# Novant Health, Inc. and Affiliates

## Consolidated Financial Statements and Supplemental Information

## December 31, 2023 and 2022

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## Report of Independent Auditors

To the Board of Trustees of Novant Health, Inc.

### *Opinion*

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, 2023 and 2022 and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022 , and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are

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considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Charlotte, North Carolina
March 29, 2024

**Novant Health, Inc. and Affiliates**
**Consolidated Balance Sheets**
**December 31, 2023 and 2022**

*(in thousands of dollars)*

| | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 739,797 | $ 643,997 |
| Accounts receivable, net | 1,055,998 | 902,323 |
| Short-term investments | 11,080 | 234,253 |
| Current portion of assets limited as to use | 27,617 | 28,832 |
| Receivable for settlement with third-party payors | 12,650 | 13,985 |
| Other current assets | 513,058 | 645,001 |
| Total current assets | 2,360,200 | 2,468,391 |
| Assets limited as to use | 270,232 | 239,778 |
| Long-term investments | 3,387,889 | 3,029,968 |
| Property and equipment, net | 3,219,937 | 3,004,232 |
| Right-of-use assets, net | 462,557 | 477,247 |
| Intangible assets and goodwill, net | 621,916 | 645,420 |
| Investments in affiliates | 397,207 | 267,532 |
| Deferred tax asset | 3,570 | 2,658 |
| Other assets | 122,802 | 131,583 |
| Total assets | $ 10,846,310 | $ 10,266,809 |
| **Liabilities and Net Assets** | | |
| Current liabilities | | |
| Current portion of long-term debt | $ 79,065 | $ 61,219 |
| Accounts payable | 402,157 | 369,880 |
| Accrued liabilities | 729,416 | 762,340 |
| Current portion of operating lease liabilities | 106,085 | 106,950 |
| Estimated third-party payor settlements | 102,827 | 59,531 |
| Total current liabilities | 1,419,550 | 1,359,920 |
| Long-term debt, net of current portion | 2,588,423 | 2,589,153 |
| Deferred tax liability | 14,932 | 19,551 |
| Operating lease liabilities, net of current portion | 386,962 | 388,638 |
| Derivative financial instruments | 12,254 | 13,191 |
| Employee benefits and other liabilities | 442,017 | 382,721 |
| Total liabilities | 4,864,138 | 4,753,174 |
| Commitments and contingencies | | |
| Net assets | | |
| Without donor restrictions - attributable to Novant Health | 5,871,264 | 5,413,189 |
| Without donor restrictions - noncontrolling interests | 4,806 | 5,059 |
| Total net assets without donor restrictions | 5,876,070 | 5,418,248 |
| With donor restrictions | 106,102 | 95,387 |
| Total net assets | 5,982,172 | 5,513,635 |
| Total liabilities and net assets | $ 10,846,310 | $ 10,266,809 |

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, 2023 and 2022

*(in thousands of dollars)*

| | 2023 | 2022 |
|---|---|---|
| **Total operating revenues, gains, and other support** | | |
| Net patient service revenues | $ 7,415,779 | $ 6,652,892 |
| Other revenue and gains | 879,369 | 899,218 |
| Total operating revenues, gains, and other support | 8,295,148 | 7,552,110 |
| **Operating expenses** | | |
| Salaries and employee benefits | 4,471,515 | 4,250,720 |
| Supplies and other | 3,258,361 | 2,773,908 |
| Depreciation and amortization expense | 330,517 | 330,308 |
| Impairment charge | - | 62,981 |
| Interest expense | 87,975 | 65,984 |
| Total operating expenses | 8,148,368 | 7,483,901 |
| Operating income | 146,780 | 68,209 |
| **Non-operating income (expense)** | | |
| Investment income (loss) | 310,804 | (251,112) |
| Income tax expense | (1,907) | (38,753) |
| Other net periodic pension benefits (costs) | 5,168 | (1,183) |
| Excess (deficit) of revenues over expenses | $ 460,845 | $ (222,839) |
| **Other changes in net assets without donor restrictions** | | |
| Change in funded status of defined benefit plans | (543) | 4,664 |
| Amortization of deferred loss on derivative financial instruments | 2,564 | 2,778 |
| Other changes in net assets without donor restrictions | (5,044) | (3,973) |
| Increase (decrease) in net assets without donor restrictions | 457,822 | (219,370) |
| **Net assets with donor restrictions** | | |
| Contributions and investment income | 21,980 | 14,777 |
| Net assets released from restrictions for operations | (11,265) | (10,312) |
| Increase in net assets with donor restrictions | 10,715 | 4,465 |
| Increase (decrease) in total net assets | 468,537 | (214,905) |
| Net assets, beginning of period | 5,513,635 | 5,728,540 |
| Net assets, end of period | $ 5,982,172 | $ 5,513,635 |

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, 2023 and 2022

*(in thousands of dollars)*

| | 2023 | 2022 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Increase (decrease) in total net assets | $ 468,537 | $ (214,905) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Depreciation, amortization and accretion | 332,503 | 330,291 |
| Gain on sale of consolidated entities | (14,085) | (241,452) |
| Impairment charge | - | 62,981 |
| Actuarial loss (gain) on pension and postretirement benefits | (598) | 609 |
| Change in funded status of defined benefit plans | 543 | (4,664) |
| Share of earnings (losses) in affiliates, net of distributions | (156) | 8,336 |
| Net realized and unrealized losses (gains) on assets limited as to use and investments | (259,908) | 302,918 |
| Change in fair value of interest rate swaps | (937) | (26,069) |
| Contributions restricted for capital | (2,135) | (1,585) |
| Changes in operating assets and liabilities, net of assets acquired and liabilities assumed | | |
| Accounts receivable | (172,847) | (27,584) |
| Accounts payable and accrued liabilities | 58,921 | 126,082 |
| Medicare advanced repayments | (91,145) | (174,883) |
| Long-term liabilities | 32,683 | (53,630) |
| Other current assets | (97,500) | (64,401) |
| Third-party payor settlements | 44,631 | (18,346) |
| Deferred taxes, net | (5,531) | 16,220 |
| Other assets and liabilities, net | 15,261 | 7,259 |
| Net cash provided by operating activities | 308,237 | 27,177 |
| **Cash flows from investing activities** | | |
| Capital expenditures | (520,858) | (466,327) |
| Proceeds from sales of long-term investments | 1,451,632 | 1,811,190 |
| Purchases of long-term investments | (1,662,899) | (1,701,165) |
| Proceeds from sales of short-term investments | 724,287 | 760,857 |
| Purchases of short-term investments | (493,175) | (581,223) |
| Proceeds from sale of property and equipment | 22,273 | 3,405 |
| Proceeds (payments) from sale of consolidated entities, net of cash disposed | 250,061 | (20,088) |
| Investments in unconsolidated affiliates | (92,019) | (3,366) |
| Other investing activities | (1,852) | (3,861) |
| Net cash used in investing activities | (322,550) | (200,578) |

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, 2023 and 2022

*(in thousands of dollars)*

| | 2023 | 2022 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Principal payments on long-term debt | (24,740) | (17,971) |
| Payments on repurchase agreements, net | - | (124,300) |
| Proceeds from sale of accounts receivable | 19,734 | 20,312 |
| Proceeds from revolving credit facility | 43,627 | 2,000 |
| Other financing activities | (1,412) | 3,077 |
| Net cash provided by (used in) financing activities | 37,209 | (116,882) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 22,896 | (290,283) |
| **Cash, cash equivalents and restricted cash** | | |
| Beginning of period | 850,183 | 1,140,466 |
| End of period | $ 873,079 | $ 850,183 |

| | 2023 | 2022 |
|---|---|---|
| **Supplemental disclosure of cash flow information** | | |
| Interest paid | $ 93,161 | $ 92,781 |
| Income taxes paid | 31,577 | 1,873 |
| **Supplemental disclosure of noncash financing and investing activities** | | |
| Property and equipment financed through current liabilities | 79,044 | 52,299 |
| Investments in affiliates acquired in sale of business | - | 218,548 |

The following table reconciles cash and cash equivalents on the consolidated balance sheets to cash, cash equivalents and restricted cash on the consolidated statements of cash flows:

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | $ 739,797 | $ 643,997 |
| Restricted cash included in assets limited as to use: | | |
| Nonqualified plans | 11,025 | 9,357 |
| Transition stabilization escrow | 43,283 | 55,135 |
| Bond proceeds | - | 10 |
| Other | 16,269 | 10,484 |
| Cash and cash equivalents included in long-term investments | 62,705 | 131,200 |
| Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows | $ 873,079 | $ 850,183 |

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 not-for-profit integrated system of 15 medical centers and more than 1,800 physicians in over 800 locations, as well as numerous outpatient surgery centers, medical plazas, rehabilitation programs, diagnostic imaging centers and community health outreach programs. Novant Health's more than 35,000 team members and physician partners care for patients and communities in North Carolina, South Carolina and Georgia.

## 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 ("GAAP").

### 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.

### Use of Estimates
The preparation of financial statements in conformity with GAAP 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 consolidated 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 and medical and professional liability and other self-insurance accruals 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 8, *Fair Value Measurements*.

### Cash and Cash Equivalents
Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by board designation, donors or trustees and certain amounts that are reported as long-term investments.

### Restricted Cash
Novant Health holds cash that is restricted by the Company to purchase investments, pay participants in the Company's nonqualified plan, make payments related to the transition stabilization fund and fund expenditures with proceeds of the Series 2019 A bonds. Restricted cash balances were $133,282 and $206,186 as of December 31, 2023 and 2022, respectively, and are classified as current or long-term, consistent with the nature of their intended use based on the restrictions.

*(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, historical experience as well as current and expected future economic conditions. Novant Health records price concessions in the period of service based on the analysis and consideration of these factors.

**Leases**
Novant Health leases property and equipment under finance and operating leases and determines if an arrangement is a lease at the inception of the contract. Right-of-use assets represent the Company's right to use the underlying assets for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the leases. For leases with terms greater than 12 months, the related right-of-use assets and liabilities are recorded at the present value of lease payments over the term. Many of the Company's leases include rental escalation clauses and renewal options that are factored into our determination of lease payments when appropriate. The Company uses its estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of the lease payment.

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

**Investments**
Debt investments are classified as trading securities. All debt investments are designated as trading at the time of acquisition. Unrealized gains and losses on debt and equity investments are included in excess (deficit) 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 based on prices obtained on active markets or exchanges. The Company also invests in alternative and private equity investments through funds structured as limited partnerships, limited liability companies ("LLC's") and corporations. These investments are recorded using the equity method, with the values provided by the respective partnership, LLC or corporation based on market value or other estimates that require varying degrees of judgment. The Company also has certain investments that are reported at Net Asset Value ("NAV") as a practical expedient as permitted under GAAP. Novant Health believes the NAV reported at the end of the period is representative of the price we would receive if we sold the investment. For all of the Company's long-term investments, the related earnings are reported as investment income (loss) in the consolidated statements of operations and changes in net assets. At December 31, 2023 and 2022, the Company held $45,701 and $36,239, respectively, of long-term investments that were accounted for at cost less impairment

*(in thousands of dollars)*

with adjustments made for any observable price changes resulting from an orderly transaction for the identical or a similar investment of the same issuer.

The determination of any other-than-temporary impairment ("OTTI") of the Company's equity and debt investments is based upon periodic evaluations and assessments of known and inherent risks associated with the respective asset class. The Company updates its evaluations regularly and recognizes OTTI as conditions change and new information becomes available. OTTI is included in investment income (loss) in the combined statements of operations and changes in net assets. There was no OTTI for the years ended December 31, 2023 and 2022.

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, funds designated for wind down expenses related to an acquisition (transition stabilization fund), and assets designated for specific purposes by the Board of Trustees.

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

Derivatives are recognized on the consolidated balance sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. The Company formally documents the hedging relationships at inception of the contract for derivative transactions, including identifying the hedge instruments and hedged items, as well as the risk management objectives and strategies for entering into the hedge transaction. At inception and on a quarterly basis thereafter, the Company assesses the effectiveness of derivatives used to hedge transactions. If a cash flow hedge is deemed highly effective, the change in fair value is recorded as a change in net assets without donor restrictions. The change in fair value of derivatives that do not qualify for hedge accounting is recognized in excess (deficit) 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.

*(in thousands of dollars)*

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

| | |
|---|---|
| Land improvements | 5–45 years |
| Buildings | 30–40 years |
| Machinery and equipment | 3–15 years |
| Software | 3–10 years |
| Furniture and fixtures | 7–14 years |

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.

Gifts of long-lived assets such as land, buildings or equipment are excluded from excess (deficit) 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. During 2023, regulatory changes in states where the Company does business eliminated these requirements for certain types of equipment at dates in the future. As a result of these changes, these intangible assets now have estimated useful lives and are being amortized accordingly. 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 over their estimated useful lives.

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

| | |
|---|---|
| Certificates of need | Based on state regulatory requirements |
| Business relationships | 26 years |
| Corporate trade name | 29 years |

On October 1st each year, Novant Health tests goodwill and indefinite-lived assets for impairment. Novant has elected to evaluate goodwill triggering events at the end of each quarterly reporting period. If it is more likely than not that the indefinite-lived asset is impaired, additional testing for impairment is required.

*(in thousands of dollars)*

GAAP prescribes that impairment for indefinite-lived intangibles is evaluated by comparing the fair value of the asset with its carrying amount. If the carrying amount exceeds the fair value, an impairment loss is recognized as the amount of that excess.

Impairment tests are performed at the reporting unit level for units that have goodwill. 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. 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 goodwill is considered impaired and an impairment charge is recorded for the amount by which the carrying value exceeds the fair value of the reporting unit.

**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 for which the Company does not have the ability to exercise significant influence are accounted for at fair value or, if fair value is not readily determinable, at cost less impairment with adjustments made for any observable price changes resulting from an orderly transaction for the identical or a similar investment of the same issuer. Distributions from affiliates are shown as operating cash flows on the Company’s consolidated statements of cash flows.

**Other Assets**
Other assets consist of notes and pledges receivable, reinsurance receivables, deferred rent income and the cash surrender value of insurance policies.

**Compensated Absences**
The Company’s employees earn paid time off at varying rates depending on years of service. Paid time off accumulates up to certain limits, at which time no additional hours can be earned. Provided this hourly limit is not met, employees can continue to accumulate hours and time can be carried over to future years. Accrued paid time off is included in accrued liabilities on the Company’s consolidated balance sheets.

**Pension and Postretirement Benefit Plans**
Novant Health’s 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. 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) is determined 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 expected benefit payments in future years. The expected rate of return is a judgmental matter which is reviewed on an annual basis and revised as appropriate.

*(in thousands of dollars)*

The accounting guidance related to employers' accounting for defined benefit pension and other postretirement plans requires recognition in the consolidated balance sheets of the funded status of these plans. The Company uses mark-to-market accounting and immediately recognizes changes in the fair value of plan assets and actuarial gains or losses in operating results.

**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 revenues and expenses. Other activities are deemed to be non-operating and include investment income (loss), income tax expense and other net periodic pension costs.

Novant Health hospitals receives supplemental Medicaid payments from the state of North Carolina through a federally approved directed payment program which was approved during 2023. This program provides a 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 payments received as net patient service revenue and assessments paid as supplies and other 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. During 2023, Novant Health hospitals received $330,268 and paid $107,938. North Carolina hospitals also pay assessments to finance portions of North Carolina's Medicaid fee-for-service, general medical education and managed care program. Novant Health hospitals paid assessments of $140,032 in 2023 and $123,657 in 2022. The Medicaid program in the state of North Carolina was expanded on

*(in thousands of dollars)*

December 1, 2023. This expansion increases Medicaid access for individuals and families meeting certain criteria. North Carolina hospitals also pay assessments to finance this program. Novant Health hospitals paid $9,188 in Medicaid expansion assessments in 2023.

The consolidated statements of operations and changes in net assets include excess (deficit) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficit) of revenues over expenses include the change in funded status of defined benefit plans and amortization of deferred loss on derivative financial instruments that apply hedge accounting.

**Other Revenue**

Other revenue consists primarily of pharmacy revenue, revenue from pay-for-performance contracts, earnings from investments in affiliates accounted for using the equity method of accounting, revenue from management services agreements, net assets released from restriction, gain on sale of consolidated entities and rental income.

**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 complementary 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.

## 3. Organizational Changes

On December 31, 2022, the Company sold its economic interests in its North Carolina imaging operations as well as the business that provided management services of imaging operations to Novant Health and others. In exchange, Novant Health received a 50.1% ownership interest in Novant Health-Norfolk LLC and a 30% ownership interest in Norfolk Management Services LLC, and $229,828 in cash proceeds. The newly formed entities own the economic interest in and oversee management of the imaging centers. The cash was received in January 2023 and is included in other current assets on the consolidated balance sheets as of December 31, 2022. The transaction resulted in a gain of $241,452, which is included in other revenue on the consolidated statements of operations and changes in net assets for the year ended December 31, 2022. The transaction also resulted in an impairment charge of $62,981 related to certain intangible assets which became impaired as of the date of the sale.

*(in thousands of dollars)*

On September 29, 2023, the Company sold its economic interest in additional North Carolina imaging operations to Novant Health-Norfolk LLC in exchange for $20,233 in proceeds. The transaction resulted in a gain of $14,085 which is included in other revenue on the consolidated statements of operations and changes in net assets for the year ended December 31, 2023.

On January 1, 2023, the Company purchased 49.0% ownership interest of an organization that offers products to Medicare beneficiaries in exchange for $44,100. This investment is accounted for using the equity method and is included in investments in affiliates on the consolidated balance sheets.

On August 1, 2023, the Company purchased 30.0% ownership interest of an organization that owns all the membership interests of a health system in Conway, SC. The system includes 222 inpatient beds, outpatient facilities and more than 200 physicians. The ownership was purchased for $37,500 in cash and a payable of $37,500, due in equal installments on the first and second anniversary of the purchase. This investment is accounted for using the equity method and is included in investments in affiliates on the consolidated balance sheet.

## 4. Revenue Recognition and Accounts Receivable

**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 as well as expectations about current and future economic conditions. 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 change by a material amount in the near term. Adjustments arising from a change in the transaction price were not significant in 2023 and 2022.

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 net patient service revenue in the period of the change. For the years ended December 31, 2023 and 2022, additional revenue of $6,800 and

*(in thousands of dollars)*

$9,800, respectively, was recognized due to changes in 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 expected credit losses. These are reported as a component of supplies and other in the consolidated statements of operations and changes in net assets and were not significant for the years ended December 31, 2023 and 2022.

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

| | December 31, 2023 | | |
|---|---|---|---|
| | Acute Care Facilities | Outpatient Locations | Total |
| Medicare | $ 1,775,882 | $ 631,736 | $ 2,407,618 |
| Medicaid | 845,240 | 129,268 | 974,508 |
| Managed care | 2,408,111 | 1,159,911 | 3,568,022 |
| Other | 378,428 | 36,633 | 415,061 |
| Self-pay | 22,865 | 27,705 | 50,570 |
| Total | $ 5,430,526 | $ 1,985,253 | $ 7,415,779 |

| | December 31, 2022 | | |
|---|---|---|---|
| | Acute Care Facilities | Outpatient Locations | Total |
| Medicare | $ 1,624,372 | $ 593,886 | $ 2,218,258 |
| Medicaid | 505,037 | 121,322 | 626,359 |
| Managed care | 2,245,043 | 1,161,802 | 3,406,845 |
| Other | 300,491 | 42,321 | 342,812 |
| Self-pay | 29,103 | 29,515 | 58,618 |
| Total | $ 4,704,046 | $ 1,948,846 | $ 6,652,892 |

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.

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

*(in thousands of dollars)*

consolidated balance sheets. As of December 31, 2023, the factored notes and the related liabilities were $43,371 and $54,224, respectively. As of December 31, 2022, the factored notes and the related liabilities were $45,588 and $57,004, respectively.

**Other Revenue**
In addition to net patient service revenue, Novant Health also recognizes revenue from other transactions. Revenue from these transactions is recognized when obligations under the terms of the respective contract are satisfied and is measured as the amount of consideration the Company expects to receive from those services. The Company recognizes rental income in accordance with GAAP on a straight-line basis over the lease term. Other revenue is comprised of the following for the years ended December 31:

| | 2023 | 2022 |
|---|---|---|
| Pharmacy revenue | $ 532,143 | $ 381,243 |
| Gain on sale of consolidated entities | 14,085 | 241,452 |
| Pay-for-performance contracts | 94,987 | 76,680 |
| Release of purchase escrow | 37,500 | - |
| Provider relief funds | - | 31,099 |
| Management services agreements | 6,860 | 25,367 |
| Equity in earnings of affiliates | 18,162 | 2,252 |
| Rental income | 8,929 | 8,929 |
| Other miscellaneous revenues | 166,703 | 132,196 |
| | $ 879,369 | $ 899,218 |

## 5. 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 $224,873 and $212,556 for the years ended December 31, 2023 and 2022, 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 $11,133 and $12,006 for the years ended December 31, 2023 and 2022, respectively.

*(in thousands of dollars)*

## 6. Other Current Assets

Other current assets consist of the following at December 31:

| | 2023 | 2022 |
|---|---|---|
| Supplies | $ 179,253 | $ 164,948 |
| Prepaids | 77,533 | 74,288 |
| Receivable from sale of imaging centers | - | 229,828 |
| Other receivables | 256,272 | 175,937 |
| | $ 513,058 | $ 645,001 |

## 7. 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:

| | 2023 | 2022 |
|---|---|---|
| Certificates of deposit | $ 11,080 | $ 10,681 |
| Fixed income - government securities | - | 223,572 |
| | $ 11,080 | $ 234,253 |

**Assets Limited as to Use**

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Current Portion | Long-Term Portion | Current Portion | Long-Term Portion |
| Under general and professional liability funding arrangement held by trustee | $ 3,280 | $ 2,493 | $ 5,421 | $ 1,395 |
| Transition stabilization fund | 11,852 | 31,431 | 7,000 | 48,135 |
| Held by bond trustee | - | - | 10 | - |
| Designated by Board to service benefit plans | 12,485 | 236,308 | 16,401 | 190,248 |
| | $ 27,617 | $ 270,232 | $ 28,832 | $ 239,778 |

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 NAV as a practical expedient. The composition of long-term investments is as follows:

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | At Fair Value | On Equity Method | At NAV | Total |
| Cash and cash equivalents | $ 62,705 | $ - | $ - | $ 62,705 |
| U.S. equities | 470,903 | - | 475,311 | 946,214 |
| International equities | 176,932 | - | 228,432 | 405,364 |
| Fixed income - government securities | 703,675 | - | - | 703,675 |
| Fixed income - corporate and other | 24,678 | 109,614 | - | 134,292 |
| Hedge funds | - | 300,570 | - | 300,570 |
| Private equity | - | 460,446 | - | 460,446 |
| Emerging markets | 1,469 | - | 95,522 | 96,991 |
| Real estate and other | 67,188 | 210,444 | - | 277,632 |
| | $ 1,507,550 | $ 1,081,074 | $ 799,265 | $ 3,387,889 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | At Fair Value | On Equity Method | At NAV | Total |
| Cash and cash equivalents | $ 131,200 | $ - | $ - | $ 131,200 |
| U.S. equities | 340,236 | - | 381,772 | 722,008 |
| International equities | 129,369 | - | 223,698 | 353,067 |
| Fixed income - government securities | 604,190 | - | - | 604,190 |
| Fixed income - corporate and other | 23,015 | 113,334 | - | 136,349 |
| Hedge funds | - | 288,113 | - | 288,113 |
| Private equity | - | 386,877 | - | 386,877 |
| Emerging markets | 1,856 | - | 105,733 | 107,589 |
| Real estate and other | 105,170 | 195,405 | - | 300,575 |
| | $ 1,335,036 | $ 983,729 | $ 711,203 | $ 3,029,968 |

Long-term investments recorded on the equity method represent interests in Limited Liability Partnerships (LLP's) and Limited Liability Company's (LLC's) that do not trade in an active market. The agreements generally run for a number of years and require the Company to make capital contributions to the investments throughout the term of the partnership, up to the amount in the subscription agreement. The Company will generally receive distributions throughout the life of the investment, at the discretion of the investment manager and in accordance with the LLP or LLC agreements, with any final distribution made at the termination of the agreement. As of December 31, 2023, there are no LLP's or LLC's that are set to terminate within one year.

*(in thousands of dollars)*

Long-term investments carried at NAV represent interests in private investment companies that do not trade in an active market and may be redeemed or liquidated only after giving notice to the investment company, with notice periods ranging from daily to 120 days. The investments are held in U.S. and international equities and emerging markets. The Company has elected to value the investments using NAV as a practical expedient as reported by the investment company without adjustment, unless it is probable that the investment will be sold at a value significantly different than the reported NAV. At December 31, 2023 and 2022 we have not made any adjustments to the NAVs reported by the investment companies. The Company has the ability to redeem its interests at or within 120 days of the financial statement date.

The Company's investments in hedge funds include funds structured as limited partnerships, LLCs and corporations. These funds are domiciled in the U.S. and foreign jurisdictions and are managed by investment managers subject to oversight by various countries' regulators. The underlying assets of the hedge funds vary widely in risk and liquidity. Overall, the hedge fund holdings of the Company are expected to provide improved diversification to the Company's broader portfolio.

The Company's investments in hedge funds represent 8.9% and 9.5% of total long-term investments held at December 31, 2023 and 2022, 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, 2023 and 2022, Novant Health had future commitments of $358,387 and $402,226, respectively, for which capital calls had not been exercised.

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

| | 2023 | 2022 |
|---|---|---|
| Interest and dividend income | $ 50,896 | $ 51,806 |
| Net realized gains | 43,248 | 32,775 |
| Net unrealized gains (losses) | 216,660 | (335,693) |
| | $ 310,804 | $ (251,112) |

Investment income (loss) is shown net of related expenses on the consolidated statements of operations and changes in net assets. Investment related administrative expenses were $5,271 and $7,358 for the years ended December 31, 2023 and 2022, respectively.

*(in thousands of dollars)*

**Liquidity and Availability**
As of December 31, 2023 and 2022, Novant Health has working capital of $940,650 and $1,108,471, respectively.

| Financial assets at year-end: | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | $ 739,797 | $ 643,997 |
| Accounts receivable, net | 1,055,998 | 902,323 |
| Short-term investments | 11,080 | 234,253 |
| Assets limited as to use | 297,849 | 268,610 |
| Receivable for settlement with third-party payors | 12,650 | 13,985 |
| Other current assets | 256,272 | 405,765 |
| Long-term investments | 3,387,889 | 3,029,968 |
| Other assets | 50,379 | 45,781 |
| Total financial assets | $ 5,811,914 | $ 5,544,682 |
| Less amounts not available: | | |
| Long-term investments with liquidity horizons greater than one year | 837,670 | 806,625 |
| Assets limited as to use | 297,849 | 268,610 |
| Donor restricted funds | 106,102 | 95,387 |
| Financial assets not available to be used within one year | $ 1,241,621 | $ 1,170,622 |
| Financial assets available to meet general expenditures within one year | $ 4,570,293 | $ 4,374,060 |

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 line of credit, as discussed in Note 15, *Long-Term Debt*. As of December 31, 2023, $204,500 was available on the line of credit. As of December 31, 2023, the Company was in compliance with financial covenants as discussed in Note 15, *Long-Term Debt*.

## 8. Fair Value Measurements

Novant Health categorizes, for disclosure purposes, assets and liabilities measured at fair value in the consolidated 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

*(in thousands of dollars)*

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: Pricing inputs are generally unobservable for the assets and liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities.

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 the 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).

The degree of judgement exercised in determining fair value is greatest for securities categorized in Level 3. Inputs used in estimating the fair value of Level 3 investments include earnings metrics and a valuation multiple. Assumptions used, due to lack of observable inputs, may significantly impact the fair value of the investment.

As of December 31, 2023 and 2022, 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.

*(in thousands of dollars)*

**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.

**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.

**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.

*(in thousands of dollars)*

The following table summarizes fair value measurements, by level, at December 31, 2023 for all financial assets and liabilities measured at fair value on a recurring basis in the consolidated 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 | $ - | $ 11,080 | $ - | $ 11,080 |
| Fixed income - government securities | - | - | - | - |
| Total short-term investments | - | 11,080 | - | 11,080 |
| Assets limited as to use: | | | | |
| Cash and cash equivalents | 70,577 | - | - | 70,577 |
| U.S. equities | 204,365 | - | - | 204,365 |
| International equities | 7,830 | - | - | 7,830 |
| Fixed income - government securities | 15,077 | - | - | 15,077 |
| Total assets limited as to use | 297,849 | - | - | 297,849 |
| Long-term investments: | | | | |
| Cash and cash equivalents | 62,705 | - | - | 62,705 |
| U.S. equities | 425,202 | - | 45,701 | 470,903 |
| International equities | 176,932 | - | - | 176,932 |
| Fixed income - government securities | - | 703,675 | - | 703,675 |
| Fixed income - corporate and other | 24,573 | 105 | - | 24,678 |
| Emerging markets | 1,469 | - | - | 1,469 |
| Other exchange traded funds | 67,188 | - | - | 67,188 |
| Total long-term investments | 758,069 | 703,780 | 45,701 | 1,507,550 |
| Total assets at fair value | $ 1,055,918 | $ 714,860 | $ 45,701 | $ 1,816,479 |
| **Liabilities** | | | | |
| Accrued liabilities | $ 12,485 | $ - | $ - | $ 12,485 |
| Derivative financial instruments | - | 12,254 | - | 12,254 |
| Deferred compensation liabilities | 237,151 | - | - | 237,151 |
| Total liabilities at fair value | $ 249,636 | $ 12,254 | $ - | $ 261,890 |

*(in thousands of dollars)*

The following table summarizes fair value measurements, by level, at December 31, 2022 for all financial assets and liabilities measured at fair value on a recurring basis in the consolidated 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 | $ - | $ 10,681 | $ - | $ 10,681 |
| Fixed income - government securities | - | 223,572 | - | 223,572 |
| Total short-term investments | - | 234,253 | - | 234,253 |
| Assets limited as to use: | | | | |
| Cash and cash equivalents | 74,986 | - | - | 74,986 |
| U.S. equities | 171,944 | - | - | 171,944 |
| International equities | 5,757 | - | - | 5,757 |
| Fixed income - government securities | 9,183 | 5,190 | - | 14,373 |
| Fixed income - corporate and other | - | 1,550 | - | 1,550 |
| Total assets limited as to use | 261,870 | 6,740 | - | 268,610 |
| Long-term investments: | | | | |
| Cash and cash equivalents | 131,200 | - | - | 131,200 |
| U.S. equities | 303,997 | - | 36,239 | 340,236 |
| International equities | 129,369 | - | - | 129,369 |
| Fixed income - government securities | - | 604,190 | - | 604,190 |
| Fixed income - corporate and other | 22,047 | 968 | - | 23,015 |
| Emerging markets | 1,856 | - | - | 1,856 |
| Other exchange traded funds | 105,170 | - | - | 105,170 |
| Total long-term investments | 693,639 | 605,158 | 36,239 | 1,335,036 |
| Total assets at fair value | $ 955,509 | $ 846,151 | $ 36,239 | $ 1,837,899 |
| **Liabilities** | | | | |
| Accrued liabilities | $ 16,401 | $ - | $ - | $ 16,401 |
| Derivative financial instruments | - | 13,191 | - | 13,191 |
| Deferred compensation liabilities | 195,452 | - | - | 195,452 |
| Total liabilities at fair value | $ 211,853 | $ 13,191 | $ - | $ 225,044 |

*(in thousands of dollars)*

The table below sets forth a summary of the changes in the fair value of the Level 3 investments for the years ended December 31, 2023 and 2022:

| | U.S. Equities |
|---|---|
| Balance at December 31, 2022 | $ 36,239 |
| New investments | 9,000 |
| Unrealized gain | 462 |
| Balance at December 31, 2023 | $ 45,701 |
| | |
| Balance at December 31, 2021 | $ 30,233 |
| New investments | 2,679 |
| Unrealized gain | 3,327 |
| Balance at December 31, 2022 | $ 36,239 |

During 2023 and 2022, there were no transfers between levels.

## 9. Property and Equipment

Property and equipment consists of the following at December 31:

| | 2023 | 2022 |
|---|---|---|
| Land | $ 304,004 | $ 305,747 |
| Land improvements | 127,065 | 128,355 |
| Leasehold improvements | 355,753 | 552,948 |
| Buildings and building improvements | 2,966,945 | 2,682,209 |
| Equipment | 2,172,738 | 1,873,427 |
| Software | 553,507 | 613,316 |
| Construction-in-progress | 517,518 | 395,381 |
| | 6,997,530 | 6,551,383 |
| Less: Accumulated depreciation | (3,777,593) | (3,547,151) |
| | $ 3,219,937 | $ 3,004,232 |

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 2023 or 2022.

Depreciation expense for the years ended December 31, 2023 and 2022 was $312,189 and $324,787, respectively. At December 31, 2023, construction contracts of approximately $916,914 exist for the construction of new hospitals and facilities, expansion of existing hospitals and facility renovations. At December 31, 2023, the remaining commitment on these contracts was $545,047.

*(in thousands of dollars)*

## 10. Leases

Novant Health leases property and equipment under non-cancellable agreements. The following table presents the components of our right-of-use assets and liabilities related to leases and their classification as of December 31:

| | 2023 | 2022 |
|---|---|---|
| **Assets:** | | |
| Operating lease assets | $ 456,876 | $ 469,914 |
| Finance lease assets | 5,681 | 7,333 |
| Total leased assets | $ 462,557 | $ 477,247 |
| **Liabilities:** | | |
| Operating lease liabilities | | |
| Current | $ 106,085 | $ 106,950 |
| Long-term | 386,962 | 388,638 |
| Total operating lease liabilities | 493,047 | 495,588 |
| Finance lease liabilities | | |
| Current [1] | 1,394 | 1,578 |
| Long-term [2] | 4,696 | 6,280 |
| Total finance lease liabilities | 6,090 | 7,858 |
| Total lease liabilities | $ 499,137 | $ 503,446 |

[1] Included in the current portion of long-term debt in the consolidated balance sheets.
[2] Included in long-term debt, net of current portion in the consolidated balance sheets.

Novant Health's operating leases are primarily for real estate, including off-campus outpatient facilities, medical office buildings and corporate and other administrative offices, as well as medical and office equipment. Novant Health's finance leases consist of a real estate lease and several medical equipment leases. Real estate lease agreements typically have initial terms of five to ten years and equipment lease agreements typically have initial terms of three years. Leases with an initial term of 12 months or less are not recorded in the consolidated balance sheets.

Real estate leases may include one or more options to renew, with renewals that can extend the lease term from five to ten years. The exercise of lease renewal options is at the Company's sole discretion. In general, renewal options are not considered to be reasonably likely to be exercised, therefore, renewal options are generally not recognized as part of right-of-use assets and lease liabilities. Certain leases also include options to purchase the leased property. The useful lives of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. The majority of medical equipment leases have terms of three

*(in thousands of dollars)*

years with a bargain purchase option that is reasonably certain of exercise; therefore, these assets are depreciated over their useful life, typically ranging from five to seven years. Certain lease agreements for real estate include payments based on actual common area maintenance expenses and/or include rental payments adjusted periodically for inflation. These variable lease payments are recognized in supplies and other in the consolidated statements of operations and changes in net assets but are not included in the right-of-use asset or liability balances in the consolidated balance sheets. Lease agreements do not contain any material residual value guarantees, restrictions or covenants.

Novant Health has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all asset classes except major movable equipment.

The following table presents certain information related to lease expense for finance and operating leases for the years ended December 31:

| | 2023 | 2022 |
|---|---|---|
| Operating leases [1] | $ 128,890 | $ 129,442 |
| Variable lease expense [1] | 13,219 | 12,451 |
| Finance lease expense: | | |
| Amortization of leased assets | 1,578 | 1,393 |
| Interest on lease liabilities | 153 | 176 |
| | $ 143,840 | $ 143,462 |

[1] Expenses are included in supplies and other in the consolidated statements of operations and changes in net assets.

The following table presents supplemental cash flow information for the years ended December 31:

| | 2023 | 2022 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows for operating leases | $ 127,380 | $ 127,355 |
| Operating cash flows for finance leases | 1,731 | 1,567 |
| Financing cash flows for finance leases | 153 | 176 |

*(in thousands of dollars)*

Future maturities of lease liabilities at December 31, 2023 are presented in the following table:

| | Operating Leases | Finance Leases | Total |
|---|---|---|---|
| 2024 | $ 116,883 | $ 1,731 | $ 118,614 |
| 2025 | 103,201 | 1,277 | 104,478 |
| 2026 | 89,237 | 1,145 | 90,382 |
| 2027 | 67,975 | 770 | 68,745 |
| 2028 | 54,146 | 602 | 54,748 |
| Thereafter | 107,377 | 983 | 108,360 |
| Total lease payments | 538,819 | 6,508 | 545,327 |
| Less: Imputed interest | (45,772) | (418) | (46,190) |
| Total lease obligations | 493,047 | 6,090 | 499,137 |
| Less: Current obligations | (106,085) | (1,394) | (107,479) |
| Long-term lease obligations | $ 386,962 | $ 4,696 | $ 391,658 |

At December 31, 2023 and 2022, the weighted average remaining lease term for operating leases is 6.0 and 6.2 years, respectively, and the weighted average discount rate is 2.7% and 2.5%, respectively. For finance leases, the weighted average remaining lease term for the years ended December 31, 2023 and 2022 is 5.0 and 5.7 years, respectively and the weighted average discount rate is 2.1% and 2.3%, respectively.

Novant Health is also a lessor and sublessor of real estate under operating leases. At December 31, 2023 and 2022, $14,020 and $13,160, respectively, of deferred rent was recorded in the consolidated balance sheets as a component of other assets. Lease income for the years ended December 31, 2023 and 2022 was $8,929 and $8,929, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. Most of the Company's leases include operating expenses such as utilities and maintenance costs in rent charges. However, variable rent income is not material. The Company has elected the practical expedient that allows lessors to not separate lease and non-lease components by class of underlying asset for all asset classes. The combined component is accounted for under lease accounting guidance.

Although the Company leases and subleases a small amount of building space to non-affiliated medical practices, the significant leases consist of long-term ground leases classified as operating leases with remaining terms from 42 years with options to extend for the additional terms of five years each to 59 years with no options to extend.

*(in thousands of dollars)*

The future undiscounted cash flows to be received from these leases are as follows:

| **Years Ending December 31** | |
|---|---|
| 2024 | $ 6,508 |
| 2025 | 6,035 |
| 2026 | 5,686 |
| 2027 | 5,490 |
| 2028 | 3,280 |
| Thereafter | 116,864 |
| | $ 143,863 |

## 11. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

| | Gross Intangible | Accumulated Amortization | Net Intangible |
|---|---|---|---|
| **Balance at December 31, 2023** | | | |
| Unamortized intangible assets | | | |
| Certificates of need | $ 12,857 | $ - | $ 12,857 |
| Total unamortized intangible assets | 12,857 | - | 12,857 |
| Amortized intangible assets | | | |
| Business relationships | 658 | (327) | 331 |
| Certificates of need | 21,961 | (20,124) | 1,837 |
| Corporate trade name and other intangibles | 96,556 | (11,019) | 85,537 |
| Total amortized intangible assets | 119,175 | (31,470) | 87,705 |
| Total intangible assets | $ 132,032 | $ (31,470) | $ 100,562 |
| **Balance at December 31, 2022** | | | |
| Unamortized intangible assets | | | |
| Certificates of need | $ 34,818 | $ - | $ 34,818 |
| Total unamortized intangible assets | 34,818 | - | 34,818 |
| Amortized intangible assets | | | |
| Business relationships | 658 | (293) | 365 |
| Corporate trade name and other intangibles | 96,556 | (7,673) | 88,883 |
| Total amortized intangible assets | 97,214 | (7,966) | 89,248 |
| Total intangible assets | $ 132,032 | $ (7,966) | $ 124,066 |

Amortization expense related to intangible assets was $23,504 and $5,632 for the years ended December 31, 2023 and 2022, respectively. Estimated annual amortization expense for intangible assets is $4,796 and $4,183 for 2024 and 2025, respectively, and is $3,571 for 2026 through 2028. The weighted average amortization period for intangible assets is 25.7 years.

*(in thousands of dollars)*

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

| | 2023 | 2022 |
|---|---|---|
| **As of January 1** | | |
| Goodwill, net of accumulated amortization | $ 551,203 | $ 692,555 |
| Accumulated impairment losses | (29,849) | (32,150) |
| | 521,354 | 660,405 |
| Disposals | - | (139,051) |
| | 521,354 | 521,354 |
| **As of the end of the period** | | |
| Goodwill, net of accumulated amortization | 551,203 | 551,203 |
| Accumulated impairment losses | (29,849) | (29,849) |
| | $ 521,354 | $ 521,354 |

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. 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.

At December 31, 2022, the change in the structure of Novant Health's involvement in its imaging business triggered an evaluation of impairment for certain reporting units. Based on the projected cash flow, certificate of need, business relationships and corporate trade name and other intangible assets were determined to be fully impaired and $62,981 of impairment charges were recorded. No impairment charges to intangible assets were recorded as a result of our review in 2023.

## 12. Investments in Affiliates

Novant Health has noncontrolling interests in 24 healthcare related entities. The Company's ownership interests in the entities range from 10.0% to 51.0%. These investments are accounted for using either the equity method or a measurement alternative.

*(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, 2023 and 2022 is as follows:

| | % Ownership | | Investment Balance | | Share of Earnings of Investee | |
|---|---|---|---|---|---|---|
| **Investee** | **2023** | **2022** | **2023** | **2022** | **2023** | **2022** |
| Novant Health-Norfolk LLC | 50% | 50% | $ 156,677 | $ 149,010 | $ 12,678 | $ - |
| Norfolk Management Services LLC | 30% | 30% | 64,548 | 69,538 | 2,510 | - |
| Conway Hospital Holdings LLC | 30% | 0% | 81,329 | - | 6,329 | - |
| HTA Holdings LLC | 49% | 0% | 42,806 | - | (1,294) | - |
| Novant Health Rehabilitation Hospital | 50% | 50% | 19,161 | 18,006 | 3,096 | 2,003 |
| Radiation Oncology Centers of the Carolinas LLC | 50% | 50% | 15,908 | 16,227 | 1,846 | 2,632 |
| Advanced Services | 23% | 23% | 6,891 | 4,187 | 2,703 | (132) |
| Providence Plaza LLC | 30% | 30% | 4,784 | 4,721 | 352 | 327 |
| Other | Various | Various | 5,103 | 5,843 | (10,058) | (2,578) |
| | | | $ 397,207 | $ 267,532 | $ 18,162 | $ 2,252 |

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

| | **2023** | **2022** |
|---|---|---|
| Assets | $ 1,647,457 | $ 759,574 |
| Liabilities | 573,525 | 172,682 |
| Equity | 1,073,931 | 586,892 |
| Total revenue | 703,228 | 113,961 |
| Total expenses | 647,667 | 109,885 |
| Net income | 55,560 | 4,076 |
| Novant Health's share of net income | 18,162 | 2,252 |

## 13. Other Assets

Other assets consist of the following at December 31:

| | **2023** | **2022** |
|---|---|---|
| Notes receivable and other | $ 56,741 | $ 67,328 |
| Cash surrender value of insurance policies | 39,618 | 35,664 |
| Deferred rent income | 14,020 | 13,160 |
| Pledges receivable | 10,761 | 10,117 |
| Reinsurance receivables | 1,662 | 5,314 |
| | $ 122,802 | $ 131,583 |

*(in thousands of dollars)*

## 14. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

| | 2023 | 2022 |
|---|---|---|
| Accrued compensation | $ 493,557 | $ 431,902 |
| Medicare advanced payments, current portion | - | 91,145 |
| Payroll taxes and withholdings | 16,945 | 10,986 |
| Interest | 13,559 | 13,499 |
| Postretirement benefit liability | 1,312 | 1,350 |
| Other accrued liabilities | 146,348 | 156,772 |
| Self-insurance | | |
| Employee medical claims liability | 48,465 | 46,900 |
| Malpractice and workers' compensation liability, current portion | 9,230 | 9,786 |
| | $ 729,416 | $ 762,340 |

## 15. Long-Term Debt

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

| | 2023 | 2022 |
|---|---|---|
| Tax-exempt revenue bonds | $ 592,455 | $ 609,150 |
| Taxable revenue bonds | 1,750,000 | 1,750,000 |
| Total bonds | 2,342,455 | 2,359,150 |
| Taxable term loan | 262,795 | 264,165 |
| Finance lease obligations and other notes payable | 8,728 | 16,282 |
| Borrowings on revolving credit facility | 45,500 | 2,000 |
| | 2,659,478 | 2,641,597 |
| Unamortized premium or discount, net | 21,364 | 22,003 |
| Unamortized debt issuance costs, net | (13,354) | (13,228) |
| | 2,667,488 | 2,650,372 |
| Less: Current maturities | (79,065) | (61,219) |
| | $ 2,588,423 | $ 2,589,153 |

*(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:

| | 2023 | 2022 |
|---|---|---|
| Series 2019 A Current Interest Term Bonds, bearing interest at rates ranging from 3.1% to 4.0% payable semi-annually with mandatory redemption beginning in 2047 | $ 306,985 | $ 306,985 |
| Series 2013 A Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 3.125% to 5.0% payable semi-annually and maturing through 2046; principal payments began in 2014 | 113,820 | 116,575 |
| 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 | 36,650 | 50,590 |
| 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 |
| | $ 592,455 | $ 609,150 |

In 2003, Novant Health entered into a new Master Trust Indenture that was amended in October 2021 (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 in certain circumstances, 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. As of December 31, 2023 and 2022, Novant Health is in compliance with these bond covenants.

*(in thousands of dollars)*

The Series 2004 A and B Variable Rate Demand Bonds are collateralized by a standby purchase agreement ("SBPA") issued by JP Morgan Chase Bank National Association. The SBPA expires April 1, 2025. 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, 2023 and 2022.

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. As a result, the Company has classified $36,650 as current at December 31, 2023.

**Taxable Revenue Bonds**

In April 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.

In April 2021, Novant Health issued $1,500,000 of taxable fixed rate bonds (the "2021 A Bonds"). The 2021 A Bonds bear interest at rates ranging from 2.67% to 3.32% and mature in 2036, 2051 and 2061. Proceeds of the 2021 A 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 Term Loan**

In March 2020, Novant Health entered into an agreement to borrow $264,165. The loan bears interest at a fixed rate of 1.89% with principal payments due annually beginning in 2023 through the maturity date of April 1, 2030.

**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 finance leases, bearing interest at rates ranging from 0.81% to 12.15%. Scheduled maturities of all long-term debt are as follows:

| **Years Ending December 31** | |
|---|---|
| 2024 | $ 20,057 |
| 2025 | 63,618 |
| 2026 | 18,909 |
| 2027 | 19,914 |
| 2028 | 20,473 |
| Thereafter | 2,516,507 |
| | $ 2,659,478 |

Novant Health capitalized $7,814 and $3,451 of interest in 2023 and 2022, respectively.

*(in thousands of dollars)*

**Revolving Credit Facility**
On July 1, 2022, Novant Health entered into a $250,000 Revolving Credit Agreement that matures July 1, 2025. Borrowings bear interest at variable rates. At December 31, 2023, the interest rate was 6.5 % and $204,500 was available for borrowing.

**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 agreements and instruments.

## 16. 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 $50,590. 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 $36,100 and $14,490 notional amounts, respectively. The swaps have been designated as cash flow hedges and are carried on the consolidated balance sheets at fair value. In the fourth quarter of 2018, the hedge 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. In the first quarter of 2019, the hedge relationship ceased to be highly effective and hedge accounting was discontinued.

Novant Health records interest rate swaps at fair value. These swaps are presented as derivative financial instruments in the consolidated balance sheets.

The following table summarizes the expense for derivatives which is included in interest expense in the consolidated statements of operations and changes in net assets for the years ended December 31:

| | 2023 | 2022 |
|---|---|---|
| Change in fair value of non-hedged interest rate swaps | $ 937 | $ 26,069 |
| Amortization of deferred loss | (2,564) | (2,778) |
| | $ (1,627) | $ 23,291 |

*(in thousands of dollars)*

## 17. Employee Benefits and Other Liabilities

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

| | 2023 | 2022 |
|---|---|---|
| Deferred compensation liabilities | $ 237,151 | $ 195,452 |
| Employee benefits and other | 90,242 | 62,117 |
| Transition stabilization fund | 31,431 | 48,135 |
| Self-insurance malpractice and workers' compensation, net of current portion | 47,620 | 39,746 |
| Deferred gains | 21,761 | 22,786 |
| Postretirement benefit liability, net of current portion | 13,812 | 14,485 |
| | $ 442,017 | $ 382,721 |

## 18. Income Taxes

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

| | 2023 | 2022 |
|---|---|---|
| **Current tax expense** | | |
| Federal | $ 4,833 | $ 22,112 |
| State | 646 | 964 |
| | 5,479 | 23,076 |
| **Deferred tax expense (benefit)** | | |
| Federal | (2,688) | 12,992 |
| State | (884) | 2,685 |
| | (3,572) | 15,677 |
| | $ 1,907 | $ 38,753 |

*(in thousands of dollars)*

The components of deferred taxes are as follows:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Loss carryforwards | $ | 16,517 | $ | 15,075 |
| Deferred charge for intercompany transfer | | 1,418 | | 2,851 |
| Allowance for doubtful accounts | | 697 | | 723 |
| Accrued expenses | | 1,276 | | 2,007 |
| Future deductions- operating leases | | 1,661 | | 1,665 |
| Other | | 602 | | 206 |
| Total deferred tax assets | | 22,171 | | 22,527 |
| **Deferred tax liabilities** | | | | |
| Intangible assets | | (642) | | (5,321) |
| Property and equipment | | - | | (4) |
| Right-of-use assets | | (1,619) | | (1,618) |
| Other | | (14,856) | | (14,349) |
| Total deferred tax liabilities | | (17,117) | | (21,292) |
| Valuation allowance | | (16,416) | | (18,128) |
| Net deferred tax liability | $ | (11,362) | $ | (16,893) |

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, 2023 and 2022, management has determined that based on all available evidence, a valuation allowance of $16,416 and $18,128, respectively, is appropriate.

As of December 31, 2023, the Company had approximately $68,255 of federal and $28,435 of state loss carryforwards available to reduce taxable income. $56,918 of the loss carryforwards expire through 2038 and the remainder do not expire. In addition, at December 31, 2023, the Company had approximately $13,127 of federal contribution carryforwards available to reduce taxable income.

*(in thousands of dollars)*

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

| | 2023 | 2022 |
|---|---|---|
| Federal taxes | $ 2,145 | $ 35,104 |
| State income taxes | (238) | 3,649 |
| | $ 1,907 | $ 38,753 |

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, 2023 and 2022.

## 19. Employee Benefit Plans and Other Postretirement Benefit Plans

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 nonqualified deferred compensation plans which provide certain individuals meeting specific criteria with the ability to defer compensation. 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. The unfunded obligation in the consolidated balance sheets at December 31, 2023 and 2022 was $15,124 and $15,835, respectively. The expense associated with these plans totaled $181 for 2023 and $3,846 for 2022. The discount rate used in determining the benefit obligation ranged between 4.50% and 4.70% for 2023 and 4.70% and 4.90% for 2022. The health care costs increase trend rate used was 6.25% in 2023 and 6.50% in 2022. The health care cost increase trend rate is projected to gradually decline to 4.50% by 2027.

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 $140,273 and $115,294 in 2023 and 2022, respectively.

Eligible Novant Health employees 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 Company contributes predetermined amounts for each eligible full-time and part-time employee, which is allocated to the

*(in thousands of dollars)*

various benefit options in accordance with the participant's election. The Company's contributions to these plans were $327,590 in 2023 and $319,123 in 2022.

## 20. Net Assets without Donor Restrictions

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, 2022** | $ 5,637,618 | $ 5,630,943 | $ 6,675 |
| Excess (deficit) of revenues over expenses | (222,839) | (223,046) | 207 |
| Change in funded status of defined benefit plans | 4,664 | 4,664 | - |
| Amortization of deferred loss on derivative financial instruments | 2,778 | 2,778 | - |
| Other changes in net assets without donor restrictions | (3,973) | (2,150) | (1,823) |
| **Balance at December 31, 2022** | 5,418,248 | 5,413,189 | 5,059 |
| Excess of revenues over expenses | 460,845 | 457,643 | 3,202 |
| Change in funded status of defined benefit plans | (543) | (543) | - |
| Amortization of deferred loss on derivative financial instruments | 2,564 | 2,564 | - |
| Other changes in net assets without donor restrictions | (5,044) | (1,589) | (3,455) |
| **Balance at December 31, 2023** | $ 5,876,070 | $ 5,871,264 | $ 4,806 |

## 21. Net Assets with Donor Restrictions

Donor restricted net assets are available for the following purposes as of December 31:

| | 2023 | 2022 |
|---|---|---|
| Buildings and equipment | $ 17,538 | $ 17,760 |
| Clinical care, research and academic | 66,963 | 54,847 |
| Charity care | 9,568 | 9,657 |
| Other | 12,033 | 13,123 |
| | $ 106,102 | $ 95,387 |

## 22. 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. This fund was converted to claims-made status on January 1, 2020, and prior reported liabilities under this coverage were placed in run-off. Effective January 1, 2020, funding for self-insured professional liabilities are

*(in thousands of dollars)*

insured by Novant Health Casualty, LLC, a North Carolina domiciled insurance captive. Coverage terms and umbrella policies of the same or higher limits are in place for the captive. At December 31, 2023 and 2022, undiscounted professional and general liability loss reserves of $56,850 and $49,532, respectively, are included in accrued liabilities and employee benefits and other liabilities on the consolidated balance sheets. Expenses related to these plans amounted to $35,828 and $22,203 in 2023 and 2022, respectively.

## 23. 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. The Company establishes separate legal reserves when such matters, other than those covered under the Company's self-insured programs, present loss contingencies that are both probable and estimable. 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, protection of sensitive patient data, 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.

## 24. Concentrations of Credit Risk

Novant Health provides services primarily to the residents of various counties within North Carolina, South Carolina and Georgia 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:

| | 2023 | 2022 |
|---|---|---|
| Medicare | 30.2% | 29.2% |
| Medicaid | 8.8% | 9.5% |
| Other third-party payors | 57.2% | 57.4% |
| Patients | 3.8% | 3.9% |
| | 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)*

## 25. 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, 2023 | | | |
|---|---|---|---|---|
| | Health Care Services | | Support Services | |
| | Acute Care Facilities | Outpatient Locations | General & Administrative | Total |
| Salaries and employee benefits | $ 2,398,445 | $ 1,718,121 | $ 354,949 | $ 4,471,515 |
| Supplies and other | 2,076,815 | 814,796 | 366,750 | 3,258,361 |
| Depreciation and amortization expense | 225,728 | 55,994 | 48,795 | 330,517 |
| Interest expense | 66,756 | 5,718 | 15,501 | 87,975 |
| Other non-operating expenses | - | 2,567 | 694 | 3,261 |
| Total expenses | $ 4,767,744 | $ 2,597,196 | $ 786,689 | $ 8,151,629 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Health Care Services | | Support Services | |
| | Acute Care Facilities | Outpatient Locations | General & Administrative | Total |
| Salaries and employee benefits | $ 2,248,404 | $ 1,661,489 | $ 340,827 | $ 4,250,720 |
| Supplies and other | 1,783,748 | 705,784 | 284,376 | 2,773,908 |
| Depreciation and amortization expense | 209,783 | 109,708 | 73,798 | 393,289 |
| Interest expense | 51,780 | 6,677 | 7,527 | 65,984 |
| Other non-operating expenses | (56) | (33,288) | (6,592) | (39,936) |
| Total expenses | $ 4,293,659 | $ 2,450,370 | $ 699,936 | $ 7,443,965 |

*(in thousands of dollars)*

## 26. Subsequent Events

On January 31, 2024, the Company purchased substantially all of the assets of three hospitals in South Carolina from Tenet Healthcare Corporation. The purchase included Coastal Carolina Hospital, Hilton Head Hospital and East Cooper Medical Center, as well as affiliated physician practices and other related hospital operations. The purchase price of approximately $2,400,000 was partially financed with the proceeds of two short-term borrowings. The Company intends to issue long-term financing later in 2024. The purchase price allocation for this acquisition has not been finalized.

On March 1, 2024 the Company purchased ownership interests of 70% and 51% of two surgery centers in exchange for $60,000 and $5,241, respectively. The purchase price allocation for this acquisition has not been finalized.

## 27. Significant Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)* and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 848"). This guidance provides relief from the application of certain guidance during the transition to alternative reference rates. Optional expedients are provided for contract modification that replace a reference rate affected by reference rate reform and related contemporaneous modifications. Exceptions are provided for changes to the critical terms of a hedging relationship due to reference rate reform. Expedients are provided for cash flow hedging relationships and fair value hedging relationships. These provisions were initially available until December 31, 2022, but in late 2022 were extended to December 31, 2024. Novant Health elected to adopt ASC 848 on April 1, 2023 and used the exceptions when transitioning affected contracts to alternative reference rates.

# 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 (the "Company") as of and for the years ended December 31, 2023 and 2022, and have issued our report thereon dated March 29, 2024, which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information as of and for the year ended December 31, 2023 and the supplemental schedule of cost of community benefit programs for the year ended December 31, 2023 appearing on pages 45-51 (collectively referred to herein as the "information" are presented for purposes of additional analysis and are not a required part of the consolidated financial statements nor are they intended to present, and we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual entities. The supplemental 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 supplemental information, excluding the schedule of cost of community benefit programs information marked "unaudited," 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, excluding the schedule of costs of community benefit programs information marked "unaudited," is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The schedule of costs of community benefit programs information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

Charlotte, North Carolina
March 29, 2024

*PricewaterhouseCoopers LLP, 214 N. Tryon Street, Suite 4200, Charlotte, North Carolina, 28202*
*T: (704) 344-7500, www.pwc.com/us*

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.
- Community benefit programs, which 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.

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

| | **2023** |
|---|---|
| Traditional charity care | $ 224,873 |
| Unpaid cost of Medicare | 1,114,765 |
| Unpaid cost of Medicaid | 125,779 |
| Community benefit programs | 146,726 |
| | $ 1,612,143 |

# Novant Health, Inc. and Affiliates
## Consolidating Balance Sheet
## December 31, 2023

| *(in thousands of dollars)* | Combined Group | Unrestricted Affiliates | Eliminations | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 596,066 | $ 143,731 | $ - | $ 739,797 |
| Accounts receivable, net | 967,693 | 88,305 | - | 1,055,998 |
| Short-term investments | 10,867 | 213 | - | 11,080 |
| Current portion of assets limited as to use | 24,337 | 3,280 | - | 27,617 |
| Receivable for settlement with third-party payors | 11,123 | 1,527 | - | 12,650 |
| Other current assets | 453,586 | 68,146 | (8,674) | 513,058 |
| Total current assets | 2,063,672 | 305,202 | (8,674) | 2,360,200 |
| Assets limited as to use | 262,689 | 7,543 | - | 270,232 |
| Long-term investments | 2,972,024 | 415,865 | - | 3,387,889 |
| Property and equipment, net | 2,742,247 | 477,690 | - | 3,219,937 |
| Right-of-use assets, net | 481,408 | 57,679 | (76,530) | 462,557 |
| Intangible assets and goodwill, net | 598,493 | 23,423 | - | 621,916 |
| Investments in affiliates | 1,723,082 | 302,265 | (1,628,140) | 397,207 |
| Deferred tax asset | - | 3,570 | - | 3,570 |
| Other assets | 108,566 | 16,809 | (2,573) | 122,802 |
| Total assets | $ 10,952,181 | $ 1,610,046 | $ (1,715,917) | $ 10,846,310 |
| **Liabilities and Net Assets** | | | | |
| Current liabilities | | | | |
| Current portion of long-term debt | $ 78,998 | $ 67 | $ - | $ 79,065 |
| Accounts payable | 350,733 | 60,098 | (8,674) | 402,157 |
| Accrued liabilities | 616,326 | 113,090 | - | 729,416 |
| Current portion of operating lease liabilities | 101,506 | 15,405 | (10,826) | 106,085 |
| Estimated third-party payor settlements | 98,189 | 4,638 | - | 102,827 |
| Due to (from) related organizations | (450,500) | 450,500 | - | - |
| Total current liabilities | 795,252 | 643,798 | (19,500) | 1,419,550 |
| Long-term debt, net of current portion | 2,586,125 | 2,298 | - | 2,588,423 |
| Deferred tax liability | - | 14,932 | - | 14,932 |
| Operating lease liabilities, net of current portion | 410,754 | 44,439 | (68,231) | 386,962 |
| Derivative financial instruments | 12,254 | - | - | 12,254 |
| Employee benefits and other liabilities | 396,858 | 45,159 | - | 442,017 |
| Total liabilities | 4,201,243 | 750,626 | (87,731) | 4,864,138 |
| Net assets | | | | |
| Without donor restrictions - attributable to Novant Health | 6,750,653 | 748,797 | (1,628,186) | 5,871,264 |
| Without donor restrictions - noncontrolling interests | - | 4,806 | - | 4,806 |
| Total net assets without donor restrictions | 6,750,653 | 753,603 | (1,628,186) | 5,876,070 |
| With donor restrictions | 285 | 105,817 | - | 106,102 |
| Total net assets | 6,750,938 | 859,420 | (1,628,186) | 5,982,172 |
| Total liabilities and net assets | $ 10,952,181 | $ 1,610,046 | $ (1,715,917) | $ 10,846,310 |

The accompanying notes are an integral part of this supplemental consolidating information.

# Novant Health, Inc. and Affiliates
## Consolidating Statement of Operations
## December 31, 2023

| *(in thousands of dollars)* | Combined Group | Unrestricted Affiliates | Eliminations | Total |
|---|---|---|---|---|
| **Total operating revenues, gains, and other support** | | | | |
| Net patient service revenues | $ 6,745,648 | $ 670,131 | $ - | $ 7,415,779 |
| Other revenue | 780,590 | 162,425 | (63,646) | 879,369 |
| Total operating revenues, gains, and other support | 7,526,238 | 832,556 | (63,646) | 8,295,148 |
| **Operating expenses** | | | | |
| Salaries and employee benefits | 4,019,104 | 455,810 | (3,399) | 4,471,515 |
| Supplies and other | 2,928,412 | 392,428 | (62,479) | 3,258,361 |
| Depreciation and amortization expense | 276,667 | 53,850 | - | 330,517 |
| Interest expense | 79,413 | 8,562 | - | 87,975 |
| Total operating expenses | 7,303,596 | 910,650 | (65,878) | 8,148,368 |
| Operating income (loss) | 222,642 | (78,094) | 2,232 | 146,780 |
| **Non-operating income (expense)** | | | | |
| Investment income | 280,247 | 30,557 | - | 310,804 |
| Income tax benefit (expense) | (4,725) | 2,818 | - | (1,907) |
| Other net periodic pension benefit (costs) | 5,795 | (627) | - | 5,168 |
| Excess (deficit) of revenues over expenses | $ 503,959 | $ (45,346) | $ 2,232 | $ 460,845 |

The accompanying notes are an integral part of this supplemental consolidation information.

# Novant Health, Inc. and Affiliates
## Combined Group Combining Balance Sheet
## December 31, 2023

| *(in thousands of dollars)* | Obligated Group | Restricted Affiliates | Eliminations | Combined Group Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 517,030 | $ 79,036 | $ - | $ 596,066 |
| Accounts receivable, net | 461,995 | 505,698 | - | 967,693 |
| Short-term investments | 10,867 | - | - | 10,867 |
| Current portion of assets limited as to use | 12,485 | 11,852 | - | 24,337 |
| Receivable for settlement with third-party payors | 6,826 | 4,297 | - | 11,123 |
| Other current assets | 287,610 | 165,976 | - | 453,586 |
| Total current assets | 1,296,813 | 766,859 | - | 2,063,672 |
| Assets limited as to use | 231,258 | 31,431 | - | 262,689 |
| Long-term investments | 2,972,024 | - | - | 2,972,024 |
| Property and equipment, net | 1,534,548 | 1,207,699 | - | 2,742,247 |
| Right-of-use assets, net | 218,733 | 262,675 | - | 481,408 |
| Intangible assets and goodwill, net | 19,788 | 578,705 | - | 598,493 |
| Investments in affiliates | 1,810,919 | (1,184) | (86,653) | 1,723,082 |
| Other assets | 91,542 | 17,024 | - | 108,566 |
| Total assets | $ 8,175,625 | $ 2,863,209 | $ (86,653) | $10,952,181 |
| **Liabilities and Net Assets** | | | | |
| Current liabilities | | | | |
| Current portion of long-term debt | $ 77,604 | $ 1,394 | $ - | $ 78,998 |
| Accounts payable | 244,925 | 105,808 | - | 350,733 |
| Accrued liabilities | 334,432 | 281,894 | - | 616,326 |
| Current portion of operating lease liabilities | 39,357 | 62,149 | - | 101,506 |
| Estimated third-party payor settlements | 40,355 | 57,834 | - | 98,189 |
| Due to (from) related organizations | (1,061,254) | 610,754 | - | (450,500) |
| Total current liabilities | (324,581) | 1,119,833 | - | 795,252 |
| Long-term debt, net of current portion | 2,581,470 | 4,655 | - | 2,586,125 |
| Operating lease liabilities, net of current portion | 196,467 | 214,287 | - | 410,754 |
| Derivative financial instruments | 12,254 | - | - | 12,254 |
| Employee benefits and other liabilities | 344,197 | 52,661 | - | 396,858 |
| Total liabilities | 2,809,807 | 1,391,436 | - | 4,201,243 |
| Net assets | | | | |
| Without donor restrictions - attributable to Novant Health | 5,365,818 | 1,471,488 | (86,653) | 6,750,653 |
| Total net assets without donor restrictions | 5,365,818 | 1,471,488 | (86,653) | 6,750,653 |
| With donor restrictions | - | 285 | - | 285 |
| Total net assets | 5,365,818 | 1,471,773 | (86,653) | 6,750,938 |
| Total liabilities and net assets | $ 8,175,625 | $ 2,863,209 | $ (86,653) | $10,952,181 |

The accompanying notes are an integral part of this supplemental consolidating information.

# Novant Health, Inc. and Affiliates
## Combined Group Combining Statement of Operations
## December 31, 2023

| *(in thousands of dollars)* | Obligated Group | Restricted Affiliates | Eliminations | Combined Group Total |
|---|---|---|---|---|
| **Total operating revenues, gains, and other support** | | | | |
| Net patient service revenues | $ 3,249,895 | $ 3,495,753 | $ - | $ 6,745,648 |
| Other revenue | 330,409 | 457,447 | (7,266) | 780,590 |
| Total operating revenues, gains, and other support | 3,580,304 | 3,953,200 | (7,266) | 7,526,238 |
| **Operating expenses** | | | | |
| Salaries and employee benefits | 1,908,549 | 2,110,555 | - | 4,019,104 |
| Supplies and other | 1,302,596 | 1,633,082 | (7,266) | 2,928,412 |
| Depreciation and amortization expense | 140,490 | 136,177 | - | 276,667 |
| Interest expense | 46,888 | 32,525 | - | 79,413 |
| Total operating expenses | 3,398,523 | 3,912,339 | (7,266) | 7,303,596 |
| Operating income | 181,781 | 40,861 | - | 222,642 |
| **Non-operating income (expense)** | | | | |
| Investment income | 280,245 | 2 | - | 280,247 |
| Income tax expense | (4,725) | - | - | (4,725) |
| Other net periodic pension benefit (costs) | 5,855 | (60) | - | 5,795 |
| Excess of revenues over expenses | $ 463,156 | $ 40,803 | $ - | $ 503,959 |

The accompanying notes are an integral part of this supplemental consolidating information.

## 1. Reporting Entity

Novant Health, Inc. ("Novant Health" or the "Company") is a not-for-profit integrated system of 15 medical centers and more than 1,800 physicians in over 800 locations, as well as numerous outpatient surgery centers, medical plazas, rehabilitation programs, diagnostic imaging centers and community health outreach programs. Novant Health's more than 35,000 team members and physician partners care for patients and communities in North Carolina, South Carolina and Georgia.

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

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

Restricted Affiliates represent entities that are not directly obligated to pay obligations under the Agreement, but the members of the Obligated Group have covenanted in the Agreement to cause the Restricted Affiliates to provide funds to the members of the Obligated Group to pay obligations under the Agreement. The Company has designated ten of its affiliates as Restricted Affiliates. Six of these Restricted Affiliates, Medical Park Hospital, LLC d/b/a Novant Health Medical Park Hospital, Novant Health Thomasville Medical Center, LLC, Novant Health Matthews Medical Center, LLC, Brunswick Community Hospital, LLC d/b/a Novant Health Brunswick Medical Center, Novant Health Mint Hill Medical Center, LLC, and Novant Health New Hanover Regional Medical Center, LLC, operate, or maintain a significant investment in, hospitals. The other four Restricted Affiliates, Carolina Medicorp Enterprises, 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.