Novant Health, Inc. and Affiliates

Consolidated Financial Statements and Supplemental Information

December 31, 2017 and 2016

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Report of Independent Auditors

To the Board of Trustees of
Novant Health, Inc.

We have audited the accompanying consolidated financial statements of Novant Health, Inc. and Affiliates (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Novant Health, Inc. and Affiliates as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 26, 2018

Novant Health, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2017 and 2016

(in thousands of dollars)	**2017**	**2016**
Assets		
Current assets		
Cash and cash equivalents	$ 408,698	$ 260,988
Accounts receivable, net of allowance for doubtful accounts of $227,609 in 2017 and $230,511 in 2016	518,502	511,649
Short-term investments	300,071	260,319
Current portion of assets limited as to use	18,713	18,586
Deferred tax asset	2,190	-
Current assets held for sale	-	14,173
Receivable for settlement with third-party payors	21,232	13,897
Other current assets	197,048	181,750
Total current assets	1,466,454	1,261,362
Assets limited as to use	181,140	147,124
Long-term assets held for sale	-	57,193
Long-term investments	2,314,684	2,014,688
Property and equipment, net	2,018,908	1,940,642
Intangible assets and goodwill, net	325,916	287,466
Investments in affiliates	43,476	32,046
Deferred tax asset	1,246	-
Other assets	111,089	107,011
Total assets	$ 6,462,913	$ 5,847,532
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 67,609	$ 66,624
Short-term borrowings	88,049	83,627
Accounts payable	194,738	160,192
Accrued liabilities	414,351	358,685
Current liabilities held for sale	-	13,498
Estimated third-party payor settlements	39,706	33,296
Total current liabilities	804,453	715,922
Long-term debt, net of current portion	1,343,676	1,325,810
Long-term liabilities held for sale	-	1,682
Derivative financial instruments	44,832	50,305
Employee benefits and other liabilities	340,074	305,476
Total liabilities	2,533,035	2,399,195
Commitments and contingencies		
Net assets		
Unrestricted - attributable to Novant Health	3,778,254	3,291,669
Unrestricted - noncontrolling interests	77,639	96,620
Total unrestricted net assets	3,855,893	3,388,289
Temporarily restricted	62,353	48,767
Permanently restricted	11,632	11,281
Total net assets	3,929,878	3,448,337
Total liabilities and net assets	$ 6,462,913	$ 5,847,532

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, 2017 and 2016

(in thousands of dollars)	2017	2016
Operating revenues		
Patient service revenues (net of contractual allowances and discounts)	$ 4,532,188	$ 4,308,993
Provision for bad debts	(212,874)	(204,535)
Net patient service revenues less provision for bad debts	4,319,314	4,104,458
Other revenue	276,078	235,665
Total operating revenues	4,595,392	4,340,123
Operating expenses		
Salaries and employee benefits	2,543,037	2,278,632
Supplies and other	1,568,236	1,456,401
Depreciation expense	238,069	237,416
Amortization expense	2,892	2,972
Impairment charge	-	11,850
Interest expense	68,719	81,832
Total operating expenses	4,420,953	4,069,103
Operating income	174,439	271,020
Non-operating income (expense)		
Investment income	307,847	151,097
Income tax expense	(3,028)	(3,371)
Gain on extinguishment of debt	-	6,304
Other net periodic pension (costs) benefit	(1,388)	30,155
Excess of revenues over expenses	$ 477,870	$ 455,205

Continued on following page

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

Novant Health, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets, continued
Years Ended December 31, 2017 and 2016

(in thousands of dollars)	2017	2016
Unrestricted net assets		
Excess of revenues over expenses	$ 477,870	$ 455,205
Change in funded status of defined benefit plans	(739)	1,066
Unrealized gain on derivative financial instruments	7,330	5,564
Formation of Novant Health UVA Health System	-	92,187
Purchase of noncontrolling interest	(9,800)	-
Other changes in unrestricted net assets	(7,057)	237
Increase in unrestricted net assets	467,604	554,259
Temporarily restricted net assets		
Contributions and investment income	20,217	11,131
Formation of Novant Health UVA Health System	-	740
Net assets released from restrictions for operations	(6,631)	(6,862)
Increase in temporarily restricted net assets	13,586	5,009
Permanently restricted net assets		
Contributions	351	300
Increase in permanently restricted net assets	351	300
Increase in total net assets	481,541	559,568
Net assets, beginning of year	3,448,337	2,888,769
Net assets, end of year	$ 3,929,878	$ 3,448,337

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, 2017 and 2016

(in thousands of dollars)

	2017	2016
Cash flows from operating activities		
Increase in net assets	$ 481,541	$ 559,568
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	244,278	241,688
Gain on sale of real estate	(3,997)	(4,234)
Impairment charge	-	11,850
Gain on extinguishment of debt	-	(6,304)
Actuarial loss (gain) on pension and postretirement benefits	684	(42,400)
Change in funded status of defined benefit plans	739	(1,066)
Increase in unrestricted net assets related to consolidated affiliated entities	-	(92,927)
Share of earnings in affiliates, net of distributions	(1,688)	587
Net realized and unrealized gains on assets limited as to use and investments	(282,612)	(129,464)
Change in fair value of interest rate swaps	(5,473)	(7,636)
Contributions restricted for capital	(10,288)	(2,314)
Provision for bad debts	212,874	204,535
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed		
Accounts receivable	(245,463)	(320,730)
Accounts payable and accrued liabilities	74,560	(24,227)
Deferred taxes, net	(1,595)	1,627
Other assets and liabilities, net	(6,702)	6,542
Net cash provided by operating activities	456,858	395,095
Cash flows from investing activities		
Capital expenditures	(286,213)	(288,282)
Proceeds from sales of long-term investments	1,548,043	943,012
Purchase of long-term investments	(1,582,752)	(1,022,634)
Proceeds from sales of short-term investments	495,034	605,914
Purchase of short-term investments	(534,421)	(400,551)
Proceeds from sale of property and equipment	5,535	3,503
Investments in unconsolidated affiliates	(8,898)	(992)
Cash acquired	-	13,198
Other investing activities	(4,524)	(190)
Net cash used in investing activities	(368,196)	(147,022)
Cash flows from financing activities		
Principal payments on long-term debt	(141,650)	(374,566)
Proceeds from issuance of bonds, net of deferred issuance costs	113,235	-
Proceeds from sale of accounts receivable, net	34,333	37,709
Cash proceeds from (payments for) repurchase agreements, net	4,513	(3,066)
Cash proceeds from (payments on) other financing	9,417	(1,565)
Cash proceeds from revolving credit facility	49,000	-
Cash paid for consolidated entities	(9,800)	-
Net cash provided by (used in) financing activities	59,048	(341,488)
Net increase (decrease) in cash and cash equivalents	147,710	(93,415)
Cash and cash equivalents		
Beginning of year	260,988	354,403
End of year	$ 408,698	$ 260,988

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, 2017 and 2016

(in thousands of dollars)

	2017	2016
Supplemental disclosure of cash flow information		
Interest paid	$ 69,914	$ 89,813
Income taxes paid	5,988	1,810
Supplemental disclosure of noncash operating activities		
Settlement of patient receivables and other liabilities	475	1,108
Supplemental disclosure of noncash financing and investing activities		
Property and equipment financed through current liabilities	50,150	31,685

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

(in thousands of dollars)

1. Reporting Entity

Novant Health, Inc. ("Novant Health" or the "Company") is a nonprofit, integrated health care network of physician clinics, outpatient centers and hospitals that serves patients and communities in North Carolina, Virginia and South Carolina. Novant Health consists of over 1,500 physicians and 26,000 team members at approximately 500 locations, including 14 medical centers and hundreds of outpatient facilities and physician clinics. Headquartered in Winston-Salem, North Carolina, Novant Health is committed to making healthcare remarkable for patients and communities, serving more than 4 million patients annually. Novant Health and its affiliates serve their communities with programs including health education, home health care, prenatal clinics, community clinics and immunization services.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of all affiliates controlled by Novant Health. All intercompany transactions and balances have been eliminated. Investments in affiliates in which the Company does not have control or has a 50% or less interest are accounted for by either the equity or cost method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Significant estimates include, but are not limited to, accounts receivable allowances, third-party payor settlements, goodwill and intangible asset valuation and subsequent recoverability, useful lives of intangible assets and property and equipment, medical and professional liability and other self-insurance accruals, and pension related assumptions.

Fair Value of Financial Instruments

The fair value of financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, investments other than alternatives, assets limited as to use and interest rate swaps. More information can be found in Note 7, *Fair Value Measurements*.

Cash and Cash Equivalents

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

(in thousands of dollars)

Accounts Receivable

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

Other Current Assets

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

Investments

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

Investments in equity and debt securities with readily determinable fair values are measured at fair value in the accompanying consolidated balance sheets. The Company also invests in alternative and private equity investments through limited partnerships and limited liability corporations ("LLCs"). These investments are recorded using the equity method of accounting (which approximates fair value) with the related earnings reported as investment income in the accompanying consolidated financial statements. The values provided by the respective partnership or LLC are based on market value or other estimates that require varying degrees of judgment. Because these investments are not readily marketable, the estimated value is subject to additional uncertainty and, therefore, may differ from the value that would have been used had a market for such investments existed. Such differences could be material. The Company believes the carrying amount of these investments is a reasonable estimate of fair value.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the investment balances included in the consolidated financial statements.

(in thousands of dollars)

Assets Limited as to Use

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

Derivatives

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

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

Property and Equipment

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

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

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

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

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.

(in thousands of dollars)

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

Under the terms of the 1984 deed in which the Forsyth County Board of County Commissioners conveyed the assets of Forsyth Memorial Hospital (the "Hospital") to Novant Health, Novant Health is required to operate the Hospital as a community general hospital open to the general public, and if Novant Health is dissolved, a successor nonprofit corporation approved by the Forsyth County Board of County Commissioners must carry out the terms and conditions of this conveyance. If these terms are not met, all ownership rights to the Hospital shall revert to the County, including the buildings and land together with the personal property and equipment associated with the Hospital with a net book value of approximately $228,683 at December 31, 2017.

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

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

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

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

Business relationships	26 years
Corporate trade name	29 years

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

(in thousands of dollars)

Impairment tests are performed at the reporting unit level for units that have goodwill. If it is more likely than not that the fair value of the reporting unit exceeds the carrying value of the reporting unit, additional impairment testing is not required. If it is more likely than not that the carrying value of the reporting unit exceeds the fair value of the reporting unit, additional testing for impairment is required. GAAP prescribes a two-step process for testing for goodwill impairments after applying the qualitative assessment. The first step is to determine if the carrying value of the reporting unit with goodwill is less than the related fair value of the reporting unit. The fair value of the reporting unit is determined through use of discounted cash flow methods and/or market based multiples of earnings and sales methods. If the carrying value of the reporting unit is less than the fair value of the reporting unit, the goodwill is not considered impaired. If the carrying value is greater than the fair value, the potential for impairment of goodwill exists. The goodwill impairment is determined by allocating the current fair value of the reporting unit among the assets and liabilities based on a purchase price allocation methodology as if the reporting unit was being acquired in a business combination. The fair value of the goodwill is implied from this allocation and compared to the carrying value with an impairment loss recognized if the carrying value is greater than the implied fair value.

Investments in Affiliates
Investments in entities which Novant Health does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method. Investments in entities of 20% or less and where there are no qualitative indicators of significant influence are accounted for using the cost method.

Other Assets
Other assets consist of notes and pledges receivable, insurance receivables, prepaid pension costs and the cash surrender value of insurance policies.

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

(in thousands of dollars)

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

In March 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-07, *Compensation Benefits (Topic 715), Improving the Presentation of Net Periodic Costs and Net Periodic Postretirement Benefit Costs*. The amendments in this update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the consolidated statement of operations and changes in net assets separately from the service cost component and outside a subtotal of income from operations in non-operating income (expense). We adopted the amendment during the first quarter of 2017 and have adjusted 2016 to conform to the current year presentation.

Also during the fourth quarter of 2017, we changed our method of accounting for our defined benefit pension plans. Under our new method of accounting, we will recognize changes in the fair value of plan assets and actuarial gains or losses in our operating results annually in the fourth quarter each year. The new method of accounting is referred to as "mark-to-market" accounting ("MTM"). Historically, we recognized actuarial gains and losses, subject to a corridor, as a component of other changes in unrestricted net assets and amortized these gains and losses as a component of pension expense over the average future service period of the covered employees. In addition, for purposes of calculating the expected return on plan assets, we will no longer use an averaging technique permitted under accounting principles generally accepted in the United States for the market-related value of plan assets but instead will use actual fair value of plan assets. The adoption of MTM is a voluntary change in accounting principle that is required to be adopted retrospectively. Therefore, 2016 has been recast to conform to the current year presentation reflecting the retirement plan accounting changes as discussed further in Note 19, *Employee Benefit Plans and Other Postretirement Benefit Plans*.

We believe the immediate recognition of actuarial gains and losses under MTM is a preferable method of accounting as it aligns the recognition of changes in the fair value of plan assets and liabilities in the consolidated statements of operations and changes in net assets with the fair value accounting principles that are used to measure the net funded status of the plans in our consolidated balance sheets and also eliminates the impact on future periods of any deferred gains or losses.

The cumulative effect of the change for the adoption of the mark-to-market accounting on net assets as of January 1, 2016 was a reduction of $76,400, with an offset to other changes in unrestricted net assets and therefore no impact to total unrestricted net assets.

(in thousands of dollars)

The following table summarizes the adjustments made as a result of the adoption of ASU 2017-07 and the change in accounting principle:

	As reported 2016	Adjustment	As adjusted 2016
Consolidated statement of operations and changes in net assets			
Operating expenses:			
Salaries and employee benefits	$ 2,290,877	$ (12,245)	$ 2,278,632
Operating income	258,775	12,245	271,020
Non-operating income (expense):			
Other net periodic pension costs	-	30,155	30,155
Excess of revenues over expenses	412,805	42,400	455,205
Unrestricted net assets:			
Change in funded status of defined benefit plans	47,862	(46,796)	1,066
Loss on voluntary pension settlement	(4,396)	4,396	-
Consolidated statement of cash flows			
Operating cash flow changes:			
Loss on voluntary pension settlement	4,396	(4,396)	-
Change in funded status of defined benefit plans	(47,862)	46,796	(1,066)
Actuarial loss (gain) on pension and postretirement benefits	-	(42,400)	(42,400)

Self-Insurance Reserves

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The earnings on permanently restricted net assets are available for use as specified by the donors. The Company's temporarily restricted and permanently restricted net assets are predominantly held by related foundations for various hospital service costs and community health programs.

Contributions Received

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or the condition is met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions, which is included in other operating revenue. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(in thousands of dollars)

Statement of Operations
All activities of Novant Health deemed by management to be ongoing, major and central to the provision of healthcare services are reported as operating revenue and expenses. Other activities are deemed to be non-operating and include investment income, income tax expense, gain on extinguishment of debt and other net periodic pension (costs) benefit.

Novant Health receives supplemental Medicaid payments from the state of North Carolina through a federally approved disproportionate share program ("Medicaid DSH"). During 2012, the federal government approved an amendment to the Medicaid DSH plan. This amendment, referred to as the Medicaid Gap Assessment Program ("GAP"), provides a new funding model whereby hospitals are assessed an amount based on a percentage of their costs and are then paid supplemental amounts in an effort to reduce Medicaid losses. Novant Health records GAP payments received as net patient service revenue and GAP assessments paid as other operating expense on the consolidated statements of operations and changes in net assets. These supplemental payments are recognized in income when earned, if reasonably estimable and deemed collectible. There can be no assurance that this program will not be discontinued or materially modified. During 2017, Novant Health received $156,623 and paid $75,518 for the GAP program. During 2016, Novant Health received $137,002 and paid $67,212 for the GAP program.

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include changes in funded status of defined benefit plans, purchase of noncontrolling interest, unrealized gains on derivative financial instruments that apply hedge accounting and the formation of the Novant Health UVA Health System.

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

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

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

A valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income.

(in thousands of dollars)

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

3. Organizational Changes

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

Novant Health recognized the fair value of Culpeper Memorial Hospital and its subsidiaries ("CMH") in its consolidated balance sheets and included the operations of Novant Health UVA Health System in its consolidated statements of operations and changes in net assets beginning January 1, 2016. This resulted in the recognition of the following amounts in Novant Health's consolidated balance sheet as of January 1, 2016:

Cash and cash equivalents	$	11,397
Accounts receivable, net of allowance for doubtful accounts		11,241
Receivable for settlement with third-party payors		2,192
Other current assets		3,706
Assets limited as to use		796
Property and equipment, net		56,924
Long-term investments		2,883
Intangible assets and goodwill, net		25,280
Current portion of long-term debt		217
Accounts payable		6,308
Accrued liabilities		3,654
Long-term debt		739
Employee benefits and other liabilities		4,000
Net assets		99,501

The integration agreement includes a working capital true-up based on target net assets at the date of formation. This provision resulted in a payable to UVA of $6,574 at the date of formation.

(in thousands of dollars)

Assets Held for Sale

The Company classifies assets and liabilities ("disposal group") as held for sale when management, having the authority to approve the action, commits to a plan to sell the disposal group, the sale is probable within one year, and the disposal group is available for immediate sale in its present condition. In addition, the Company considers whether an active program to locate a buyer has been initiated, whether the disposal group is marketed actively for sale at a price that is reasonable in relation to its current value, and whether actions required to complete the plan indicate it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The disposal group is measured at the lower of its carrying amount or fair value less cost to sell and long-lived assets within the disposal group are not depreciated while classified as held for sale. In December 2016, it was determined that MedQuest, Inc. and its subsidiaries met all of the criteria to classify it as an asset held for sale. The disposal group was written down to $56,186, or its fair value less cost to sell. As a result, an impairment charge of $9,400 was recorded. In April 2017, the plan to sell this disposal group was withdrawn, and as a result, these assets and liabilities are no longer classified as held for sale.

The following table summarizes the carrying amounts of major classes of assets and liabilities held for sale at December 31, 2016:

Cash and cash equivalents	$ 1,898
Accounts receivable, net of allowance for doubtful accounts	6,316
Deferred tax asset	3,251
Other current assets	2,708
Current assets held for sale	14,173
Property and equipment, net	15,482
Intangible assets and goodwill, net	41,382
Other long-term assets	329
Long-term assets held for sale	57,193
Accrued liabilities	13,498
Current liabilities held for sale	13,498
Employee benefits and other liabilities	1,682
Long-term liabilities held for sale	1,682

(in thousands of dollars)

4. Net Patient Service Revenue

Net patient service revenue is presented net of provisions for contractual adjustments and other allowances. Novant Health has agreements with third-party payors that provide for payments at amounts different from its established rates. Retroactive adjustments are accrued on an estimated basis in the period the related service is rendered and adjusted in future periods as final settlements are determined. For uninsured patients that do not qualify for charity care, Novant Health recognizes revenue on the basis of its standard rates for services provided, less discounts for uninsured patients as provided by the Company's financial assistance policies. Based on historical experience, many of the Company's uninsured patients will be unable or unwilling to pay for the services provided. As a result, Novant Health records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2017	2016
Third-party payors	$ 4,442,354	$ 4,227,059
Self-pay	89,834	81,934
Total	$ 4,532,188	$ 4,308,993

Patient deductibles and co-payments under third-party payor programs are included within the third party payors' amount above.

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

Medicare and Medicaid
Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services, and defined capital and medical education costs related to beneficiaries are paid based on a cost reimbursement methodology. Outpatient services are paid at a prospectively determined rate. Novant Health is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Novant Health and audits thereof by the fiscal intermediary. For the Company's fourteen acute facilities, Medicare cost reports are final settled through 2010 for one facility, through 2013 for ten facilities and through 2014 for the remaining three facilities. The Company's Medicaid cost reports are final settled through 2013 for two facilities, through 2014 for nine facilities and through 2015 for the remaining three facilities.

Revenue from the Medicare and Medicaid programs accounted for approximately 31.2% and 5.3%, respectively, of Novant Health's net patient service revenue for the year ended 2017, and 31.0% and 5.3%, respectively, of Novant Health's net patient service revenue for the year ended 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

(in thousands of dollars)

Other Payors
Novant Health also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Novant Health under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Payments for services covered by these programs and certain other third-party payor contracts are generally less than billed charges. Provisions for contractual adjustments including Medicare, Medicaid, and managed care total approximately $6,954,649 (or 58%) and $6,127,154 (or 57%) of 2017 and 2016 gross patient service revenue, respectively.

The allowance for doubtful accounts is determined based on management's assessment of historical and expected net collections, business and economic conditions, the age of the accounts, trends in federal and state governmental health care coverage and other collection indicators. The Company's self-pay write-offs (including charity care) were $674,134 in 2017 compared to $601,555 in 2016. Novant Health has not changed its charity care or uninsured discount policies during 2017 or 2016. Novant Health does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Novant Health has a program of factoring certain patient receivables with recourse to a third-party. Novant Health is obligated to repurchase factored receivables upon occurrence of certain conditions of the program. Accordingly, Novant Health accounts for the factoring as a secured borrowing. The factored receivables are recorded at their estimated net realizable value and are shown as other assets in the consolidated balance sheets. An offsetting liability, representing Novant Health's potential recourse for these receivables, is part of employee benefits and other liabilities in the consolidated balance sheets. As of December 31, 2017, the factored notes and the related liabilities were $43,653 and $55,191 respectively. As of December 31, 2016, the factored notes and the related liabilities were $42,289 and $51,547, respectively.

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 $138,927 and $122,017 for the years ended December 31, 2017 and 2016, 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 $2,270 and $2,124 for the years ended December 31, 2017 and 2016, respectively.

(in thousands of dollars)

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 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.

6. Other Current Assets

Other current assets consist of the following at December 31:

	2017	2016
Inventory	$ 90,869	$ 82,091
Prepaids	45,217	39,541
Other receivables	60,962	60,118
	$ 197,048	$ 181,750

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:

	2017	2016
Certificates of deposit	$ 10,218	$ 58
Fixed income - government securities	289,853	260,261
	$ 300,071	$ 260,319

(in thousands of dollars)

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

	2017		2016	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Under general and professional liability funding arrangement held by trustee	$ 12,229	$ 43,613	$ 12,089	$ 42,084
Designated by board to service benefit plans	6,484	137,527	6,497	105,040
	$ 18,713	$ 181,140	$ 18,586	$ 147,124

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

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

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

	December 31, 2016			
	At Fair Value	On Equity Method	At NAV	Total
Cash and cash equivalents	$ 168,714	$ -	$ -	$ 168,714
U.S. equities	376,753	19,875	230,038	626,666
International equities	126,434	60,089	184,083	370,606
Fixed income - government securities	127,475	-	-	127,475
Fixed income - corporate and other	28,604	58,764	27,013	114,381
Hedge funds	-	362,498	-	362,498
Emerging markets	24,843	-	88,889	113,732
Real estate and other	33,558	97,058	-	130,616
	$ 886,381	$ 598,284	$ 530,023	$ 2,014,688

(in thousands of dollars)

Long-term investments carried at NAV may be redeemed or liquidated only after giving notice to the fund manager. The notice period ranges from 5 to 30 days. These investments have been reported at NAV by each fund as a practical expedient to estimate their fair value. Novant Health has the ability to redeem its interests at or near the financial statement date. Novant Health defines near term as within 90 days of the financial statement date.

The Company's investments in hedge funds include limited partnerships, limited liability corporations, and off-shore investment funds. The underlying investments of the limited partnerships and limited liability corporations include, among others, futures and forward contracts, options, and securities sold short, intended to hedge against changes in the market value of investments. These financial instruments may result in loss due to changes in the market (market risk) and are less liquid than the Company's other investments.

The Company's investments in hedge funds represent 13.6% and 18.0% of total long-term investments held at December 31, 2017 and 2016, 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, 2017 and 2016, Novant Health had future commitments of $121,952 and $67,167, respectively, for which capital calls had not been exercised.

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

	2017	2016
Income		
Interest and dividend income	$ 25,235	$ 21,633
Net realized gains	111,997	29,251
Net unrealized gains	170,615	100,213
	$ 307,847	$ 151,097

Investment income is shown net of related expenses on the consolidated statements of operations and changes in net assets. Investment related administrative expenses were $5,382 and $4,767 for the years ended December 31, 2017 and 2016, respectively.

(in thousands of dollars)

8. Fair Value Measurements

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

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

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

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

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

Level 3: Inputs that are unobservable for the asset or liability. Investments classified in this level generally include investments in preferred stock.

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. Novant Health uses techniques consistent with the market approach and income approach for measuring fair value of its Level 2 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

(in thousands of dollars)

As of December 31, 2017 and 2016, the Level 1 and Level 2 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

Certificates of deposit
The fair value of certificates of deposit is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

Fixed income and debt securities
The fair value of investments in fixed income and debt securities is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

U.S., international, emerging markets and other exchange-traded funds
The fair value of investments in U.S., international, emerging markets and other exchange-traded funds are primarily determined using either quoted prices in active markets or the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals. The investments in Level 2 may be redeemed or liquidated on a daily basis with no notice.

Derivatives
The fair value of derivative contracts is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, credit spreads, volatilities and maturity.

During 2017 and 2016, there were no transfers between Level 1 and 2.

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2017 for all financial assets and liabilities measured at fair value on a recurring basis in the financial statements:

	Fair Value Measurements at Reporting Date Using			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets				
Short-term investments:				
Certificates of deposit	$ -	$ 10,218	$ -	$ 10,218
Fixed income - government securities	-	289,853	-	289,853
Total short-term investments	-	300,071	-	300,071
Assets limited as to use:				
Cash and cash equivalents	8,361	-	-	8,361
U.S. equities	121,602	-	-	121,602
International equities	5,053	-	-	5,053
Fixed income - government securities	10,749	38,397	-	49,146
Fixed income - corporate and other	384	15,307	-	15,691
Total assets limited as to use	146,149	53,704	-	199,853
Long-term investments:				
Cash and cash equivalents	125,777	-	-	125,777
U.S. equities	491,394	-	-	491,394
International equities	330,348	-	-	330,348
Fixed income - government securities	-	189,197	-	189,197
Fixed income - corporate and other	10,308	2,428	-	12,736
Emerging markets	1,435	-	-	1,435
Other exchange-traded funds	46,213	-	-	46,213
Total long-term investments	1,005,475	191,625	-	1,197,100
Total assets at fair value	$ 1,151,624	$ 545,400	$ -	$ 1,697,024
Liabilities				
Accrued liabilities	$ 6,289	$ -	$ -	$ 6,289
Derivative financial instruments	-	44,832	-	44,832
Deferred compensation liabilities	133,745	-	-	133,745
Total liabilities at fair value	$ 140,034	$ 44,832	$ -	$ 184,866

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2016 for all financial assets and liabilities measured at fair value on a recurring basis in the financial statements:

	Fair Value Measurements at Reporting Date Using			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets				
Short-term investments:				
Certificates of deposit	$ -	$ 58	$ -	$ 58
Fixed income - government securities	-	260,261	-	260,261
Total short-term investments	-	260,319	-	260,319
Assets limited as to use:				
Cash and cash equivalents	4,261	-	-	4,261
U.S. equities	96,396	-	-	96,396
International equities	2,157	-	-	2,157
Fixed income - government securities	9,549	38,439	-	47,988
Fixed income - corporate and other	344	14,564	-	14,908
Total assets limited as to use	112,707	53,003	-	165,710
Long-term investments:				
Cash and cash equivalents	168,714	-	-	168,714
U.S. equities	376,753	-	-	376,753
International equities	126,434	-	-	126,434
Fixed income - government securities	-	127,475	-	127,475
Fixed income - corporate and other	22,502	6,102	-	28,604
Emerging markets	24,843	-	-	24,843
Other exchange-traded funds	33,558	-	-	33,558
Total long-term investments	752,804	133,577	-	886,381
Total assets at fair value	$ 865,511	$ 446,899	$ -	$ 1,312,410
Liabilities				
Accrued liabilities	$ 6,302	$ -	$ -	$ 6,302
Derivative financial instruments	-	50,305	-	50,305
Deferred compensation liabilities	103,373	-	-	103,373
Total liabilities at fair value	$ 109,675	$ 50,305	$ -	$ 159,980

Impairment Charges

As a result of its impairment testing for 2016, the Company recorded impairment charges of $11,850 to reduce the carrying value of long-lived property and equipment assets from their carrying value of $3,250 to their estimated fair value of $800 and to reduce the carrying value of assets held for sale from their carrying value of $65,586 to their estimated fair value, less costs to sell of $56,186. This impairment charge is included in the consolidated statements of operations and changes in net assets. Impairment testing for 2017 yielded no impairment.

(in thousands of dollars)

9. Property and Equipment

Property and equipment consists of the following at December 31:

	2017	2016
Land and land improvements	$ 289,897	$ 278,304
Leasehold improvements	175,673	152,892
Buildings and building improvements	1,899,125	1,784,714
Buildings under capital lease obligations	33,130	26,997
Equipment	1,793,218	1,664,465
Equipment under capital lease obligations	4,410	4,537
Software	496,704	500,216
Construction-in-progress	195,802	187,358
	4,887,959	4,599,483
Less: Accumulated depreciation	(2,869,051)	(2,658,841)
	$ 2,018,908	$ 1,940,642

Novant Health reviews long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. As a result of this review, $2,450 was recorded in impairment charges related to property and equipment assets in 2016. No impairment charges were recorded in 2017.

At December 31, 2017 and 2016, land and buildings with a net book value of $21,393 and $25,040, respectively, were leased to various unrelated health care organizations, with terms ranging from six months to five years. Depreciation expense and capital lease related amortization expense for the years ended December 31, 2017 and 2016 amounted to $238,069 and $237,416, respectively. Accumulated amortization for buildings and equipment under capital lease obligations was $22,297 and $22,801 at December 31, 2017 and 2016, respectively. Construction contracts of approximately $418,423 exist for the expansion of existing hospitals and facility renovations. At December 31, 2017, the remaining commitment on these contracts was $167,355.

On June 27, 2009, Novant Health sold a portfolio of 22 medical office buildings to a third-party real estate investor. The combined selling price of the buildings was $122,280. Novant Health is leasing space in each of the buildings from the buyer. The transaction was recorded as a sale-leaseback and resulted in a total gain of $59,889. Novant Health recognized gains from this transaction of $3,997 in 2017 and 2016. The remaining deferred gain of $25,982 will be recognized over the average life of Novant Health's lease agreements with the buyer.

(in thousands of dollars)

10. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	Gross Intangible	Accumulated Amortization	Net Intangible
Balance at December 31, 2017			
Unamortized intangible assets			
Certificates of need	$ 70,416	$ -	$ 70,416
Total unamortized intangible assets	70,416	-	70,416
Amortized intangible assets			
Business relationships	45,300	(17,287)	28,013
Corporate trade name and other intangibles	27,188	(6,725)	20,463
Total amortized intangible assets	72,488	(24,012)	48,476
Total intangible assets	$ 142,904	$ (24,012)	$ 118,892
Balance at December 31, 2016			
Unamortized intangible assets			
Certificates of need	$ 47,228	$ -	$ 47,228
Total unamortized intangible assets	47,228	-	47,228
Amortized intangible assets			
Business relationships	44,132	(15,472)	28,660
Corporate trade name and other intangibles	23,285	(5,568)	17,717
Total amortized intangible assets	67,417	(21,040)	46,377
Total intangible assets	$ 114,645	$ (21,040)	$ 93,605

As discussed in Note 3, certain intangible assets were presented as held for sale in 2016.

Amortization expense related to intangible assets was $2,971 and $2,972 for the years ended December 31, 2017 and 2016, respectively. Estimated annual amortization expense for intangible assets for the years 2018 through 2022 is approximately $2,716 per year.

(in thousands of dollars)

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

	2017	2016
As of January 1		
Goodwill, net of accumulated amortization	$ 208,621	$ 230,765
Accumulated impairment losses	(14,760)	(37,563)
	193,861	193,202
Goodwill acquired, net of purchase price adjustments and other	-	13,822
Goodwill reclassified as held for sale	13,163	(13,163)
	207,024	193,861
As of the end of the period		
Goodwill, net of accumulated amortization	244,587	208,621
Accumulated impairment losses	(37,563)	(14,760)
	$ 207,024	$ 193,861

Novant Health reviews long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. During 2017 and 2016, no impairment charges to amortizable intangible assets were recorded as a result of this review. Our impairment tests presume stable or improving results at certain Novant Health reporting units which are based on the implementation of programs and initiatives that are designed to achieve projected results. If these projections are not met, or in the future negative trends occur which would impact our future outlook, further impairments of goodwill and other intangible assets may occur. Future restructuring of our markets that could potentially change our reporting units could also result in future impairments of goodwill.

11. Investments in Affiliates

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

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

	% Ownership		Investment Balance		Share of Earnings of Investee	
Investee	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Advanced Services	23%	23%	$ 23,680	$ 22,520	$ 1,926	$ 1,170
Providence Plaza LLC	30%	30%	4,521	4,497	216	203
Harris Land TIC	28%	n/a	4,945	-	(61)	-
Provider-Lead Patient-Centered Care of NC	9%	9%	2,918	1,100	-	-
Plaza Center LLC	20%	20%	2,540	2,529	133	124
Other	Various	Various	4,872	1,400	795	170
			$ 43,476	$ 32,046	$ 3,009	$ 1,667

(in thousands of dollars)

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

	2017	2016
Assets	$ 194,838	$ 155,880
Liabilities	55,091	48,962
Equity	139,747	106,918
Total revenue	194,742	183,805
Total expenses	187,187	179,939
Net income	7,555	3,866
Novant Health's share of net income	3,009	1,667

12. Other Assets

Other assets consist of the following at December 31:

	2017	2016
Notes receivable and other	$ 56,182	$ 54,853
Cash surrender value of insurance policies	24,257	21,470
Pledges receivable	17,019	15,111
Reinsurance receivables	9,552	10,047
Prepaid pension costs	4,079	5,530
	$ 111,089	$ 107,011

13. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2017	2016
Accrued compensation	$ 263,348	$ 214,162
Payroll taxes and withholdings	20,284	17,025
Interest	9,815	9,550
Postretirement benefit liability	1,345	1,320
Pension liability	223	221
Other accrued liabilities	84,152	82,035
Self-insurance		
Employee medical claims liability	17,966	17,272
Malpractice and workers' compensation liability	17,218	17,100
	$ 414,351	$ 358,685

(in thousands of dollars)

14. Long-Term Debt

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

	2017	2016
Tax-exempt revenue bonds	$ 787,150	$ 803,630
Taxable revenue bonds	500,000	500,000
Taxable variable rate demand bonds	44,800	53,800
Total bonds	1,331,950	1,357,430
Borrowings on revolving credit facility	49,000	-
Capital lease obligations and other notes payable	31,919	35,815
	1,412,869	1,393,245
Unamortized premium or discount, net	6,035	7,020
Unamortized debt issuance costs, net	(7,619)	(7,831)
	1,411,285	1,392,434
Less: Current maturities	(67,609)	(66,624)
	$ 1,343,676	$ 1,325,810

Tax-Exempt Revenue Bonds
Novant Health has tax-exempt financing agreements through conduit issuers. These bonds are comprised of the following at December 31:

	2017	2016
Series 2013 A and B Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 3.0% to 5.0% payable semi-annually and maturing through 2046; principal payments began in 2014	$ 274,750	$ 279,965
Series 2010 A Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 4.0% to 5.3% payable semi-annually and maturing through 2043; principal payments begin in 2023	264,165	264,165
Series 2008 A, B and C Variable Rate Demand Bonds, bearing interest at variable rates payable monthly and maturing through 2028; principal payments began in 2009	113,235	124,500
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
	$ 787,150	$ 803,630

(in thousands of dollars)

In 2003, Novant Health entered into a new Master Trust Indenture (the “Agreement”). The Agreement authorizes the creation of a Combined Group, which consists of the members of the Obligated Group and the Restricted Affiliates. Novant Health and two of its affiliates that operate tertiary care hospitals, Novant Health Forsyth Medical Center and Novant Health Presbyterian Medical Center, are the members of the Obligated Group. The members of the Obligated Group are jointly and severally liable for the payment of all obligations under the Agreement. The Company’s Restricted Affiliates, which include certain other subsidiaries of the Company, are not directly obligated to pay obligations under the Agreement, but the members of the Obligated Group have covenanted in the Agreement to cause the Restricted Affiliates to provide funds to the members of the Obligated Group to pay obligations under the Agreement. All bonds issued by Novant Health subsequent to 2003 are collateralized by the Obligated Group.

The bond agreements provide for early redemption periods of the bonds prior to mandatory redemption, subject to a premium, generally ranging from 0.0% to 2.0%, as defined in the agreements. In accordance with the bond indenture agreements, the bonds are general, unsecured obligations of Novant Health. The bond indentures require Novant Health to cause the Restricted Affiliates to comply with certain covenants, including the maintenance of a minimum debt service coverage ratio and a minimum number of days cash on hand. As of December 31, 2017 and 2016, Novant Health is in compliance with these bond covenants.

The Series 2004 A and B Variable Rate Demand Bonds are collateralized by a standby purchase agreement (“SBPA”) issued by JP Morgan Chase Bank National Association. The SBPA expires January 31, 2021. If the SBPA should be used to fund tenders due to a failed remarketing, repayment in quarterly installments over three years is required. As a result, the Company has classified $36,818 of the 2004 bonds as current at December 31, 2017 and 2016.

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.

In November 2016, Novant called the Series 2006 Current Interest Term Bonds at par and repaid them with cash from operations. This resulted in a $6,304 gain on extinguishment.

Taxable Revenue Bonds
On September 23, 2009, Novant Health issued $350,000 of taxable fixed rate bonds (the “2009 A Bonds”). $250,000 of these bonds bear interest at a rate of 5.85% and mature in 2019. The remaining $100,000 of these bonds matured in 2014. Proceeds of the 2009 A Bonds were used to refinance a portion of the Company’s revolving credit facility in January 2010.

On November 12, 2009, Novant Health issued $100,000 of taxable fixed rate bonds (the “2009 B Bonds”). The 2009 B Bonds bear interest at a rate of 5.35% and matured in 2016. Proceeds of the 2009 B Bonds were used to refinance the remaining portion of the Company’s revolving credit facility in January 2010.

On April 23, 2013, Novant Health issued $250,000 of taxable fixed rate bonds (the “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 thousands of dollars)

The taxable revenue bonds are subject to the same covenant requirements that are included in the bond agreements for the tax-exempt revenue bonds.

Taxable Variable Rate Demand Bonds
In 1997, Novant Health issued Taxable Variable Rate Demand Bonds, totaling $87,800, collateralized by an irrevocable letter of credit issued by Wachovia Bank of North Carolina, N.A. The irrevocable letter of credit is collateralized by the bonds, all income, earnings, profits, interest, premium or other payments on the bonds, and all proceeds arising from the sale, exchange or collection of the bonds. Interest on the bonds is payable on a quarterly basis. Mandatory sinking fund requirements began in 2001 and will continue until their final maturity of June 1, 2022. At December 31, 2017 and 2016, the rate of interest on the variable bonds was 1.56% and 0.76%, respectively. The irrevocable letter of credit is currently available through September 15, 2020.

Other Long-Term Debt
Other long-term debt consists of a promissory note related to the redemption of a membership interest and various loans and notes on buildings and capital leases, bearing interest at rates ranging from 3.01% to 12.15%.

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

Years Ending December 31	
2018	$ 30,790
2019	277,267
2020	27,368
2021	44,205
2022	76,826
Thereafter	956,413
	$ 1,412,869

Novant Health capitalized $3,126 and $1,552 of interest in 2017 and 2016, respectively.

Revolving Credit Facility
On June 13, 2013, Novant Health entered into a $200,000 Senior Revolving Credit Facility. In March 2017, the Senior Revolving Credit Facility was amended and is available through March 27, 2022. At December 31, 2017, $151,000 was available for borrowing. The line of credit bears interest at variable rates.

Debt Issuance Costs
Effective January 1, 2016, Novant Health adopted ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that unamortized debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the associated debt. Debt issuance costs are amortized using the effective interest method over the life of the related debt agreement and instruments.

(in thousands of dollars)

15. Short-Term Borrowings

Short-term bororowings consist primarily of securities repurchase transactions. Securities repurchase transactions are conducted by the Company under a standardized securities industry master agreement, amended to suit the specificities of each respective counter-party. These agreements generally provide detail as to the nature of the transaction, including provisions for payment netting, established parameters concerning the ownership and custody of the collateral securities, including the right to substitute collateral during the term of the agreement, and provide for remedies in the event of default by either party. The Company's securities repurchase agreements are accounted for as a secured borrowing and are reported in the consolidated balance sheets as short-term borrowings. The Company posts collateral in the form of U.S. treasury and agency securities and receives an amount equal to approximately 98% of the fair value of the securities to be repurchased during January 2018 at interest rates ranging from 1.52% to 1.70%. At December 31, 2017 and 2016, the fair value amounts outstanding were $88,041 and $83,528, respectively. Interest rates on the outstanding balances at December 31, 2017 ranged from 1.52% to 1.70%. The maturity dates of the agreements are four weeks.

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 $113,235. 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 $83,400 and $29,835 notional amounts, respectively. In July 2006, Novant Health entered into a floating-to-fixed swap agreement with a notional amount of $135,000 and a term of 28 years to hedge the floating rate 2004 bonds. Novant Health receives a variable rate which is tied to 64.8% of LIBOR plus 12 basis points and pays a fixed interest rate of 3.8%. The swaps have been designated as cash flow hedges and are carried on the consolidated balance sheets at fair value. These swaps qualify for hedge accounting and were assessed for effectiveness at the time the contracts were entered into and are assessed for effectiveness on an ongoing basis at each quarter end using the hypothetical derivative method. Unrealized gains and losses related to the effective portion of the swaps are recognized as a change in unrestricted net assets and gains or losses related to ineffective portions are recognized in excess of revenues over expenses as interest expense. As of December 31, 2017 and 2016, Novant Health's swaps are all designated as hedged instruments and are recorded as long-term liabilities in the consolidated balance sheets.

(in thousands of dollars)

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

Statement of Operations and Changes in Net Assets Location	Amount of Gain Recognized in Change in Unrestricted Net Assets 2017	Amount of Gain Recognized in Change in Unrestricted Net Assets 2016	Amount of Gain (Loss) Recognized in Excess of Revenues Over Expenses 2017	Amount of Gain (Loss) Recognized in Excess of Revenues Over Expenses 2016
Derivatives designated as hedged instruments				
Change in fair value of hedged interest rate swaps	$ 7,330	$ 5,564	$ -	$ -
Hedge ineffectiveness	-	-	(1,857)	2,071
	$ 7,330	$ 5,564	$ (1,857)	$ 2,071

17. Employee Benefits and Other Liabilities

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

	2017	2016
Deferred gains	$ 58,808	$ 64,711
Self-insurance malpractice and workers' compensation, net of current portion	58,775	57,499
Deferred compensation liability	133,745	103,373
Employee benefits and other	65,459	56,494
Postretirement benefit liability, net of current portion	20,710	20,167
Pension liability, net of current portion	2,577	3,232
	$ 340,074	$ 305,476

(in thousands of dollars)

18. Income Taxes

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

	2017	2016
Current tax expense		
Federal	$ 4,752	$ 1,183
State	964	561
	5,716	1,744
Deferred tax expense (benefit)		
Federal	(2,687)	1,607
State	(1)	20
	(2,688)	1,627
	$ 3,028	$ 3,371

The components of deferred taxes are as follows:

	2017	2016
Deferred tax assets		
Loss carryforwards	$ 25,395	$ 37,585
Deferred charge for intercompany transfer	9,304	-
Allowance for doubtful accounts	1,019	-
Accrued expenses	1,302	-
Property and equipment	544	
Other	278	90
Total deferred tax assets	37,842	37,675
Deferred tax liabilities		
Intangible assets	(6,960)	-
Total deferred tax liabilities	(6,960)	-
Valuation allowance	(27,446)	(37,675)
Net deferred tax asset	$ 3,436	$ -

GAAP requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. In making this determination, management considers all available positive and negative evidence affecting specific deferred tax assets, including the Company's past and anticipated future performance, reversal of deferred tax liabilities, length of carryback and carryforward periods and implementation of tax planning strategies.

Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of deferred tax assets when significant negative evidence exists.

(in thousands of dollars)

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, 2017 and 2016, management has determined that based on all available evidence, a valuation allowance of $27,446 and $37,675, respectively, is appropriate.

As of December 31, 2017, the Company had approximately $98,804 of federal and $70,517 of state loss carryforwards available to reduce taxable income. The loss carryforwards expire through 2037. In addition, at December 31, 2017, the Company had approximately $955 of federal and $614 of state contribution carryforwards available to reduce taxable income.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code which impact our year ended December 31, 2017 including, but not limited to, reducing the corporate tax rate from 35% to 21% and repealing the corporate alternative minimum tax effective January 1, 2018.

Shortly after the Tax Act was enacted, the U.S. Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* (SAB 118), which provides guidance on accounting for the Tax Act's impact. SAB 118 provides a measurement period, which in no case should extend beyond one year from the Tax Act enactment date, during which a company may complete the accounting for the impacts of the Tax Act under ASC Topic 740. Per SAB 118, the Company must reflect the income tax effects of the Tax Act in the reporting period in which the accounting under ASC Topic 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, the Company can determine a reasonable estimate for those effects and record a provisional estimate in the financial statements in the first reporting period in which a reasonable estimate can be determined. If a Company cannot determine a provisional estimate to be included in the financial statements, the Company should continue to apply ASC 740 based on the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted. If a Company is unable to provide a reasonable estimate of the impacts of the Tax Act in a reporting period, a provisional amount must be recorded in the first reporting period in which a reasonable estimate can be determined.

The Company's year-end income tax provision includes $2,958 of income tax benefit for the remeasurement of certain deferred tax assets, liabilities and the related valuation allowance to reflect the corporate tax rate reduction impact to the Company's net deferred tax balance.

In addition, the Company reclassed the alternative minimum tax credit deferred tax asset to federal income tax receivable and released the related valuation allowance resulting in an income tax benefit of $1,093 for the year ended December 31, 2017.

Novant Health has completed its accounting for the effects of the Tax Reform Act on its deferred tax assets and liabilities. Other provisions of the Tax Act for which the Company has finalized or is continuing to finalize its accounting are not material (or expected to be material) to the consolidated financial statements as of and for the year ended December 31, 2017.

(in thousands of dollars)

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

	2017	2016
Federal taxes	$ 2,065	$ 2,790
State income taxes	963	581
Income tax expense	$ 3,028	$ 3,371

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, 2017 and 2016.

19. Employee Benefit Plans and Other Postretirement Benefit Plans

Certain Novant Health affiliates participate in the Pension Restoration Plan of Novant Health, Inc. (the "Novant Plan"), a noncontributory defined benefit pension plan covering substantially all the affiliates' employees of record as of December 1998. Participation is limited to vested employees as of December 31, 1998. Effective January 1, 2008, and July 1, 2009, the Company assumed two noncontributory defined benefit plans, the Pension Plan for the Employees of Rowan Regional Medical Center (the "Rowan Plan") and the Prince William Hospital Corporation Cash Balance Pension Plan (the "Prince William Plan"), respectively. Participation in the Rowan Plan was closed to new entrants and the accrued benefits were frozen as of December 31, 2003. Participation in the Prince William Plan was closed to new entrants and the accrued benefits were frozen as of April 1, 2010. The assets of the plans are primarily invested in common trust funds, common stocks, bonds, notes and U.S. government securities.

On February 20, 2018, the Board of Trustees decided to cease all future accruals and terminate the Novant Plan effective April 30, 2018. The Board of Trustees also decided to terminate the Rowan Plan and the Prince William Plan as of April 30, 2018. The impact to Novant Health's consolidated financial statements is not expected to be material.

During the first quarter of 2017, the Company adopted ASU 2017-07, *Compensation Benefits (Topic 715), Improving the Presentation of Net Periodic Costs and Net Periodic Postretirement Benefit costs* as described in Note 2.

During the fourth quarter of 2017, the Company adopted mark-to-market accounting for the recognition of our actuarial gains and losses related to our defined benefit pension and postretirement healthcare plans as described in Note 2.

(in thousands of dollars)

Certain Novant Health affiliates have supplemental retirement income plans covering highly compensated employees. These are nonqualified plans which are not subject to ERISA funding requirements. As such, Novant Health intends only to fund the plans in amounts equivalent to the plans' annual benefit payments. During 2013, the Company implemented a new supplemental retirement income plan that covers certain highly compensated employees. This plan acts as a defined contribution plan and annual funding requirements are determined under provisions of the plan. Some of these plans are non-qualified deferred compensation plans which provide certain individuals meeting specific criteria with the ability to defer compensation. The assets of these plans are held in a rabbi trust, which restricts access to the assets. The assets of these plans, along with the associated liabilities, are recorded as current and long-term assets limited as to use, accrued liabilities, and employee benefits and other liabilities on the consolidated balance sheet.

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

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

	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2017	**2016**	**2017**	**2016**
Change in benefit obligations				
Projected benefit obligation at beginning of year	$ 289,660	$ 336,480	$ 21,487	$ 21,904
Service cost	330	925	108	121
Interest cost	10,932	14,363	814	841
Actuarial loss (gain)	15,279	(867)	655	(538)
Assumption change	(1,180)	(10,595)	-	-
Settlements	(3,802)	(36,079)	-	-
Benefits paid	(14,225)	(14,567)	(1,009)	(841)
Projected benefit obligation at end of year	$ 296,994	$ 289,660	$ 22,055	$ 21,487

The assumption changes for 2017 and 2016 are primarily due to changes in the discount rate. During 2016, the Company announced a limited lump sum window distribution of present valued pension benefits to terminated vested participants of the plans meeting certain criteria. The benefit election window was open from August 29, 2016 to October 31, 2016 and benefit distributions were made in December 2016. The reduction in the number of plan participants will reduce the cost of administering the plans in the future.

(in thousands of dollars)

Weighted-Average Assumptions Used to Determine End of Year Benefit Obligations	Defined Benefit Plans 2017	Defined Benefit Plans 2016	Postretirement Healthcare Benefit Plans 2017	Postretirement Healthcare Benefit Plans 2016
Discount rate	3.30% - 3.54%	3.65% - 4.06%	3.30% - 3.55%	3.65% - 4.05%
Rate of compensation increase[1]	5.00%	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	9.0% in 2018 grading to 5.0% in 2025	9.5% in 2017, grading to 5.0% in 2025

(1) The compensation increase does not apply to the Rowan Plan or the Prince William Plan as benefits under these plans were frozen at December 31, 2017 and 2016.

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would not have a significant effect on the amounts reported as of December 31, 2017.

Plan Assets

	Defined Benefit Plans 2017	Defined Benefit Plans 2016	Postretirement Healthcare Benefit Plans 2017	Postretirement Healthcare Benefit Plans 2016
Change in plan assets				
Fair value of plan assets at beginning of year	$ 291,737	$ 307,774	$ -	$ -
Actual return on plan assets	25,473	35,000	-	-
Employer contributions	190	184	1,009	841
Settlements	(3,802)	(36,079)	-	-
Benefits paid	(14,225)	(14,567)	(1,009)	(841)
Plan expenses	(1,100)	(575)	-	-
Fair value of plan assets at end of year	$ 298,273	$ 291,737	$ -	$ -

The Company's primary investment objective for the defined benefit plans ("the Plans") is to invest the plan assets so that they will generate sufficient cash flows needed to fund future payments as they come due. Given the funded status of the Plans, they are invested 100% in a portfolio of diversified fixed income assets whose overall characteristics closely match that of the Plans' liabilities.

Novant Health's pension plan asset allocation and target allocation by asset category at December 31, 2017 are as follows:

	Target Range	Percentage of Plan Assets
Asset Category		
Fixed income securities	85–100%	98.7%
Cash and other	0–4%	1.3%
		100.0%

(in thousands of dollars)

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

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

The fair values of the Company's plan assets at December 31, 2016, by asset category are as follows:

		Fair Value Measurements at Reporting Date Using			
	At NAV	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Equity securities					
U.S. equity	$ -	$ 10,401	$ -	$ -	$ 10,401
Developed non-U.S. equity	-	4,667	-	-	4,667
Emerging markets equity	-	1,109	-	-	1,109
Fixed income securities					
U.S. fixed income	193,784	-	77,700	-	271,484
Cash and other	-	4,076	-	-	4,076
Total fair value of the Company's plan assets	$ 193,784	$ 20,253	$ 77,700	$ -	$ 291,737

(in thousands of dollars)

Funded Status

The funded status of the plans recognized in the consolidated balance sheets and the amounts recognized in unrestricted net assets follows as of December 31:

	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2017	2016	2017	2016
End of Year				
Fair value of plan assets at end of year	$ 298,273	$ 291,737	$ -	$ -
Benefit obligation at end of year	296,994	289,660	22,055	21,487
Funded status	$ 1,279	$ 2,077	$ (22,055)	$ (21,487)
Amount recognized in the balance sheets				
Prepaid benefit cost at measurement date	$ 5,087	$ 6,805	$ -	$ -
Accrued benefit cost	(2,420)	(3,337)	(21,121)	(21,295)
Change in unrestricted net assets	(1,388)	(1,391)	(934)	(192)
Net asset (liability) recognized	$ 1,279	$ 2,077	$ (22,055)	$ (21,487)
Amounts recognized in unrestricted net assets				
Prior service cost	$ 1,282	$ 1,539	$ -	$ -
Net actuarial loss (gain)	106	(148)	934	192
	$ 1,388	$ 1,391	$ 934	$ 192
Other changes in plan assets and benefit obligations				
Net loss (gain)	$ 93	$ (33,875)	$ 655	$ (538)
Amortization of net loss	161	33,814	87	25
Amortization of prior service credit	(257)	(491)	-	-
Total recognized in unrestricted net assets	$ (3)	$ (552)	$ 742	$ (513)

At the end of 2017 and 2016, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets within the defined benefit pension plans were as follows:

	2017	2016
Projected benefit obligation	$ 296,994	$ 289,660
Accumulated benefit obligation	292,839	285,846
Fair value of plan assets	298,273	291,737

Cash Flows

The Company does not plan to make any contributions to its defined benefit pension plans in 2018. The Company expects to make contributions to the supplemental retirement income plans of approximately $4,104 for the 2018 fiscal year.

(in thousands of dollars)

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

	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
Expected benefit payments		
2018	$ 23,113	$ 1,341
2019	18,318	1,121
2020	18,558	1,176
2021	18,862	1,221
2022	19,445	1,257
2023–2027	90,535	6,533

Net periodic benefit cost	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2017	2016	2017	2016
Service cost	$ 330	$ 925	$ 108	$ 121
Interest cost	10,932	14,363	814	841
Estimated return on plan assets	(11,299)	(12,011)	-	-
Amortization of prior service cost	257	491	-	-
Recognized net actuarial loss (gain)	771	(33,815)	(87)	(25)
Net periodic benefit cost (credit)	$ 991	$ (30,047)	$ 835	$ 937
Total recognized in net periodic benefit cost and unrestricted net assets	$ 988	$ (30,599)	$ 1,577	$ 424

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

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost during the year ending December 31, 2018 are as follows:

	Defined Benefit Plans	Postretirement Healthcare Benefit Plans
Actuarial net (gain) loss	$ (126)	$ 7
Prior service cost	257	-

(in thousands of dollars)

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

	Defined Benefit Plans		**Postretirement Healthcare Benefit Plans**	
	2017	**2016**	**2017**	**2016**
Discount rate	3.65% - 4.06%	2.65% - 4.44%	3.65% - 4.05%	3.70% - 4.05%
Expected return on plan assets	4.00%	4.00%	N/A	N/A
Rate of compensation increase(1)	5.00%	5.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	9.5% in 2017 grading to 5.0% in 2025	10.0% in 2016, grading to 5.0% in 2025

(1) The compensation increase does not apply to the Rowan Plan or the Prince William Plan as benefits under these plans were frozen at December 31, 2017 and 2016.

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

In addition to these plans, Novant Health sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to $75,503 and $65,734 in 2017 and 2016, respectively.

Certain Novant Health affiliates participate in cafeteria plans which provide certain benefits, including basic medical and dental coverage, long-term disability benefits, reimbursement of supplemental dependent care expenses and group life insurance benefits. The affiliates contribute predetermined amounts for each full-time and part-time employee, which is allocated to the various benefit options in accordance with the participant's election. Affiliate contributions to these plans were approximately $234,150 in 2017 and $207,535 in 2016.

(in thousands of dollars)

20. Noncontrolling Interests

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

	Total	Controlling Interest	Noncontrolling Interests
Balance at January 1, 2016	$ 2,834,030	$ 2,820,367	$ 13,663
Excess (deficit) of revenues over expenses	455,205	465,612	(10,407)
Change in funded status of defined benefit plans	1,066	1,066	-
Unrealized gain on derivative financial instruments	5,564	5,564	-
Formation of Novant Health UVA Health System	92,187	(2,032)	94,219
Other changes in unrestricted net assets	237	1,092	(855)
Balance at December 31, 2016	3,388,289	3,291,669	96,620
Excess (deficit) of revenues over expenses	477,870	487,956	(10,086)
Change in funded status of defined benefit plans	(739)	(739)	-
Unrealized gain on derivative financial instruments	7,330	7,330	-
Purchase of noncontrolling interest	(9,800)	-	(9,800)
Other changes in unrestricted net assets	(7,057)	(7,962)	905
Balance at December 31, 2017	$ 3,855,893	$ 3,778,254	$ 77,639

21. Professional and General Liability Insurance Coverage

Novant Health is self-insured for professional and general liability exposures up to certain limits. The Company has umbrella policies in place above those limits. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for reported claims and claims incurred but not reported. Novant Health also participates in a self-insured program for workers' compensation and is self-insured for certain health benefits options. A portion of these self-insured professional liabilities is funded through a revocable trust fund operated by Novant Health. At December 31, 2017 and 2016, undiscounted professional and general liability loss reserves of $75,993 and $74,599, respectively, are included in current liabilities and employee benefits and other liabilities on the consolidated balance sheets. Expenses related to these plans amounted to $14,870 and $13,252 in 2017 and 2016, respectively.

(in thousands of dollars)

22. Commitments and Contingencies

The Company and its affiliates are presently involved in various personal injury, regulatory investigations, tort actions and other claims and assessments arising out of the normal course of business. Management believes that Novant Health has adequate legal defenses, self-insurance reserves and/or insurance coverage for these asserted claims, as well as any unasserted claims and does not believe these claims will have a material effect on the Company's operations or financial position. The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

23. Operating Leases

Certain operating properties and equipment are leased under noncancelable operating leases. Total rental expense under operating leases was $95,602 and $90,058 in 2017 and 2016, respectively. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows:

Years Ending December 31	
2018	$ 87,587
2019	76,931
2020	66,514
2021	56,098
2022	47,219
Thereafter	124,413
	$ 458,762

Novant Health leases six plots of land to a third-party under long-term ground lease agreements. Total rental income under these lease agreements was $1,207 and $1,186 in 2017 and 2016, respectively. The future rental income related to the ground leases are as follows:

Years Ending December 31	
2018	$ 1,240
2019	1,263
2020	1,286
2021	1,309
2022	1,333
Thereafter	85,238
	$ 91,669

(in thousands of dollars)

24. Concentrations of Credit Risk

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

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

	2017	2016
Medicare	25.4%	28.3%
Medicaid	5.8%	6.7%
Other third-party payors	63.3%	60.1%
Patients	5.5%	4.9%
	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.

25. Functional Expenses

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

	2017	2016
Health care services	$ 3,266,273	$ 2,953,320
General and administrative	1,154,680	1,115,783
	$ 4,420,953	$ 4,069,103

26. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through March 26, 2018, the day the consolidated financial statements were issued. Other than disclosed in Note 19, no other items required recognition or disclosure.

27. Significant Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-9, *Revenue from Contracts with Customers (Topic 606)*. Since that date, the FASB has issued additional guidance to clarify and refine the guidance in Topic 606. This guidance replaces existing industry-specific guidance and provides guidelines based on the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration. The guidance also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(in thousands of dollars)

This guidance was effective for Novant Health beginning January 1, 2018. Novant Health has elected to use the full retrospective transition method. The most significant impact will be to the presentation of the income statement where the provision for bad debts will be recorded as a direct reduction of revenue and will not be presented as a separate line item. The adoption of this guidance is not expected to have a significant impact on the recognition of net revenues for any period.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes.* This guidance removes the requirement that deferred tax liabilities be separated into current and noncurrent amounts on a classified balance sheet. Instead, deferred tax liabilities and assets are presented as noncurrent. This guidance was effective for Novant Health on January 1, 2018 and is not expected to have a significant impact on Novant Health's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values. This guidance will be effective for Novant Health on January 1, 2019 with prospective application and a cumulative-effect adjustment at the date of adoption. We are evaluating the provisions of this guidance to determine the impact on Novant Health's consolidated financial statements. This guidance also amends disclosure requirements to no longer require the application of the fair value of financial instruments disclosure guidance (such as fair value of debt). Novant Health elected to early adopt this provision effective January 1, 2016.

In February 2016, the FASB issued ASU 2016-2, *Leases (Topic 842)*. The most significant change from current practice is that this guidance requires the recognition of lease assets and liabilities for those leases classified as operating leases under current guidance. The guidance also provides direction for the measurement of lease assets and liabilities and additional required disclosures. This guidance will be effective for Novant Health on January 1, 2019 with modified retrospective presentation required. In January 2018, the FASB exposed for comment a set of targeted improvements, including the option for an additional transition methodology with a cumulative-effect adjustment at the date of adoption. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements, including reviewing key terms of all leases, evaluating software available to manage and perform calculations required by the guidance and implementing processes and procedures necessary to adopt and maintain compliance with the requirements of the guidance.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. This guidance was effective for Novant Health on January 1, 2018 and requires retrospective presentation, with exceptions to retrospective presentation for certain disclosures. This guidance requires the presentation of two classes of net assets, rather than the currently required three classes. The guidance also requires enhanced disclosures of amounts and nature of donor imposed and internally designated funds and requires new disclosures about information useful for assessing liquidity and availability of resources. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements.

(in thousands of dollars)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This standard provides additional guidance related to the presentation and classification of certain items in the statement of cash flow for which there is diversity in practice. The provisions of this guidance are effective for Novant Health on January 1, 2019 with early adoption permitted and retrospective application, unless it is impracticable. We are currently evaluating the impact of adopting this guidance on Novant Health's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business* to assist with the evaluation of whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The guidance provides a screen to determine whether an integrated set of assets and activities is not a business to reduce the number of transactions that need to be further evaluated. Novant Health elected to adopt this guidance effective January 1, 2017. This guidance was applied prospectively to evaluate transactions occurring after the adoption date and did not have a significant impact on Novant Health's consolidated financial statements.

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

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Novant Health elected to early adopt this guidance as described in Note 2.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities*. The new guidance makes changes to the hedge accounting model to align the model more closely with risk management practices and to simplify its application. The guidance is effective for Novant Health on January 1, 2019 on a modified retrospective basis except for presentation and disclosure. The guidance may be early adopted. Novant Health only uses the hedge accounting model to hedge the impact of interest rate changes on certain of its variable rate bonds. The impact of adopting this guidance is not expected to be significant, although the ineffective portion of the change in the fair value of the interest rate swap will no longer be recognized in excess of revenues over expenses and will instead be recognized as a change in unrestricted net assets in the consolidated statements of operations and changes in net assets.

Other Financial Information

pwc

Report of Independent Auditors

To the Board of Trustees of
Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. and Affiliates as of December 31, 2017 and for the year then ended and our report thereon appears on page 2 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Schedule of Cost of Community Benefit Programs as of December 31, 2017 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 26, 2018

Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs
December 31, 2017

(in thousands of dollars)

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

	2017
Traditional charity care	$ 138,927
Unpaid cost of Medicare	486,590
Unpaid cost of Medicaid	107,060
Community benefit programs	61,868
	$ 794,445

As discussed in Note 2 in the accompanying consolidated financial statements, Novant Health received supplemental Medicaid payments during 2017. These amounts are included in the community benefit amount for 2017.

Report of Independent Auditors

To the Board of Trustees of
Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. and Affiliates as of December 31, 2017 and for the year then ended and our report thereon appears on page 2 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an option of the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

March 26, 2018

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Novant Health, Inc. and Affiliates
Consolidating Balance Sheet
December 31, 2017

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 335,358	$ 73,340	$ -	$ 408,698
Accounts receivable, net of allowance for doubtful accounts	459,011	59,491	-	518,502
Short-term investments	299,912	159	-	300,071
Current portion of assets limited as to use	6,484	12,229	-	18,713
Deferred tax asset	-	2,190	-	2,190
Receivable for settlement with third-party payors	17,881	3,351	-	21,232
Other current assets	172,113	25,869	(934)	197,048
Total current assets	1,290,759	176,629	(934)	1,466,454
Assets limited as to use	137,527	43,613	-	181,140
Long-term investments	2,003,142	311,542	-	2,314,684
Property and equipment, net	1,678,436	340,472	-	2,018,908
Intangible assets and goodwill, net	244,337	81,579	-	325,916
Investments in affiliates	75,278	23,678	(55,480)	43,476
Deferred tax asset	-	1,246	-	1,246
Other assets	84,612	26,477	-	111,089
Total assets	$ 5,514,091	$ 1,005,236	$ (56,414)	$ 6,462,913
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 62,880	$ 4,729	$ -	$ 67,609
Short-term borrowings	88,041	8	-	88,049
Accounts payable	173,299	21,439	-	194,738
Accrued liabilities	362,595	52,291	(535)	414,351
Estimated third-party payor settlements	35,554	4,152	-	39,706
Due to (from) related organizations	(247,053)	247,053	-	-
Total current liabilities	475,316	329,672	(535)	804,453
Long-term debt, net of current portion	1,316,794	26,882	-	1,343,676
Derivative financial instruments	44,832	-	-	44,832
Employee benefits and other liabilities	281,729	58,345	-	340,074
Total liabilities	2,118,671	414,899	(535)	2,533,035
Net assets				
Unrestricted - attributable to Novant Health	3,393,231	503,772	(118,749)	3,778,254
Unrestricted - noncontrolling interests	-	14,769	62,870	77,639
Total unrestricted net assets	3,393,231	518,541	(55,879)	3,855,893
Temporarily restricted	2,189	60,164	-	62,353
Permanently restricted	-	11,632	-	11,632
Total net assets	3,395,420	590,337	(55,879)	3,929,878
Total liabilities and net assets	$ 5,514,091	$ 1,005,236	$ (56,414)	$ 6,462,913

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Consolidating Statement of Operations
Year Ended December 31, 2017

(in thousands of dollars)	Combined Group	Unrestricted Affiliates	Eliminations	Total
Operating revenues				
Patient service revenues (net of contractual allowances and discounts)	$ 4,050,722	$ 481,466	$ -	$ 4,532,188
Provision for bad debts	(180,624)	(32,250)	-	(212,874)
Net patient service revenues less provision for bad debts	3,870,098	449,216	-	4,319,314
Other revenue	150,419	144,945	(19,286)	276,078
Total operating revenues	4,020,517	594,161	(19,286)	4,595,392
Operating expenses				
Salaries and employee benefits	2,276,240	273,890	(7,093)	2,543,037
Supplies and other	1,266,288	312,234	(10,286)	1,568,236
Depreciation expense	197,760	40,309	-	238,069
Amortization expense	2,297	595	-	2,892
Interest expense	59,598	9,121	-	68,719
Total operating expenses	3,802,183	636,149	(17,379)	4,420,953
Operating income (loss)	218,334	(41,988)	(1,907)	174,439
Non-operating income (expense)				
Investment income	268,987	37,353	1,507	307,847
Income tax benefit (expense)	(5,112)	2,084	-	(3,028)
Other net periodic pension (costs) benefit	(2,793)	1,405	-	(1,388)
Excess (deficit) of revenues over expenses	$ 479,416	$ (1,146)	$ (400)	$ 477,870

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Balance Sheet
December 31, 2017

(in thousands of dollars)	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Assets				
Current assets				
Cash and cash equivalents	$ 333,453	$ 1,905	$ -	$ 335,358
Accounts receivable, net of allowance for doubtful accounts	300,796	158,215	-	459,011
Short-term investments	299,912	-	-	299,912
Current portion of assets limited as to use	6,484	-	-	6,484
Receivable for settlement with third-party payors	8,483	9,398	-	17,881
Other current assets	140,329	33,485	(1,701)	172,113
Total current assets	1,089,457	203,003	(1,701)	1,290,759
Assets limited as to use	136,859	668	-	137,527
Long-term investments	2,003,142	-	-	2,003,142
Property and equipment, net	1,203,404	475,032	-	1,678,436
Intangible assets and goodwill, net	49,243	195,094	-	244,337
Investments in affiliates	164,716	(2,784)	(86,654)	75,278
Other assets	226,909	19,735	(162,032)	84,612
Total assets	$ 4,873,730	$ 890,748	$ (250,387)	$ 5,514,091
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 62,872	$ 1,709	$ (1,701)	$ 62,880
Short-term borrowings	88,041	-	-	88,041
Accounts payable	160,796	12,503	-	173,299
Accrued liabilities	264,418	98,177		362,595
Estimated third-party payor settlements	27,572	7,982	-	35,554
Due to (from) related organizations	(507,947)	260,894	-	(247,053)
Total current liabilities	95,752	381,265	(1,701)	475,316
Long-term debt, net of current portion	1,316,572	162,254	(162,032)	1,316,794
Derivative financial instruments	44,832	-	-	44,832
Employee benefits and other liabilities	255,955	25,774	-	281,729
Total liabilities	1,713,111	569,293	(163,733)	2,118,671
Net assets				
Unrestricted - attributable to Novant Health	3,160,608	319,277	(86,654)	3,393,231
Temporarily restricted	11	2,178	-	2,189
Total net assets	3,160,619	321,455	(86,654)	3,395,420
Total liabilities and net assets	$ 4,873,730	$ 890,748	$ (250,387)	$ 5,514,091

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Statement of Operations
Year Ended December 31, 2017

(in thousands of dollars)	**Obligated Group**	**Restricted Affiliates**	**Eliminations**	**Combined Group Total**
Operating revenues				
Patient service revenues (net of contractual allowances and discounts)	$ 2,492,113	$1,558,609	$ -	$ 4,050,722
Provision for bad debts	(102,286)	(78,338)	-	(180,624)
Net patient service revenues less provision for bad debts	2,389,827	1,480,271	-	3,870,098
Other revenue	124,184	52,384	(26,149)	150,419
Total operating revenues	2,514,011	1,532,655	(26,149)	4,020,517
Operating expenses				
Salaries and employee benefits	1,288,785	987,455	-	2,276,240
Supplies and other	826,686	465,751	(26,149)	1,266,288
Depreciation expense	121,418	76,342	-	197,760
Amortization expense	-	2,297	-	2,297
Interest expense	37,222	22,376	-	59,598
Total operating expenses	2,274,111	1,554,221	(26,149)	3,802,183
Operating income (loss)	239,900	(21,566)	-	218,334
Non-operating income (expense)				
Investment income	268,949	38	-	268,987
Income tax expense	(5,112)	-	-	(5,112)
Other net periodic pension costs	(525)	(2,268)	-	(2,793)
Excess (deficit) of revenues over expenses	$ 503,212	$ (23,796)	$ -	$ 479,416

See accompanying notes to consolidating supplemental schedules.

1. Consolidated Financial Statements Reporting Entity

Novant Health, Inc. ("Novant Health" or the "Company") is a nonprofit, integrated health care network of physician clinics, outpatient centers and hospitals that serves patients and communities in North Carolina, Virginia and South Carolina. Novant Health consists of nearly 1,500 physicians and 26,000 team members at approximately 500 locations, including 14 medical centers and hundreds of outpatient facilities and physician clinics. Headquartered in Winston-Salem, North Carolina, Novant Health is committed to making healthcare remarkable for patients and communities, serving more than 4 million patients annually. Novant Health and its affiliates serve their communities with programs including health education, home health care, prenatal clinics, community clinics and immunization services.

2. Basis of Presentation and Summary of Significant Accounting Policies

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

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

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

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

Combined Group Combining Balance Sheet and Statement of Operations

As noted in footnote 14 to the consolidated financial statements, the Company is subject to a Master Trust Indenture (the "Agreement") which authorizes the creation of a Combined Group, which consists of the members of the Obligated Group and the Restricted Affiliates.

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

Restricted Affiliates represent entities that are not directly obligated to pay obligations under the Agreement, but the members of the Obligated Group have covenanted in the Agreement to cause the Restricted Affiliates to provide funds to the members of the Obligated Group to pay obligations under the Agreement. The Company has designated twelve of its affiliates as Restricted Affiliates. Seven of these Restricted Affiliates, Medical Park Hospital, Inc. d/b/a Novant Health Medical Park Hospital, Community General Health Partners, Inc. d/b/a Novant Health Thomasville Medical Center, Presbyterian Medical Care Corp. d/b/a Novant Health Matthews Medical Center, Brunswick Community Hospital d/b/a Novant Health Brunswick Medical Center, Presbyterian Orthopaedic Hospital, LLC d/b/a Novant Health Charlotte Orthopaedic Hospital, Prince William Hospital Corporation d/b/a Novant Health UVA Prince William Medical Center, and Prince William Health System, operate, or maintain a significant investment in, hospitals. The other five Restricted Affiliates, Carolina Medicorp Enterprises, Inc., Forsyth Medical Group, LLC, Foundation Health Systems Corp., Novant Medical Group, Inc. f/k/a Presbyterian Regional Healthcare Corp. and Salem Health Services, Inc., provide, or invest in subsidiaries or joint ventures which provide health care and ancillary services. All of the members of the Combined Group, except Salem Health Services, Inc., are exempt from federal and state income taxation.

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

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