 2004 bonds as current at December 31, 2018 and 2017.

(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 December 2017, the Series 2008 A, B, and C Variable Rate Demand Bonds were refinanced. Subsequent to the refinancing, the direct purchase agreements have a term of seven years and will expire in December 2024.

Taxable Revenue Bonds

On September 23, 2009, Novant Health issued $350,000 of taxable fixed rate bonds (the “2009 A 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 2009 A Bonds were used to refinance a 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 “2013 C Bonds”). The 2013 C Bonds bear interest at a rate of 4.37% and mature in 2043. Proceeds of the 2013 C 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. At December 31, 2017, the rate of interest on the variable bonds was 1.56%. These bonds were called and repaid in May 2018 and the irrevocable letter of credit was cancelled.

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 3.49% to 12.15%.

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

Years Ending December 31	
2019	$ 268,296
2020	18,456
2021	20,141
2022	99,874
2023	25,799
Thereafter	935,243
	$ 1,367,809

Novant Health capitalized $3,122 and $3,126 of interest in 2018 and 2017, respectively.

(in thousands of dollars)

Revolving Credit Facility
On June 13, 2013, Novant Health entered into a $200,000 Senior Revolving Credit Facility. In March 2017, the Senior Revolving Credit Facility was amended and is available through March 27, 2022. At December 31, 2018 and 2017, $119,500 and $151,000, respectively, was available for borrowing. The line of credit bears interest at variable rates. At December 31, 2018, interest rates on the outstanding loans range from 3.23% to 3.38%

Debt Issuance Costs
Unamortized debt issuance costs are presented in the consolidated balance sheets as a direct deduction from the carrying value of the associated debt. Debt issuance costs are amortized using the effective interest method over the life of the related debt agreement and instruments.

14. Short-Term Borrowings

Short-term borrowings consist primarily of securities repurchase transactions. Securities repurchase transactions are conducted by the Company under a standardized securities industry master agreement, amended to suit the specificities 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 short-term borrowings. The Company posts collateral in the form of U.S. treasury and agency securities and receives an amount equal to approximately 98% of the fair value of the securities to be repurchased during January 2019 at interest rates ranging from 2.25% to 2.47%. At December 31, 2018 and 2017, the fair value amounts outstanding were $87,558 and $88,041, respectively. Interest rates on the outstanding balances at December 31, 2018 were 2.70%. The maturity dates of the agreements range from one to three weeks.

15. 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 $101,610. 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 $74,600 and $27,010 notional amounts, respectively. The swaps have been designated as cash flow hedges and are carried on the consolidated balance sheets at fair value. These swaps qualified for hedge accounting and were assessed for effectiveness at the time the contracts were entered into and were assessed for effectiveness on an ongoing basis at each quarter end using the hypothetical derivative method. In the fourth quarter of 2018, the hedging relationship ceased to be highly effective and hedge accounting was discontinued.

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 swap has been designated as a cash flow hedge and is carried on the consolidated balance sheets at fair value. This swap qualifies for hedge accounting and was assessed for effectiveness at the time the contract was entered into and is assessed for effectiveness on an ongoing basis at each quarter end using the hypothetical derivative method.

(in thousands of dollars)

Effective January 1, 2018, Novant Health adopted the provisions of ASU 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedge Activities*. With this adoption, the ineffective portion of the change in the fair value of the interest rate swap is no longer recognized in excess of revenue over expenses and is instead recognized, along with the portion of unrealized gains and losses related to the effective portion of the swaps, in net assets without donor restrictions. During 2017, unrealized gains and losses related to the effective portion of the swaps were recognized as a change in net assets without donor restrictions and gains or losses related to ineffective portions were recognized in excess of revenues over expenses as interest expense.

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

	2018	2017
Interest rate swaps designated as hedged instruments	$ 28,187	$ 44,832
Interest rate swaps not designated as hedged instruments	8,183	-
Total derivative financial liabilities	$ 36,370	$ 44,832

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 Recognized in Change in Net Assets without Donor Restrictions		Amount of Loss Recognized in Excess of Revenues Over Expenses	
Statement of Operations and Changes in Net Assets Location				
	2018	**2017**	**2018**	**2017**
Derivatives designated as hedged instruments				
Change in fair value of hedged interest rate swaps	$ 9,378	$ 7,330	$ -	$ -
Hedge ineffectiveness	-	-	-	(1,857)
Derivatives not designated as hedged instruments				
Change in fair value of non-hedged interest rate swaps	-	-	(916)	-
Reclassification of net assets into earnings	-	-	(409)	-
	$ 9,378	$ 7,330	$ (1,325)	$ (1,857)

(in thousands of dollars)

16. Employee Benefits and Other Liabilities

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

	2018	2017
Deferred gains	$ 41,834	$ 58,808
Self-insurance malpractice and workers' compensation, net of current portion	56,195	58,775
Deferred compensation liability	131,404	133,745
Employee benefits and other	75,633	65,459
Postretirement benefit liability, net of current portion	18,790	20,710
Pension liability, net of current portion	17,357	2,577
	$ 341,213	$ 340,074

17. Income Taxes

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

	2018	2017
Current tax expense		
Federal	$ 337	$ 4,752
State	493	964
	830	5,716
Deferred tax expense (benefit)		
Federal	(1,584)	(2,687)
State	224	(1)
	(1,360)	(2,688)
	$ (530)	$ 3,028

(in thousands of dollars)

The components of deferred taxes are as follows:

	2018	2017
Deferred tax assets		
Loss carryforwards	$ 22,303	$ 25,395
Deferred charge for intercompany transfer	7,975	9,304
Allowance for doubtful accounts	804	1,019
Accrued expenses	1,118	1,302
Property and equipment	(529)	544
Other	(8)	278
Total deferred tax assets	31,663	37,842
Deferred tax liabilities		
Intangible assets	(6,991)	(6,960)
Total deferred tax liabilities	(6,991)	(6,960)
Valuation allowance	(19,875)	(27,446)
Net deferred tax asset	$ 4,797	$ 3,436

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 years ended December 31, 2018 and 2017, management has determined that based on all available evidence, a valuation allowance of $19,875 and $27,446, respectively, is appropriate.

As of December 31, 2018, the Company had approximately $90,505 of federal and $61,468 of state loss carryforwards available to reduce taxable income. The loss carryforwards expire through 2038. In addition, at December 31, 2018, the Company had approximately $3,854 of federal and $1,706 of state contribution carryforwards available to reduce taxable income.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code including, but not limited to, reducing the corporate tax rate from 35% to 21% and repealing the corporate alternative minimum tax effective January 1, 2018.

(in thousands of dollars)

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

	2018	2017
Federal taxes	$ (1,247)	$ 2,065
State income taxes	717	963
Income tax (benefit) expense	$ (530)	$ 3,028

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, 2018 and 2017.

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 fixed income securities (both U.S. Government and Corporate debt) and cash and cash equivalents.

On February 20, 2018, the Novant Health Board of Trustees decided to cease all future accruals and terminate the Novant Plan effective April 30, 2018. This termination resulted in a curtailment which decreased the pension liability by $5,900. Also, the Company recorded an additional $3,637 in pension expense related to plan amendments as a result of the Plan termination. Both of these items were recorded in other net periodic pension costs in the consolidated statements of operations and changes in net assets. The Novant Health Board of Trustees also decided to terminate the Rowan Plan and the Prince William Plan as of April 30, 2018. The termination of these two plans did not have an impact on the consolidated financial statements.

(in thousands of dollars)

In the year of termination, Novant Health expects to record additional expense in the consolidated statements of operations and changes in net assets. The amount is dependent primarily on lump sum take rates and changes in discount rates between year-end and the final termination of the Plans. Also upon termination, if required, the Company will provide additional funding to the Plans. As the Company moves to plan termination accounting, a deviation in the annuity purchase rate and plan benefit discount rate of 25 basis points would require additional estimated expense between $2,000 and $13,300 to be recorded in our consolidated statements of operations and changes and net assets. Any additional expense would be recorded in other net periodic pension costs in the consolidated statements of operations and changes in net assets.

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. Some of these plans are non-qualified deferred compensation plans which provide certain individuals meeting specific criteria with the ability to defer compensation. The assets of these plans are held in a rabbi trust, which restricts access to the assets. The assets of these plans, along with the associated liabilities, are recorded as current and long-term assets limited as to use, accrued liabilities, and employee benefits and other liabilities on the consolidated balance sheets.

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.

(in thousands of dollars)

	Defined Benefit Plans 2018	Defined Benefit Plans 2017	Postretirement Healthcare Benefit Plans 2018	Postretirement Healthcare Benefit Plans 2017
Change in benefit obligations				
Projected benefit obligation at beginning of year	$ 296,994	$ 289,660	$ 22,055	$ 21,487
Service cost	132	330	102	108
Interest cost	10,465	10,932	738	814
Actuarial loss (gain)	(1,854)	15,279	(1,789)	655
Assumption change	(756)	(1,180)	(57)	-
Gain due to curtailment	(7,082)	-	-	-
Plan amendments	3,637	-	-	-
Settlements	(2,325)	(3,802)	-	-
Benefits paid	(16,729)	(14,225)	(909)	(1,009)
Projected benefit obligation at end of year	$ 282,482	$ 296,994	$ 20,140	$ 22,055

The assumption changes for 2018 and 2017 are primarily due to changes in the discount rate.

Weighted-Average Assumptions Used to Determine End of Year Benefit Obligations	Defined Benefit Plans 2018	Defined Benefit Plans 2017	Postretirement Healthcare Benefit Plans 2018	Postretirement Healthcare Benefit Plans 2017
Discount rate	3.90% - 4.16%	3.30% - 3.54%	3.85% - 4.15%	3.30% - 3.55%
Rate of compensation increase(1)	N/A	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	8.0% in 2019 grading to 5.0% in 2025	9.0% in 2018 grading to 5.0% in 2025

(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, 2017.

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, 2018.

Plan Assets

	Defined Benefit Plans 2018	Defined Benefit Plans 2017	Postretirement Healthcare Benefit Plans 2018	Postretirement Healthcare Benefit Plans 2017
Change in plan assets				
Fair value of plan assets at beginning of year	$ 298,273	$ 291,737	$ -	$ -
Actual return on plan assets	(9,207)	25,473	-	-
Employer contributions	183	190	909	1,009
Settlements	(2,325)	(3,802)	-	-
Benefits paid	(16,729)	(14,225)	(909)	(1,009)
Plan expenses	(2,684)	(1,100)	-	-
Fair value of plan assets at end of year	$ 267,511	$ 298,273	$ -	$ -

(in thousands of dollars)

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. Given the funded status of the Plans, they are invested 100% in a portfolio of diversified fixed income assets whose overall characteristics closely match that of the Plans' liabilities.

Novant Health's pension plan asset allocation and target allocation by asset category at December 31, 2018 are as follows:

	Target Range	Percentage of Plan Assets
Asset Category		
Fixed income securities	85–100%	98.5%
Cash and other	0–4%	1.5%
		100.0%

The fair values of the Company's plan assets at December 31, 2018, by asset category are as follows:

		Fair Value Measurements at Reporting Date Using			
	At NAV	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed income securities	$ 139,950	$ -	$ 123,657	$ -	$ 263,607
Cash and other	-	3,904	-	-	3,904
Total fair value of the Company's plan assets	$ 139,950	$ 3,904	$ 123,657	$ -	$ 267,511

The fair values of the Company's plan assets at December 31, 2017, by asset category are as follows:

		Fair Value Measurements at Reporting Date Using			
	At NAV	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed income securities	$ 176,302	$ -	$ 117,965	$ -	$ 294,267
Cash and other	-	4,006	-	-	4,006
Total fair value of the Company's plan assets	$ 176,302	$ 4,006	$ 117,965	$ -	$ 298,273

(in thousands of dollars)

Funded Status

The funded status of the plans recognized in the consolidated balance sheets and the amounts recognized in net assets without donor restrictions follows as of December 31:

	Defined Benefit Plans 2018	Defined Benefit Plans 2017	Postretirement Healthcare Benefit Plans 2018	Postretirement Healthcare Benefit Plans 2017
End of Year				
Fair value of plan assets at end of year	$ 267,511	$ 298,273	$ -	$ -
Benefit obligation at end of year	282,482	296,994	20,140	22,055
Funded status	$ (14,971)	$ 1,279	$ (20,140)	$ (22,055)
Amount recognized in the balance sheets				
Prepaid benefit cost at measurement date	$ 2,637	$ 5,087	$ -	$ -
Accrued benefit cost	(17,535)	(2,420)	(20,955)	(21,121)
Change in net assets without donor restrictions	(73)	(1,388)	815	(934)
Net asset (liability) recognized	$ (14,971)	$ 1,279	$ (20,140)	$ (22,055)
Amounts recognized in net assets without donor restrictions				
Prior service cost	$ -	$ 1,282	$ -	$ -
Net actuarial loss (gain)	73	106	(815)	934
	$ 73	$ 1,388	$ (815)	$ 934
Other changes in plan assets and benefit obligations				
Net loss (gain)	$ (159)	$ 93	$ (1,789)	$ 655
Amortization of net (gain) loss	(1,282)	161	40	87
Amortization of prior service cost (credit)	126	(257)	-	-
Total recognized in net assets without donor restrictions	$ (1,315)	$ (3)	$ (1,749)	$ 742

At the end of 2018 and 2017, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets within the defined benefit pension plans were as follows:

	2018	2017
Projected benefit obligation	$ 282,482	$ 296,994
Accumulated benefit obligation	282,482	292,839
Fair value of plan assets	267,511	298,273

Cash Flows

The Company does not plan to make any contributions to its defined benefit pension plans in 2019. The Company expects to make contributions to the supplemental retirement income plans of approximately $4,133 for the 2019 fiscal year.

(in thousands of dollars)

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

	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
Expected benefit payments		
2019	$ 24,621	$ 1,350
2020	19,128	1,177
2021	19,332	1,221
2022	19,828	1,251
2023	19,357	1,277
2024–2028	92,214	6,488

Net periodic benefit cost	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2018	**2017**	**2018**	**2017**
Service cost	$ 132	$ 330	$ 102	$ 108
Interest cost	10,465	10,932	738	814
Estimated return on plan assets	(9,805)	(11,299)	-	-
Amortization of prior service (credit) cost	-	257	-	-
Plan amendments	3,637	-	-	-
Recognized curtailment loss	(5,885)	-	-	-
Recognized net actuarial loss (gain)	19,102	771	(40)	(87)
Net periodic benefit cost	$ 17,646	$ 991	$ 800	$ 835
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ 16,331	$ 988	$ (949)	$ 1,577

The components of net periodic pension and postretirement benefit costs other than the service component are included in non-operating income (expense) on the consolidated statements of operations and changes in net assets.

(in thousands of dollars)

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost during the year ending December 31, 2019 are as follows:

	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
Actuarial net gain	$ (61)	$ (104)

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

	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2018	2017	2018	2017
Discount rate	3.30% - 3.54%	3.65% - 4.06%	3.30% - 3.55%	3.65% - 4.05%
Expected return on plan assets	3.50%	4.00%	N/A	N/A
Rate of compensation increase(1)	N/A	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	9.0% in 2018 grading to 5.0% in 2025	9.5% in 2017 grading to 5.0% in 2025

(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, 2017.

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.

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 $82,206 and $75,503 in 2018 and 2017, respectively.

Certain Novant Health consolidated 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 $264,877 in 2018 and $234,150 in 2017.

(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 net assets without donor restrictions:

	Total	Controlling Interest	Noncontrolling Interests
Balance at January 1, 2017	$ 3,388,289	$ 3,291,669	$ 96,620
Excess (deficit) of revenues over expenses	477,870	487,956	(10,086)
Change in funded status of defined benefit plans	(739)	(739)	-
Unrealized gain on derivative financial instruments	7,330	7,330	-
Purchase of noncontrolling interest	(9,800)	-	(9,800)
Other changes in net assets without donor restrictions	(7,057)	(7,962)	905
Balance at December 31, 2017	3,855,893	3,778,254	77,639
Excess of revenues over expenses	94,012	88,122	5,890
Change in funded status of defined benefit plans	3,064	3,064	-
Unrealized gain on derivative financial instruments	9,787	9,787	-
Other changes in net assets without donor restrictions	(1,389)	(1,576)	187
Balance at December 31, 2018	$ 3,961,367	$ 3,877,651	$ 83,716

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. At December 31, 2018 and 2017, undiscounted professional and general liability loss reserves of $72,370 and $75,993, respectively, are included in current liabilities and employee benefits and other liabilities on the consolidated balance sheets. Expenses related to these plans amounted to $12,469 and $14,870 in 2018 and 2017, 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.

At December 31, 2018, the Company had guarantees for payment of the indebtedness of certain equity method investees. The maximum potential amount of future payments under these agreements was approximately $33,490. These guarantees extend until December 2025 based on the payment schedule of the underlying debt instruments. At December 31, 2018, no liability has been recorded in the consolidated balance sheet for the Company's obligations under these guarantees.

22. Operating Leases

Certain operating properties and equipment are leased under noncancelable operating leases. Total rental expense under operating leases was $91,956 and $95,602 in 2018 and 2017, respectively. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows:

Years Ending December 31	
2019	$ 93,244
2020	82,429
2021	72,235
2022	61,568
2023	51,671
Thereafter	118,835
	$ 479,982

(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 $1,240 and $1,207 in 2018 and 2017, respectively. The future rental income related to the ground leases are as follows:

Years Ending December 31	
2019	$ 1,263
2020	1,286
2021	1,309
2022	1,333
2023	1,369
Thereafter	83,869
	$ 90,429

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:

	2018	**2017**
Medicare	24.2%	25.4%
Medicaid	5.4%	5.8%
Other third-party payors	64.6%	63.3%
Patients	5.8%	5.5%
	100.0%	100.0%

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

(in thousands of dollars)

24. Functional Expenses

Novant Health provides general health care services to residents within its geographic region. Novant Health's financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization and interest and other occupancy costs, are allocated to a function based on a square footage or units of service basis. Allocated health care services costs not allocated on a units of service basis are generally allocated based on revenue. Expenses relating to providing these services are as follows:

	December 31, 2018			
	Health Care Services		Support Services	
	Acute Care Facilities	Outpatient Locations	General & Administrative	Total
Salaries and employee benefits	$ 1,309,804	$ 1,204,767	$ 221,775	$ 2,736,346
Supplies and other	1,175,143	385,429	96,803	1,657,375
Depreciation expense	135,105	36,624	75,051	246,780
Amortization expense	-	2,545	309	2,854
Interest expense	45,733	13,242	11,343	70,318
Other non-operating expenses	(20)	1,659	16,043	17,682
Total expenses	$ 2,665,765	$ 1,644,266	$ 421,324	$ 4,731,355

	December 31, 2017			
	Health Care Services		Support Services	
	Acute Care Facilities	Outpatient Locations	General & Administrative	Total
Salaries and employee benefits	$ 1,189,232	$ 1,075,358	$ 278,447	$ 2,543,037
Supplies and other	1,092,613	345,880	129,743	1,568,236
Depreciation expense	128,170	39,228	70,559	237,957
Amortization expense	-	2,691	313	3,004
Interest expense	45,251	13,280	10,188	68,719
Other non-operating expenses	34	(2,099)	6,481	4,416
Total expenses	$ 2,455,300	$ 1,474,338	$ 495,731	$ 4,425,369

25. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through March 29, 2019, the day the consolidated financial statements were issued.

(in thousands of dollars)

26. Significant Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values. This guidance was effective for Novant Health on January 1, 2019 with prospective application and a cumulative-effect adjustment at the date of adoption. Because the Company's equity investments have historically been measured at fair value, the adoption of this guidance had no impact on Novant Health's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 842"). Under ASC 842, lessees will recognize a right-of-use asset and a corresponding lease liability for all leases other than leases that meet the definition of a short-term lease. The liability will be equal to the present value of future minimum lease payments. The asset will be based on the liability, subject to adjustment for certain costs. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or an operating lease. Leases will be classified based on criteria similar to those applied in current lease accounting.

The new standard was effective for Novant Health on January 1, 2019 and the Company plans to adopt ASC 842 in the first quarter of 2019. Novant Health will use the cumulative-effect approach, without adjusting prior periods and will recognize the cumulative-effect adjustment to the opening balance of net assets. The Company has elected the package of practical expedients permitted by the standard, which among other things, allows the carryforward of the historical lease classification. Novant Health also plans to elect the practical expedient that allows lessees to choose not to separate lease and non-lease components for most asset classes. The Company has made an accounting policy election to keep leases with an initial term of 12 months or less off the balance sheet and will recognize those lease payments on a straight-line basis over the lease term.

The Company is now finalizing the configuration and testing of our lease accounting technology system, gathering new lease contracts and abstracting key financial data, and finalizing revisions needed to our processes and internal controls.

Adoption of the standard will result in recognition of significant lease assets and lease liabilities, however, this guidance is not expected to materially affect our consolidated operating results or liquidity. The standard is not expected to impact our debt covenant compliance under the current agreements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This standard provides additional guidance related to the presentation and classification of certain items in the statement of cash flows for which there is diversity in practice. The provisions of this guidance are effective for Novant Health on January 1, 2019 with early adoption permitted and retrospective application, unless it is impracticable. This guidance is not expected to materially impact Novant Health's consolidated financial statements.

(in thousands of dollars)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. This guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash and restricted cash equivalents. This guidance was effective for the Company on January 1, 2019 and requires a retrospective transition method. The adoption of this guidance will change the beginning and ending balances on the statement of cash flows, but is not expected to significantly change cash flows from operating, investing and financing activities.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. The new guidance eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on the current Step 1). This guidance is effective for Novant Health on January 1, 2022. We are evaluating the provisions of this guidance to determine how goodwill impairment testing will be impacted and whether to elect to adopt this guidance prior to the stated effective date. The adoption of this guidance would only impact Novant Health's consolidated financial statements in situations where there is impairment of a reporting unit.

In June 2018, the FASB issued ASU 2018-08, *Not–for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance was intended to assist entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and whether a contribution is conditional. This guidance was effective for the Company on January 1, 2019 on a modified prospective basis. This guidance is not expected to have a significant impact on the consolidated financial statements of Novant Health.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance also requires that the capitalized costs be expensed over the term of the hosting arrangement and that the expense and cash flows of the capitalized expense be presented in the same place on the statement of operations and statement of cash flows, respectively. Similarly, the capitalized costs are required to be presented on the balance sheets in the same line item that a prepayment of the fees of the associated hosting arrangement would be presented. This guidance will be effective for Novant Health on January 1, 2020 and may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements.

Other Financial Information

Report of Independent Auditors

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, 2018 and for the year then ended and our report thereon appears on page 1 of this document. That audit was 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, 2018 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 29, 2019

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

Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs
December 31, 2018

The net cost of providing care to indigent patients and community benefit programs is as follows:

		2018
Traditional charity care	$	154,698
Unpaid cost of Medicare		516,815
Unpaid cost of Medicaid		141,770
Community benefit programs		70,427
	$	883,710

As discussed in Note 2 in the accompanying consolidated financial statements, Novant Health received supplemental Medicaid payments during 2018. These amounts are included in the community benefit amount for 2018.

Report of Independent Auditors

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, 2018 and for the year then ended and our report thereon appears on page 1 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 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, results of operations, changes in net assets and cash flows 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, results of operations, changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

March 29, 2019

Novant Health, Inc. and Affiliates
Consolidating Balance Sheet
December 31, 2018

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 142,480	$ 86,173	$ -	$ 228,653
Accounts receivable, net	498,832	71,242	-	570,074
Short-term investments	485,293	159	-	485,452
Current portion of assets limited as to use	9,477	11,419	-	20,896
Receivable for settlement with third-party payors	10,314	2,926	-	13,240
Other current assets	171,210	39,083	(9,110)	201,183
Total current assets	1,317,606	211,002	(9,110)	1,519,498
Assets limited as to use	135,075	44,956	-	180,031
Long-term investments	1,872,533	284,344	-	2,156,877
Property and equipment, net	1,756,701	416,320	-	2,173,021
Intangible assets and goodwill, net	242,051	81,040	-	323,091
Investments in affiliates	100,304	25,137	(75,358)	50,083
Deferred tax asset	-	10,725	-	10,725
Other assets	90,455	18,776	-	109,231
Total assets	$ 5,514,725	$ 1,092,300	$ (84,468)	$ 6,522,557
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 303,790	$ 1,305	$ -	$ 305,095
Short-term borrowings	87,558	-	-	87,558
Accounts payable	187,637	26,147	(2,859)	210,925
Accrued liabilities	346,103	54,041	-	400,144
Estimated third-party payor settlements	31,582	3,965	-	35,547
Due to (from) related organizations	(346,180)	346,180	-	-
Total current liabilities	610,490	431,638	(2,859)	1,039,269
Long-term debt, net of current portion	1,045,276	15,601	-	1,060,877
Deferred tax liability	-	5,928	-	5,928
Derivative financial instruments	36,370	-	-	36,370
Employee benefits and other liabilities	284,711	56,502	-	341,213
Total liabilities	1,976,847	509,669	(2,859)	2,483,657
Net assets				
Without donor restrictions - attributable to Novant Health	3,535,689	485,609	(143,647)	3,877,651
Without donor restrictions - noncontrolling interests	-	21,678	62,038	83,716
Total net assets without donor restrictions	3,535,689	507,287	(81,609)	3,961,367
With donor restrictions	2,189	75,344	-	77,533
Total net assets	3,537,878	582,631	(81,609)	4,038,900
Total liabilities and net assets	$ 5,514,725	$ 1,092,300	$ (84,468)	$ 6,522,557

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Consolidating Statement of Operations
Year Ended December 31, 2018

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Operating revenues				
Net patient service revenues	$ 4,203,329	$ 494,096	$ -	$ 4,697,425
Other revenue	152,203	193,563	(57,315)	288,451
Total operating revenues	4,355,532	687,659	(57,315)	4,985,876
Operating expenses				
Salaries and employee benefits	2,447,707	295,499	(6,860)	2,736,346
Supplies and other	1,343,438	358,541	(44,604)	1,657,375
Depreciation expense	211,207	35,573	-	246,780
Amortization expense	2,285	569	-	2,854
Interest expense	60,653	9,665	-	70,318
Total operating expenses	4,065,290	699,847	(51,464)	4,713,673
Operating income (loss)	290,242	(12,188)	(5,851)	272,203
Non-operating (expense) income				
Investment loss	(139,243)	(21,266)	-	(160,509)
Income tax (expense) benefit	(515)	1,045	-	530
Other net periodic pension costs	(16,021)	(2,191)	-	(18,212)
Excess (deficit) of revenues over expenses	$ 134,463	$ (34,600)	$ (5,851)	$ 94,012

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Balance Sheet
December 31, 2018

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Assets				
Current assets				
Cash and cash equivalents	$ 120,856	$ 21,624	$ -	$ 142,480
Accounts receivable, net	356,215	142,617	-	498,832
Short-term investments	485,293	-	-	485,293
Current portion of assets limited as to use	9,477	-	-	9,477
Receivable for settlement with third-party payors	4,477	5,837	-	10,314
Other current assets	138,017	33,193	-	171,210
Total current assets	1,114,335	203,271	-	1,317,606
Assets limited as to use	134,453	622	-	135,075
Long-term investments	1,872,533	-	-	1,872,533
Property and equipment, net	1,300,975	455,726	-	1,756,701
Intangible assets and goodwill, net	49,243	192,808	-	242,051
Investments in affiliates	189,898	(2,940)	(86,654)	100,304
Other assets	86,072	21,042	(16,659)	90,455
Total assets	$ 4,747,509	$ 870,529	$ (103,313)	$ 5,514,725
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 303,182	$ 608	$ -	$ 303,790
Short-term borrowings	87,558	-	-	87,558
Accounts payable	172,266	15,371	-	187,637
Accrued liabilities	231,598	114,505	-	346,103
Estimated third-party payor settlements	24,776	6,806	-	31,582
Due to (from) related organizations	(586,047)	239,867	-	(346,180)
Total current liabilities	233,333	377,157	-	610,490
Long-term debt, net of current portion	901,190	160,745	(16,659)	1,045,276
Derivative financial instruments	36,370	-	-	36,370
Employee benefits and other liabilities	256,362	28,349	-	284,711
Total liabilities	1,427,255	566,251	(16,659)	1,976,847
Net assets				
Without donor restrictions - attributable to Novant Health	3,320,243	302,100	(86,654)	3,535,689
With donor restrictions	11	2,178	-	2,189
Total net assets	3,320,254	304,278	(86,654)	3,537,878
Total liabilities and net assets	$ 4,747,509	$ 870,529	$ (103,313)	$ 5,514,725

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Statement of Operations
Year Ended December 31, 2018

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Operating revenues				
Net patient service revenues	$ 2,596,386	$1,606,943	$ -	$ 4,203,329
Other revenue	126,517	51,999	(26,313)	152,203
Total operating revenues	2,722,903	1,658,942	(26,313)	4,355,532
Operating expenses				
Salaries and employee benefits	1,334,330	1,113,377	-	2,447,707
Supplies and other	902,804	466,947	(26,313)	1,343,438
Depreciation expense	132,583	78,624	-	211,207
Amortization expense	-	2,285	-	2,285
Interest expense	38,407	22,246	-	60,653
Total operating expenses	2,408,124	1,683,479	(26,313)	4,065,290
Operating income (loss)	314,779	(24,537)	-	290,242
Non-operating (expense) income				
Investment (loss) income	(139,276)	33	-	(139,243)
Income tax expense	(515)	-	-	(515)
Other net periodic pension costs	(14,225)	(1,796)	-	(16,021)
Excess (deficit) of revenues over expenses	$ 160,763	$ (26,300)	$ -	$ 134,463

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 1,500 physicians and 28,000 team members at approximately 500 locations, including 15 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 5 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 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 13 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 UVA 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.