



Forsyth Medical Center
3333 Silas Creek Parkway
Winston-Salem, NC 27103

April 19, 2024

Stokes County
Attn: Amber Brown, Interim County Manager/Clerk to the Board
Ronald Reagan Building
2nd Floor
1014 Main Street
Danbury, NC 27016

Dear Ms. Brown and Stokes County Commissioners,

On behalf of Novant Health, we are grateful for the opportunity to participate in this important process. We are excited to engage in a thorough dialogue about what we believe is a unique opportunity to create the next generation of care delivery in Stokes County.

We recognize the magnitude of the decision facing the Stokes County Commissioners; we appreciate the rigorous review you are putting forward to identify an optimal solution for all stakeholders.

Novant Health is a financially strong, multi-state, private non-profit healthcare organization based in North Carolina. With 18 medical centers, a medical group with over 3,600 physicians and advanced practice providers, and over 800 clinic and ambulatory locations organized across four geographies, Novant Health is one of the premier health systems in the Southeast.

Our vision is to deliver the most remarkable patient experience, in every dimension, every time. While we are proud of the resources, infrastructure and capabilities of Novant Health described throughout our response, we also appreciate and recognize the partnership needed to adequately serve the residents of Stokes County. We look forward to combining our experiences, learnings, and resources with yours to provide a remarkable patient experience in Stokes County for decades to come.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chad Setliff', written over a horizontal line.

Chad Setliff

President, Greater Winston Salem Market & Novant Health Forsyth Medical Center

Certification Required for Proposal

This certifies that:

1. if selected, Novant Health will operate the hospital as a community general hospital open to the general public without discrimination based on race, creed, color, sex or national origin.
2. if selected, Novant Health will continue to provide the same or similar clinical hospital services in medical-surgery, pediatrics, outpatient and emergency treatment, including emergency services for indigent, that the hospital provided prior to the lease or sale of the hospital.
3. if selected, Novant Health will ensure that indigent care is available to the population of the area served by the hospital at levels related to need, as previously demonstrated and determined mutually by the County and Novant Health.
4. if selected, Novant Health will ensure that admission to, and services of the hospital, are available to beneficiaries of governmental reimbursement programs without discrimination or preference because they are beneficiaries of such programs.
5. neither Novant Health nor its affiliated companies has been indicted or convicted of any criminal offense that could result in exclusion of the proposer or an affiliate being excluded from Medicare, Medicaid or other federal healthcare programs.
6. Novant Health and its affiliated companies have never been suspended or excluded from participation in Medicare, Medicaid or other Federal healthcare programs.
7. Novant Health has adequate financial resources available to lease or purchase the hospital facilities and operate the hospital facilities, as documented by information included with this proposal.
8. Novant Health has full legal and corporate authority to submit this proposal. This proposal has been created with input from Novant Health's senior management, including its Chief Executive Officer. Once the structure and details of the arrangement have been agreed upon to the satisfaction of Stokes County and Novant Health, it will be necessary to present definitive documents to the Novant Health Board of Trustees for approval. As required, and has been past practice, Novant is prepared to call special sessions of the Novant Health Board of Trustees as needed to facilitate the process.
9. Novant Health likely participates in managed care programs in which hospital is not currently participating. To the extent permissible and appropriate, Novant Health would seek to have the covered services under such managed care plans offered to the facilities in Stokes County.
10. Novant Health proposes that it would operate the hospital on a non-profit basis.



Chad Setliff

President, Greater Winston-Salem Market and Novant Health Forsyth Medical Center

Novant Health, Inc.

Response to Request for Proposal
Stokes-Reynolds Memorial Hospital

April 19, 2024

Novant Health Stokes County RFP Response

Executive Summary

Novant Health is excited to share the following proposal outlining a meaningful and mutually beneficial strategic partnership to elevate healthcare in Stokes County. Our vision is for Novant Health, the Stokes County Board of Commissioners, and the Stokes-Reynolds Memorial Hospital ("SRMH") to transform healthcare in Stokes County by expanding access to high-quality, value-based care to the residents of the county. We are committed to working together with the Board of Commissioners, SRMH leadership, and community members to provide a long-term solution for healthcare in Stokes County.

Novant Health is uniquely positioned to serve Stokes County because of distinct experiences, strategies, and capabilities, including:

- **Deep commitment to Stokes County.** Novant Health operates four physician clinics in Stokes County and provides high-quality healthcare services to Stokes County residents when they are looking for care they cannot receive at SRMH.
- **Integrated not-for-profit health system.** As a private, 501(c)(3) health system, we are driven by our cause to create a healthier future and bring remarkable experiences to life.
- **History of operating critical access hospitals and skilled nursing facilities.** Novant Health has significant experience operating critical access hospitals, operating Novant Health Pender Medical Center and providing management services to Ashe Memorial Hospital. We also operate 2 skilled nursing facilities, which have each received 5-Star overall ratings from the Centers for Medicare and Medicaid Services.
- **Experience delivering high quality care.** Novant Health is committed to delivering the safest care in North Carolina and has received numerous awards and recognitions for its clinical quality and patient safety in North Carolina communities. Recent quality and safety recognitions include the 2023 Bernard A. Birnbaum Quality Leadership award by Vizient and 2023 Top General Hospital and Top Teaching Hospital awards by The Leapfrog Group.
- **Flexibility in transaction structure.** Novant Health has experience with a wide array of hospital transaction structures. We will work with the Board of Commissioners to identify and implement a transaction structure that supports and enables the ultimate goal of improving access to care in Stokes County while

providing a forum through which Stokes County and its stakeholders have a meaningful voice in key decisions related to healthcare in Stokes County. Potential structures include models such as a full acquisition or a long-term lease. Under either structure, we intend to take on the assets and operations of SRMH and commit to strategic investments over the first 5 years totaling \$50 million. In addition, we commit to an upfront cash contribution and an ongoing commitment to fund further community investment in Stokes County. Novant Health is committed to partnering with the county to evaluate and agree on how to deploy these investments to best meet the healthcare needs of Stokes County residents. **See “Transaction and Financial Structure” for further detail on commitments.**

- **Financial strength to make meaningful investments in the community.**

Novant Health is in a strong financial position and is immediately capable of making transformative investments in Stokes County, such as:

- 1) Revitalizing and modernizing the Danbury campus.
- 2) Expanding the King campus with the development of a Rural Emergency Hospital or free-standing emergency department and a multi-specialty medical office building.
- 3) Adding primary care access points, including urgent care centers
- 4) Introducing new clinical programs and strengthening existing services based on community needs.
- 5) Operational, clinical, and digital improvements and tools.
- 6) Recruiting additional primary and specialty care physicians.
- 7) Developing a hospitalist program to provide high-quality services and keep more patients in Stokes County.

Novant Health is uniquely positioned to transform care delivery in Stokes County. We offer a proven commitment to the community as a trusted, high-quality provider of choice today, an ability to keep care in Stokes County through robust physician recruitment and clinical program development, and clinical, operational, and financial expertise to improve patient access, outcomes, and experience.

Overview of Novant Health

NOVANT HEALTH AND STOKES COUNTY

Novant Health is a private, not-for-profit system headquartered in Winston-Salem and focused on delivering remarkable care to the people and communities of the Carolinas. **See Appendix A and Appendix B for organizational details, ownership structure and management profiles.** We are a trusted provider for Stokes County patients today when they are looking for services that SRMH cannot provide, and we are committed to providing tailored, high-quality care to the community. We operate multiple clinics that are accessible to county residents, and which offer services that are complementary to those of the Dr. J.R. Jones Medical Center, including adult primary care, urgent care, orthopedics and sports medicine, and pediatric medicine, with over 20 physicians and advanced practice providers at the following locations:

- **Novant Health Mountainview Medical – King:** primary care clinic with five physicians and nine advanced practice providers.
- **Novant Health Mountainview Medical Extended Care – King:** walk-in clinic providing care for illness and minor injuries.
- **Novant Health Orthopedics & Sports Medicine – King:** orthopedic clinic providing care and guidance to patients ages two years and older. Staffed by three physicians and four advanced practice providers.
- **Novant Health Pediatrics – King:** pediatric clinic providing care for children from birth through the young adult years. Staffed by one physician and two pediatric nurse practitioners.
- **Novant Health Rural Hall Family Medicine:** primary care clinic with one physician and three advanced practice providers.

Novant Health's largest healthcare facility in the greater Winston-Salem area is Novant Health Forsyth Medical Center, which is located approximately 45-minutes south of SRMH, offering comprehensive acute and specialty care to the region. From 2019 to 2023, Novant Health provided clinical services to over 3,000 Stokes County inpatients annually who needed services that SRMH could not provide, including pulmonology, cardiovascular, and women and infant services. As a trusted provider of care for Stokes County patients today, Novant Health best understands the unique health needs of the community and is committed to meeting those needs.

COMMITMENT TO TAKING CARE OF OUR COMMUNITIES

Novant Health is proud of its not-for-profit status and is dedicated to ensuring its charity care and community benefit programs improve the health of the communities it serves. Novant Health makes services accessible to indigent patients without regard to ability to pay. All Novant Health facilities and physicians provide services to all persons regardless of race, sex, age, religion, creed, disability, national origin, or ability to pay. The Patient Non-Discrimination Policy states:

Novant Health does not exclude, deny benefits to, or otherwise discriminate against patients, students, or visitors on the basis of race; color; religion; national origin; culture; language; physical or mental disability; genetic information; age; sex, including pregnancy, childbirth or related medical conditions; marital status; sexual orientation; gender identity or expression; socioeconomic status; or source of payment in admission to, participation in, or receipt of the services and benefits of any of its programs and other activities, whether carried out by Novant Health directly or through a contractor or other entity with whom Novant Health arranges to carry out its programs or activities. This information is communicated to patients in the "Patient Bill of Rights."

In 2023, Novant Health provided \$225 million in charity care and \$147 million in community benefit. In our Winston-Salem area operations – which includes five acute hospitals, four ambulatory surgery centers, three outpatient imaging centers and over 200 physician practice locations – we provided approximately \$74M in charity care and over \$43 million in community benefit programs in 2023.

As a part of Novant Health's corporate citizenship, we are intentional about providing programs and services in and throughout our community — beyond the four walls of our facilities. Our community outreach programs and services are designed to improve patient health outcomes, provide measurable system impacts and position ourselves to identify long-term community-level changes occurring as a result of our outreach.

To ensure that we are taking care of all segments of our communities, particularly those most at risk, we have developed the Novant Health Office of Health Equity with the goal of promoting health equity across our footprint. Novant Health is focused on achieving health equity by identifying and addressing health disparities across the continuum of care, from inpatient to outpatient. Our commitment to health equity, which has received regional and national recognition, is fueled by our mission and core values. We have

developed a successful and repeatable model that has been demonstrated to improve outcomes, build strong community coalitions, and generate financial benefits.

CRITICAL ACCESS HOSPITAL AND SKILLED NURSING FACILITY EXPERIENCE

Novant Health has extensive acute and ambulatory facility operating capabilities, with a proven track record of high-quality clinical and operational performance for critical access hospitals and skilled nursing facilities. Novant Health provided full management services to Novant Health Pender Medical Center (“NHPMC”), which was formerly known as Pender Memorial Hospital, through operating and lease agreements between Pender County and Novant Health from 2021 until Novant Health acquired NHPMC in December 2023. In 2023, Novant Health committed \$50 million over 10 years to further develop NHPMC and improve access to primary and specialty care in Pender County.

Novant Health understands the valuable role rural hospitals play in North Carolina and we have maintained a strong relationship with the Office of Rural Health. The Golden LEAF Foundation awarded Novant Health \$1.5 million in grant funding to further boost rural medicine in Pender County. In addition, in 2023, NHPMC received Chartis’ 2023 Performance Leadership Award based on its performance relative to the Chartis Rural Hospital Performance Index. Novant Health has also managed and provided consulting services to Ashe Memorial Hospital, a critical access hospital in Jefferson, NC since 2013. Ashe Memorial Hospital has continued to provide care to the rural mountain community it serves and has improved its operational and financial performance.

Since 2021, Novant Health has operated NHPMC’s 43-bed skilled nursing facility unit. NHPMC’s skilled nursing facility maintains a 5 out of 5 rating from U.S. News and World Report and earned a 5-Star recognition in quality measures from the Centers for Medicare & Medicaid Services in 2021, ranking 5th out of 427 centers in North Carolina. In addition, NHPMC’s skilled nursing facility had zero COVID cases for the first 22 months after the start of the pandemic and no COVID related deaths to date.

NHPMC’s skilled nursing facility offers 24-hour nursing care, physical, speech and occupational therapy, respiratory therapy, social services, and recreational therapy. We also operate a smaller 12-bed skilled nursing facility unit at Novant Health Presbyterian Medical Center in Charlotte, which also has a 5-Star overall rating from the Centers for Medicare and Medicaid Services. In addition to these Novant Health-operated skilled nursing facilities, we coordinate closely with a preferred network of over 60 additional skilled nursing facilities that meet specific performance requirements, underscoring our dedication to high-quality post-acute care to ensure effective continuation of care and prevent hospital readmissions.

Novant Health would evaluate operations at the SRMH skilled nursing facility in an effort to apply best practices and leverage the expertise we have accumulated through the operation of a successful rural skilled nursing facility.

FINANCIAL POSITIONING

Novant Health is in a strong financial position and can make significant investments in SRMH and Stokes County. Our fundamentals are strong with over \$8 billion in annual revenue, \$4 billion of unrestricted cash and investments, and approximately 200 days cash on hand. Novant Health has a strong and stable balance sheet, providing adequate liquidity to fund investments in the proposed facilities, program development, and recruitment without accessing debt markets. As of April 2024, Fitch's long-term rating for Novant Health is AA, S&P's long-term rating for Novant Health is A+, and Moody's long-term rating is A1. Moody's expectation is that operating cash flow margin will be 8.5% - 9.5% for 2024, enabling additional capital expenditures. The outlook for all three ratings is Stable.

PROVIDER RECRUITMENT ABILITIES

Novant Health has effectively recruited a broad network of providers, employing over 3,600 physicians and advanced practice providers. We have successfully navigated the challenges of recruiting healthcare providers to rural communities by utilizing a strong, dedicated recruiting team including local recruiters who are familiar with the opportunities and specific needs of each community served and offering competitive benefits and compensation packages. Providing robust clinical supports and treating our physicians as partners, not simply employees, have been key factors in recruiting and retaining top talent.

Novant Health is the best positioned partner for Stokes County because of our proven commitment to serving Stokes County patients, our not-for-profit mission to provide remarkable care to the communities we serve, our experience operating critical access hospitals and skilled nursing facilities, our strong financial position, and our ability to recruit and retain healthcare providers in rural communities.

Transaction and Financial Structure

PROPOSED TRANSACTION STRUCTURE

We intend to partner with the Stokes County Board of Commissioners to develop a suitable transaction structure. We have flexibility in the proposed structure and are open to different options, such as a full acquisition or a long-term lease structure, as desired by the Board. As part of the transaction structure, Novant Health will commit to:

- Invest **\$50 million** over five years to meet the healthcare needs in Stokes County.
- Provide **\$5 million** in an upfront cash contribution to Stokes County.
- Invest an additional **\$5 million** over ten years to support county services (such as EMS) working collaboratively with Stokes County to deploy dollars where they will have the most impact.

HOSPITAL MANAGEMENT AND OPERATIONS

Novant Health proposes an acquisition or long-term lease, with Novant Health assuming operations of SRMH's clinical enterprise. Under a lease structure, Novant Health will be responsible for day-to-day management and operations of SRMH and financial performance, while Stokes County would retain ownership of the underlying assets. In either model, we will continue to employ current hospital employees in good standing with equivalent benefits (including retirement benefits), and employees can either be integrated into Novant Health Medical Group or continue in a separate employment structure. The Novant Health brand and quality expectations will be extended to SRMH.

To ensure alignment with and engagement from the Stokes County community, Novant Health proposes the creation of a local advisory board or similar mechanism to ensure the community has a voice in as it relates to key decisions to meet the healthcare needs of Stokes County.

Novant Health is committed to supporting the Stokes County community and welcomes the opportunity to meet with the Board of Commissioners to collaborate on the county's goals, specific capital needs, and transaction structures to meet these objectives. Additionally, based on our initial understanding and analysis of SRMH and community needs, we have outlined specific initiatives we believe will be necessary to achieve these objectives. We envision these initiatives, and their resource requirements, will be validated and refined in collaboration with the Board of Commissioners through further discussions.

Bringing More Accessible Services to Stokes County Patients

STOKES COUNTY SERVICE ADDITIONS

Novant Health can bring more accessible high-quality healthcare services to patients in Stokes County, better meeting the community's health needs and reducing outmigration. Today, around 96% of inpatient admissions in Stokes County take place outside its borders, with the most sought-after services, such as pulmonology, women and infant services, cardiovascular, general surgery, gastroenterology, and behavioral health predominantly delivered elsewhere. We are committed to ensuring that patients have access to care and will work to bring more specialty care to Stokes County, through telehealth and onsite services, as well strengthening hospitalist care.

Heart disease is the leading cause of death in Stokes County, and rates of heart disease are higher than the state average. There are over 750 Stokes County hospital admissions annually for cardiac conditions. By offering an outpatient cardiologist to Stokes County, we can ensure patients have easier access to ongoing and follow-up heart care, while accessing inpatient care in the most appropriate setting.

Overdose deaths and other behavioral health conditions are becoming increasingly common in Stokes County, which mirrors challenges faced by many communities in North Carolina and across the country. Stokes County has a drug overdose rate nearly twice the state average. Addressing the opioid epidemic is a priority for Novant Health, diagnosing over 11,500 patients with opioid-use disorder and forming an opioid stewardship task force in 2017 to examine ways to tackle this issue. In 2018, we were recognized by Addiction Professionals of North Carolina (APNC) with the Outstanding Recovery Ally Award, acknowledging our efforts to support people in recovery along with their families. In April 2024, Novant Health launched a new opioid overdose intervention program in New Hanover County where Novant Health community paramedics respond to 911 calls alongside ambulances to help eligible patients access medication assisted treatment immediately following an opioid overdose. Together, we can build on our strong background in substance use treatment and behavioral health care to bring additional services and supports to Stokes County. Beyond this targeted program, we will expand access to counseling and medication assisted treatment through the use of telehealth services and evaluation of onsite offerings. In addition to outpatient behavioral health care, we can explore utilizing SRMH's 6 licensed but unstaffed psychiatric beds, providing more convenient and accessible inpatient mental health care to Stokes County residents.

In addition to addressing condition-specific needs, Novant Health will work with SRMH to invest in a hospitalist program in order to care for additional inpatient cases at the

Danbury campus. We operate a robust hospitalist program, employing over 300 hospitalist physicians across our network. Hospitalist programs are administered at the local level collaboratively by a local medical director, clinical lead physician(s) at larger programs, and an administrative partner. The local lead physicians meet monthly with their teams to discuss patient experience, clinical best practice and cost issues, team and team-member performance, system and local initiatives, program expense, recruiting and other team issues that need input and decisions. We can use our experiences and capabilities to develop a similar hospitalist program for SRMH.

While striving to bring more in-person care to Stokes County, Novant Health can also help patients access more specialized services through telehealth both in their homes, and at Novant Health clinics in the community. With investments in technology, equipment, and clinical training, patients in Stokes County can access advanced specialty telehealth programs for stroke, psychiatry, and a variety of other specialties, helping patients access care more easily.

While as much care as possible will be provided in Stokes County, we will build an integrated and coordinated network between SRMH and Novant Health's Triad hospitals in order to ensure patients receive the highest quality care as close to home as possible.

Increasing Access and Expanding the SRMH Network

FACILITY AND NETWORK INVESTMENTS

We intend to fully operate and make significant investments to transform the SRMH care delivery network, increasing access to care in the community. In Danbury, we intend to revitalize the acute care campus by modernizing facilities and equipment, developing new and strengthening existing clinical programs, and recruiting providers to support these programs. The Danbury facility is aging and in need of major repairs; as part of a broader facility plan, Novant Health will make the necessary investments to ensure the Danbury campus meets its high safety and quality standards. We will also make investments to strengthen the hospital's existing services, such as respiratory therapy, and evaluate new capabilities in other critical specialties. Novant Health's existing clinics and physicians can be tightly integrated with the Danbury campus, directing patients in need of inpatient care to the hospital when appropriate. Together, these investments and strategies will allow for more patients to receive inpatient care in Stokes County.

Beyond the hospital, we will expand SRMH's ambulatory network, further developing the King campus and introducing new access points throughout the county. On the King campus, we plan to expand existing surgical offerings, build a free-standing emergency department, and develop a multi-specialty medical office building. Novant Health's

existing primary and specialty care clinics will be closely integrated with and supportive of the expanded King campus. Together with the Board of Commissioners, we can also explore pursuing Rural Emergency Hospital (REH) designation for the updated King campus. REHs are required to provide 24-hour emergency care, and may provide outpatient care, but cannot provide inpatient care.

Beyond the existing King campus, we plan to introduce new primary care and urgent care access points by building additional clinics elsewhere in the county. These ambulatory expansions can be supported by a combination of new physician recruits and rotating specialists from Winston-Salem, as needed.

In addition to investment in brick and mortar and physician recruitment and retention, Novant Health can expand access via its capabilities in value-based care and population health, particularly related to senior-citizens, a growing demographic in Stokes County. Novant Health and Cone Health are partners in HealthTeam Advantage, a Medicare Advantage ("MA") company offering MA plans in 12 counties in the Triad region, including Stokes County. Novant Health has also partnered with Oschner Health 65 Plus Clinics in an effort to elevate access to care and other services and resources to the senior population across the United States. These clinics are specifically tailored to serve the healthcare and social needs of seniors. We can bring our investment and strategic partnerships around population health and value-based care to bear for the benefit of Stokes County residents.

Not only will these investments result in expanded access to high-quality care but will also support the Stokes County economy, introducing new jobs and economic development to the community. Although in a different part of the state than Stokes County, Pender County has a similar rural profile and has benefitted from NHPMC's management arrangement with and subsequent acquisition by Novant Health. Novant Health is a significant employer in Pender County and generates economic impact through its operation of NHPMC, physician clinics and other ancillary services. For NHPMC alone, Novant Health paid approximately \$15.3 million in salary and wages and \$3 million in benefits to the hospital staff representing 187 full-time equivalents (FTEs). Novant Health seeks to establish local services in Stokes County similar to existing services in Pender County.

Improving Clinical Quality and Operations

CLINICAL QUALITY

Novant Health can improve clinical quality and operations to optimize the provision of care for the Stokes community. Along with modernizing and improving the Danbury campus infrastructure, we also plan to implement quality improvement measures to enhance clinical outcomes and patient experience. Novant Health has extensive experience operating critical access and community hospitals and has been recognized numerous times for its clinical quality and patient safety. In September 2023, Novant Health Presbyterian Medical Center was presented the Bernard A. Birnbaum, MD, Quality Leadership Award by Vizient, which awards top clinical performers based on measures such as safety, mortality, effectiveness, efficiency, patient centeredness, and equity. Additionally in 2023, The Leapfrog Group recognized Matthews Medical Center and Rowan Medical Center as top general hospitals, and Forsyth, Huntersville, Kernersville, and Presbyterian Medical Centers as top teaching hospitals. Novant Health also received a variety of specialty-specific quality awards in cancer, heart and vascular, maternity, neurology, nursing, and orthopedics. In 2019, we established the Institute for Safety & Quality, which focuses on patient outcomes and safety, clinical excellence, and infection prevention, and has implemented specific standardized processes at each hospital. Examples of these initiatives include a system-wide program to electronically track handwashing by individual team members and daily morning safety meetings at each hospital. Quality is hardwired into Novant Health's hospital operations, ensuring Stokes County residents receive the safest, most effective care possible.

ELECTRONIC MEDICAL RECORD

We plan to invest in key technological tools to facilitate high-quality, integrated care. Novant Health has a robust Epic Electronic Medical Record (EMR) system, providing intuitive ready-to-adopt workflows, enabling secure data sharing across departments and facilities, and enhancing care delivery and decision-making. Covering hospital and clinic environments, Epic creates a single patient record that allows for seamless care, integrating with systems that support lab, imaging, pharmacy, and clinical support. We also use analytic tools to provide key insights on operational efficiency and quality improvement. This data is packaged in easy-to-use tools that allow leaders, providers, and staff to access the data they need quickly and efficiently. Novant Health emphasizes interoperable programs to facilitate smooth information exchange between internal and external systems for continuity of care.

ADMINISTRATIVE SUPPORT

Along with clinical quality and operations, Novant Health will invest in leading-practice administrative operations that will allow clinicians to focus on their mission of providing patient care. Using the Epic software, Novant Health has a set of tools that streamline administrative tasks, including scheduling appointments, receiving insurance approval, documenting care, and managing billing and payment to ensure timely cash collection for services provided. Novant Health consistently ranks within the top quartile of financial operations performance compared to other organizations of similar size and will bring this performance to SRMH. Additionally, we prioritize cybersecurity, employing encryption, access controls, and regular audits to safeguard patient data and maintain compliance with regulations.

Novant Health is dedicated to retaining a high-quality employee base and would extend that focus to SRMH by committing to continued employment of current hospital employees in good standing and equivalent benefits (including retirement benefits) without limitation. We employ over 39,000 team members and have strong human resources capabilities, which can be used to ensure a smooth employee transition at SRMH.

Contingencies

This Response is subject to the following contingencies:

- Negotiation and mutual agreement of Stokes County and Novant Health on definitive documents detailing the structure of the transactions and the parties' commitments;
- Confirmatory due diligence as is customary in transactions such as those contemplated herein;
- Approval by the Novant Health Board of Trustees and The Stokes County Commissioners;
- Fulfillment of any applicable statutory requirements and receipt of any required regulatory approvals

Conclusion

Together, Novant Health and Stokes County can markedly improve access to high-quality care in Stokes County. We can collectively ensure that not only do patients continue to have access to inpatient care in the community, but they can also access enhanced services to live healthier, happier, more productive lives.

Novant Health is the optimal partner for Stokes County as exemplified by our:

- Existing commitment to and trust from the Stokes community.
- Experiences and capabilities in operating community and critical access hospitals and skilled nursing facilities, meeting the needs of patients in rural areas.
- Track record of growth and expansion of acute and ambulatory services within North Carolina communities.
- Strong physician recruitment and retention abilities.
- Dedication to high-quality clinical care and efficient operations.

Novant Health is grateful for the opportunity to present this proposal and welcomes any additional discussion with the Board of Commissioners on how Novant Health and the county can work together to transform the healthcare landscape for the community, allowing Stokes County individuals and families to live healthier lives.

Table of Appendices

Appendix A: Organizational Structure and Ownership of Novant Health

Appendix B: Overview of Directors, Officers, and Management Team

Appendix C: Audited Financial Statements, 2021 – 2023

Appendix D: Statements Regarding Participation in Federal Health Care Programs and Licensure

Appendix E: Insurance Coverages

Appendix F: Indigent and Charity Care Policies

Appendix G: 2022 Community Benefit Report

Appendix H: List of Owned & Operated Hospitals and Services

Appendix A: Organizational Structure and Ownership of Novant Health

Organizational Structure and Ownership of Novant Health

Name: Novant Health, Inc.

State of Organization: North Carolina

Date of Organization: July 1, 1997

Mailing Address: 2085 Frontis Plaza Blvd, Winston-Salem, NC 27103

Telephone: (336) 718-2023

Contact:

Chad Setliff

President, Novant Health Greater Winston-Salem Market and Novant Health Forsyth Medical Center

Email: mcsetliff@novanthealth.org

Novant Health Overview

Novant Health, Inc. (“Novant Health”) is a private, not-for-profit integrated system of 18 medical centers and more than 2,000 physicians in over 850 locations, as well as numerous outpatient surgery centers, medical plazas, rehabilitation programs, diagnostic imaging centers and community health outreach programs. Novant Health's nearly 40,000 team members and physician partners care for patients and communities in North Carolina and South Carolina.

Novant Health’s 18 medical centers include three tertiary referral centers (Novant Health Forsyth Medical Center, Novant Health Presbyterian Medical Center, and Novant Health New Hanover Medical Center) as well as 11 community hospitals, two hospitals focusing on surgical care, and one critical access hospital. Novant Health’s employed physician network, Novant Health Medical Group, employees over 1,950 physicians and approximately 1,600 mid-level providers (e.g., physician assistants and nurse practitioners) located at approximately 700 sites across North Carolina and South Carolina.

Appendix B: Overview of Directors, Officers, and Management Team

See below for a bios of Novant Health executive leadership and key leadership of Novant Health's Greater Winston-Salem Market:

Novant Health Executive Leadership

CARL S. ARMATO is the President and Chief Executive Officer of Novant Health leading an integrated healthcare system of physician clinics, outpatient centers, and hospitals across two states, generating over \$8.4 billion in revenue and employing a dedicated workforce of more than 37,000 team members. Recognized as one of the safest healthcare systems in the U.S. by The Leapfrog Group, Novant Health has transformed under his leadership into one of the top integrated healthcare delivery networks in the country. In the midst of the COVID-19 pandemic in 2020, Mr. Armato led the acquisition of New Hanover Regional Medical Center, establishing a third major operational hub in North Carolina. Embracing a people-centric approach, he has fostered an inclusive and supportive corporate culture that prioritizes the diverse needs of its employees. This commitment to inclusivity led to Novant Health being honored on Forbes' esteemed 2021 America's Best Employers for Diversity list. In addition to serving on the board of directors of Vizient, the largest healthcare performance improvement company in the U.S., Mr. Armato holds board positions on the American Heart Association's Southeast chapter, the Juvenile Diabetes Research Foundation Charlotte Chapter Advisory Council, and the Healthcare Institute. He has been recognized as the Most Admired CEO by both the Charlotte Business Journal and the Triad Business Journal. Author of "A Future with Hope: An Inspiring Guide to Overcoming Diabetes," he was awarded a Lifetime Achievement Award by the American Diabetes Association, Charlotte Chapter. Mr. Armato holds a Master of Business Administration from Norwich University and a Bachelor of Science in business administration and accounting from the University of Louisiana at Lafayette.

FRANK E. EMORY, Jr. is the Executive Vice President and Chief Legal Officer for Novant Health. Mr. Emory oversees the legal, government relations, risk management, corporate audit, and compliance. Prior to joining Novant Health in 2019, he served as a partner with international law firm Hunton Andrews Kurth LLP, where he was co-head of the litigation and labor group and managing partner of the Charlotte office. Mr. Emory was appointed to the Board of Directors for ScanSource in October of 2020. He is the Chair Elect of the North Carolina Hospital Association Board, in which he chairs the Policy Development Committee. Mr. Emory previously served as the chairman of the board of the Economic Development Partnership of North Carolina, an appointment by Gov. Roy Cooper. In the past, he has served as president of the Mecklenburg County Bar; a member of the North Carolina Board of Transportation; and the first African American and youngest chairman of the Charlotte-Mecklenburg Planning Commission. Mr. Emory is Trustee Emeritus of Duke University and Duke University Health System. He is a permanent member of the Judicial Conference of the Fourth Circuit. A native of Wilson, North Carolina, Mr. Emory graduated cum laude from Duke University as an Angier B. Duke Scholar, Duke University's most prestigious academic scholarship. He received his law degree at the University of North Carolina at Chapel Hill School of Law on a Morehead Law Fellowship.

GEOFFREY K. GARDNER is the Senior Vice President of Finance and Interim CFO for Novant Health. He has over twenty years of healthcare financial management and leadership experience across multiple settings, including acute care facilities, physician networks, outpatient imaging, home health and in not-for-profit and private equity-backed for-profit environments. Mr. Gardner has worked at Novant Health for nearly 15 years, holding several finance leadership positions, including Finance Leader for the Greater Winston-Salem Market from 2013 – 2015. He earned a B.S. in Public Health and a Master of Accounting from the University of North Carolina at Chapel Hill, and is a Certified Public Accountant.

JOHN GIZDIC is the Executive Vice President and Chief Business Development Officer for Novant Health. He is responsible for the corporate areas of integration, human resources, marketing and communications, Novant Health's foundations and corporate health. Prior to joining Novant Health in 2021, Mr. Gizdic was president and CEO of New Hanover Regional Medical Center ("NHRMC"). He

played a vital role in supporting growth and the improvement of patient care at NHRMC. Mr. Gizdic led several key initiatives, including the creation of the physician network that became the NHRMC Physician Group. He led Physician Quality Partners, the organization's accountable care organization; facilitated numerous joint ventures in partnership with physicians, overseeing approximately \$1 billion in capital projects; and spearheaded an effort across the organization to improve quality, safety and efficiencies through lean continuous improvement principles. Prior to joining NHRMC, Mr. Gizdic was with Carolinas HealthCare System. Throughout his 14-year tenure, he served as vice president of administration and strategic services for Blue Ridge Health Care System, director of the CHS Management Company, and worked in financial operations for Mercy Hospitals. Mr. Gizdic holds a bachelor's degree in health policy and administration from Pennsylvania State University and Master of Business Administration and Master of Health Administration from Pfeiffer University. He is a member of the American College of Healthcare Executives. He currently serves on the North Carolina Healthcare Association ("NCHA") board of trustees, the Cape Fear Habitat for Humanity board of trustee and UNCW MHA Advisory Board. He has previously served as chair for various groups, including the NCHA board of trustees, the Greater Wilmington Chamber of Commerce, Chamber Foundation/Cape Fear Future Foundation board, and NCHA policy development committee. He also served as the honorary chair for the 2016 JDRF Walk, the 2016 Relay for Life of Wilmington and the 2017 Cape Fear Heart Walk.

DENISE MIHAL is the Executive Vice President and Chief Nursing and Clinical Operations Officer. In her role, Ms. Mihal is responsible for clinical operations and elevating patient care across Novant Health. In addition to collaborating closely with facility nursing officers, surgical services, behavioral health services, trauma and emergency services, and clinical and patient education leaders, she oversees clinical operations for the organization's professional nurse resource team and case management team. Since joining Novant Health in 2000 as the administrator of Novant Health Charlotte Orthopedic Hospital, Ms. Mihal has held various influential positions within the organization including chief operating officer of the greater Winston-Salem and eastern markets and president of three regional medical centers. In recognition of her exceptional contributions and leadership in the healthcare industry, she was named in Becker's Hospital Review's prestigious 2020 list of Chief Nursing Officers to Know. North Carolina Governor Roy Cooper appointed her in 2021 to serve on the State Health Coordinating Council. Ms. Mihal holds a Master of Business Administration from Rutgers University and a Bachelor of Science in nursing from William Paterson University.

PAM OLIVER, MD is the Executive Vice President and Chief Medical Officer of Novant Health. In her role, Dr. Oliver provides strategic, clinical, and cultural leadership to ensure the delivery of high-quality, cost-effective, and patient-centered care across Novant Health. She also leads health equity initiatives and plays a pivotal role in guiding the Novant Health institutes. Dr. Oliver is a board-certified ob-gyn and has been practicing at Novant Health WomanCare since 2005. She has served in various leadership roles, including as submarket leader for specialty practices in the greater Winston-Salem market, physician service line leader of women's services for the greater Winston-Salem market and senior physician executive for Novant Health Physician Network, supporting clinical and business strategy across the system. Dr. Oliver received her undergraduate degree in biology and her medical degree from the University of North Carolina at Chapel Hill, where she was a Morehead Scholar and Board of Governors' scholarship recipient. She also earned her master's degree in public health (maternal and child health concentration) from the UNC School of Public Health while enrolled in medical school. Dr. Oliver currently serves as chair for the Forsyth County Infant Mortality Reduction Coalition. She is a member of the Board of Visitors for the University of North Carolina at Chapel Hill and also serves on the Morehead-Cain Scholarship Fund Board. In addition, she has served on the Summit School board of trustees since 2015.

ONYEKA NCHEGE is the Senior Vice President and Chief Information Officer for Novant Health. He oversees growth initiatives and the delivery of world-class consumer capabilities, differentiating technologies and advanced clinical solutions that allow the integrated healthcare system to provide remarkable patient care. Mr. Nchege has a purposeful commitment to mentoring and developing leaders,

and an unwavering dedication to empowering teams to innovate and unleash their potential. As Chief Information Officer for Toyota Industries Commercial Finance, The Cooper Institute, Interstate Batteries and Coca-Cola Bottling Company Consolidated, he led team members, leaders and executives through the development and implementation of digital strategies resulting in successful information technology and digital business transformation and integration that accelerated corporate purpose and strategy and created sustainable value. With nearly 30 years of experience as a visionary leader providing tactical management for information technology and digital products and services, Mr. Nchege specializes in application development, client relations, customer service, cybersecurity, digital transformation and integration, disaster recovery, eCommerce applications, field service operations, gross margin growth, new business development, process improvement, sales support, vendor management and venture capital. In 2021, 2022 and 2023, Mr. Nchege was named enterprise finalist for the Charlotte ORBIE Awards, honoring his demonstrated excellence in technology leadership. He serves on Apparo's CXO Tech Council and is a graduate of Georgia State University's J. Mack Robinson College of Business.

SANJAY GUPTA is the Executive Vice President and Chief Transformation Officer for Novant Health. He oversees marketing and communications as well as the system's internal consulting function. Mr. Gupta most recently served as chief marketing officer and chief digital officer for Guaranteed Rate, where he focused on the company's consumer direct business as well as marketing its expanding portfolio of financial products and enhancing the company's brand. He has held executive leadership roles across many organizations, including as executive vice president and head of client solutions and outcomes at TIAA; executive vice president of marketing, corporate relations and innovation at Allstate; chief marketing officer at Ally Financial; and senior vice president of global consumer and small business marketing and senior vice president of e-commerce and ATM executive at Bank of America. Mr. Gupta currently serves on the board of directors for Steelcase. He earned an MBA from the University of Texas at Austin and completed his B.E. in electronics engineering from the University of Mumbai.

DEAN SWINDLE is the Executive Vice President and President of NHE. In this role, he leads Novant Health's independent business division focused on partnerships and investments that will create diversified revenue streams and transformational capabilities for Novant Health. Mr. Swindle has served as a strategic advisor for Novant Health since 2020. He previously served as president of enterprise business lines and chief financial officer at CommonSpirit Health and Catholic Health Initiatives ("CHI") from 2010 to 2019. Before CHI, he served in a variety of leadership roles at Novant Health, including senior vice president of finance; executive vice president and chief financial officer; and president, ambulatory services, and chief financial officer. Additionally, Mr. Swindle served as CEO of Concord Medical Center in Baton Rouge, Louisiana, and vice president of financial services at General Health System in Baton Rouge. He began his career with KPMG LLP in Jackson, Mississippi. Mr. Swindle earned a master's degree in business administration from Duke University's Fuqua School of Business in Durham, North Carolina, and a bachelor's degree in business administration from Millsaps College in Jackson, Mississippi. He is a member of the Healthcare Financial Management Association and the American Institute of Certified Public Accountants.

Novant Health's Greater Winston-Salem Market Leadership

CHAD SETLIFF is the president of the Novant Health Greater Winston-Salem Market and Novant Health Forsyth Medical Center. Throughout his twenty-year career at Novant Health, he has served as the president and COO of Novant Health Clemmons Medical Center, Novant Health Kernersville Medical Center, and Novant Health Medical Park Hospital, lead executive for several clinical institutes as well as roles in revenue cycle and strategic planning throughout the organization. Chad received a Bachelor of Science in economics and systems engineering from the United States Military Academy at West Point and holds a Master of Business Administration from Wake Forest University. He served as a captain in the United States Army on active duty at Fort Bragg, NC and Sarajevo, Bosnia. Later he continued his military service with the North Carolina Army National Guard as detachment commander. Chad is active in the community as a current member, and past Chair, of the Kaleideum Board of Directors and a current board member for Greater Winston-Salem, Inc. and Winston-Salem National Little League. He served on the Forsyth Country Day School Board, Executive Board of the Old Hickory Council of the boy Scouts of America, American Heroes for North Carolina, the Executive Team of the American Heart Association's Heart & Stroke Walk, and as a board member of the Lewisville Clemmons Chamber of Commerce, Piedmont Triad Partnership, and the Jerry Long YMCA. Chad was named as one of the area's top business leaders as recognized by the Triad Business Journal's Power Players, a recipient of the 40 under 40 recognition, and is an alumnus of Leadership Winston-Salem. Chad is a native of Ruffin, North Carolina. He resides in Winston-Salem with his wife, Cerene, a local attorney. He enjoys coaching little league baseball and being an active and engaged father of their three children.

ALISHA HUTCHENS recently named the President and Chief Operating Officer of Novant Health Clemmons Medical Center and Medical Park Hospital, which includes responsibility for the rural submarket, she has been with the organization for 16 years. She previously held the position of Chief Operating Officer at Novant Health Forsyth Medical Center, where she had oversight of professional and support services, along with responsibility for all hospital operations. She has extensive experience in the healthcare industry, serving over twenty years, with a leadership background that includes supply chain, strategic sourcing, and hospital administration from both an academic medical center and a large integrated not-for-profit organization. She currently serves as the Chair of the Appalachian State University Health Sciences advisory board in Boone, NC and is a member of the Senior Services board in Winston Salem, NC. Alisha was the winner of 2015 VHA Resource Management for New Product Introduction Program and National Blueprint Recognition. In 2016, she was named one of the top ten people to watch in Healthcare Contracting in the Journal of Healthcare Contracting, and in 2017 she was named the top contracting professional in the Journal of Healthcare. In April of 2024, Alisha was named one the most Outstanding Women in Business for the Triad Business Journal. Currently, she is responsible for a \$218million dollar budget and roughly 600 team members. In addition, her most recent work includes the strategic vision, development, and leadership of the Forsyth Medical Center master plan, which includes a \$400m investment into the facility infrastructure, patient care areas and surgical services. Alisha is married to her husband Tim, and has two children, Bella (17 yrs) and Jon (14 yrs). She has a love for sports, coaching youth athletics, her church and community. In her free time, she enjoys spending time with her family and supporting her children with their extracurricular activities. Alisha is a transformational leader that loves to mentor and develop new leaders as they work to become the best version of themselves during their professional journey. She is an advocate for patient care and believes in a 'one team' approach to ensure all patients are provided remarkable care with an exceptional experience.

KIRSTEN ROYSTER serves as Chief Operating Officer of the Greater Winston-Salem Market of Novant Health and the President and Chief Operating Officer of Novant Health Kernersville Medical Center. During her tenure, she has held a variety of leadership roles within the Novant Health System including Patient Experience Officer, Novant Health Medical Park Hospital President, Vice President for Women's Health and the Heart and Vascular Institute, and President of Novant Health Medical Group Specialty Practice Operations. Before coming to Novant Health, Kirsten was a consultant with a firm that focused on health care system's financial improvement, revenue cycle and patient flow projects. Along with her role at Novant Health, Kirsten serves on numerous non-profit and economic development boards in North Carolina. Kirsten earned her undergraduate degree from the University of North Carolina at Chapel Hill. She has a post graduate degree in Health Policy and Administration from Emory University.

LORAIN FRANK-LIGHTFOOT is the Vice President for Nursing and Chief Nursing Officer at Novant Health Forsyth Medical Center and the Market Chief Nursing for the five Winston-Salem hospitals. Loraine joined the Novant team in June of 2020. Prior to this, she was the System Chief Nursing Officer for Munson Medical Center and Munson Healthcare, a nine-hospital system in Northern Michigan. Loraine's prior executive roles include serving as the CNO for Parkview Regional Medical Center and Affiliates in Fort Wayne, Indiana and as the CNO for Wooster Community Hospital in Wooster, Ohio. In addition to her nursing leadership roles, Loraine has actively shared her knowledge and expertise with undergraduate and graduate students via formal teaching positions and as a doctoral advisor. Her academic experience includes positions as an Assistant Professor of Clinical Practice with the Ohio State University, Adjunct Faculty positions for the University of North Carolina at Greensboro, Purdue University and the University of Akron. In 2012 Dr. Frank-Lightfoot was awarded a Robert Wood Johnson Executive Nurse Fellowship. She was recognized as a Distinguished Alumni by the University of Akron in 2015. Loraine holds a Doctor of Nursing Practice from The Ohio State University, a master's degree in business from Cleveland State University and a Bachelor's degree in Nursing from the University of Akron. She has published numerous articles and spoken at national conferences related to nursing leadership topics.

STAN FULLER, MD, MHA is a Senior Vice President and the Chief Clinical Officer (CCO) for Novant Health's Greater Winston-Salem market. As CCO, he oversees patient safety and quality, capacity management, provider credentialing and peer review. He leads hospital-based medicine services across five acute care facilities, and otherwise, serves as a liaison between providers and senior administration across the Winston-Salem market. Dr. Fuller is board certified in both general surgery and colon and rectal surgery and is the founding member of Novant Health's Colon and Rectal Clinic where he practiced for > 25 years. In 2019, he returned to his undergraduate alma mater and was awarded a Master of Healthcare Administration degree at UNC's Gillings School of Global Public Health in 2021. During this time, he transitioned from a busy clinician with special emphasis on minimally invasive robotic colon and rectal surgery, to a full-time senior leader at Novant Health. Dr. Fuller grew up in western NC and graduated with distinction from UNC-Chapel Hill in 1986 with a BA degree in chemistry. He attended the Bowman Gray School of Medicine and finished his general surgery training there in 1996. After three years in private practice with Salem Surgical Associates in Winston-Salem, Dr. Fuller completed an additional one-year residency (fellowship) in colon and rectal surgery at the University of Texas in Houston. He returned to Winston-Salem and rejoined Salem Surgical Associates in 2000. Dr. Fuller met his wife during medical school, and they were married in 1990. He and Julie have three wonderful adult children and maintain close family relations with all.

Management Update. In March 2024, Novant named Alice Pope as Executive Vice President and Chief Financial Officer. Most recently, Ms. Pope served as Chief Financial Officer of Inova Health System. She will assume her new role at Novant on April 29, 2024.

Appendix C: Audited Financial Statements, 2021 – 2023

Novant Health, Inc. and Affiliates

**Consolidated Financial Statements and
Supplemental Information
December 31, 2021 and 2020**

Novant Health, Inc. and Affiliates
Index
December 31, 2021 and 2020

	Page(s)
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Balance Sheets	3
Statements of Operations and Changes in Net Assets	4
Statements of Cash Flows	5–6
Notes to Consolidated Financial Statements.....	7–50
Report of Independent Auditors on Supplementary Information	51
Schedule of Cost of Community Benefit Programs.....	52
Consolidating Supplemental Schedules.....	53–56
Notes to Consolidating Supplemental Schedules.....	57–58



Report of Independent Auditors

To the Board of Trustees of Novant Health, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Novant Health, Inc. and Affiliates (the “Company”), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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



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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Pricewaterhouse Coopers LLP

March 28, 2022

Novant Health, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2021 and 2020

<i>(in thousands of dollars)</i>	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 795,602	\$ 711,822
Accounts receivable, net	896,263	670,736
Short-term investments	411,440	330,742
Current portion of assets limited as to use	40,627	42,674
Receivable for settlement with third-party payors	16,315	25,109
Other current assets	343,152	259,254
Total current assets	2,503,399	2,040,337
Assets limited as to use	299,263	234,676
Long-term investments	3,514,345	2,984,671
Property and equipment, net	2,883,230	2,400,069
Right-of-use assets, net	520,111	493,354
Intangible assets and goodwill, net	854,249	310,047
Investments in affiliates	53,954	54,954
Deferred tax asset	3,980	5,317
Other assets	135,879	128,253
Total assets	\$ 10,768,410	\$ 8,651,678
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 54,637	\$ 54,848
Short-term borrowings	124,518	149,592
Accounts payable	312,751	277,310
Accrued liabilities	810,460	682,673
Current portion of operating lease liabilities	106,774	88,796
Estimated third-party payor settlements	80,207	87,982
Total current liabilities	1,489,347	1,341,201
Long-term debt, net of current portion	2,610,282	1,275,987
Deferred tax liability	5,201	5,194
Operating lease liabilities, net of current portion	429,628	418,011
Derivative financial instruments	39,260	51,803
Employee benefits and other liabilities	466,152	589,583
Total liabilities	5,039,870	3,681,779
Commitments and contingencies		
Net assets		
Without donor restrictions - attributable to Novant Health	5,630,943	4,805,811
Without donor restrictions - noncontrolling interests	6,675	79,252
Total net assets without donor restrictions	5,637,618	4,885,063
With donor restrictions	90,922	84,836
Total net assets	5,728,540	4,969,899
Total liabilities and net assets	\$ 10,768,410	\$ 8,651,678

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, 2021 and 2020

<i>(in thousands of dollars)</i>	2021	2020
Operating revenues and other support		
Net patient service revenues	\$ 6,811,318	\$ 5,052,794
Other revenue	584,828	629,981
Total operating revenues and other support	<u>7,396,146</u>	<u>5,682,775</u>
Operating expenses		
Salaries and employee benefits	3,924,166	3,083,108
Supplies and other	2,685,642	2,073,090
Depreciation and amortization expense	339,633	260,051
Interest expense	77,696	78,022
Total operating expenses	<u>7,027,137</u>	<u>5,494,271</u>
Operating income	369,009	188,504
Non-operating income (expense)		
Investment income	452,815	201,823
Loss on extinguishment of debt	(4,456)	(6,208)
Income tax expense	(4,793)	(505)
Other net periodic pension costs	(576)	(1,459)
Excess of revenues over expenses	<u>\$ 811,999</u>	<u>\$ 382,155</u>
Other changes in net assets without donor restrictions		
Deconsolidation of Novant Health UVA Health System	(60,185)	-
Change in funded status of defined benefit plans	1,206	(878)
Amortization of deferred loss on derivative financial instruments	2,984	3,180
Other changes in net assets without donor restrictions	(3,449)	(1,184)
Increase in net assets without donor restrictions	<u>752,555</u>	<u>383,273</u>
Net assets with donor restrictions		
Assumption of net assets with donor restrictions from acquisition	20,364	-
Deconsolidation of Novant Health UVA Health System	(3,749)	-
Contributions and investment income	31,722	11,740
Net assets released from restrictions for operations	(42,251)	(11,636)
Increase in net assets with donor restrictions	<u>6,086</u>	<u>104</u>
Increase in total net assets	758,641	383,377
Net assets, beginning of period	<u>4,969,899</u>	<u>4,586,522</u>
Net assets, end of period	<u>\$ 5,728,540</u>	<u>\$ 4,969,899</u>

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, 2021 and 2020

(in thousands of dollars)

	2021	2020
Cash flows from operating activities		
Increase in net assets	\$ 758,641	\$ 383,377
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization and accretion	340,303	259,735
Loss (gain) on sale of consolidated entities	29,682	(6,500)
Change in net assets due to sale of consolidated affiliate	63,934	-
Loss on extinguishment of debt	4,456	6,208
Actuarial loss on pension and postretirement benefits	1,162	1,253
Change in funded status of defined benefit plans	(1,206)	878
Share of earnings in affiliates, net of distributions	12,153	17,196
Net realized and unrealized gains on assets limited as to use and investments	(401,591)	(164,305)
Change in fair value of interest rate swaps	(12,543)	7,906
Contributions restricted for capital	(11,743)	(1,468)
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed		
Accounts receivable	(147,043)	(92,662)
Accounts payable and accrued liabilities	(10,076)	178,105
Medicare advanced (repayments) payments	(70,228)	373,718
Long-term liabilities	89,462	54,624
Other current assets	(15,578)	(28,406)
Third-party payor settlements	(1,712)	42,742
Deferred taxes, net	1,344	1,300
Other assets and liabilities, net	(18,105)	(10,514)
Net cash provided by operating activities	<u>611,312</u>	<u>1,023,187</u>
Cash flows from investing activities		
Capital expenditures	(288,021)	(372,021)
Proceeds from sales of long-term investments	1,603,097	1,910,189
Purchase of long-term investments	(1,571,345)	(2,278,671)
Proceeds from sales of short-term investments	543,419	341,485
Purchase of short-term investments	(627,104)	(477,778)
Proceeds from sale of property and equipment	17,800	2,821
Proceeds from sale of consolidated entities, net of cash disposed	115,905	8,500
Acquisition of business, net of cash acquired	(1,509,769)	-
Investments in unconsolidated affiliates	(11,631)	(2,759)
Other investing activities	(1,663)	(1,145)
Net cash used in investing activities	<u>(1,729,312)</u>	<u>(869,379)</u>

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, 2021 and 2020

(in thousands of dollars)

	2021	2020
Cash flows from financing activities		
Principal payments on long-term debt	(16,151)	(288,136)
Proceeds from long-term debt	1,491,682	264,165
(Payments on) proceeds from repurchase agreements, net	(25,000)	61,124
Proceeds from sale of accounts receivable	28,408	32,109
Contributions from consolidated affiliate	54,544	-
Extinguishment of bonds	(145,228)	-
Proceeds from revolving credit facility	1,600,000	675,000
Payments on revolving credit facility	(1,600,000)	(675,000)
Other financing activities	8,533	4,559
	<u>1,396,788</u>	<u>73,821</u>
Net cash provided by financing activities	1,396,788	73,821
Net increase in cash, cash equivalents and restricted cash	278,788	227,629
Cash, cash equivalents and restricted cash		
Beginning of year	<u>861,678</u>	<u>634,049</u>
End of year	<u>\$ 1,140,466</u>	<u>\$ 861,678</u>

	2021	2020
Supplemental disclosure of cash flow information		
Interest paid	\$ 82,960	\$ 74,806
Income taxes paid	5,203	2,945
Supplemental disclosure of noncash financing and investing activities		
Property and equipment financed through current liabilities	49,719	37,090

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

	2021	2020
Cash and cash equivalents	\$ 795,602	\$ 711,822
Restricted cash included in assets limited as to use:		
Bond proceeds	9,989	18,180
Nonqualified plans	8,967	10,791
Transition stabilization escrow (footnote 4)	62,757	-
Other	13,045	12,152
Cash and cash equivalents included in long-term investments	<u>250,106</u>	<u>108,733</u>
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 1,140,466</u>	<u>\$ 861,678</u>

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(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 facilities and hospitals that serves patients and communities in North Carolina, South Carolina and Georgia. The Novant Health network consists of over 2,300 physicians and over 35,000 team members at more than 800 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 6 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 (“GAAP”).

Principles of Consolidation

The consolidated financial statements include the accounts of all affiliates controlled by Novant Health. All intercompany transactions and balances have been eliminated.

Use of Estimates

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

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

Fair Value of Financial Instruments

The fair value of financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, investments other than alternatives, assets limited as to use and interest rate swaps. More information can be found in Note 9, *Fair Value Measurements*.

Cash and Cash Equivalents

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

Restricted Cash

Novant Health holds cash that is restricted by the Company to purchase investments, pay participants in the Company's nonqualified plan, make payments related to the transition stabilization fund and fund expenditures with proceeds of the Series 2019 A bonds. Restricted cash balances were \$344,864 and \$149,856 as of December 31, 2021 and 2020, respectively, and are classified as current or long-term, consistent with the nature of their intended use based on the restrictions.

Accounts Receivable

Accounts receivable consist primarily of amounts owed by various governmental agencies, insurance companies and patients. Novant Health manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. Amounts the Company receives for treatment of patients covered by governmental programs and third-party payors as well as directly from patients are subject to both explicit and implicit price concessions. The Company estimates these price concessions using contractual agreements, discount policies and historical experience. Novant Health records price concessions in the period of service based on the analysis and consideration of these factors.

Leases

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

Other Current Assets

Other current assets include 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 net realizable value.

Investments

Debt investments are classified as trading securities. All debt investments are designated as trading at the time of acquisition. Unrealized gains and losses on debt and equity investments are included in excess 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.

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

Investments in equity and debt securities with readily determinable fair values are measured at fair value based on prices obtained on active markets or exchanges. The Company also invests in alternative and private equity investments through funds structured as limited partnerships, limited liability companies (“LLC’s”) and corporations. These investments are recorded using the equity method, with the values provided by the respective partnership, LLC or corporation based on market value or other estimates that require varying degrees of judgment. The Company also has certain investments that are reported at Net Asset Value (“NAV”) as permitted under GAAP. Novant Health believes the NAV reported at the end of the period is representative of the price we would receive if we sold the investment. For all of the Company’s long-term investments, the related earnings are reported as investment income in the consolidated statements of operations and changes in net assets. At December 31, 2021 and 2020, the Company held \$30,233 and \$12,362, respectively, of long-term investments that were accounted for at cost less impairment with adjustments made for any observable price changes resulting from an orderly transaction for the identical or a similar investment of the same issuer.

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

Assets Limited as to Use

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

Derivatives

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

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

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

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.

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 \$286,220 at December 31, 2021.

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 over their estimated useful lives.

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

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. Novant has elected to evaluate goodwill triggering events at the end of each reporting period. If it is more likely than not that the indefinite-lived asset is impaired, additional testing for impairment is required. GAAP prescribes that impairment for indefinite-lived intangibles is evaluated by comparing the fair value of the asset with its carrying amount. If the carrying amount exceeds the fair value, an impairment loss is recognized as the amount of that excess.

Impairment tests are performed at the reporting unit level for units that have goodwill. 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 for which the Company does not have the ability to exercise significant influence are accounted for at fair value or, if fair value is not readily determinable, at cost less impairment with adjustments made for any observable price changes resulting from an orderly transaction for the identical or a similar investment of the same issuer.

Other Assets

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

Compensated Absences

The Company's employees earn 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.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Pension and Postretirement Benefit Plans

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

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

Self-Insurance Reserves

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

Net Assets

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

Contributions Received

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or the condition is met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions, which is included in other operating revenue. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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

Novant Health receives supplemental Medicaid payments from the state of North Carolina through a federally approved disproportionate share program ("Medicaid DSH"). During 2012, the federal government approved an amendment to the Medicaid DSH plan. This amendment, referred to as the Medicaid Gap Assessment Program ("GAP"), provides a new funding model whereby hospitals are assessed an amount based on a percentage of their costs and are then paid supplemental amounts in an effort to reduce Medicaid losses. Novant Health records GAP payments received as net patient service revenue and GAP assessments paid as supplies and other on the consolidated statements of operations and changes in net assets. These supplemental payments are recognized in income when earned, if reasonably estimable and deemed collectible. During 2021, Novant Health received \$154,925 and paid \$70,659 for GAP. During 2020, Novant Health received \$186,180 and paid \$81,360 for GAP. On July 1, 2021, the state of North Carolina implemented a Medicaid Managed Care program. As part of this initiative, Medicaid recipients began receiving Medicaid services through newly established Medicaid Managed Care health plans. This program also included changes to the way providers are reimbursed for inpatient Medicaid services provided to patients. Hospitals began receiving hospital-specific base rates for inpatient services and GAP payments were eliminated. Hospitals throughout the state of North Carolina, including Novant Health hospitals, continue to pay an assessment in order to help fund this program. Novant Health paid \$40,566 in Medicaid Managed Care assessments in 2021.

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

Other Revenue

Other revenue consists primarily of revenue from provider relief funds, earnings from investments in affiliates accounted for using the equity method of accounting, retail pharmacy revenue, revenue from management services agreements, revenue from pay-for-performance contracts, gains (losses) on sales of consolidated entities and rental income.

Income Taxes

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

The Company provides for income taxes using the asset and liability method. This approach recognizes the amount of federal, state and local taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequences of events recognized in the consolidated financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates in the period in which such laws or rates are enacted. A valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income.

Reclassifications

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

3. COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, known as COVID-19, was first detected. The virus spread worldwide and on March 11, 2020, the World Health Organization designated the COVID-19 outbreak as a global pandemic. The spread of COVID-19 and the ensuing response of federal, state and local authorities resulted in a reduction in our patient volumes and also adversely impacted net patient service revenues as well as total operating expenses. Novant Health began experiencing improvement in patient volumes in June 2020 as restrictions were eased and elective surgeries and procedures were able to resume. During the year ended December 31, 2021, the COVID pandemic, and specifically the spread of the Delta and Omicron variants, continued to negatively impact patient volumes and operating expenses. Federal, state and local authorities have taken several actions designed to assist healthcare providers in providing care to COVID-19 and other patients to mitigate the adverse economic impact of the COVID-19 pandemic.

In response to the effect of COVID-19 on Novant Health's operating results and in accordance with the provisions of FASB ASC 350 Intangibles— Goodwill and Other and FASB ASC 360 Property, Plant and Equipment, the Company considered its long-lived and intangible assets for indicators of impairment. While COVID-19 has adversely impacted Novant Health's operating results, this impact was mitigated by the actions undertaken by Federal, state and local authorities, and the Company does not believe that the effects were significant enough to indicate impairment as of and for the years ended December 31, 2021 and 2020. As described above, patient volumes rebounded after the initial wave of the pandemic and the Company anticipates returning to pre-pandemic levels following the most recent waves. Novant Health will continue to assess potential indicators of impairment in all future periods.

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

CARES Act Funding

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act provides relief funds to hospitals and other healthcare providers on the front lines of the COVID-19 response. These funds are to be used to support healthcare related expenses or lost revenues attributable to COVID-19. During 2021 and 2020, Novant Health received \$21,151 and \$240,224 of CARES Act funding. For the years ended December 31, 2021 and 2020, \$30,385 and \$205,924 were recognized as other operating revenue in the consolidated statements of operations and changes in net assets. As of December 31, 2021 and 2020, \$21,117 and \$34,300, respectively, are included in estimated third-party payor settlements on the consolidated balance sheets and may be recorded as revenue in future periods or refunded, subject to certain terms and conditions and ongoing regulatory clarifications.

Medicare Accelerated and Advanced Payment Program

In April 2020, the Company requested funds under the Centers for Medicare and Medicaid Services' Accelerated and Advanced Payment ("MAP") Program designed to increase cash flow to Medicare providers and suppliers impacted by COVID-19. The MAP program allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. Novant Health received \$373,718 of MAP payments during 2020, with repayment to occur based upon the terms and conditions of the program. Repayment of these funds began in April 2021 and will continue through the earlier of February 2023 or whenever all funds are repaid. At December 31, 2021 funds of \$266,028 have not been repaid. This liability is included in accrued liabilities and employee benefits and other liabilities on the consolidated balance sheets as of December 31, 2021 and 2020.

Employer Payroll Tax Deferrals

Under the provisions of the CARES Act, in 2020, employers were allowed to defer payment of the employer share of the Social Security tax they otherwise are responsible for submitting to the federal government with respect to their employees. Employers generally are responsible for paying a 6.2 percent tax on employee wages. The provision required that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021, and the other half by December 31, 2022. The Company had \$35,989 and \$71,978 of payroll tax deferrals in accrued liabilities and employee benefits and other liabilities on the consolidated balance sheets as of December 31, 2021 and 2020, respectively.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

4. Organizational Changes

Sale of Ownership Interest in Novant Health UVA Health System

On May 18, 2021, Novant Health entered into an agreement to withdraw as a member of the Novant Health UVA Health System (the "JOC"). Closing of the transactions contemplated in the Withdrawal Agreement occurred on July 1, 2021, at which time Novant Health ceased to be a member of the JOC. During 2021 and 2020, the JOC contributed \$237,773 and \$450,800 in operating revenues and other support and \$5,656 and \$3,439 in operating income. Novant Health received \$237,810, of which \$54,544 related to debt defeasance and \$183,266 was in exchange for the sale. The sale resulted in a loss of \$29,682 which is included in other revenue in the consolidated statements of operations and changes in net assets for the year ended December 31, 2021.

Acquisition of New Hanover Regional Medical Center

On February 1, 2021, a wholly owned subsidiary of Novant Health, Inc. purchased substantially all of the assets of New Hanover Regional Medical Center ("NHRMC") located in Wilmington, NC as well as certain assets of New Hanover County used by New Hanover Regional Medical Center in the delivery of health care services. The purchase also includes ownership interest or board control of the subsidiaries of New Hanover Regional Medical Center, most significantly, its physician practices which provide patient care at 55 locations. NHRMC includes 800 licensed beds and is the primary referral hospital in the region, with specialty centers in cardiac, cancer, obstetrics, trauma, vascular surgery, intensive care, rehabilitation and psychiatry. The total purchase price paid for the acquisition was \$1,557,094. In order to finance the transaction, on January 29, 2021, Novant Health amended its Revolving Credit Agreement to increase the borrowing limit to \$1,600,000 and extend the maturity date to July 29, 2022. On April 8, 2021, Novant Health issued \$1,500,000 of taxable fixed rate bonds and subsequently used the proceeds of these bonds to pay down \$1,493,000 of the outstanding balance on the Revolving Credit Agreement.

The Company recognized the fair value of NHRMC and its subsidiaries in its consolidated balance sheet and included its operations in its consolidated statement of operations and changes in net assets beginning February 1, 2021. Accounting guidance requires that the purchase price be allocated to the assets acquired and liabilities assumed.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Below is the impact of acquired assets and assumed liabilities as of February 1, 2021:

Cash and cash equivalents	\$	47,325
Accounts receivable		168,723
Other current assets		86,008
Assets limited as to use		200,000
Long-term investments		21,444
Property and equipment		783,790
Right-of-use assets		54,419
Goodwill (included in intangible assets and goodwill)		481,130
Corporate trade name (included in intangible assets and goodwill)		93,000
Certificate of need (included in intangible assets and goodwill)		15,000
Investments in affiliates		2,836
Other assets		9
Total assets acquired	<u>\$</u>	<u>1,953,684</u>
Accounts payable		69,982
Accrued liabilities		40,949
Current portion of operating lease liabilities		13,610
Estimated third-party payor settlements		7,317
Operating lease liabilities, net of current portion		40,855
Employee benefits and other liabilities		203,513
Total liabilities assumed	<u>\$</u>	<u>376,226</u>
Net assets with donor restrictions assumed	<u>\$</u>	<u>20,364</u>
Total consideration	<u>\$</u>	<u>1,557,094</u>

The transaction included the creation of a \$200,000 transition stabilization fund, funded by New Hanover County to provide for payment of certain wind down expenses of NHRMC. As these expenses relate to the activities and liabilities excluded from the purchase, the assets are shown as assets limited as to use and are offset by a liability included in accrued liabilities and employee benefits and other liabilities on the consolidated balance sheet as of December 31, 2021.

NHRMC contributed \$1,390,932 of operating revenues and other support and \$(29,999) of operating loss for the year ended December 31, 2021.

The following table provides certain unaudited pro forma information for Novant Health, Inc. as if the NHRMC acquisition had occurred at the beginning of the year ended December 31, 2020:

	Year Ended December 31	
	<u>2021</u>	<u>2020</u>
Operating revenues and other support	\$ 7,511,920	\$ 7,094,843
Operating income	348,817	288,012

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

5. Revenue Recognition and Accounts Receivable

Net Patient Service Revenue

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

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

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

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

Agreements with third-party payors typically provide for payments at amounts less than established charges. For services provided under Medicare and Medicaid programs, inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services and defined capital and medical education costs related to beneficiaries are paid based on a cost reimbursement methodology. Outpatient services are paid at a prospectively determined rate. Physician services are paid based upon established fee schedules. Novant Health is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Novant Health and audits thereof by the fiscal intermediary. Payment arrangements with commercial insurance carriers include prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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

Cost report settlements under reimbursement agreements with Medicare and Medicaid for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Company's historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments arising from a change in the transaction price were not significant in 2021 and 2020.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Novant Health also provides services to uninsured patients. The transaction price for both uninsured patients as well as insured patients with deductibles and coinsurance is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. For the years ended December 31, 2021 and 2020, additional revenue of \$22,700 and \$25,900, respectively, was recognized due to changes in estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years.

Subsequent changes that are determined to be the results of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense is reported as a component of supplies and other in the consolidated statements of operations and changes in net assets and was not significant for the years ended December 31, 2021 and 2020.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

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

	December 31, 2021		
	Acute Care Facilities	Outpatient Locations	Total
Medicare	\$ 1,657,504	\$ 572,878	\$ 2,230,382
Medicaid	575,198	115,475	690,673
Managed care	2,447,157	1,144,611	3,591,768
Other	192,804	46,970	239,774
Self-pay	23,771	34,950	58,721
Total	\$ 4,896,434	\$ 1,914,884	\$ 6,811,318

	December 31, 2020		
	Acute Care Facilities	Outpatient Locations	Total
Medicare	\$ 1,089,219	\$ 440,236	\$ 1,529,455
Medicaid	392,724	86,309	479,033
Managed care	1,882,339	962,752	2,845,091
Other	112,754	37,764	150,518
Self-pay	23,425	25,272	48,697
Total	\$ 3,500,461	\$ 1,552,333	\$ 5,052,794

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

Novant Health has a program of factoring certain patient receivables with recourse to a third-party. Novant Health is obligated to repurchase factored receivables upon occurrence of certain conditions of the program. Accordingly, the Company accounts for the factoring as a secured borrowing. The factored receivables are recorded at their estimated net realizable value and are shown as other assets in the consolidated balance sheets. An offsetting liability, representing Novant Health's potential recourse for these receivables, is part of employee benefits and other liabilities in the consolidated balance sheets. As of December 31, 2021, the factored notes and the related liabilities were \$49,435 and \$61,813, respectively. As of December 31, 2020, the factored notes and the related liabilities were \$54,001 and \$67,548, respectively.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Other Revenue

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

	2021	2020
Pharmacy revenue	\$ 310,195	\$ 207,202
Pay-for-performance contracts	67,531	54,364
Provider relief funds	30,385	240,224
Management services agreements	12,087	1,190
(Loss) gain on sale of consolidated entities	(29,682)	6,500
Equity in earnings of affiliates	(4,062)	17,685
Rental income	9,955	11,106
Other miscellaneous revenues	188,419	91,710
	<u>\$ 584,828</u>	<u>\$ 629,981</u>

6. Charity Care and Community Benefit

In accordance with Novant Health's mission to improve the health of its communities one person at a time, Novant Health facilities accept patients regardless of their ability to pay. At acute facilities, uninsured patients qualify for a full write-off of their bills if their household income is at or below 300% of the federal poverty level. Novant Health also offers a catastrophic discount for patients with an account balance greater than \$5, flexible payment plans, and discounts for uninsured patients who do not qualify for the charity care program. In addition to these programs for hospitals, Novant Health physician groups and outpatient centers also have charity care programs to assist patients in need. The Company's approximate cost of providing care to indigent patients was \$192,780 and \$179,072 for the years ended December 31, 2021 and 2020, 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 \$12,678 and \$3,596 for the years ended December 31, 2021 and 2020, respectively.

7. Other Current Assets

Other current assets consist of the following at December 31:

	2021	2020
Inventory	\$ 159,792	\$ 118,718
Prepays	78,237	54,157
Other receivables	105,123	86,379
	<u>\$ 343,152</u>	<u>\$ 259,254</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

8. Assets Limited as to Use and Investments

Short-Term Investments

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

	2021	2020
Certificates of deposit	\$ 10,623	\$ 10,619
Fixed income - corporate and other	-	10,967
Fixed income - government securities	400,817	309,156
	<u>\$ 411,440</u>	<u>\$ 330,742</u>

Assets Limited as to Use

The designation of assets limited as to use at December 31 is as follows:

	2021		2020	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Under general and professional liability funding arrangement held by trustee	\$ 9,111	\$ 6,477	\$ 12,645	\$ 22,140
Transition stabilization fund	8,000	54,757	-	-
Held by bond trustee	9,989	-	18,180	-
Designated by board to service benefit plans	13,527	238,029	11,849	212,536
	<u>\$ 40,627</u>	<u>\$ 299,263</u>	<u>\$ 42,674</u>	<u>\$ 234,676</u>

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Long-Term Investments

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

	December 31, 2021			
	At Fair Value	On Equity Method	At NAV	Total
Cash and cash equivalents	\$ 250,106	\$ -	\$ -	\$ 250,106
U.S. equities	162,840	-	549,615	712,455
International equities	7,520	-	468,586	476,106
Fixed income - government securities	577,741	-	-	577,741
Fixed income - corporate and other	28,153	86,122	-	114,275
Hedge funds	-	473,291	-	473,291
Private equity	-	309,150	-	309,150
Emerging markets	1,523	-	208,621	210,144
Real estate and other	139,715	251,362	-	391,077
	<u>\$ 1,167,598</u>	<u>\$ 1,119,925</u>	<u>\$ 1,226,822</u>	<u>\$ 3,514,345</u>

	December 31, 2020			
	At Fair Value	On Equity Method	At NAV	Total
Cash and cash equivalents	\$ 108,733	\$ -	\$ -	\$ 108,733
U.S. equities	124,134	-	582,987	707,121
International equities	17,878	-	413,327	431,205
Fixed income - government securities	574,936	-	-	574,936
Fixed income - corporate and other	5,448	94,326	-	99,774
Hedge funds	-	422,110	-	422,110
Private equity	-	152,126	-	152,126
Emerging markets	33,370	-	199,253	232,623
Real estate and other	57,469	198,574	-	256,043
	<u>\$ 921,968</u>	<u>\$ 867,136</u>	<u>\$ 1,195,567</u>	<u>\$ 2,984,671</u>

Long-term investments carried at net asset value (“NAV”) represent interests in private investment companies that do not trade in an active market and may be redeemed or liquidated only after giving notice to the investment company, with notice periods ranging from daily to 120 days. The investments are held in U.S. and international equities and emerging markets. The Company has elected to value the investments using NAV as reported by the investment company without adjustment, unless it is probable that the investment will be sold at a value significantly different than the reported NAV. At December 31, 2021 and 2020 we have not made any adjustments to the NAVs reported by the investment companies. The Company has the ability to redeem its interests at or within 120 days of the financial statement date.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

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

The Company's investments in hedge funds represent 13.5% and 14.1% of total long-term investments held at December 31, 2021 and 2020, 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, 2021 and 2020, Novant Health had future commitments of \$350,903 and \$343,566, 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:

	2021	2020
Income		
Interest and dividend income	\$ 51,224	\$ 37,518
Net realized gains	322,620	37,347
Net unrealized gains	<u>78,971</u>	<u>126,958</u>
	<u>\$ 452,815</u>	<u>\$ 201,823</u>

Investment income is shown net of related expenses on the consolidated statements of operations and changes in net assets. Investment related administrative expenses were \$7,636 and \$7,629 for the years ended December 31, 2021 and 2020, respectively.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Liquidity and Availability

As of December 31, 2021 and 2020, Novant Health has working capital of \$1,014,052 and \$699,136, respectively.

Financial assets at year-end:	2021	2020
Cash and cash equivalents	\$ 795,602	\$ 711,822
Accounts receivable, net	896,263	670,736
Short-term investments	411,440	330,742
Assets limited as to use	339,890	277,350
Receivable for settlement with third-party payors	16,315	25,109
Other current assets	105,123	86,379
Long-term investments	3,514,345	2,984,671
Other assets	47,136	37,665
Total financial assets	\$ 6,126,114	\$ 5,124,474
Less amounts not available:		
Long-term investments with liquidity horizons greater than one year	696,697	459,562
Assets limited as to use	339,890	277,350
Donor restricted funds	90,922	84,836
Financial assets not available to be used within one year	\$ 1,127,509	\$ 821,748
Financial assets available to meet general expenditures within one year	\$ 4,998,605	\$ 4,302,726

As part of the Company's liquidity management plan, cash in excess of daily requirements is invested in either money market funds, short-term investments or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities and other obligations come due. Additionally, Novant Health maintains a \$300,000 line of credit, as discussed in Note 16, *Long-Term Debt*. As of December 31, 2021, \$300,000 was available on the line of credit. As of December 31, 2021, the Company was in compliance with financial covenants as discussed in Note 16, *Long-Term Debt*.

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

9. Fair Value Measurements

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

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

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

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

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

Level 3: Pricing inputs are generally unobservable for the assets and liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities.

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

As of December 31, 2021 and 2020, 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.

U.S. equities, international equities, emerging markets and other exchange traded funds

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

Fixed income and debt securities

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

Derivatives

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2021 for all financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements:

	Fair Value Measurements at Reporting Date Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Short-term investments:				
Certificates of deposit	\$ -	\$ 10,623	\$ -	\$ 10,623
Fixed income - government securities	-	400,817	-	400,817
Total short-term investments	-	411,440	-	411,440
Assets limited as to use:				
Cash and cash equivalents	94,758	-	-	94,758
U.S. equities	211,620	-	-	211,620
International equities	7,153	-	-	7,153
Fixed income - government securities	11,093	10,462	-	21,555
Fixed income - corporate and other	131	4,673	-	4,804
Total assets limited as to use	324,755	15,135	-	339,890
Long-term investments:				
Cash and cash equivalents	250,106	-	-	250,106
U.S. equities	132,607	-	30,233	162,840
International equities	7,520	-	-	7,520
Fixed income - government securities	975	576,766	-	577,741
Fixed income - corporate and other	28,000	153	-	28,153
Emerging markets	1,523	-	-	1,523
Other exchange traded funds	139,715	-	-	139,715
Total long-term investments	560,446	576,919	30,233	1,167,598
Total assets at fair value	\$ 885,201	\$ 1,003,494	\$ 30,233	\$ 1,918,928
Liabilities				
Accrued liabilities	\$ 13,527	\$ -	\$ -	\$ 13,527
Derivative financial instruments	-	39,260	-	39,260
Deferred compensation liabilities	234,257	-	-	234,257
Total liabilities at fair value	\$ 247,784	\$ 39,260	\$ -	\$ 287,044

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2020 for all financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements:

	Fair Value Measurements at Reporting Date Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Short-term investments:				
Certificates of deposit	\$ -	\$ 10,619	\$ -	\$ 10,619
Fixed income - corporate and other	-	10,967	-	10,967
Fixed income - government securities	-	309,156	-	309,156
Total short-term investments	-	330,742	-	330,742
Assets limited as to use:				
Cash and cash equivalents	41,123	-	-	41,123
U.S. equities	176,795	-	-	176,795
International equities	6,306	-	-	6,306
Fixed income - government securities	18,474	22,701	-	41,175
Fixed income - corporate and other	564	11,387	-	11,951
Total assets limited as to use	243,262	34,088	-	277,350
Long-term investments:				
Cash and cash equivalents	108,733	-	-	108,733
U.S. equities	111,772	-	12,362	124,134
International equities	17,878	-	-	17,878
Fixed income - government securities	-	574,936	-	574,936
Fixed income - corporate and other	5,243	205	-	5,448
Emerging markets	33,370	-	-	33,370
Other exchange traded funds	57,469	-	-	57,469
Total long-term investments	334,465	575,141	12,362	921,968
Total assets at fair value	\$ 577,727	\$ 939,971	\$ 12,362	\$ 1,530,060
Liabilities				
Accrued liabilities	\$ 11,654	\$ -	\$ -	\$ 11,654
Derivative financial instruments	-	51,803	-	51,803
Deferred compensation liabilities	198,519	-	-	198,519
Total liabilities at fair value	\$ 210,173	\$ 51,803	\$ -	\$ 261,976

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

The table below sets forth a summary of the changes in the fair value of the Level 3 investment for the years ended December 31, 2021 and 2020:

	U.S. Equities
Balance at December 31, 2020	\$ 12,362
New investments	16,501
Distribution received	(2,027)
Unrealized gain	<u>3,397</u>
Balance at December 31, 2021	<u>\$ 30,233</u>
Balance at December 31, 2019	\$ -
Transfer in of Level 3 investment	9,650
Unrealized gain	<u>2,712</u>
Balance at December 31, 2020	<u>\$ 12,362</u>

During 2021, there were no transfers between levels. During 2020, the Company transferred \$9,650 from investments in affiliates to long-term investments as it was determined that the investment was to be held for the long-term and our primary objective is capital appreciation of the preferred stock.

10. Property and Equipment

Property and equipment consists of the following at December 31:

	2021	2020
Land and land improvements	\$ 413,167	\$ 409,302
Leasehold improvements	571,760	267,520
Buildings and building improvements	2,599,209	2,388,551
Equipment	1,899,791	2,101,953
Software	620,015	539,339
Construction-in-progress	<u>186,120</u>	<u>155,046</u>
	6,290,062	5,861,711
Less: Accumulated depreciation	<u>(3,406,832)</u>	<u>(3,461,642)</u>
	<u>\$ 2,883,230</u>	<u>\$ 2,400,069</u>

Novant Health reviews long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. No impairment charges were recorded in 2021 or 2020.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Depreciation expense for the years ended December 31, 2021 and 2020 was \$333,471 and \$257,293, respectively. Construction contracts of approximately \$592,588 exist for the construction of new hospitals and facilities, expansion of existing hospitals and facility renovations. At December 31, 2021, the remaining commitment on these contracts was \$371,107.

11. Leases

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

Component of Lease Balances	Classification in Consolidated Balance Sheets	2021	2020
Assets:			
Operating lease assets		\$ 512,989	\$ 486,099
Finance lease assets		7,122	7,255
Total leased assets		<u>\$ 520,111</u>	<u>\$ 493,354</u>
Liabilities:			
Operating lease liabilities			
Current		\$ 106,774	\$ 88,796
Long-term		429,628	418,011
Total operating lease liabilities		536,402	506,807
Finance lease liabilities			
Current	Current portion of long-term debt	1,248	857
Long-term	Long-term debt, net of current portion	6,317	6,467
Total finance lease liabilities		7,565	7,324
Total lease liabilities		<u>\$ 543,967</u>	<u>\$ 514,131</u>

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

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

Certain lease agreements for real estate include payments based on actual common area maintenance expenses and/or include rental payments adjusted periodically for inflation. These variable lease payments are recognized in supplies and other in the consolidated statements of operations and changes in net assets but are not included in the right-of-use asset or liability balances in our consolidated balance sheets. Lease agreements do not contain any material residual value guarantees, restrictions or covenants.

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

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

	<u>2021</u>	<u>2020</u>
Operating leases ⁽¹⁾	\$ 125,226	\$ 106,690
Variable lease expense ⁽¹⁾	12,402	11,735
Finance lease expense:		
Amortization of leased assets	539	492
Interest on lease liabilities	40	47
	<u>\$ 138,207</u>	<u>\$ 118,964</u>

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

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

	<u>2021</u>	<u>2020</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 121,228	\$ 102,015
Operating cash flows for finance leases	506	441
Financing cash flows for finance leases	40	47

The Company entered into agreements to obtain right-of-use assets that created lease liabilities which resulted in noncash operating activities of \$67,454 and \$59,384 and noncash financing and investing activities of \$0 and \$7,288 for the years ended December 31, 2021 and 2020, respectively.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Future maturities of lease liabilities at December 31, 2021 are presented in the following table:

	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
2022	\$ 117,766	\$ 1,275	\$ 119,041
2023	104,433	1,288	105,721
2024	87,905	1,298	89,203
2025	72,169	896	73,065
2026	59,746	777	60,523
Thereafter	141,019	2,174	143,193
Total lease payments	583,038	7,708	590,746
Less: Imputed interest	(46,636)	(143)	(46,779)
Total lease obligations	536,402	7,565	543,967
Less: Current obligations	(106,774)	(1,248)	(108,022)
Long-term lease obligations	<u>\$ 429,628</u>	<u>\$ 6,317</u>	<u>\$ 435,945</u>

At December 31, 2021, the weighted average remaining lease term for operating leases is 6.7 years and the weighted average discount rate is 2.4%. For finance leases, the weighted average remaining lease term is 6.6 years and the weighted average discount rate is 5.1%.

Novant Health is also a lessor and sublessor of real estate under operating leases. At December 31, 2021 and 2020, \$12,506 and \$12,283, respectively, of deferred rent was recorded in the consolidated balance sheets as a component of other assets. Lease income for the periods ended December 31, 2021 and 2020 was \$9,955 and \$11,106, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. Most of the Company's leases include operating expenses such as utilities and maintenance costs in rent charges. However, variable rent income is not material. The Company has elected the practical expedient that allows lessors to not separate lease and non-lease components by class of underlying asset for all asset classes. The combined component is accounted for under lease accounting guidance.

At December 31, 2021 and 2020, land and buildings with a net book value of \$12,718 and \$14,888, respectively, were leased to various unrelated health care organizations, with terms ranging from six months to five years. These assets are included in property and equipment, net on the consolidated balance sheets.

Although the Company leases and subleases a small amount of building space to non-affiliated medical practices, the significant leases consist of long-term ground leases classified as operating leases with remaining terms from 42 years with options to extend for the additional terms of five years each to 64 years with no options to extend.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

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

Years Ending December 31	
2022	\$ 5,475
2023	3,484
2024	3,155
2025	2,690
2026	2,415
Thereafter	<u>118,930</u>
	<u>\$ 136,149</u>

12. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	<u>Gross</u> <u>Intangible</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u> <u>Intangible</u>
Balance at December 31, 2021			
Unamortized intangible assets			
Certificates of need	\$ 73,688	\$ -	\$ 73,688
Total unamortized intangible assets	<u>73,688</u>	<u>-</u>	<u>73,688</u>
Amortized intangible assets			
Business relationships	44,299	(23,757)	20,542
Corporate trade name and other intangibles	<u>109,753</u>	<u>(10,139)</u>	<u>99,614</u>
Total amortized intangible assets	<u>154,052</u>	<u>(33,896)</u>	<u>120,156</u>
Total intangible assets	<u>\$ 227,740</u>	<u>\$ (33,896)</u>	<u>\$ 193,844</u>
Balance at December 31, 2020			
Unamortized intangible assets			
Certificates of need	\$ 67,311	\$ -	\$ 67,311
Total unamortized intangible assets	<u>67,311</u>	<u>-</u>	<u>67,311</u>
Amortized intangible assets			
Business relationships	44,299	(22,009)	22,290
Corporate trade name and other intangibles	<u>25,161</u>	<u>(8,150)</u>	<u>17,011</u>
Total amortized intangible assets	<u>69,460</u>	<u>(30,159)</u>	<u>39,301</u>
Total intangible assets	<u>\$ 136,771</u>	<u>\$ (30,159)</u>	<u>\$ 106,612</u>

Amortization expense related to intangible assets was \$5,540 and \$2,728 for the periods ended December 31, 2021 and 2020, respectively. Estimated annual amortization expense for intangible assets for the year 2021 is \$5,599 per year for 2022 through 2026.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

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

	2021	2020
As of January 1		
Goodwill, net of accumulated amortization	\$ 235,585	\$ 241,596
Accumulated impairment losses	<u>(32,150)</u>	<u>(37,563)</u>
	203,435	204,033
Additions	481,129	-
Disposals	<u>(24,159)</u>	<u>(598)</u>
	<u>660,405</u>	<u>203,435</u>
As of the end of the period		
Goodwill, net of accumulated amortization	692,555	235,585
Accumulated impairment losses	<u>(32,150)</u>	<u>(32,150)</u>
	<u>\$ 660,405</u>	<u>\$ 203,435</u>

Novant Health reviews long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. The Company tests goodwill and indefinite-lived assets for impairment on an annual basis. No impairment charges to amortizable intangible assets were recorded as a result of this review in 2021 or 2020. 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.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

13. Investments in Affiliates

Novant Health has noncontrolling interests in 23 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 equity method or a measurement alternative.

A summary of investments, ownership percentages, investment amounts and the Company's share of earnings for the years ended December 31, 2021 and 2020 is as follows:

Investee	% Ownership		Investment Balance		Share of Earnings of Investee	
	2021	2020	2021	2020	2021	2020
Advanced Services	23%	23%	\$ 4,319	\$ 5,253	\$ 1,403	\$ 10,697
Radiation Oncology Centers of the Carolinas LLC	50%	50%	16,265	15,981	2,860	3,014
Novant Health Rehabilitation Hospital	50%	50%	18,104	15,626	2,478	2,210
Providence Plaza LLC	30%	30%	4,692	4,636	325	280
Other	Various	Various	10,574	13,458	(11,128)	1,484
			<u>\$ 53,954</u>	<u>\$ 54,954</u>	<u>\$ (4,062)</u>	<u>\$ 17,685</u>

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

	2021	2020
Assets	\$ 199,941	\$ 194,936
Liabilities	94,462	106,797
Equity	105,479	88,139
Total revenue	95,516	141,066
Total expenses	96,136	82,328
Net income	(620)	58,738
Novant Health's share of net income	(4,062)	17,685

14. Other Assets

Other assets consist of the following at December 31:

	2021	2020
Notes receivable and other	\$ 71,135	\$ 70,764
Cash surrender value of insurance policies	37,011	32,681
Deferred rent income	12,507	12,283
Pledges receivable	10,125	4,984
Reinsurance receivables	5,101	7,541
	<u>\$ 135,879</u>	<u>\$ 128,253</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

15. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2021	2020
Accrued compensation	\$ 371,861	\$ 335,863
Medicare advanced payments, current portion	224,835	173,385
Payroll taxes and withholdings	44,138	39,754
Interest	13,224	6,562
Postretirement benefit liability	1,292	1,267
Other accrued liabilities	105,420	80,650
Self-insurance		
Employee medical claims liability	34,688	27,472
Malpractice and workers' compensation liability, current portion	15,002	17,720
	<u>\$ 810,460</u>	<u>\$ 682,673</u>

16. Long-Term Debt

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

	2021	2020
Tax-exempt revenue bonds	\$ 625,300	\$ 775,575
Taxable revenue bonds	<u>1,750,000</u>	<u>250,000</u>
Total bonds	2,375,300	1,025,575
Taxable term loan	264,165	264,165
Finance lease obligations and other notes payable	<u>16,236</u>	<u>19,648</u>
	2,655,701	1,309,388
Unamortized premium or discount, net	22,686	27,622
Unamortized debt issuance costs, net	<u>(13,468)</u>	<u>(6,175)</u>
	2,664,919	1,330,835
Less: Current maturities	<u>(54,637)</u>	<u>(54,848)</u>
	<u>\$ 2,610,282</u>	<u>\$ 1,275,987</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Tax-Exempt Revenue Bonds

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

	2021	2020
Series 2019 A Current Interest Term Bonds, bearing interest at rates ranging from 3.1% to 4.0% payable semi-annually with mandatory redemption beginning in 2047	\$ 306,985	\$ 306,985
Series 2013 A Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 3.125% to 5.0% payable semi-annually and maturing through 2046; principal payments began in 2014	119,210	120,135
Series 2013 B Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 3.125% to 5.0% payable semi-annually and maturing through 2046; principal payments began in 2014	-	136,360
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	64,105	77,095
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
	<u>\$ 625,300</u>	<u>\$ 775,575</u>

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

The bond agreements provide for early redemption periods of the bonds prior to mandatory redemption, subject to a premium in certain circumstances, as defined in the agreements. In accordance with the bond indenture agreements, the bonds are general, unsecured obligations of Novant Health. The bond indentures require Novant Health to cause the Restricted Affiliates to comply with certain covenants, including the maintenance of a minimum debt service coverage ratio and a minimum number of days cash on hand. As of December 31, 2021 and 2020, 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 April 1, 2025. If the SBPA should be used to fund tenders due to a failed remarketing, repayment in quarterly installments over three years is required. As a result, the Company has classified \$36,818 of the 2004 bonds as current at December 31, 2021 and 2020.

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 July 2021, the Series 2013 B bonds were defeased with cash in conjunction with Novant Health's withdrawal from Novant Health UVA Health System. The bonds were defeased until they are callable on November 1, 2022. The transaction resulted in a loss of \$4,456 including the write off of \$4,436 in unamortized bond premiums and \$796 in unamortized issuance costs.

Taxable Revenue Bonds

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

In April 2021, Novant Health issued \$1,500,000 of taxable fixed rate bonds (the “2021 A Bonds”). The 2021 A Bonds bear interest at rates ranging from 2.67% to 3.32% and mature in 2036, 2051 and 2061. Proceeds of the 2021 A Bonds were used for eligible purposes, including the refinancing of long-term debt. The taxable revenue bonds are subject to the same covenant requirements that are included in the bond agreements for the tax-exempt revenue bonds.

Taxable Term Loan

In March 2020, Novant Health entered into an agreement to borrow \$264,165. The loan bears interest at a fixed rate with principal payments due annually beginning in 2023 through the maturity date of April 1, 2030. The proceeds were used to call the Series 2010 A bonds and repay them at face value on November 1, 2020.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Other Long-Term Debt

Other long-term debt consists of a promissory note related to the redemption of a membership interest and various loans and notes on buildings and finance leases, bearing interest at rates ranging from 0.81% to 12.15%. Scheduled maturities of all long-term debt are as follows:

Years Ending December 31

2022	\$	17,810
2023		24,017
2024		19,959
2025		17,948
2026		18,577
Thereafter		<u>2,557,390</u>
	\$	<u>2,655,701</u>

Novant Health capitalized \$1,765 and \$5,437 of interest in 2021 and 2020, respectively.

Revolving Credit Facility

In April 2020, Novant Health entered into a \$950,000 Revolving Credit Agreement. Effective January 29, 2021, the Senior Revolving Credit agreement was amended to increase the borrowing limit to \$1,600,000 and extend the maturity date to July 29, 2022. The full available amount was borrowed to fund the acquisition of New Hanover Regional Medical Center's assets. The proceeds of the issuance of the Series 2021 A Bonds were used to pay down \$1,493,000 of the outstanding balance. The remaining balance was paid with cash. In April 2021, the available balance was reduced to \$300,000. Borrowings bear interest at variable rates. At December 31, 2021, \$300,000 was available for borrowing.

Debt Issuance Costs

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

17. Short-Term Borrowings

Short-term borrowings consist primarily of securities repurchase transactions. Securities repurchase transactions are conducted by the Company under a standardized securities industry master agreement, amended to suit the specificities of each respective counter-party. These agreements generally provide detail as to the nature of the transaction, including provisions for payment netting, established parameters concerning the ownership and custody of the collateral securities, including the right to substitute collateral during the term of the agreement, and provide for remedies in the event of default by either party. The Company's securities repurchase agreements are accounted for as a secured borrowing and are reported in the consolidated balance sheets as short-term borrowings. The Company posts collateral in the form of U.S. treasury, agency securities and treasury inflation protected securities and receives an amount ranging from 94% to 98% of the fair value of the securities to be repurchased during January 2022 at interest rates ranging from 0.25% to 3.00%. At December 31, 2021 and 2020, the fair value amounts outstanding were \$124,518 and \$149,592, respectively. The interest rate on the outstanding balances at December 31, 2021 is 0.14%. The maturity dates of the agreements are under four weeks.

18. 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 \$64,105. 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 \$46,300 and \$17,805 notional amounts, respectively. The swaps have been designated as cash flow hedges and are carried on the consolidated balance sheets at fair value. In the fourth quarter of 2018, the hedging relationship ceased to be highly effective and hedge accounting was discontinued.

In July 2006, Novant Health entered into a floating-to-fixed swap agreement with a notional amount of \$135,000 and a term of 28 years to hedge the floating rate 2004 bonds. Novant Health receives a variable rate which is tied to 64.8% of LIBOR plus 12 basis points and pays a fixed interest rate of 3.8%. The swap has been designated as a cash flow hedge and is carried on the consolidated balance sheets at fair value. In the first quarter of 2019, the hedge relationship ceased to be highly effective and hedge accounting was discontinued.

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

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

	2021	2020
Change in fair value of non-hedged interest rate swaps	\$ 12,543	\$ (7,906)
Amortization of deferred loss	(2,984)	(3,180)
	<u>\$ 9,559</u>	<u>\$ (11,086)</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

19. Employee Benefits and Other Liabilities

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

	2021	2020
Deferred compensation liabilities	\$ 234,257	\$ 198,519
Employee benefits and other	67,470	119,796
Transition stabilization fund	54,757	-
Medicare advanced payments, net of current portion	41,193	200,333
Self-insurance malpractice and workers' compensation, net of current portion	42,515	44,139
Deferred gains	4,276	3,451
Postretirement benefit liability, net of current portion	19,459	20,955
Pension liability, net of current portion	2,225	2,390
	<u>\$ 466,152</u>	<u>\$ 589,583</u>

20. Income Taxes

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

	2021	2020
Current tax expense (benefit)		
Federal	\$ 2,957	\$ (892)
State	550	97
	<u>3,507</u>	<u>(795)</u>
Deferred tax expense (benefit)		
Federal	1,209	1,422
State	77	(122)
	<u>1,286</u>	<u>1,300</u>
	<u>\$ 4,793</u>	<u>\$ 505</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

The components of deferred taxes are as follows:

	2021	2020
Deferred tax assets		
Loss carryforwards	\$ 15,370	\$ 16,493
Deferred charge for intercompany transfer	4,074	5,329
Allowance for doubtful accounts	715	954
Accrued expenses	3,332	3,748
Future deductions- operating leases	3,092	3,360
Total deferred tax assets	<u>26,583</u>	<u>29,884</u>
Deferred tax liabilities		
Intangible assets	(5,873)	(5,840)
Property and equipment	(85)	(564)
Right-of-use assets	(3,032)	(3,295)
Other	-	(1,087)
Total deferred tax liabilities	<u>(8,990)</u>	<u>(10,786)</u>
Valuation allowance	<u>(18,814)</u>	<u>(18,975)</u>
Net deferred tax (liability) asset	<u>\$ (1,221)</u>	<u>\$ 123</u>

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.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of deferred tax assets when significant negative evidence exists. Cumulative losses in recent years are the most compelling form of negative evidence considered by management in this determination. For the years ended December 31, 2021 and 2020, management has determined that based on all available evidence, a valuation allowance of \$18,814 and \$18,975, respectively, is appropriate.

As of December 31, 2021, the Company had approximately \$74,009 of federal and \$50,135 of state loss carryforwards available to reduce taxable income. \$62,324 of the loss carryforwards expire through 2039 and the remainder do not expire. In addition, at December 31, 2021, the Company had approximately \$9,868 of federal and \$614 of state contribution carryforwards available to reduce taxable income.

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

	2021	2020
Federal taxes	\$ 4,166	\$ 530
State income taxes	<u>627</u>	<u>(25)</u>
	<u>\$ 4,793</u>	<u>\$ 505</u>

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, 2021 and 2020.

21. Employee Benefit Plans and Other Postretirement Benefit Plans

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

Novant Health also provides fixed dollar amounts for health care and life insurance benefits to certain retired employees. Covered employees may become eligible for these benefits if they meet minimum age and service requirements, and if they are eligible for retirement benefits. Novant Health has the right to modify or terminate these benefits. The unfunded obligation in the consolidated balance sheets at December 31, 2021 and 2020 was \$20,751 and \$22,222, respectively. The expense associated with these plans totaled \$(503) for 2021 and \$1,439 for 2020. The discount rate used in determining the benefit obligation ranged between 2.10% and 2.65% for 2021 and 1.70% and 2.35% for 2020. The health care costs increase trend rate used was 6.25% in 2021 and 6.75% in 2020. The health care cost increase trend rate is projected to gradually decline to 4.50% by 2027.

In addition to these plans, Novant Health sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to \$110,294 and \$87,444 in 2021 and 2020, respectively.

Certain Novant Health consolidated affiliates participate in cafeteria plans which provide certain benefits, including basic medical and dental coverage, long-term disability benefits, reimbursement of supplemental dependent care expenses and group life insurance benefits. The affiliates contribute predetermined amounts for each full-time and part-time employee, which is allocated to the various benefit options in accordance with the participant's election. Affiliate contributions to these plans were approximately \$300,391 in 2021 and \$282,126 in 2020.

22. Net Assets without Donor Restrictions

The following table reconciles the carrying amounts of the Company's controlling interest and the noncontrolling interests for net assets without donor restrictions:

	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interests</u>
Balance at January 1, 2020	\$ 4,501,790	\$ 4,420,971	\$ 80,819
Excess (deficit) of revenues over expenses	382,155	382,401	(246)
Change in funded status of defined benefit plans	(878)	(878)	-
Amortization of deferred loss on derivative financial instruments	3,180	3,180	-
Other changes in net assets without donor restrictions	<u>(1,184)</u>	<u>137</u>	<u>(1,321)</u>
Balance at December 31, 2020	4,885,063	4,805,811	79,252
Excess of revenues over expenses	811,999	811,409	590
Deconsolidation of Novant Health UVA Health System	(60,185)	582	(60,767)
Change in funded status of defined benefit plans	1,206	1,206	-
Amortization of deferred loss on derivative financial instruments	2,984	2,984	-
Other changes in net assets without donor restrictions	<u>(3,449)</u>	<u>8,951</u>	<u>(12,400)</u>
Balance at December 31, 2021	<u>\$ 5,637,618</u>	<u>\$ 5,630,943</u>	<u>\$ 6,675</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

23. Net Assets with Donor Restrictions

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

	2021	2020
Buildings and equipment	\$ 19,278	\$ 41,777
Clinical care, research and academic	50,992	27,651
Charity care	7,965	6,841
Other	12,687	8,567
	<u>\$ 90,922</u>	<u>\$ 84,836</u>

24. Professional and General Liability Insurance Coverage

Novant Health is self-insured for professional and general liability exposures up to certain limits. The Company has umbrella policies in place above those limits. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for reported claims and claims incurred but not reported. Novant Health also participates in a self-insured program for workers' compensation and is self-insured for certain health benefits options. A portion of these self-insured professional liabilities is funded through a revocable trust fund operated by Novant Health. This fund was converted to claims-made status on January 1, 2020, and prior reported liabilities under this coverage were placed in run-off. Effective January 1, 2020, funding for self-insured professional liabilities are insured by Novant Health Casualty, LLC, a North Carolina domiciled insurance captive. Coverage terms and umbrella policies of the same or higher limits are in place for the captive. At December 31, 2021 and 2020, undiscounted professional and general liability loss reserves of \$57,517 and \$61,859, respectively, are included in current liabilities and employee benefits and other liabilities on the consolidated balance sheets. Expenses related to these plans amounted to \$26,060 and \$19,181 in 2021 and 2020, respectively.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

25. Commitments and Contingencies

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

At December 31, 2021, the Company had guarantees for payment of the indebtedness and lease agreements of certain equity method investees. The maximum potential amount of future payments under these agreements was approximately \$26,292. These guarantees extend until October 2026 based on the payment schedule of the underlying agreements. At December 31, 2021, approximately \$675 has been recorded in the consolidated balance sheet for the Company's obligations under these guarantees.

26. 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:

	2021	2020
Medicare	27.2%	28.8%
Medicaid	8.9%	4.7%
Other third-party payors	59.8%	62.3%
Patients	4.1%	4.2%
	<u>100.0%</u>	<u>100.0%</u>

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.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

27. Functional Expenses

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

	December 31, 2021			
	Health Care Services		Support Services	
	Acute Care Facilities	Outpatient Locations	General & Administrative	Total
Salaries and employee benefits	\$ 2,011,252	\$ 1,584,897	\$ 328,017	\$ 3,924,166
Supplies and other	1,781,874	664,654	239,114	2,685,642
Depreciation and amortization expense	206,522	51,345	81,766	339,633
Interest expense	60,841	7,748	9,107	77,696
Other non-operating expenses	(228)	1,884	8,169	9,825
Total expenses	\$ 4,060,261	\$ 2,310,528	\$ 666,173	\$ 7,036,962

	December 31, 2020			
	Health Care Services		Support Services	
	Acute Care Facilities	Outpatient Locations	General & Administrative	Total
Salaries and employee benefits	\$ 1,414,131	\$ 1,333,086	\$ 335,891	\$ 3,083,108
Supplies and other	1,332,862	595,005	145,223	2,073,090
Depreciation and amortization expense	147,261	46,507	66,283	260,051
Interest expense	62,744	8,390	6,888	78,022
Other non-operating expenses	(42)	2,349	5,865	8,172
Total expenses	\$ 2,956,956	\$ 1,985,337	\$ 560,150	\$ 5,502,443

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(in thousands of dollars)

28. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through March 28, 2022, the day the consolidated financial statements were issued.

29. Significant Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. The new guidance eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on the current Step 1). This guidance is effective for Novant Health on January 1, 2022. 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 August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance also requires that the capitalized costs be expensed over the term of the hosting arrangement and that the expense and cash flows of the capitalized expense be presented in the same place on the statements of operations and statements of cash flows, respectively. Similarly, the capitalized costs are required to be presented on the balance sheets in the same line item that a prepayment of the fees of the associated hosting arrangement would be presented. This guidance was effective for Novant Health on January 1, 2020 and is being applied prospectively to all implementation costs incurred after the date of adoption. Implementation of this guidance did not have a significant impact on the consolidated financial statements of Novant Health.

In May 2019, the FASB issued ASU 2019-06, *Intangibles - Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topics 958)*. This guidance extends certain private company alternatives to not-for-profit entities, allowing the amortization of goodwill on a straight-line basis over ten years or less. If this accounting alternative is elected, an accounting policy election must also be made to test goodwill at either the entity level or the reporting unit level. Goodwill is required to be tested for impairment when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount. An election is also allowed on a prospective basis to subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently and all noncompete agreements. If this election is adopted, the election to amortize goodwill must also be adopted. Novant Health has not elected these alternatives at this time.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(in thousands of dollars)

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)* and has subsequently issued supplemental and/or clarifying ASUs (collectively “ASC 848”). This guidance provides relief from the application of certain guidance during the transition to alternative reference rates. Optional expedients are provided for contract modification that replace a reference rate affected by reference rate reform and related contemporaneous modifications. Exceptions are provided for changes to the critical terms of a hedging relationship due to reference rate reform. Expedients are provided for cash flow hedging relationships and fair value hedging relationships. These provisions are available until December 31, 2022. Novant Health is currently evaluating the effect of reference rate reform on its contracts, but the availability of these expedients and exceptions is expected to reduce the impact of reference rate reform on the consolidated financial statements of Novant Health.

In March 2021, the FASB issued ASU 2021-03, *Intangibles - Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*. The amendments in this update provide private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in Subtopic 350-20 as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. An entity that does not elect the accounting alternative for amortizing goodwill and that performs its annual impairment test as of a date other than the annual reporting date should perform a triggering event evaluation only as of the end of the reporting period. Novant Health adopted this guidance via election effective October 1, 2021. Adoption of this guidance did not have a significant impact on the consolidated financial statements of Novant Health.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The guidance requires entities engaged in a business combination to recognize and measure contract assets acquired and contract liabilities assumed in accordance with ASC 606, *Revenue from Contracts with Customers*, rather than at fair value on the acquisition date. This guidance is effective for Novant Health on January 1, 2023 and early adoption is permitted. This guidance is not expected to have a significant impact on the consolidated financial statements of Novant Health.

Other Financial Information



Report of Independent Auditors

To the Board of Trustees of
Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health Inc. and its affiliates as of and for the year ended December 31, 2021 and our report thereon appears on pages 1 and 2 of this document which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information as of and for the year ended December 31, 2021 and the supplemental schedule of cost of community benefit programs for the year ended December 31, 2021 appearing on pages 52 – 58 (collectively referred to herein as the “information”) are presented for purposes of additional analysis and is not a required part of the consolidated financial statements nor is it intended to present the financial position, results of operation and cash flows of the individual entities. 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, excluding the schedule of cost of community benefit programs information marked “unaudited,” has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, excluding the schedule of costs of community benefit programs information marked “unaudited,” is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The schedule of costs of community benefit programs information marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

March 28, 2022

Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs (unaudited)
December 31, 2021

In addition to providing charity care to uninsured patients, Novant Health also provides services to beneficiaries of public programs and various other community health services intended to improve the health of the communities in which the Company operates. Novant Health uses the following four categories to identify the resources utilized for the care of persons who are underserved and for providing community benefit programs to the needy:

- Traditional charity care, which includes the cost of services provided to persons who cannot afford health care because of inadequate resources and who are uninsured.
- Unpaid cost of Medicare, which represents the unpaid cost of services provided to persons through the government program for individuals age 65 and older as well as those that qualify for federal disability benefits.
- Unpaid cost of Medicaid, which represents the unpaid cost of services provided to persons covered by the government program for medically indigent patients.
- Community benefit programs, which consist of the unreimbursed costs of certain programs and services for the general community, mainly for indigent patients but also for people with chronic health risks. Examples of these programs include health promotion and education, free clinics and screenings and other community services.

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

	2021
Traditional charity care	\$ 192,780
Unpaid cost of Medicare	727,846
Unpaid cost of Medicaid	111,485
Community benefit programs	<u>91,614</u>
	<u>\$ 1,123,725</u>

As discussed in Note 2 in the accompanying consolidated financial statements, Novant Health received supplemental Medicaid payments during 2021. These amounts are included in the community benefit amount for 2021.

Novant Health, Inc. and Affiliates
Consolidating Balance Sheet
December 31, 2021

<i>(in thousands of dollars)</i>	Combined Group	Unrestricted Affiliates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 573,852	\$ 221,750	\$ -	\$ 795,602
Accounts receivable, net	815,295	80,968	-	896,263
Short-term investments	411,280	160	-	411,440
Current portion of assets limited as to use	31,516	9,111	-	40,627
Receivable for settlement with third-party payors	15,084	1,231	-	16,315
Other current assets	334,336	45,832	(37,016)	343,152
Total current assets	2,181,363	359,052	(37,016)	2,503,399
Assets limited as to use				
Long-term investments	282,918	16,345	-	299,263
Property and equipment, net	3,158,635	355,710	-	3,514,345
Operating lease right-of-use assets, net	2,543,474	339,756	-	2,883,230
Intangible assets and goodwill, net	532,017	60,736	(72,642)	520,111
Investments in affiliates	626,991	227,258	-	854,249
Deferred tax asset	1,655,952	24,862	(1,626,860)	53,954
Other assets	-	3,980	-	3,980
Other assets	117,760	19,445	(1,326)	135,879
Total assets	\$ 11,099,110	\$ 1,407,144	\$ (1,737,844)	\$ 10,768,410
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	\$ 53,992	\$ 645	\$ -	\$ 54,637
Short-term borrowings	124,300	218	-	124,518
Accounts payable	298,262	22,107	(7,618)	312,751
Accrued liabilities	717,849	108,701	(16,090)	810,460
Operating lease liabilities	101,350	13,918	(8,494)	106,774
Estimated third-party payor settlements	72,611	7,596	-	80,207
Due to (from) related organizations	(368,471)	368,471	-	-
Total current liabilities	999,893	521,656	(32,202)	1,489,347
Long-term debt, net of current portion				
Deferred tax liability	2,601,877	8,405	-	2,610,282
Operating lease liabilities, net of current portion	-	5,201	-	5,201
Derivative financial instruments	447,208	47,953	(65,533)	429,628
Employee benefits and other liabilities	39,260	-	-	39,260
Employee benefits and other liabilities	450,447	15,705	-	466,152
Total liabilities	4,538,685	598,920	(97,735)	5,039,870
Net assets				
Without donor restrictions - attributable to Novant Health	6,560,425	710,627	(1,640,109)	5,630,943
Without donor restrictions - noncontrolling interests	-	6,675	-	6,675
Total net assets without donor restrictions	6,560,425	717,302	(1,640,109)	5,637,618
With donor restrictions	-	90,922	-	90,922
Total net assets	6,560,425	808,224	(1,640,109)	5,728,540
Total liabilities and net assets	\$ 11,099,110	\$ 1,407,144	\$ (1,737,844)	\$ 10,768,410

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Consolidating Statement of Operations
Year Ended December 31, 2021

<i>(in thousands of dollars)</i>	Combined Group	Unrestricted Affiliates	Eliminations	Total
Operating revenues				
Net patient service revenues	\$ 5,943,241	\$ 868,077	-	\$ 6,811,318
Other revenue	<u>386,313</u>	<u>303,457</u>	<u>(104,942)</u>	<u>584,828</u>
Total operating revenues	<u>6,329,554</u>	<u>1,171,534</u>	<u>(104,942)</u>	<u>7,396,146</u>
Operating expenses				
Salaries and employee benefits	3,406,578	522,656	(5,068)	3,924,166
Supplies and other	2,222,262	552,353	(88,973)	2,685,642
Depreciation and amortization expense	283,559	56,074	-	339,633
Interest expense	<u>62,821</u>	<u>14,875</u>	<u>-</u>	<u>77,696</u>
Total operating expenses	<u>5,975,220</u>	<u>1,145,958</u>	<u>(94,041)</u>	<u>7,027,137</u>
Operating income (loss)	354,334	25,576	(10,901)	369,009
Non-operating income (expense)				
Investment income	406,024	46,791	-	452,815
Loss on extinguishment of debt	-	(4,456)	-	(4,456)
Income tax expense	(2,951)	(1,842)	-	(4,793)
Other net periodic pension costs	<u>(561)</u>	<u>(15)</u>	<u>-</u>	<u>(576)</u>
Excess (deficit) of revenues over expenses	<u>\$ 756,846</u>	<u>\$ 66,054</u>	<u>\$ (10,901)</u>	<u>\$ 811,999</u>

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Balance Sheet
December 31, 2021

<i>(in thousands of dollars)</i>	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Assets				
Current assets				
Cash and cash equivalents	\$ 499,027	\$ 74,825	\$ -	\$ 573,852
Accounts receivable, net of allowance for doubtful accounts	560,776	254,519	-	815,295
Short-term investments	411,280	-	-	411,280
Current portion of assets limited as to use	23,516	8,000	-	31,516
Receivable for settlement with third-party payors	8,779	6,305	-	15,084
Other current assets	199,450	134,886	-	334,336
Total current assets	1,702,828	478,535	-	2,181,363
Assets limited as to use	228,161	54,757	-	282,918
Long-term investments	3,158,635	-	-	3,158,635
Property and equipment, net	1,405,719	1,137,755	-	2,543,474
Operating lease right-of-use assets, net	244,443	287,574	-	532,017
Intangible assets and goodwill, net	49,242	577,749	-	626,991
Investments in affiliates	1,742,441	164	(86,653)	1,655,952
Other assets	99,417	18,343	-	117,760
Total assets	<u>\$ 8,630,886</u>	<u>\$ 2,554,877</u>	<u>\$ (86,653)</u>	<u>\$ 11,099,110</u>
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	\$ 52,969	\$ 1,023	\$ -	\$ 53,992
Short-term borrowings	124,300	-	-	124,300
Accounts payable	207,207	91,055	-	298,262
Accrued liabilities	479,171	238,678	-	717,849
Operating lease liabilities	41,461	59,889	-	101,350
Estimated third-party payor settlements	45,071	27,540	-	72,611
Due to (from) related organizations	(638,279)	269,808	-	(368,471)
Total current liabilities	311,900	687,993	-	999,893
Long-term debt, net of current portion	2,596,033	5,844	-	2,601,877
Derivative financial instruments	39,260	-	-	39,260
Operating lease liabilities, net of current portion	212,742	234,466	-	447,208
Employee benefits and other liabilities	360,197	90,250	-	450,447
Total liabilities	3,520,132	1,018,553	-	4,538,685
Net assets				
Without donor restrictions - attributable to Novant Health	5,110,754	1,536,324	(86,653)	6,560,425
Total net assets	<u>5,110,754</u>	<u>1,536,324</u>	<u>(86,653)</u>	<u>6,560,425</u>
Total liabilities and net assets	<u>\$ 8,630,886</u>	<u>\$ 2,554,877</u>	<u>\$ (86,653)</u>	<u>\$ 11,099,110</u>

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Combined Group Combining Statement of Operations
December 31, 2021

<i>(in thousands of dollars)</i>	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Operating revenues				
Net patient service revenues	\$ 3,084,772	\$ 2,858,469	\$ -	\$ 5,943,241
Other revenue	196,584	208,877	(19,148)	386,313
Total operating revenues	<u>3,281,356</u>	<u>3,067,346</u>	<u>(19,148)</u>	<u>6,329,554</u>
Operating expenses				
Salaries and employee benefits	1,641,780	1,764,798	-	3,406,578
Supplies and other	1,170,478	1,070,932	(19,148)	2,222,262
Depreciation and amortization expense	146,718	136,841	-	283,559
Interest expense	32,317	30,504	-	62,821
Total operating expenses	2,991,293	3,003,075	(19,148)	5,975,220
Operating income	290,063	64,271	-	354,334
Non-operating income (expense)				
Investment income	405,719	305	-	406,024
Income tax expense	(2,951)	-	-	(2,951)
Other net periodic pension costs	(400)	(161)	-	(561)
Excess of revenues over expenses	<u>\$ 692,431</u>	<u>\$ 64,415</u>	<u>\$ -</u>	<u>\$ 756,846</u>

See accompanying notes to consolidating supplemental schedules.

Novant Health, Inc.
Notes to Consolidating or Combining Supplemental Schedules
December 31, 2021

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 facilities and hospitals that serves patients and communities in North Carolina, South Carolina and Georgia. The Novant Health network consists of over 2,300 physicians and over 35,000 team members at more than 800 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 6 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 Note 16 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.

Novant Health, Inc.
Notes to Consolidating or Combining Supplemental Schedules
December 31, 2021

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 eleven of its affiliates as Restricted Affiliates. Six of these Restricted Affiliates, Medical Park Hospital, Inc. d/b/a Novant Health Medical Park Hospital, 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, Mint Hill Medical Center, LLC d/b/a Novant Health Mint Hill Medical Center, and Novant Health New Hanover Regional Medical Center, LLC, operate, or maintain a significant investment in, hospitals. The other five Restricted Affiliates, Carolina Mediacorp 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.

**Novant Health, Inc.
and Affiliates**

**Consolidated Financial Statements and
Supplemental Information
December 31, 2022 and 2021**

Novant Health, Inc. and Affiliates
Index
December 31, 2022 and 2021

	Page(s)
Report of Independent Auditors	1-2
Consolidated Financial Statements	
Balance Sheets.....	3
Statements of Operations and Changes in Net Assets	4
Statements of Cash Flows	5-6
Notes to Consolidated Financial Statements.....	7-48
Report of Independent Auditors on Supplementary Information	49
Schedule of Cost of Community Benefit Programs.....	50
Consolidating Supplemental Schedules.....	51-54
Notes to Consolidating Supplemental Schedules.....	55-56



Report of Independent Auditors

To the Board of Trustees of Novant Health, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Novant Health, Inc. and Affiliates (the “Company”), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Pricewaterhouse Coopers LLP

March 30, 2023

Novant Health, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2022 and 2021

(in thousands of dollars)

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 643,997	\$ 795,602
Accounts receivable, net	902,323	896,263
Short-term investments	234,253	411,440
Current portion of assets limited as to use	28,832	40,627
Receivable for settlement with third-party payors	13,985	16,315
Other current assets	645,001	343,152
Total current assets	<u>2,468,391</u>	<u>2,503,399</u>
Assets limited as to use	239,778	299,263
Long-term investments	3,029,968	3,514,345
Property and equipment, net	3,004,232	2,883,230
Right-of-use assets, net	477,247	520,111
Intangible assets and goodwill, net	645,420	854,249
Investments in affiliates	267,532	53,954
Deferred tax asset	2,658	3,980
Other assets	131,583	135,879
Total assets	<u>\$ 10,266,809</u>	<u>\$ 10,768,410</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 61,219	\$ 54,637
Short-term borrowings	277	124,518
Accounts payable	369,603	312,751
Accrued liabilities	762,340	810,460
Current portion of operating lease liabilities	106,950	106,774
Estimated third-party payor settlements	59,531	80,207
Total current liabilities	<u>1,359,920</u>	<u>1,489,347</u>
Long-term debt, net of current portion	2,589,153	2,610,282
Deferred tax liability	19,551	5,201
Operating lease liabilities, net of current portion	388,638	429,628
Derivative financial instruments	13,191	39,260
Employee benefits and other liabilities	382,721	466,152
Total liabilities	<u>4,753,174</u>	<u>5,039,870</u>
Commitments and contingencies		
Net assets		
Without donor restrictions - attributable to Novant Health	5,413,189	5,630,943
Without donor restrictions - noncontrolling interests	5,059	6,675
Total net assets without donor restrictions	<u>5,418,248</u>	<u>5,637,618</u>
With donor restrictions	95,387	90,922
Total net assets	<u>5,513,635</u>	<u>5,728,540</u>
Total liabilities and net assets	<u>\$ 10,266,809</u>	<u>\$ 10,768,410</u>

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, 2022 and 2021

(in thousands of dollars)

	2022	2021
Operating revenues and other support		
Net patient service revenues	\$ 6,652,892	\$ 6,811,318
Other revenue	899,218	584,828
Total operating revenues and other support	<u>7,552,110</u>	<u>7,396,146</u>
Operating expenses		
Salaries and employee benefits	4,250,720	3,924,166
Supplies and other	2,773,908	2,685,642
Depreciation and amortization expense	330,308	339,633
Impairment charge	62,981	-
Interest expense	65,984	77,696
Total operating expenses	<u>7,483,901</u>	<u>7,027,137</u>
Operating income	68,209	369,009
Non-operating income (expense)		
Investment (loss) income	(251,112)	452,815
Loss on extinguishment of debt	-	(4,456)
Income tax expense	(38,753)	(4,793)
Other net periodic pension costs	(1,183)	(576)
(Deficit) excess of revenues over expenses	<u>\$ (222,839)</u>	<u>\$ 811,999</u>
Other changes in net assets without donor restrictions		
Deconsolidation of Novant Health UVA Health System	-	(60,185)
Change in funded status of defined benefit plans	4,664	1,206
Amortization of deferred loss on derivative financial instruments	2,778	2,984
Other changes in net assets without donor restrictions	(3,973)	(3,449)
(Decrease) increase in net assets without donor restrictions	<u>(219,370)</u>	<u>752,555</u>
Net assets with donor restrictions		
Assumption of net assets with donor restrictions from acquisition	-	20,364
Deconsolidation of Novant Health UVA Health System	-	(3,749)
Contributions and investment income	14,777	31,722
Net assets released from restrictions for operations	(10,312)	(42,251)
Increase in net assets with donor restrictions	<u>4,465</u>	<u>6,086</u>
(Decrease) increase in total net assets	(214,905)	758,641
Net assets, beginning of period	<u>5,728,540</u>	<u>4,969,899</u>
Net assets, end of period	<u>\$ 5,513,635</u>	<u>\$ 5,728,540</u>

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, 2022 and 2021

(in thousands of dollars)

	2022	2021
Cash flows from operating activities		
(Decrease) increase in total net assets	\$ (214,905)	\$ 758,641
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation, amortization and accretion	330,291	340,303
(Gain) loss on sale of consolidated entities	(241,452)	29,682
Impairment charge	62,981	-
Change in net assets due to sale of consolidated affiliate	-	63,934
Loss on extinguishment of debt	-	4,456
Actuarial loss on pension and postretirement benefits	609	1,162
Change in funded status of defined benefit plans	(4,664)	(1,206)
Share of earnings in affiliates, net of distributions	8,336	12,153
Net realized and unrealized losses (gains) on assets limited as to use and investments	302,918	(401,591)
Change in fair value of interest rate swaps	(26,069)	(12,543)
Contributions restricted for capital	(1,585)	(11,743)
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed		
Accounts receivable	(27,584)	(147,043)
Accounts payable and accrued liabilities	126,082	(10,076)
Medicare advanced repayments	(174,883)	(70,228)
Long-term liabilities	(53,630)	89,462
Other current assets	(64,401)	(15,578)
Third-party payor settlements	(18,346)	(1,712)
Deferred taxes, net	16,220	1,344
Other assets and liabilities, net	7,259	(18,105)
Net cash provided by operating activities	<u>27,177</u>	<u>611,312</u>
Cash flows from investing activities		
Capital expenditures	(466,327)	(288,021)
Proceeds from sales of long-term investments	1,811,190	1,603,097
Purchases of long-term investments	(1,701,165)	(1,571,345)
Proceeds from sales of short-term investments	760,857	543,419
Purchases of short-term investments	(581,223)	(627,104)
Proceeds from sale of property and equipment	3,405	17,800
(Payments)/proceeds from sale of consolidated entities, net of cash disposed	(20,088)	115,905
Acquisition of business, net of cash acquired	-	(1,509,769)
Investments in unconsolidated affiliates	(3,366)	(11,631)
Other investing activities	(3,861)	(1,663)
Net cash used in investing activities	<u>(200,578)</u>	<u>(1,729,312)</u>

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, 2022 and 2021

(in thousands of dollars)

	2022	2021
Cash flows from financing activities		
Principal payments on long-term debt	(17,971)	(16,151)
Proceeds from long-term debt	-	1,491,682
Payments on repurchase agreements, net	(124,300)	(25,000)
Proceeds from sale of accounts receivable	20,312	28,408
Contributions from consolidated affiliate	-	54,544
Extinguishment of bonds	-	(145,228)
Proceeds from revolving credit facility	2,000	1,600,000
Payments on revolving credit facility	-	(1,600,000)
Other financing activities	3,077	8,533
	<u>(116,882)</u>	<u>1,396,788</u>
Net cash (used in) provided by financing activities	(116,882)	1,396,788
Net (decrease) increase in cash, cash equivalents and restricted cash	(290,283)	278,788
Cash, cash equivalents and restricted cash		
Beginning of period	<u>1,140,466</u>	<u>861,678</u>
End of period	<u>\$ 850,183</u>	<u>\$ 1,140,466</u>

	2022	2021
Supplemental disclosure of cash flow information		
Interest paid	\$ 92,781	\$ 82,960
Income taxes paid	1,873	5,203
Supplemental disclosure of noncash financing and investing activities		
Property and equipment financed through current liabilities	52,299	49,719
Investments in affiliates acquired in sale of business	218,548	-

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

	2022	2021
Cash and cash equivalents	\$ 643,997	\$ 795,602
Restricted cash included in assets limited as to use:		
Bond proceeds	10	9,989
Nonqualified plans	9,357	8,967
Transition stabilization escrow (footnote 4)	55,135	62,757
Other	10,484	13,045
Cash and cash equivalents included in long-term investments	<u>131,200</u>	<u>250,106</u>
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 850,183</u>	<u>\$ 1,140,466</u>

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(in thousands of dollars)

1. Reporting Entity

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of all affiliates controlled by Novant Health. All intercompany transactions and balances have been eliminated.

Use of Estimates

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

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

Fair Value of Financial Instruments

The fair value of financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, investments other than alternatives, assets limited as to use and interest rate swaps. More information can be found in Note 9, *Fair Value Measurements*.

Cash and Cash Equivalents

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

Restricted Cash

Novant Health holds cash that is restricted by the Company to purchase investments, pay participants in the Company’s nonqualified plan, make payments related to the transition stabilization fund and fund expenditures with proceeds of the Series 2019 A bonds. Restricted cash balances were \$206,186 and \$344,864 as of December 31, 2022 and 2021, respectively, and are classified as current or long-term, consistent with the nature of their intended use based on the restrictions.

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(in thousands of dollars)

Accounts Receivable

Accounts receivable consist primarily of amounts owed by various governmental agencies, insurance companies and patients. Novant Health manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. Amounts the Company receives for treatment of patients covered by governmental programs and third-party payors as well as directly from patients are subject to both explicit and implicit price concessions. The Company estimates these price concessions using contractual agreements, discount policies and historical experience. Novant Health records price concessions in the period of service based on the analysis and consideration of these factors.

Leases

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

Other Current Assets

Other current assets include 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 net realizable value.

Investments

Debt investments are classified as trading securities. All debt investments are designated as trading at the time of acquisition. Unrealized gains and losses on debt and equity investments are included in (deficit) 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 based on prices obtained on active markets or exchanges. The Company also invests in alternative and private equity investments through funds structured as limited partnerships, limited liability companies ("LLC's") and corporations. These investments are recorded using the equity method, with the values provided by the respective partnership, LLC or corporation based on market value or other estimates that require varying degrees of judgment. The Company also has certain investments that are reported at Net Asset Value ("NAV") as permitted under GAAP. Novant Health believes the NAV reported at the end of the period is representative of the price we would receive if we sold the investment. For all of the Company's long-term investments, the related earnings are reported as investment income in the consolidated statements of operations and changes in net assets. At December 31, 2022 and 2021, the Company held \$36,239 and \$30,233, respectively, of long-term investments that were accounted for at cost less impairment with adjustments made for

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(in thousands of dollars)

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

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

Assets Limited as to Use

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

Derivatives

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

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

or otherwise disposed of are removed from the respective asset cost and accumulated depreciation accounts and any gain or loss is included in the results of operations.

Gifts of long-lived assets such as land, buildings or equipment are excluded from (deficit) 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 over their estimated useful lives.

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. Novant has elected to evaluate goodwill triggering events at the end of each reporting period. If it is more likely than not that the indefinite-lived asset is impaired, additional testing for impairment is required.

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

Impairment tests are performed at the reporting unit level for units that have goodwill. If it is more likely than not that the fair value of the reporting unit exceeds the carrying value of the reporting unit, additional impairment testing is not required. If it is more likely than not that the carrying value of the reporting unit exceeds the fair value of the reporting unit, additional testing for impairment is required. The first step is to determine if the carrying value of the reporting unit with goodwill is less than the related fair value of the reporting unit. The fair value of the reporting unit is determined through use of discounted cash flow methods and/or market based multiples of earnings and sales methods. If the carrying value of the reporting unit is less than the fair value of the reporting unit, the goodwill is not considered impaired. If the carrying value is greater than the fair value, the goodwill is considered impaired and an impairment charge is recorded for the amount by which the

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(in thousands of dollars)

carrying value exceeds the fair value of the reporting unit.

Investments in Affiliates

Investments in entities which Novant Health does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method. Investments for which the Company does not have the ability to exercise significant influence are accounted for at fair value or, if fair value is not readily determinable, at cost less impairment with adjustments made for any observable price changes resulting from an orderly transaction for the identical or a similar investment of the same issuer.

Other Assets

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

Compensated Absences

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

Pension and Postretirement Benefit Plans

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

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

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.

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(in thousands of dollars)

Net Assets

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

Contributions Received

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or the condition is met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions, which is included in other operating revenue. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

Statement of Operations

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

Novant Health receives supplemental Medicaid payments from the state of North Carolina through a federally approved disproportionate share program ("Medicaid DSH"). During 2012, the federal government approved an amendment to the Medicaid DSH plan. This amendment, referred to as the Medicaid Gap Assessment Program ("GAP"), provided a funding model whereby hospitals are assessed an amount based on a percentage of their costs and are then paid supplemental amounts in an effort to reduce Medicaid losses. Novant Health records GAP payments received as net patient service revenue and GAP assessments paid as supplies and other on the consolidated statements of operations and changes in net assets. These supplemental payments are recognized in income when earned, if reasonably estimable and deemed collectible. During 2021, Novant Health received \$154,925 and paid \$70,659 for GAP. On July 1, 2021, the state of North Carolina implemented a Medicaid Managed Care program. As part of this initiative, Medicaid recipients began receiving Medicaid services through newly established Medicaid Managed Care health plans. This program also included changes to the way providers are reimbursed for inpatient Medicaid services provided to patients. Hospitals began receiving hospital-specific base rates for inpatient services and GAP payments were eliminated. Hospitals throughout the state of North Carolina, including Novant Health hospitals, continue to pay an assessment in order to help fund this program. Novant Health paid \$123,657 in Medicaid Managed Care assessments in 2022 and \$40,566 in 2021.

The consolidated statements of operations and changes in net assets include (deficit) excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from (deficit) excess of revenues over expenses include the deconsolidation of Novant Health UVA Health

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(in thousands of dollars)

System, change in funded status of defined benefit plans and amortization of deferred loss on derivative financial instruments that apply hedge accounting.

Other Revenue

Other revenue consists primarily of revenue from provider relief funds, earnings from investments in affiliates accounted for using the equity method of accounting, retail pharmacy revenue, revenue from management services agreements, revenue from pay-for-performance contracts, gain (loss) on sale of consolidated entities and rental income.

Income Taxes

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

The Company provides for income taxes using the asset and liability method. This approach recognizes the amount of federal, state and local taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequences of events recognized in the consolidated financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates in the period in which such laws or rates are enacted. A valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income.

3. COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, known as COVID-19, was first detected. The virus spread worldwide and on March 11, 2020, the World Health Organization designated the COVID-19 outbreak as a global pandemic. The spread of COVID-19 and the ensuing response of federal, state and local authorities resulted in a reduction in our patient volumes and also adversely impacted net patient service revenues as well as total operating expenses. During the years ended December 31, 2022 and 2021, the COVID-19 pandemic continued to negatively impact patient volumes and operating expenses at certain times during the period. Federal, state and local authorities have taken several actions designed to assist healthcare providers in providing care to COVID-19 and other patients to mitigate the adverse economic impact of the COVID-19 pandemic.

CARES Act Funding

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act provides relief funds to hospitals and other healthcare providers on the front lines of the COVID-19 response. These funds are to be used to support healthcare related expenses or lost revenues attributable to COVID-19. During 2022 and 2021, Novant Health received \$22,674 and \$21,151 of CARES Act funding. For the years ended December 31, 2022 and 2021, \$31,099 and \$30,385 were recognized as other operating revenue in the consolidated statements of operations and changes in net assets, respectively. As of December 31, 2022 and 2021,

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(in thousands of dollars)

\$12,692 and \$21,117, respectively, are included in estimated third-party payor settlements on the consolidated balance sheets and may be recorded as revenue in future periods or refunded, subject to certain terms and conditions and ongoing regulatory clarifications.

Medicare Accelerated and Advanced Payment Program

In April 2020, the Company requested funds under the Centers for Medicare and Medicaid Services' Accelerated and Advanced Payment ("MAP") Program designed to increase cash flow to Medicare providers and suppliers impacted by COVID-19. The MAP program allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. Novant Health received \$373,718 of MAP payments during 2020, with repayment to occur based upon the terms and conditions of the program. Repayment of these funds began in April 2021 and continued through February 2023. At December 31, 2022 and 2021, funds of \$91,145 and \$266,028, respectively, have not been repaid. This liability is included in accrued liabilities and employee benefits and other liabilities on the consolidated balance sheets as of December 31, 2022 and 2021.

Employer Payroll Tax Deferrals

Under the provisions of the CARES Act, in 2020, employers were allowed to defer payment of the employer share of the Social Security tax they otherwise are responsible for submitting to the federal government with respect to their employees. Employers generally are responsible for paying a 6.2 percent tax on employee wages. The provision required that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021, and the other half by December 31, 2022. The Company paid their remaining obligation of \$35,989 during 2022.

4. Organizational Changes

Sale of Ownership Interest in Novant Health UVA Health System

On May 18, 2021, Novant Health entered into an agreement to withdraw as a member of the Novant Health UVA Health System (the "JOC"). Closing of the transactions contemplated in the Withdrawal Agreement occurred on July 1, 2021, at which time Novant Health ceased to be a member of the JOC. During 2021, the JOC contributed \$237,773 in operating revenues and other support and \$5,656 in operating income. Novant Health received \$237,810, of which \$54,544 related to debt defeasance and \$183,266 was in exchange for the sale. The sale resulted in a loss of \$29,682 which is included in other revenue in the consolidated statements of operations and changes in net assets for the year ended December 31, 2021.

Acquisition of New Hanover Regional Medical Center

On February 1, 2021, a wholly owned subsidiary of Novant Health, Inc. purchased substantially all of the assets of New Hanover Regional Medical Center ("NHRMC") located in Wilmington, NC as well as certain assets of New Hanover County used by New Hanover Regional Medical Center in the delivery of health care services. The purchase also includes ownership interest or board control of the subsidiaries of New Hanover Regional Medical Center, most significantly, its physician practices which provide patient care at 55 locations. NHRMC includes 800 licensed beds and is the primary referral hospital in the region, with specialty centers in cardiac, cancer, obstetrics, trauma, vascular surgery,

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

intensive care, rehabilitation and psychiatry. The total purchase price paid for the acquisition was \$1,557,094. In order to finance the transaction, on January 29, 2021, Novant Health amended its Revolving Credit Agreement to increase the borrowing limit to \$1,600,000 and extend the maturity date to July 29, 2022. On April 8, 2021, Novant Health issued \$1,500,000 of taxable fixed rate bonds and subsequently used the proceeds of these bonds to pay down \$1,493,000 of the outstanding balance on the Revolving Credit Agreement.

The Company recognized the fair value of NHRMC and its subsidiaries in its consolidated balance sheet and included its operations in its consolidated statement of operations and changes in net assets beginning February 1, 2021. Accounting guidance requires that the purchase price be allocated to the assets acquired and liabilities assumed.

Below is the impact of acquired assets and assumed liabilities as of February 1, 2021:

Cash and cash equivalents	\$	47,325
Accounts receivable		168,723
Other current assets		86,008
Assets limited as to use		200,000
Long-term investments		21,444
Property and equipment		783,790
Right-of-use assets		54,419
Goodwill (included in intangible assets and goodwill)		481,130
Corporate trade name (included in intangible assets and goodwill)		93,000
Certificate of need (included in intangible assets and goodwill)		15,000
Investments in affiliates		2,836
Other assets		9
Total assets acquired	\$	<u>1,953,684</u>
Accounts payable		69,982
Accrued liabilities		40,949
Current portion of operating lease liabilities		13,610
Estimated third-party payor settlements		7,317
Operating lease liabilities, net of current portion		40,855
Employee benefits and other liabilities		203,513
Total liabilities assumed	\$	<u>376,226</u>
Net assets with donor restrictions assumed	\$	<u>20,364</u>
Total consideration	\$	<u>1,557,094</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

The transaction included the creation of a \$200,000 transition stabilization fund, funded by New Hanover County to provide for payment of certain wind down expenses of NHRMC. As these expenses relate to the activities and liabilities excluded from the purchase, the assets are shown as assets limited as to use and are offset by a liability included in accrued liabilities and employee benefits and other liabilities on the consolidated balance sheet as of December 31, 2022 and 2021, respectively.

NHRMC contributed \$1,390,932 of operating revenues and other support and \$(29,999) of operating loss for the year ended December 31, 2021.

The following table provides certain unaudited pro forma information for Novant Health, Inc. as if the NHRMC acquisition had occurred at the beginning of the year ended December 31, 2021:

	Year Ended December 31,
	2021
Operating revenues and other support	\$ 7,511,920
Operating income	348,817

Sale of Imaging Centers

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

5. Revenue Recognition and Accounts Receivable

Net Patient Service Revenue

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

Performance obligations are determined based on the nature of the services provided by the Company. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Novant Health believes that this method provides a faithful depiction of the transfer of services over the term of the performance

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. The Company measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Company does not believe it is required to provide additional goods or services to the patient.

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

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

Agreements with third-party payors typically provide for payments at amounts less than established charges. For services provided under Medicare and Medicaid programs, inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services and defined capital and medical education costs related to beneficiaries are paid based on a cost reimbursement methodology. Outpatient services are paid at a prospectively determined rate. Physician services are paid based upon established fee schedules. Novant Health is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Novant Health and audits thereof by the fiscal intermediary. Payment arrangements with commercial insurance carriers include prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

Cost report settlements under reimbursement agreements with Medicare and Medicaid for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Company's historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments arising from a change in the transaction price were not significant in 2022 and 2021.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Novant Health also provides services to uninsured patients. The transaction price for both uninsured patients as well as insured patients with deductibles and coinsurance is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. For the years ended December 31, 2022 and 2021, additional revenue of \$9,800 and \$22,700, respectively, was recognized due to changes in estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years.

Subsequent changes that are determined to be the results of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense is reported as a component of supplies and other in the consolidated statements of operations and changes in net assets and was not significant for the years ended December 31, 2022 and 2021.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

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

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

	December 31, 2021		
	Acute Care	Outpatient	Total
	Facilities	Locations	
Medicare	\$ 1,657,504	\$ 572,878	\$ 2,230,382
Medicaid	575,198	115,475	690,673
Managed care	2,447,157	1,144,611	3,591,768
Other	192,804	46,970	239,774
Self-pay	23,771	34,950	58,721
Total	\$ 4,896,434	\$ 1,914,884	\$ 6,811,318

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

Novant Health has a program of factoring certain patient receivables with recourse to a third-party. Novant Health is obligated to repurchase factored receivables upon occurrence of certain conditions of the program. Accordingly, the Company accounts for the factoring as a secured borrowing. The factored receivables are recorded at their estimated net realizable value and are shown as other assets in the consolidated balance sheets. An offsetting liability, representing Novant Health's potential recourse for these receivables, is part of employee benefits and other liabilities in the consolidated balance sheets. As of December 31, 2022, the factored notes and the related liabilities were \$45,588 and \$57,004, respectively. As of December 31, 2021, the factored notes and the related liabilities were \$49,435 and \$61,813, respectively.

Other Revenue

In addition to net patient service revenue, Novant Health also recognizes revenue from other transactions. Revenue from these transactions is recognized when obligations under the terms of the respective contract are satisfied and is measured as the amount of consideration the Company expects to receive from those services. The Company recognizes rental income in accordance with GAAP on a

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

straight-line basis over the lease term. Other revenue is comprised of the following for the years ended December 31:

	2022	2021
Pharmacy revenue	\$ 381,243	\$ 310,195
Gain (loss) on sale of consolidated entities	241,452	(29,682)
Pay-for-performance contracts	76,680	85,389
Provider relief funds	31,099	30,385
Management services agreements	25,367	15,620
Equity in earnings of affiliates	6,300	(4,062)
Rental income	8,929	9,955
Other miscellaneous revenues	<u>128,148</u>	<u>167,028</u>
	<u>\$ 899,218</u>	<u>\$ 584,828</u>

6. Charity Care and Community Benefit

In accordance with Novant Health's mission to improve the health of its communities one person at a time, Novant Health facilities accept patients regardless of their ability to pay. At acute facilities, uninsured patients qualify for a full write-off of their bills if their household income is at or below 300% of the federal poverty level. Novant Health also offers a catastrophic discount for patients with an account balance greater than \$5, flexible payment plans, and discounts for uninsured patients who do not qualify for the charity care program. In addition to these programs for hospitals, Novant Health physician groups and outpatient centers also have charity care programs to assist patients in need. The Company's approximate cost of providing care to indigent patients was \$212,556 and \$192,780 for the years ended December 31, 2022 and 2021, 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 \$12,006 and \$12,678 for the years ended December 31, 2022 and 2021, respectively.

7. Other Current Assets

Other current assets consist of the following at December 31:

	2022	2021
Inventory	\$ 164,948	\$ 159,792
Prepays	74,288	78,237
Receivable from sale of imaging centers	229,828	-
Other receivables	<u>175,937</u>	<u>105,123</u>
	<u>\$ 645,001</u>	<u>\$ 343,152</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

8. Assets Limited as to Use and Investments

Short-Term Investments

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

	2022	2021
Certificates of deposit	\$ 10,681	\$ 10,623
Fixed income - government securities	<u>223,572</u>	<u>400,817</u>
	<u>\$ 234,253</u>	<u>\$ 411,440</u>

Assets Limited as to Use

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

	2022		2021	
	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Under general and professional liability funding arrangement held by trustee	\$ 5,421	\$ 1,395	\$ 9,111	\$ 6,477
Transition stabilization fund	7,000	48,135	8,000	54,757
Held by bond trustee	10	-	9,989	-
Designated by board to service benefit plans	<u>16,401</u>	<u>190,248</u>	<u>13,527</u>	<u>238,029</u>
	<u>\$ 28,832</u>	<u>\$ 239,778</u>	<u>\$ 40,627</u>	<u>\$ 299,263</u>

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

Long-Term Investments

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

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

	December 31, 2021			
	At Fair Value	On Equity Method	At NAV	Total
Cash and cash equivalents	\$ 250,106	\$ -	\$ -	\$ 250,106
U.S. equities	162,840	-	549,615	712,455
International equities	7,520	-	468,586	476,106
Fixed income - government securities	577,741	-	-	577,741
Fixed income - corporate and other	28,153	86,122	-	114,275
Hedge funds	-	473,291	-	473,291
Private equity	-	309,150	-	309,150
Emerging markets	1,523	-	208,621	210,144
Real estate and other	139,715	251,362	-	391,077
	<u>\$ 1,167,598</u>	<u>\$ 1,119,925</u>	<u>\$ 1,226,822</u>	<u>\$ 3,514,345</u>

Long-term investments carried at net asset value ("NAV") represent interests in private investment companies that do not trade in an active market and may be redeemed or liquidated only after giving notice to the investment company, with notice periods ranging from daily to 120 days. The investments are held in U.S. and international equities and emerging markets. The Company has elected to value the investments using NAV as reported by the investment company without adjustment, unless it is probable that the investment will be sold at a value significantly different than the reported NAV. At December 31, 2022 and 2021 we have not made any adjustments to the NAVs

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

reported by the investment companies. The Company has the ability to redeem its interests at or within 120 days of the financial statement date.

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

The Company's investments in hedge funds represent 9.5% and 13.5% of total long-term investments held at December 31, 2022 and 2021, 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, 2022 and 2021, Novant Health had future commitments of \$402,226 and \$350,903, respectively, for which capital calls had not been exercised.

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

	2022	2021
(Loss) Income		
Interest and dividend income	\$ 51,806	\$ 51,224
Net realized gains	32,775	322,620
Net unrealized (losses) gains	<u>(335,693)</u>	<u>78,971</u>
	<u>\$ (251,112)</u>	<u>\$ 452,815</u>

Investment (loss) income is shown net of related expenses on the consolidated statements of operations and changes in net assets. Investment related administrative expenses were \$7,358 and \$7,636 for the years ended December 31, 2022 and 2021, respectively.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

Liquidity and Availability

As of December 31, 2022 and 2021, Novant Health has working capital of \$1,121,262 and \$1,014,052, respectively.

Financial assets at year-end:	2022	2021
Cash and cash equivalents	\$ 643,997	\$ 795,602
Accounts receivable, net	902,323	896,263
Short-term investments	234,253	411,440
Assets limited as to use	268,610	339,890
Receivable for settlement with third-party payors	13,985	16,315
Other current assets	405,765	105,123
Long-term investments	3,029,968	3,514,345
Other assets	45,781	47,136
Total financial assets	<u>\$ 5,544,682</u>	<u>\$ 6,126,114</u>
Less amounts not available:		
Long-term investments with liquidity horizons greater than one year	806,625	696,697
Assets limited as to use	268,610	339,890
Donor restricted funds	95,387	90,922
Financial assets not available to be used within one year	<u>\$ 1,170,622</u>	<u>\$ 1,127,509</u>
Financial assets available to meet general expenditures within one year	<u>\$ 4,374,060</u>	<u>\$ 4,998,605</u>

As part of the Company's liquidity management plan, cash in excess of daily requirements is invested in either money market funds, short-term investments or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities and other obligations come due. Additionally, Novant Health maintains a line of credit, as discussed in Note 16, *Long-Term Debt*. As of December 31, 2022, \$248,000 was available on the line of credit. As of December 31, 2022, the Company was in compliance with financial covenants as discussed in Note 16, *Long-Term Debt*.

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(in thousands of dollars)

9. Fair Value Measurements

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Novant Health follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

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

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

Level 3: Pricing inputs are generally unobservable for the assets and liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities.

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

As of December 31, 2022 and 2021, 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.

U.S. equities, international equities, emerging markets and other exchange traded funds

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

Fixed income and debt securities

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

Derivatives

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2022 for all financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements:

	Fair Value Measurements at Reporting Date Using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Short-term investments:				
Certificates of deposit	\$ -	\$ 10,681	\$ -	\$ 10,681
Fixed income - government securities	-	223,572	-	223,572
Total short-term investments	-	234,253	-	234,253
Assets limited as to use:				
Cash and cash equivalents	74,986	-	-	74,986
U.S. equities	171,944	-	-	171,944
International equities	5,757	-	-	5,757
Fixed income - government securities	9,183	5,190	-	14,373
Fixed income - corporate and other	-	1,550	-	1,550
Total assets limited as to use	261,870	6,740	-	268,610
Long-term investments:				
Cash and cash equivalents	131,200	-	-	131,200
U.S. equities	303,997	-	36,239	340,236
International equities	129,369	-	-	129,369
Fixed income - government securities	-	604,190	-	604,190
Fixed income - corporate and other	22,047	968	-	23,015
Emerging markets	1,856	-	-	1,856
Other exchange traded funds	105,170	-	-	105,170
Total long-term investments	693,639	605,158	36,239	1,335,036
Total assets at fair value	\$ 955,509	\$ 846,151	\$ 36,239	\$ 1,837,899
Liabilities				
Accrued liabilities	\$ 16,401	\$ -	\$ -	\$ 16,401
Derivative financial instruments	-	13,191	-	13,191
Deferred compensation liabilities	195,452	-	-	195,452
Total liabilities at fair value	\$ 211,853	\$ 13,191	\$ -	\$ 225,044

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2021 for all financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements:

	Fair Value Measurements at Reporting Date Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Short-term investments:				
Certificates of deposit	\$ -	\$ 10,623	\$ -	\$ 10,623
Fixed income - government securities	-	400,817	-	400,817
Total short-term investments	-	411,440	-	411,440
Assets limited as to use:				
Cash and cash equivalents	94,758	-	-	94,758
U.S. equities	211,620	-	-	211,620
International equities	7,153	-	-	7,153
Fixed income - government securities	11,093	10,462	-	21,555
Fixed income - corporate and other	131	4,673	-	4,804
Total assets limited as to use	324,755	15,135	-	339,890
Long-term investments:				
Cash and cash equivalents	250,106	-	-	250,106
U.S. equities	132,607	-	30,233	162,840
International equities	7,520	-	-	7,520
Fixed income - government securities	975	576,766	-	577,741
Fixed income - corporate and other	28,000	153	-	28,153
Emerging markets	1,523	-	-	1,523
Other exchange traded funds	139,715	-	-	139,715
Total long-term investments	560,446	576,919	30,233	1,167,598
Total assets at fair value	\$ 885,201	\$ 1,003,494	\$ 30,233	\$ 1,918,928
Liabilities				
Accrued liabilities	\$ 13,527	\$ -	\$ -	\$ 13,527
Derivative financial instruments	-	39,260	-	39,260
Deferred compensation liabilities	234,257	-	-	234,257
Total liabilities at fair value	\$ 247,784	\$ 39,260	\$ -	\$ 287,044

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

The table below sets forth a summary of the changes in the fair value of the Level 3 investments for the years ended December 31, 2022 and 2021:

	U.S. Equities
Balance at December 31, 2021	\$ 30,233
New investments	2,679
Distribution received	-
Unrealized gain	<u>3,327</u>
Balance at December 31, 2022	<u>\$ 36,239</u>
Balance at December 31, 2020	\$ 12,362
New investments	16,501
Distribution received	(2,027)
Unrealized gain	<u>3,397</u>
Balance at December 31, 2021	<u>\$ 30,233</u>

During 2022 and 2021, there were no transfers between levels.

10. Property and Equipment

Property and equipment consists of the following at December 31:

	2022	2021
Land and land improvements	\$ 434,102	\$ 413,167
Leasehold improvements	552,948	571,760
Buildings and building improvements	2,682,209	2,599,209
Equipment	1,873,427	1,899,791
Software	613,316	620,015
Construction-in-progress	<u>395,381</u>	<u>186,120</u>
	6,551,383	6,290,062
Less: Accumulated depreciation	<u>(3,547,151)</u>	<u>(3,406,832)</u>
	<u>\$ 3,004,232</u>	<u>\$ 2,883,230</u>

Novant Health reviews long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. No impairment charges were recorded in 2022 or 2021.

Depreciation expense for the years ended December 31, 2022 and 2021 was \$324,787 and \$333,471, respectively. Construction contracts of approximately \$894,087 exist for the construction of new

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

hospitals and facilities, expansion of existing hospitals and facility renovations. At December 31, 2022, the remaining commitment on these contracts was \$487,476.

11. Leases

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

Component of Lease Balances	Classification in Consolidated Balance Sheets	2022	2021
Assets:			
Operating lease assets		\$ 469,914	\$ 512,989
Finance lease assets		7,333	7,122
Total leased assets		<u>\$ 477,247</u>	<u>\$ 520,111</u>
Liabilities:			
Operating lease liabilities			
Current		\$ 106,950	\$ 106,774
Long-term		388,638	429,628
Total operating lease liabilities		495,588	536,402
Finance lease liabilities			
Current	Current portion of long-term debt	1,578	1,248
Long-term	Long-term debt, net of current portion	6,280	6,317
Total finance lease liabilities		7,858	7,565
Total lease liabilities		<u>\$ 503,446</u>	<u>\$ 543,967</u>

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

years with a bargain purchase option that is reasonably certain of exercise; therefore, these assets are depreciated over their useful life, typically ranging from five to seven years.

Certain lease agreements for real estate include payments based on actual common area maintenance expenses and/or include rental payments adjusted periodically for inflation. These variable lease payments are recognized in supplies and other in the consolidated statements of operations and changes in net assets but are not included in the right-of-use asset or liability balances in our consolidated balance sheets. Lease agreements do not contain any material residual value guarantees, restrictions or covenants.

Novant Health has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all asset classes except major movable equipment. Novant Health changed the election for major movable equipment in 2022, however, this change did not materially impact the consolidated financial statements.

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

	<u>2022</u>	<u>2021</u>
Operating leases ⁽¹⁾	\$ 129,442	\$ 125,226
Variable lease expense ⁽¹⁾	12,451	12,402
Finance lease expense:		
Amortization of leased assets	1,393	1,226
Interest on lease liabilities	<u>176</u>	<u>170</u>
	<u>\$ 143,462</u>	<u>\$ 139,024</u>

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

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

	<u>2022</u>	<u>2021</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 127,355	\$ 121,228
Operating cash flows for finance leases	1,567	1,329
Financing cash flows for finance leases	176	170

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

Future maturities of lease liabilities at December 31, 2022 are presented in the following table:

	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
2023	\$ 118,138	\$ 1,731	\$ 119,869
2024	102,644	1,736	104,380
2025	85,350	1,277	86,627
2026	71,738	1,145	72,883
2027	53,461	769	54,230
Thereafter	119,100	1,585	120,685
Total lease payments	550,431	8,243	558,674
Less: Imputed interest	(54,843)	(385)	(55,228)
Total lease obligations	495,588	7,858	503,446
Less: Current obligations	(106,950)	(1,578)	(108,528)
Long-term lease obligations	<u>\$ 388,638</u>	<u>\$ 6,280</u>	<u>\$ 394,918</u>

At December 31, 2022, the weighted average remaining lease term for operating leases is 6.2 years and the weighted average discount rate is 2.5%. For finance leases, the weighted average remaining lease term is 5.7 years and the weighted average discount rate is 2.3%.

Novant Health is also a lessor and sublessor of real estate under operating leases. At December 31, 2022 and 2021, \$13,160 and \$12,506, respectively, of deferred rent was recorded in the consolidated balance sheets as a component of other assets. Lease income for the years ended December 31, 2022 and 2021 was \$8,929 and \$9,955, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. Most of the Company's leases include operating expenses such as utilities and maintenance costs in rent charges. However, variable rent income is not material. The Company has elected the practical expedient that allows lessors to not separate lease and non-lease components by class of underlying asset for all asset classes. The combined component is accounted for under lease accounting guidance.

Although the Company leases and subleases a small amount of building space to non-affiliated medical practices, the significant leases consist of long-term ground leases classified as operating leases with remaining terms from 43 years with options to extend for the additional terms of five years each to 60 years with no options to extend.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

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

Years Ending December 31	
2023	\$ 5,679
2024	5,202
2025	4,692
2026	4,470
2027	4,317
Thereafter	116,649
	<u>\$ 141,009</u>

12. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	<u>Gross Intangible</u>	<u>Accumulated Amortization</u>	<u>Net Intangible</u>
Balance at December 31, 2022			
Unamortized intangible assets			
Certificates of need	\$ 34,818	\$ -	\$ 34,818
Total unamortized intangible assets	34,818	-	34,818
Amortized intangible assets			
Business relationships	658	(293)	365
Corporate trade name and other intangibles	96,556	(7,673)	88,883
Total amortized intangible assets	97,214	(7,966)	89,248
Total intangible assets	\$ 132,032	\$ (7,966)	\$ 124,066
Balance at December 31, 2021			
Unamortized intangible assets			
Certificates of need	\$ 73,688	\$ -	\$ 73,688
Total unamortized intangible assets	73,688	-	73,688
Amortized intangible assets			
Business relationships	44,299	(23,757)	20,542
Corporate trade name and other intangibles	109,753	(10,139)	99,614
Total amortized intangible assets	154,052	(33,896)	120,156
Total intangible assets	\$ 227,740	\$ (33,896)	\$ 193,844

Amortization expense related to intangible assets was \$5,632 and \$5,540 for the periods ended December 31, 2022 and 2021, respectively. Estimated annual amortization expense for intangible assets is \$3,386 per year for 2023 through 2027.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

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

	2022	2021
As of January 1		
Goodwill, net of accumulated amortization	\$ 692,555	\$ 235,585
Accumulated impairment losses	<u>(32,150)</u>	<u>(32,150)</u>
	660,405	203,435
Additions	-	481,129
Disposals	<u>(139,051)</u>	<u>(24,159)</u>
	<u>521,354</u>	<u>660,405</u>
As of the end of the period		
Goodwill, net of accumulated amortization	551,203	692,555
Accumulated impairment losses	<u>(29,849)</u>	<u>(32,150)</u>
	<u>\$ 521,354</u>	<u>\$ 660,405</u>

Novant Health reviews long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. The Company tests goodwill and indefinite-lived assets for impairment on an annual basis. Impairment tests presume stable or improving results at certain Novant Health reporting units which are based on the implementation of programs and initiatives that are designed to achieve projected results. If these projections are not met, or in the future negative trends occur which would impact our future outlook, further impairments of goodwill and other intangible assets may occur. Future restructuring of our markets that could potentially change our reporting units could also result in future impairments of goodwill.

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

13. Investments in Affiliates

Novant Health has noncontrolling interests in 27 healthcare related entities. The Company's ownership interests in the entities range from 10.0% to 51.0%. These investments are accounted for using either the equity method or a measurement alternative.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

A summary of investments, ownership percentages, investment amounts and the Company's share of earnings for the years ended December 31, 2022 and 2021 is as follows:

Investee	% Ownership		Investment Balance		Share of Earnings of Investee	
	2022	2021	2022	2021	2022	2021
Novant Health-Norfolk LLC	50%	0%	\$ 149,010	\$ -	\$ -	\$ -
Norfolk Management Services LLC	30%	0%	69,538	-	-	-
Advanced Services	23%	23%	4,187	4,319	(132)	1,403
Radiation Oncology Centers of the Carolinas LLC	50%	50%	16,227	16,265	2,632	2,860
Novant Health Rehabilitation Hospital	50%	50%	18,006	18,104	2,003	2,478
Providence Plaza LLC	30%	30%	4,721	4,692	327	325
Other	Various	Various	5,843	10,574	(2,578)	(11,128)
			<u>\$ 267,532</u>	<u>\$ 53,954</u>	<u>\$ 2,252</u>	<u>\$ (4,062)</u>

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

	2022	2021
Assets	\$ 759,574	\$ 199,941
Liabilities	172,682	94,462
Equity	586,892	105,479
Total revenue	113,961	95,516
Total expenses	109,885	96,136
Net income	4,076	(620)
Novant Health's share of net income	2,252	(4,062)

14. Other Assets

Other assets consist of the following at December 31:

	2022	2021
Notes receivable and other	\$ 67,328	\$ 71,135
Cash surrender value of insurance policies	35,664	37,011
Deferred rent income	13,160	12,507
Pledges receivable	10,117	10,125
Reinsurance receivables	5,314	5,101
	<u>\$ 131,583</u>	<u>\$ 135,879</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

15. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2022	2021
Accrued compensation	\$ 431,902	\$ 371,861
Medicare advanced payments, current portion	91,145	224,835
Payroll taxes and withholdings	10,986	44,138
Interest	13,499	13,224
Postretirement benefit liability	1,350	1,292
Other accrued liabilities	156,772	105,420
Self-insurance		
Employee medical claims liability	46,900	34,688
Malpractice and workers' compensation liability, current portion	9,786	15,002
	<u>\$ 762,340</u>	<u>\$ 810,460</u>

16. Long-Term Debt

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

	2022	2021
Tax-exempt revenue bonds	\$ 609,150	\$ 625,300
Taxable revenue bonds	1,750,000	1,750,000
Total bonds	<u>2,359,150</u>	<u>2,375,300</u>
Taxable term loan	264,165	264,165
Finance lease obligations and other notes payable	16,282	16,236
Borrowings on revolving credit facility	2,000	-
	2,641,597	2,655,701
Unamortized premium or discount, net	22,003	22,686
Unamortized debt issuance costs, net	<u>(13,228)</u>	<u>(13,468)</u>
	2,650,372	2,664,919
Less: Current maturities	<u>(61,219)</u>	<u>(54,637)</u>
	<u>\$ 2,589,153</u>	<u>\$ 2,610,282</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

Tax-Exempt Revenue Bonds

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

	2022	2021
Series 2019 A Current Interest Term Bonds, bearing interest at rates ranging from 3.1% to 4.0% payable semi-annually with mandatory redemption beginning in 2047	\$ 306,985	\$ 306,985
Series 2013 A Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 3.125% to 5.0% payable semi-annually and maturing through 2046; principal payments began in 2014	116,575	119,210
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	50,590	64,105
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
	<u>\$ 609,150</u>	<u>\$ 625,300</u>

In 2003, Novant Health entered into a new Master Trust Indenture that was amended in October 2021 (the "Agreement"). The Agreement authorizes the creation of a Combined Group, which consists of the members of the Obligated Group and the Restricted Affiliates. Novant Health and two of its affiliates that operate tertiary care hospitals, Novant Health Forsyth Medical Center and Novant Health Presbyterian Medical Center, are the members of the Obligated Group. The members of the Obligated Group are jointly and severally liable for the payment of all obligations under the Agreement. The Company's Restricted Affiliates, which include certain other subsidiaries of the Company, are not directly obligated to pay obligations under the Agreement, but the members of the Obligated Group have covenanted in the Agreement to cause the Restricted Affiliates to provide funds to the members of the Obligated Group to pay obligations under the Agreement. All bonds issued by Novant Health are collateralized by the Obligated Group.

The bond agreements provide for early redemption periods of the bonds prior to mandatory redemption, subject to a premium in certain circumstances, as defined in the agreements. In accordance with the bond indenture agreements, the bonds are general, unsecured obligations of Novant Health. The bond indentures require Novant Health to cause the Restricted Affiliates to comply with certain covenants, including the maintenance of a minimum debt service coverage ratio. As of December 31, 2022 and 2021, 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 April 1, 2025. If the SBPA should be used to fund tenders due to a failed remarketing, repayment in quarterly

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

installments over three years is required. As a result, the Company has classified \$36,818 of the 2004 bonds as current at December 31, 2022 and 2021.

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 July 2021, the Series 2013 B bonds were defeased with cash in conjunction with Novant Health's withdrawal from Novant Health UVA Health System. The transaction resulted in a loss of \$4,456 including the write off of \$4,436 in unamortized bond premiums and \$796 in unamortized issuance costs. The bonds were called on November 1, 2022.

Taxable Revenue Bonds

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

In April 2021, Novant Health issued \$1,500,000 of taxable fixed rate bonds (the "2021 A Bonds"). The 2021 A Bonds bear interest at rates ranging from 2.67% to 3.32% and mature in 2036, 2051 and 2061. Proceeds of the 2021 A Bonds were used for eligible purposes, including the refinancing of long-term debt. The taxable revenue bonds are subject to the same covenant requirements that are included in the bond agreements for the tax-exempt revenue bonds.

Taxable Term Loan

In March 2020, Novant Health entered into an agreement to borrow \$264,165. The loan bears interest at a fixed rate with principal payments due annually beginning in 2023 through the maturity date of April 1, 2030. The proceeds were used to call the Series 2010 A bonds and repay them at face value on November 1, 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 finance leases, bearing interest at rates ranging from 0.81% to 12.15%. Scheduled maturities of all long-term debt are as follows:

Years Ending December 31

2023	\$ 24,403
2024	20,355
2025	20,293
2026	18,930
2027	19,937
Thereafter	<u>2,537,679</u>
	<u>\$ 2,641,597</u>

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(in thousands of dollars)

Novant Health capitalized \$3,451 and \$1,765 of interest in 2022 and 2021, respectively.

Revolving Credit Facility

In April 2020, Novant Health entered into a \$950,000 Revolving Credit Agreement (“2020 Revolving Credit Agreement”). Effective January 29, 2021, the Senior Revolving Credit agreement was amended to increase the borrowing limit to \$1,600,000 and extend the maturity date to July 29, 2022. The full available amount was borrowed to fund the acquisition of New Hanover Regional Medical Center’s assets. The proceeds of the issuance of the Series 2021 A Bonds were used to pay down \$1,493,000 of the outstanding balance. The remaining balance was paid with cash. In April 2021, the available balance was reduced to \$300,000.

On July 1, 2022, Novant Health entered into a \$250,000 Revolving Credit Agreement and terminated the 2020 Revolving Credit Agreement. Borrowings bear interest at variable rates. At December 31, 2022, \$248,000 was available for borrowing.

Debt Issuance Costs

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

17. Short-Term Borrowings

In 2021, short-term borrowings consisted 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, agency securities and treasury inflation protected securities and receives an amount ranging from 94% to 98% of the fair value of the securities which were repurchased during January 2022 at interest rates ranging from 0.25% to 3.00%. At December 31, 2021, the fair value of the amount of securities repurchase transactions outstanding was \$124,518; there were none outstanding as of December 31, 2022.

18. Interest Rate Swaps

As of August 18, 2008, concurrent with the 2008 bond issuance, Novant Health entered into two interest rate swap agreements to hedge the variable interest rates of the 2008 bonds. The swaps are based on an aggregate notional amount of \$50,590. Novant Health receives a variable rate which is tied to 68% of LIBOR, and pays a fixed rate of 3.679% and 3.621% for the \$36,100 and \$14,490 notional amounts, respectively. The swaps have been designated as cash flow hedges and are carried

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

on the consolidated balance sheets at fair value. In the fourth quarter of 2018, the hedging relationship ceased to be highly effective and hedge accounting was discontinued.

In July 2006, Novant Health entered into a floating-to-fixed swap agreement with a notional amount of \$135,000 and a term of 28 years to hedge the floating rate 2004 bonds. Novant Health receives a variable rate which is tied to 64.8% of LIBOR plus 12 basis points and pays a fixed interest rate of 3.8%. The swap has been designated as a cash flow hedge and is carried on the consolidated balance sheets at fair value. In the first quarter of 2019, the hedge relationship ceased to be highly effective and hedge accounting was discontinued.

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

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

	2022	2021
Change in fair value of non-hedged interest rate swaps	\$ 26,069	\$ 12,543
Amortization of deferred loss	(2,778)	(2,984)
	<u>\$ 23,291</u>	<u>\$ 9,559</u>

19. Employee Benefits and Other Liabilities

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

	2022	2021
Deferred compensation liabilities	\$ 195,452	\$ 234,257
Employee benefits and other	62,117	69,695
Transition stabilization fund	48,135	54,757
Medicare advanced payments, net of current portion	-	41,193
Self-insurance malpractice and workers' compensation, net of current portion	39,746	42,515
Deferred gains	22,786	4,276
Postretirement benefit liability, net of current portion	14,485	19,459
	<u>\$ 382,721</u>	<u>\$ 466,152</u>

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

20. Income Taxes

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

	2022	2021
Current tax expense		
Federal	\$ 22,112	\$ 2,957
State	964	550
	<u>23,076</u>	<u>3,507</u>
Deferred tax expense		
Federal	12,992	1,209
State	2,685	77
	<u>15,677</u>	<u>1,286</u>
	<u>\$ 38,753</u>	<u>\$ 4,793</u>

The components of deferred taxes are as follows:

	2022	2021
Deferred tax assets		
Loss carryforwards	\$ 15,075	\$ 15,370
Deferred charge for intercompany transfer	2,851	4,074
Allowance for doubtful accounts	723	715
Accrued expenses	2,007	3,332
Future deductions- operating leases	1,665	3,092
Other	206	-
Total deferred tax assets	<u>22,527</u>	<u>26,583</u>
Deferred tax liabilities		
Intangible assets	(5,321)	(5,873)
Property and equipment	(4)	(85)
Right-of-use assets	(1,618)	(3,032)
Other	(14,349)	-
Total deferred tax liabilities	<u>(21,292)</u>	<u>(8,990)</u>
Valuation allowance	<u>(18,128)</u>	<u>(18,814)</u>
Net deferred tax liability	<u>\$ (16,893)</u>	<u>\$ (1,221)</u>

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

which those temporary differences are deductible. In making this determination, management considers all available positive and negative evidence affecting specific deferred tax assets, including the Company's past and anticipated future performance, reversal of deferred tax liabilities, length of carryback and carryforward periods and implementation of tax planning strategies. Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of deferred tax assets when significant negative evidence exists.

Cumulative losses in recent years are the most compelling form of negative evidence considered by management in this determination. For the years ended December 31, 2022 and 2021, management has determined that based on all available evidence, a valuation allowance of \$18,128 and \$18,814, respectively, is appropriate.

As of December 31, 2022, the Company had approximately \$68,390 of federal and \$35,308 of state loss carryforwards available to reduce taxable income. \$56,918 of the loss carryforwards expire through 2038 and the remainder do not expire. In addition, at December 31, 2022, the Company had approximately \$10,813 of federal contribution carryforwards available to reduce taxable income.

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

	2022	2021
Federal taxes	\$ 35,104	\$ 4,166
State income taxes	<u>3,649</u>	<u>627</u>
	<u>\$ 38,753</u>	<u>\$ 4,793</u>

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, 2022 and 2021.

21. Employee Benefit Plans and Other Postretirement Benefit Plans

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

Novant Health also provides fixed dollar amounts for health care and life insurance benefits to certain retired employees. Covered employees may become eligible for these benefits if they meet minimum

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

age and service requirements, and if they are eligible for retirement benefits. Novant Health has the right to modify or terminate these benefits. The unfunded obligation in the consolidated balance sheets at December 31, 2022 and 2021 was \$15,835 and \$20,751, respectively. The expense associated with these plans totaled \$(3,846) for 2022 and \$(503) for 2021. The discount rate used in determining the benefit obligation ranged between 4.70% and 4.90% for 2022 and 2.10% and 2.65% for 2021. The health care costs increase trend rate used was 6.50% in 2022 and 6.25% in 2021. The health care cost increase trend rate is projected to gradually decline to 4.50% by 2027.

In addition to these plans, Novant Health sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to \$115,294 and \$110,294 in 2022 and 2021, respectively.

Certain Novant Health consolidated affiliates participate in cafeteria plans which provide certain benefits, including basic medical and dental coverage, long-term disability benefits, reimbursement of supplemental dependent care expenses and group life insurance benefits. The affiliates contribute predetermined amounts for each full-time and part-time employee, which is allocated to the various benefit options in accordance with the participant's election. Affiliate contributions to these plans were approximately \$319,123 in 2022 and \$300,391 in 2021.

22. Net Assets without Donor Restrictions

The following table reconciles the carrying amounts of the Company's controlling interest and the noncontrolling interests for net assets without donor restrictions:

	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interests</u>
Balance at January 1, 2021	\$ 4,885,063	\$ 4,805,811	\$ 79,252
Excess of revenues over expenses	811,999	811,409	590
Deconsolidation of Novant Health UVA Health System	(60,185)	582	(60,767)
Change in funded status of defined benefit plans	1,206	1,206	-
Amortization of deferred loss on derivative financial instruments	2,984	2,984	-
Other changes in net assets without donor restrictions	(3,449)	8,951	(12,400)
Balance at December 31, 2021	5,637,618	5,630,943	6,675
(Deficit) excess of revenues over expenses	(222,839)	(223,046)	207
Change in funded status of defined benefit plans	4,664	4,664	-
Amortization of deferred loss on derivative financial instruments	2,778	2,778	-
Other changes in net assets without donor restrictions	(3,973)	(2,150)	(1,823)
Balance at December 31, 2022	\$ 5,418,248	\$ 5,413,189	\$ 5,059

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

23. Net Assets with Donor Restrictions

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

	2022	2021
Buildings and equipment	\$ 17,760	\$ 19,278
Clinical care, research and academic	54,847	50,992
Charity care	9,657	7,965
Other	13,123	12,687
	<u>\$ 95,387</u>	<u>\$ 90,922</u>

24. Professional and General Liability Insurance Coverage

Novant Health is self-insured for professional and general liability exposures up to certain limits. The Company has umbrella policies in place above those limits. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for reported claims and claims incurred but not reported. Novant Health also participates in a self-insured program for workers' compensation and is self-insured for certain health benefits options. A portion of these self-insured professional liabilities is funded through a revocable trust fund operated by Novant Health. This fund was converted to claims-made status on January 1, 2020, and prior reported liabilities under this coverage were placed in run-off. Effective January 1, 2020, funding for self-insured professional liabilities are insured by Novant Health Casualty, LLC, a North Carolina domiciled insurance captive. Coverage terms and umbrella policies of the same or higher limits are in place for the captive. At December 31, 2022 and 2021, undiscounted professional and general liability loss reserves of \$49,532 and \$57,517, respectively, are included in current liabilities and employee benefits and other liabilities on the consolidated balance sheets. Expenses related to these plans amounted to \$22,203 and \$26,060 in 2022 and 2021, respectively.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

25. Commitments and Contingencies

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

In August 2022, Novant Health (along with a number of other healthcare entities across the country) notified patients and regulatory authorities of an issue involving the configuration of a Meta (Facebook) pixel on its website and patient portal that had the potential to allow certain private information of patients to be shared with Meta. A Consolidated Class Action Complaint (consolidating five separate actions) was filed on November 18, 2022 in the United States District Court for the Middle District of North Carolina on behalf of patients whose private information was allegedly disclosed. Novant Health has filed a motion to dismiss the complaint in its entirety on multiple grounds, including the absence of any plausible allegation that plaintiffs' information was disclosed to anyone other than Meta and that Meta has or will misuse that information. The motion to dismiss is pending. An estimate of probable loss cannot be made at this time.

At December 31, 2022, the Company had guarantees for payment of the indebtedness and lease agreements of certain equity method investees. The maximum potential amount of future payments under these agreements was approximately \$22,898. These guarantees extend until October 2026 based on the payment schedule of the underlying agreements. At December 31, 2022, approximately \$400 has been recorded in the consolidated balance sheet for the Company's obligations under these guarantees.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

26. Concentrations of Credit Risk

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

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

	2022	2021
Medicare	29.2%	27.2%
Medicaid	9.5%	8.9%
Other third-party payors	57.4%	59.8%
Patients	3.9%	4.1%
	<u>100.0%</u>	<u>100.0%</u>

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.

27. Functional Expenses

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

	December 31, 2021			
	Health Care Services		Support Services	
	Acute Care Facilities	Outpatient Locations	General & Administrative	Total
Salaries and employee benefits	\$ 2,011,252	\$ 1,584,897	\$ 328,017	\$ 3,924,166
Supplies and other	1,781,874	664,654	239,114	2,685,642
Depreciation and amortization expense	206,522	51,345	81,766	339,633
Interest expense	60,841	7,748	9,107	77,696
Other non-operating expenses	(228)	1,884	8,169	9,825
Total expenses	\$ 4,060,261	\$ 2,310,528	\$ 666,173	\$ 7,036,962

28. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through March 30, 2023, the day the consolidated financial statements were issued.

On February 28, 2023, Novant Health signed a definitive agreement to acquire Lake Norman Regional Medical Center, Davis Regional Medical Center and their related businesses, including physician clinic operations and outpatient services from subsidiaries of Community Health Systems, Inc. The transaction is subject to regulatory approvals and is expected to close later this year. The total purchase price payable at the closing of the transaction is \$320,000, subject to adjustment based on closing net working capital and the amount of any finance leases assumed.

29. Significant Recent Accounting Pronouncements

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

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)* and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 848"). This guidance provides relief from the application of certain guidance during the transition to alternative reference rates. Optional expedients are provided for contract modification that replace a reference rate affected by reference rate reform and related contemporaneous modifications. Exceptions are provided for changes to the critical terms of a hedging relationship due to reference rate reform.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(in thousands of dollars)

Expedients are provided for cash flow hedging relationships and fair value hedging relationships. These provisions were initially available until December 31, 2022, but in late 2022 were extended to December 31, 2024. Novant Health is currently evaluating the effect of reference rate reform on its contracts, but the availability of these expedients and exceptions is expected to reduce the impact of reference rate reform on the consolidated financial statements of Novant Health.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The guidance requires entities engaged in a business combination to recognize and measure contract assets acquired and contract liabilities assumed in accordance with ASC 606, *Revenue from Contracts with Customers*, rather than at fair value on the acquisition date. This guidance was effective for Novant Health on January 1, 2023. This guidance did not have a significant impact on the consolidated financial statements of Novant Health.

Other Financial Information



Report of Independent Auditors

To the Board of Trustees of Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. and its Affiliates (the "Company") as of and for the years ended December 31, 2022, and December 31, 2021, and have issued our report thereon dated March 30, 2023, which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information as of and for the year ended December 31, 2022 and the supplemental schedule of cost of community benefit programs for the year ended December 31, 2022 appearing on pages 50-56 (collectively referred to herein as the "information") are presented for purposes of additional analysis and are not a required part of the consolidated financial statements nor are they intended to present the financial position, results of operation and cash flows of the individual entities. 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, excluding the schedule of cost of community benefit programs information marked "unaudited," has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, excluding the schedule of costs of community benefit programs information marked "unaudited," is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The schedule of costs of community benefit programs information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, accordingly, we do not express an opinion or provide any assurance on it.

Pricewaterhouse Coopers LLP

March 30, 2023

Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs (unaudited)
December 31, 2022

In addition to providing charity care to uninsured patients, Novant Health also provides services to beneficiaries of public programs and various other community health services intended to improve the health of the communities in which the Company operates. Novant Health uses the following four categories to identify the resources utilized for the care of persons who are underserved and for providing community benefit programs to the needy:

- Traditional charity care, which includes the cost of services provided to persons who cannot afford health care because of inadequate resources and who are uninsured.
- Unpaid cost of Medicare, which represents the unpaid cost of services provided to persons through the government program for individuals age 65 and older as well as those that qualify for federal disability benefits.
- Unpaid cost of Medicaid, which represents the unpaid cost of services provided to persons covered by the government program for medically indigent patients.
- Community benefit programs, which consist of the unreimbursed costs of certain programs and services for the general community, mainly for indigent patients but also for people with chronic health risks. Examples of these programs include health promotion and education, free clinics and screenings and other community services.

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

	2022
Traditional charity care	\$ 212,556
Unpaid cost of Medicare	973,485
Unpaid cost of Medicaid	229,579
Community benefit programs	149,966
	<u>\$ 1,565,586</u>

Novant Health, Inc. and Affiliates
Consolidating Balance Sheet
December 31, 2022

<i>(in thousands of dollars)</i>	Combined Group	Unrestricted Affiliates	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 520,545	\$ 123,452	\$ -	\$ 643,997
Accounts receivable, net	827,599	74,724	-	902,323
Short-term investments	234,040	213	-	234,253
Current portion of assets limited as to use	23,411	5,421	-	28,832
Receivable for settlement with third-party payors	13,477	508	-	13,985
Other current assets	424,414	227,388	(6,801)	645,001
Total current assets	2,043,486	431,706	(6,801)	2,468,391
Assets limited as to use	233,988	5,790	-	239,778
Long-term investments	2,711,276	318,692	-	3,029,968
Property and equipment, net	2,693,249	310,983	-	3,004,232
Right-of-use assets, net	483,398	61,041	(67,192)	477,247
Intangible assets and goodwill, net	614,693	30,727	-	645,420
Investments in affiliates	1,682,113	215,713	(1,630,294)	267,532
Deferred tax asset	-	2,658	-	2,658
Other assets	113,257	20,242	(1,916)	131,583
Total assets	<u>\$ 10,575,460</u>	<u>\$ 1,397,552</u>	<u>\$ (1,706,203)</u>	<u>\$ 10,266,809</u>
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	\$ 56,227	\$ 4,992	\$ -	\$ 61,219
Short-term borrowings	-	277	-	277
Accounts payable	353,486	22,918	(6,801)	369,603
Accrued liabilities	653,153	109,187	-	762,340
Current portion of operating lease liabilities	100,694	15,290	(9,034)	106,950
Estimated third-party payor settlements	57,355	2,176	-	59,531
Due to (from) related organizations	(302,150)	302,150	-	-
Total current liabilities	918,765	456,990	(15,835)	1,359,920
Long-term debt, net of current portion	2,585,572	3,581	-	2,589,153
Deferred tax liability	-	19,551	-	19,551
Operating lease liabilities, net of current portion	401,361	47,367	(60,090)	388,638
Derivative financial instruments	13,191	-	-	13,191
Employee benefits and other liabilities	367,772	14,949	-	382,721
Total liabilities	4,286,661	542,438	(75,925)	4,753,174
Net assets				
Without donor restrictions - attributable to Novant Health	6,288,799	754,668	(1,630,278)	5,413,189
Without donor restrictions - noncontrolling interests	-	5,059	-	5,059
Total net assets without donor restrictions	6,288,799	759,727	(1,630,278)	5,418,248
With donor restrictions	-	95,387	-	95,387
Total net assets	6,288,799	855,114	(1,630,278)	5,513,635
Total liabilities and net assets	<u>\$ 10,575,460</u>	<u>\$ 1,397,552</u>	<u>\$ (1,706,203)</u>	<u>\$ 10,266,809</u>

Novant Health, Inc. and Affiliates
Consolidating Statement of Operations
Year Ended December 31, 2022

<i>(in thousands of dollars)</i>	Combined Group	Unrestricted Affiliates	Eliminations	Total
Operating revenues				
Net patient service revenues	\$ 5,978,810	\$ 674,082	-	\$ 6,652,892
Other revenue	537,050	450,523	(88,355)	899,218
Total operating revenues	<u>6,515,860</u>	<u>1,124,605</u>	<u>(88,355)</u>	<u>7,552,110</u>
Operating expenses				
Salaries and employee benefits	3,799,855	454,220	(3,355)	4,250,720
Supplies and other	2,427,000	445,172	(98,264)	2,773,908
Depreciation and amortization expense	289,674	40,634	-	330,308
Impairment charge	42	62,939	-	62,981
Interest expense	57,183	8,801	-	65,984
Total operating expenses	<u>6,573,754</u>	<u>1,011,766</u>	<u>(101,619)</u>	<u>7,483,901</u>
Operating income (loss)	(57,894)	112,839	13,264	68,209
Non-operating income (expense)				
Investment loss	(226,191)	(24,921)	-	(251,112)
Income tax expense	(5,456)	(33,297)	-	(38,753)
Other net periodic pension (costs) benefit	(1,210)	27	-	(1,183)
Excess (deficit) of revenues over expenses	<u>\$ (290,751)</u>	<u>\$ 54,648</u>	<u>\$ 13,264</u>	<u>\$ (222,839)</u>

Novant Health, Inc. and Affiliates
Combined Group Combining Balance Sheet
December 31, 2022

<i>(in thousands of dollars)</i>	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Assets				
Current assets				
Cash and cash equivalents	\$ 406,199	\$ 114,346	\$ -	\$ 520,545
Accounts receivable, net	445,057	382,542	-	827,599
Short-term investments	234,040	-	-	234,040
Current portion of assets limited as to use	16,411	7,000	-	23,411
Receivable for settlement with third-party payors	5,478	7,999	-	13,477
Other current assets	267,205	157,209	-	424,414
Total current assets	<u>1,374,390</u>	<u>669,096</u>	<u>-</u>	<u>2,043,486</u>
Assets limited as to use	185,853	48,135	-	233,988
Long-term investments	2,711,276	-	-	2,711,276
Property and equipment, net	1,560,083	1,133,166	-	2,693,249
Right-of-use assets, net	223,764	259,634	-	483,398
Intangible assets and goodwill, net	19,787	594,906	-	614,693
Investments in affiliates	1,769,612	(846)	(86,653)	1,682,113
Other assets	95,995	17,262	-	113,257
Total assets	<u>\$ 7,940,760</u>	<u>\$ 2,721,353</u>	<u>\$ (86,653)</u>	<u>\$ 10,575,460</u>
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	\$ 54,884	\$ 1,343	\$ -	\$ 56,227
Accounts payable	244,362	109,124	-	353,486
Accrued liabilities	380,824	272,329	-	653,153
Current portions of operating lease liabilities	41,539	59,155	-	100,694
Estimated third-party payor settlements	27,323	30,032	-	57,355
Due to (from) related organizations	(807,023)	504,873	-	(302,150)
Total current liabilities	<u>(58,091)</u>	<u>976,856</u>	<u>-</u>	<u>918,765</u>
Long-term debt, net of current portion	2,579,531	6,041	-	2,585,572
Operating lease liabilities, net of current portion	194,565	206,796	-	401,361
Derivative financial instruments	13,191	-	-	13,191
Employee benefits and other liabilities	297,648	70,124	-	367,772
Total liabilities	<u>3,026,844</u>	<u>1,259,817</u>	<u>-</u>	<u>4,286,661</u>
Net assets				
Without donor restrictions - attributable to Novant Health	<u>4,913,916</u>	<u>1,461,536</u>	<u>(86,653)</u>	<u>6,288,799</u>
Total net assets	<u>4,913,916</u>	<u>1,461,536</u>	<u>(86,653)</u>	<u>6,288,799</u>
Total liabilities and net assets	<u>\$ 7,940,760</u>	<u>\$ 2,721,353</u>	<u>\$ (86,653)</u>	<u>\$ 10,575,460</u>

Novant Health, Inc. and Affiliates
Combined Group Combining Statement of Operations
Year Ended December 31, 2022

<i>(in thousands of dollars)</i>	Obligated Group	Restricted Affiliates	Eliminations	Combined Group Total
Operating revenues				
Net patient service revenues	\$ 2,910,862	\$ 3,067,948	\$ -	\$ 5,978,810
Other revenue	205,245	340,898	(9,093)	537,050
Total operating revenues	<u>3,116,107</u>	<u>3,408,846</u>	<u>(9,093)</u>	<u>6,515,860</u>
Operating expenses				
Salaries and employee benefits	1,782,806	2,017,049	-	3,799,855
Supplies and other	1,125,128	1,310,965	(9,093)	2,427,000
Depreciation and amortization expense	147,304	142,370	-	289,674
Impairment charge	42	-	-	42
Interest expense	28,236	28,947	-	57,183
Total operating expenses	<u>3,083,516</u>	<u>3,499,331</u>	<u>(9,093)</u>	<u>6,573,754</u>
Operating income (loss)	32,591	(90,485)	-	(57,894)
Non-operating income (expense)				
Investment (loss) income	(226,255)	64	-	(226,191)
Income tax expense	(5,400)	(56)	-	(5,456)
Other net periodic pension costs	(352)	(858)	-	(1,210)
Excess (deficit) of revenues over expenses	<u>\$ (199,416)</u>	<u>\$ (91,335)</u>	<u>\$ -</u>	<u>\$ (290,751)</u>

Novant Health, Inc. and Affiliates

Notes to Consolidating or Combining Supplemental Schedules

December 31, 2022

1. Reporting Entity

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

2. Basis of Presentation and Summary of Significant Accounting Policies

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

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

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

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

Combined Group Combining Balance Sheet and Statement of Operations

As noted in Note 16 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 eleven of its affiliates as Restricted Affiliates. Six of these Restricted Affiliates, Medical Park Hospital, Inc. d/b/a Novant Health Medical Park Hospital,

Novant Health, Inc. and Affiliates
Notes to Consolidating or Combining Supplemental Schedules
December 31, 2022

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, Mint Hill Medical Center, LLC d/b/a Novant Health Mint Hill Medical Center, and Novant Health New Hanover Regional Medical Center, LLC, 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.

Novant Health, Inc.

and Affiliates

**Consolidated Financial Statements and
Supplemental Information
December 31, 2023 and 2022**

Novant Health, Inc. and Affiliates
Index
December 31, 2023 and 2022

	Page(s)
Report of the Independent Auditors	1-2
Consolidated Financial Statements	
Balance Sheets	3
Statements of Operations and Changes in Net Assets	4
Statements of Cash Flows	5-6
Notes to Consolidated Financial Statements	7-43
Report of Independent Auditors on Supplementary Information	44
Schedule of Cost of Community Benefit Programs	45
Consolidating Supplemental Schedules	46-49
Notes to Consolidating Supplemental Schedules	50-51



Report of Independent Auditors

To the Board of Trustees of Novant Health, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Novant Health, Inc. and Affiliates (the “Company”), which comprise the consolidated balance sheets as of December 31, 2023 and 2022 and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Pricewaterhouse Coopers LLP

Charlotte, North Carolina
March 29, 2024

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

(in thousands of dollars)

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

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

Novant Health, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2023 and 2022

(in thousands of dollars)

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

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

Novant Health, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

(in thousands of dollars)

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

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

Novant Health, Inc. and Affiliates
Consolidated Statements of Cash Flows, continued
Years Ended December 31, 2023 and 2022

(in thousands of dollars)

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

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

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

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

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(in thousands of dollars)

1. Reporting Entity

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of all affiliates controlled by Novant Health. All intercompany transactions and balances have been eliminated.

Use of Estimates

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

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

Fair Value of Financial Instruments

The fair value of financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, investments other than alternatives, assets limited as to use and interest rate swaps. More information can be found in Note 8, *Fair Value Measurements*.

Cash and Cash Equivalents

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

Restricted Cash

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(in thousands of dollars)

Accounts Receivable

Accounts receivable consist primarily of amounts owed by various governmental agencies, insurance companies and patients. Novant Health manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. Amounts the Company receives for treatment of patients covered by governmental programs and third-party payors as well as directly from patients are subject to both explicit and implicit price concessions. The Company estimates these price concessions using contractual agreements, discount policies, historical experience as well as current and expected future economic conditions. Novant Health records price concessions in the period of service based on the analysis and consideration of these factors.

Leases

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

Other Current Assets

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

Investments

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

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

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

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees, funds designated for wind down expenses related to an acquisition (transition stabilization fund), and assets designated for specific purposes by the Board of Trustees.

Derivatives

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

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

Property and Equipment

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(in thousands of dollars)

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

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

Maintenance and repairs of property and equipment are expensed in the period incurred. Replacements or improvements that increase the estimated useful life of an asset are capitalized. The Company also capitalizes the cost of software developed for internal use. Assets that are sold, retired or otherwise disposed of are removed from the respective asset cost and accumulated depreciation accounts and any gain or loss is included in the results of operations.

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

Goodwill and Other Intangible Assets

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

The Company considers certificates of need, which are required by certain states prior to the acquisition of high cost capital items, to be indefinite-lived intangible assets. During 2023, regulatory changes in states where the Company does business eliminated these requirements for certain types of equipment at dates in the future. As a result of these changes, these intangible assets now have estimated useful lives and are being amortized accordingly. The Company also has intangible assets with identifiable useful lives related to business acquisitions. These assets include business relationships and corporate trade names. In accordance with GAAP, the Company amortizes the cost of these intangible assets over their estimated useful lives.

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

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

Impairment tests are performed at the reporting unit level for units that have goodwill. If it is more likely than not that the fair value of the reporting unit exceeds the carrying value of the reporting unit, additional impairment testing is not required. If it is more likely than not that the carrying value of the reporting unit exceeds the fair value of the reporting unit, additional testing for impairment is required. The first step is to determine if the carrying value of the reporting unit with goodwill is less than the related fair value of the reporting unit. The fair value of the reporting unit is determined through use of discounted cash flow methods and/or market based multiples of earnings and sales methods. If the carrying value of the reporting unit is less than the fair value of the reporting unit, the goodwill is not considered impaired. If the carrying value is greater than the fair value, the goodwill is considered impaired and an impairment charge is recorded for the amount by which the carrying value exceeds the fair value of the reporting unit.

Investments in Affiliates

Investments in entities which Novant Health does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method. Investments for which the Company does not have the ability to exercise significant influence are accounted for at fair value or, if fair value is not readily determinable, at cost less impairment with adjustments made for any observable price changes resulting from an orderly transaction for the identical or a similar investment of the same issuer. Distributions from affiliates are shown as operating cash flows on the Company's consolidated statements of cash flows.

Other Assets

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

Compensated Absences

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

Pension and Postretirement Benefit Plans

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(in thousands of dollars)

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

Self-Insurance Reserves

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

Net Assets

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

Contributions Received

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or the condition is met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions, which is included in other operating revenue. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

Statement of Operations

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

Novant Health hospitals receives supplemental Medicaid payments from the state of North Carolina through a federally approved directed payment program which was approved during 2023. This program provides a funding model whereby hospitals are assessed an amount based on a percentage of their costs and are then paid supplemental amounts in an effort to reduce Medicaid losses. Novant Health records payments received as net patient service revenue and assessments paid as supplies and other on the consolidated statements of operations and changes in net assets. These supplemental payments are recognized in income when earned, if reasonably estimable and deemed collectible. During 2023, Novant Health hospitals received \$330,268 and paid \$107,938. North Carolina hospitals also pay assessments to finance portions of North Carolina's Medicaid fee-for-service, general medical education and managed care program. Novant Health hospitals paid assessments of \$140,032 in 2023 and \$123,657 in 2022. The Medicaid program in the state of North Carolina was expanded on

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(in thousands of dollars)

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

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

Other Revenue

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

Income Taxes

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

The Company provides for income taxes using the asset and liability method. This approach recognizes the amount of federal, state and local taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequences of events recognized in the consolidated financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates in the period in which such laws or rates are enacted. A valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income.

3. Organizational Changes

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

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(in thousands of dollars)

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

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

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

4. Revenue Recognition and Accounts Receivable

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Novant Health expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. Generally, the Company bills the patient and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Company. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Novant Health believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. The Company measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Company does not believe it is required to provide additional goods or services to the patient.

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

Novant Health determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Novant Health's policies and/or implicit price concessions provided to uninsured patients. The Company determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Company determines its estimate of implicit price concessions based on historical collection experience as well as expectations about current and future economic conditions. Agreements with third-party payors typically provide for payments at amounts less than established charges. For services provided under Medicare and Medicaid programs, inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services and defined capital and medical education costs related to beneficiaries are paid based on a cost reimbursement methodology. Outpatient services are paid at a prospectively determined rate. Physician services are paid based upon established fee schedules. Novant Health is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Novant Health and audits thereof by the fiscal intermediary. Payment arrangements with commercial insurance carriers include prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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

Cost report settlements under reimbursement agreements with Medicare and Medicaid for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Company's historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments arising from a change in the transaction price were not significant in 2023 and 2022.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Novant Health also provides services to uninsured patients. The transaction price for both uninsured patients as well as insured patients with deductibles and coinsurance is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. For the years ended December 31, 2023 and 2022, additional revenue of \$6,800 and

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

\$9,800, respectively, was recognized due to changes in estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years.

Subsequent changes that are determined to be the results of an adverse change in the patient's ability to pay are recorded as expected credit losses. These are reported as a component of supplies and other in the consolidated statements of operations and changes in net assets and were not significant for the years ended December 31, 2023 and 2022.

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

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

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

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

Novant Health has a program of factoring certain patient receivables with recourse to a third-party. Novant Health is obligated to repurchase factored receivables upon occurrence of certain conditions of the program. Accordingly, the Company accounts for the factoring as a secured borrowing. The factored receivables are recorded at their estimated net realizable value and are shown as other assets in the consolidated balance sheets. An offsetting liability, representing Novant Health's potential recourse for these receivables, is part of employee benefits and other liabilities in the

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

Other Revenue

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

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

5. Charity Care and Community Benefit

In accordance with Novant Health's mission to improve the health of its communities one person at a time, Novant Health facilities accept patients regardless of their ability to pay. At acute facilities, uninsured patients qualify for a full write-off of their bills if their household income is at or below 300% of the federal poverty level. Novant Health also offers a catastrophic discount for patients with an account balance greater than \$5, flexible payment plans, and discounts for uninsured patients who do not qualify for the charity care program. In addition to these programs for hospitals, Novant Health physician groups and outpatient centers also have charity care programs to assist patients in need. The Company's approximate cost of providing care to indigent patients was \$224,873 and \$212,556 for the years ended December 31, 2023 and 2022, respectively. Novant Health estimates the costs of providing traditional charity care using each facility's estimated ratio of costs to charges. Funds received from gifts or grants to subsidize charity services provided were \$11,133 and \$12,006 for the years ended December 31, 2023 and 2022, respectively.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

6. Other Current Assets

Other current assets consist of the following at December 31:

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

7. Assets Limited as to Use and Investments

Short-Term Investments

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

	2023	2022
Certificates of deposit	\$ 11,080	\$ 10,681
Fixed income - government securities	-	223,572
	<u>\$ 11,080</u>	<u>\$ 234,253</u>

Assets Limited as to Use

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

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

Long-Term Investments

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

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

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

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

The Company's investments in hedge funds represent 8.9% and 9.5% of total long-term investments held at December 31, 2023 and 2022, respectively. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments) and nondisclosure of portfolio composition.

Novant Health is obligated under certain investment agreements to periodically advance additional funding up to specified levels. As of December 31, 2023 and 2022, Novant Health had future commitments of \$358,387 and \$402,226, respectively, for which capital calls had not been exercised.

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

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

Liquidity and Availability

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

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

As part of the Company's liquidity management plan, cash in excess of daily requirements is invested in either money market funds, short-term investments or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities and other obligations come due. Additionally, Novant Health maintains a line of credit, as discussed in Note 15, *Long-Term Debt*. As of December 31, 2023, \$204,500 was available on the line of credit. As of December 31, 2022, the Company was in compliance with financial covenants as discussed in Note 15, *Long-Term Debt*.

8. Fair Value Measurements

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The

Novant Health, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(in thousands of dollars)

Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Novant Health follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

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

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

Level 3: Pricing inputs are generally unobservable for the assets and liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities.

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

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

As of December 31, 2023 and 2022, the Level 1 and Level 2 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

Certificates of deposit

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

U.S. equities, international equities, emerging markets and other exchange traded funds

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

Fixed income and debt securities

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

Derivatives

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2023 for all financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements:

	Fair Value Measurements at Reporting Date Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Short-term investments:				
Certificates of deposit	\$ -	\$ 11,080	\$ -	\$ 11,080
Fixed income - government securities	-	-	-	-
Total short-term investments	-	11,080	-	11,080
Assets limited as to use:				
Cash and cash equivalents	70,577	-	-	70,577
U.S. equities	204,365	-	-	204,365
International equities	7,830	-	-	7,830
Fixed income - government securities	15,077	-	-	15,077
Total assets limited as to use	297,849	-	-	297,849
Long-term investments:				
Cash and cash equivalents	62,705	-	-	62,705
U.S. equities	425,202	-	45,701	470,903
International equities	176,932	-	-	176,932
Fixed income - government securities	-	703,675	-	703,675
Fixed income - corporate and other	24,573	105	-	24,678
Emerging markets	1,469	-	-	1,469
Other exchange traded funds	67,188	-	-	67,188
Total long-term investments	758,069	703,780	45,701	1,507,550
Total assets at fair value	\$ 1,055,918	\$ 714,860	\$ 45,701	\$ 1,816,479
Liabilities				
Accrued liabilities	\$ 12,485	\$ -	\$ -	\$ 12,485
Derivative financial instruments	-	12,254	-	12,254
Deferred compensation liabilities	237,151	-	-	237,151
Total liabilities at fair value	\$ 249,636	\$ 12,254	\$ -	\$ 261,890

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

The following table summarizes fair value measurements, by level, at December 31, 2022 for all financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements:

	Fair Value Measurements at Reporting Date Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Short-term investments:				
Certificates of deposit	\$ -	\$ 10,681	\$ -	\$ 10,681
Fixed income - government securities	-	223,572	-	223,572
Total short-term investments	-	234,253	-	234,253
Assets limited as to use:				
Cash and cash equivalents	74,986	-	-	74,986
U.S. equities	171,944	-	-	171,944
International equities	5,757	-	-	5,757
Fixed income - government securities	9,183	5,190	-	14,373
Fixed income - corporate and other	-	1,550	-	1,550
Total assets limited as to use	261,870	6,740	-	268,610
Long-term investments:				
Cash and cash equivalents	131,200	-	-	131,200
U.S. equities	303,997	-	36,239	340,236
International equities	129,369	-	-	129,369
Fixed income - government securities	-	604,190	-	604,190
Fixed income - corporate and other	22,047	968	-	23,015
Emerging markets	1,856	-	-	1,856
Other exchange traded funds	105,170	-	-	105,170
Total long-term investments	693,639	605,158	36,239	1,335,036
Total assets at fair value	\$ 955,509	\$ 846,151	\$ 36,239	\$ 1,837,899
Liabilities				
Accrued liabilities	\$ 16,401	\$ -	\$ -	\$ 16,401
Derivative financial instruments	-	13,191	-	13,191
Deferred compensation liabilities	195,452	-	-	195,452
Total liabilities at fair value	\$ 211,853	\$ 13,191	\$ -	\$ 225,044

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

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

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

9. Property and Equipment

Property and equipment consists of the following at December 31:

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

Novant Health reviews long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. No impairment charges were recorded in 2023 or 2022.

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

10. Leases

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

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

⁽¹⁾ Included in the current portion of long-term debt in the consolidated balance sheets.

⁽²⁾ Included in long-term debt, net of current portion in the consolidated balance sheets.

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

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

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

	2023	2022
Operating leases ⁽¹⁾	\$ 128,890	\$ 129,442
Variable lease expense ⁽¹⁾	13,219	12,451
Finance lease expense:		
Amortization of leased assets	1,578	1,393
Interest on lease liabilities	153	176
	<u>\$ 143,840</u>	<u>\$ 143,462</u>

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

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

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

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

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

Years Ending December 31	
2024	\$ 6,508
2025	6,035
2026	5,686
2027	5,490
2028	3,280
Thereafter	116,864
	<u>\$ 143,863</u>

11. Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

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

Novant Health reviews long-lived assets for recoverability as required when events and changes in circumstances indicate that its carrying value may not be recoverable. The Company tests goodwill and indefinite-lived assets for impairment on an annual basis. Impairment tests presume stable or improving results at certain Novant Health reporting units which are based on the implementation of programs and initiatives that are designed to achieve projected results. If these projections are not met, or in the future negative trends occur which would impact our future outlook, further impairments of goodwill and other intangible assets may occur. Future restructuring of our markets that could potentially change our reporting units could also result in future impairments of goodwill.

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

12. Investments in Affiliates

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

A summary of investments, ownership percentages, investment amounts and the Company's share of earnings for the years ended December 31, 2023 and 2022 is as follows:

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

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

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

13. Other Assets

Other assets consist of the following at December 31:

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

14. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

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

15. Long-Term Debt

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

Tax-Exempt Revenue Bonds

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

	2023	2022
Series 2019 A Current Interest Term Bonds, bearing interest at rates ranging from 3.1% to 4.0% payable semi-annually with mandatory redemption beginning in 2047	\$ 306,985	\$ 306,985
Series 2013 A Current Interest Term Bonds and Serial Bonds, bearing interest at rates ranging from 3.125% to 5.0% payable semi-annually and maturing through 2046; principal payments began in 2014	113,820	116,575
Series 2008 A, B and C Variable Rate Demand Bonds, bearing interest at variable rates payable monthly and maturing through 2028; principal payments began in 2009	36,650	50,590
Series 2004 A and B Variable Rate Demand Bonds, bearing interest at variable rates payable monthly and maturing through 2034; principal payments begin in 2025	135,000	135,000
	<u>\$ 592,455</u>	<u>\$ 609,150</u>

In 2003, Novant Health entered into a new Master Trust Indenture that was amended in October 2021 (the "Agreement"). The Agreement authorizes the creation of a Combined Group, which consists of the members of the Obligated Group and the Restricted Affiliates. Novant Health and two of its affiliates that operate tertiary care hospitals, Novant Health Forsyth Medical Center and Novant Health Presbyterian Medical Center, are the members of the Obligated Group. The members of the Obligated Group are jointly and severally liable for the payment of all obligations under the Agreement. The Company's Restricted Affiliates, which include certain other subsidiaries of the Company, are not directly obligated to pay obligations under the Agreement, but the members of the Obligated Group have covenanted in the Agreement to cause the Restricted Affiliates to provide funds to the members of the Obligated Group to pay obligations under the Agreement. All bonds issued by Novant Health are collateralized by the Obligated Group.

The bond agreements provide for early redemption periods of the bonds prior to mandatory redemption, subject to a premium in certain circumstances, as defined in the agreements. In accordance with the bond indenture agreements, the bonds are general, unsecured obligations of Novant Health. The bond indentures require Novant Health to cause the Restricted Affiliates to comply with certain covenants, including the maintenance of a minimum debt service coverage ratio. As of December 31, 2023 and 2022, Novant Health is in compliance with these bond covenants.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

The Series 2004 A and B Variable Rate Demand Bonds are collateralized by a standby purchase agreement (“SBPA”) issued by JP Morgan Chase Bank National Association. The SBPA expires April 1, 2025. If the SBPA should be used to fund tenders due to a failed remarketing, repayment in quarterly installments over three years is required. As a result, the Company has classified \$36,818 of the 2004 bonds as current at December 31, 2023 and 2022.

In March 2011, the documents related to the Series 2008 A, B and C Variable Rate Demand Bonds were amended to allow the conversion of the bonds to bank direct purchase index floating rate bonds. In December 2017, the Series 2008 A, B, and C Variable Rate Demand Bonds were refinanced. Subsequent to the refinancing, the direct purchase agreements have a term of seven years and will expire in December 2024. As a result, the Company has classified \$36,650 as current at December 31, 2023.

Taxable Revenue Bonds

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

In April 2021, Novant Health issued \$1,500,000 of taxable fixed rate bonds (the “2021 A Bonds”). The 2021 A Bonds bear interest at rates ranging from 2.67% to 3.32% and mature in 2036, 2051 and 2061. Proceeds of the 2021 A Bonds were used for eligible purposes, including the refinancing of long-term debt. The taxable revenue bonds are subject to the same covenant requirements that are included in the bond agreements for the tax-exempt revenue bonds.

Taxable Term Loan

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

Other Long-Term Debt

Other long-term debt consists of a promissory note related to the redemption of a membership interest and various loans and notes on buildings and finance leases, bearing interest at rates ranging from 0.81% to 12.15%. Scheduled maturities of all long-term debt are as follows:

Years Ending December 31

2024	\$ 20,057
2025	63,618
2026	18,909
2027	19,914
2028	20,473
Thereafter	<u>2,516,507</u>
	<u>\$ 2,659,478</u>

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

Revolving Credit Facility

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

Debt Issuance Costs

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

16. Interest Rate Swaps

As of August 18, 2008, concurrent with the 2008 bond issuance, Novant Health entered into two interest rate swap agreements to hedge the variable interest rates of the 2008 bonds. The swaps are based on an aggregate notional amount of \$50,590. Novant Health receives a variable rate which is tied to 68% of LIBOR, and pays a fixed rate of 3.679% and 3.621% for the \$36,100 and \$14,490 notional amounts, respectively. The swaps have been designated as cash flow hedges and are carried on the consolidated balance sheets at fair value. In the fourth quarter of 2018, the hedge relationship ceased to be highly effective and hedge accounting was discontinued.

In July 2006, Novant Health entered into a floating-to-fixed swap agreement with a notional amount of \$135,000 and a term of 28 years to hedge the floating rate 2004 bonds. Novant Health receives a variable rate which is tied to 64.8% of LIBOR plus 12 basis points and pays a fixed interest rate of 3.8%. The swap has been designated as a cash flow hedge and is carried on the consolidated balance sheets at fair value. In the first quarter of 2019, the hedge relationship ceased to be highly effective and hedge accounting was discontinued.

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

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

17. Employee Benefits and Other Liabilities

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

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

18. Income Taxes

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

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

The components of deferred taxes are as follows:

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

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

Cumulative losses in recent years are the most compelling form of negative evidence considered by management in this determination. For the years ended December 31, 2023 and 2022, management has determined that based on all available evidence, a valuation allowance of \$16,416 and \$18,128, respectively, is appropriate.

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

	2023	2022
Federal taxes	\$ 2,145	\$ 35,104
State income taxes	<u>(238)</u>	<u>3,649</u>
	<u>\$ 1,907</u>	<u>\$ 38,753</u>

The Company is required to evaluate uncertain tax positions. This evaluation includes a quantification of tax risk in areas such as unrelated business taxable income and the taxation of our for-profit subsidiaries. This evaluation did not have a material effect on the Company's consolidated statements of operations and changes in net assets for the years ended December 31, 2023 and 2022.

19. Employee Benefit Plans and Other Postretirement Benefit Plans

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

Novant Health also provides fixed dollar amounts for health care and life insurance benefits to certain retired employees. Covered employees may become eligible for these benefits if they meet minimum age and service requirements, and if they are eligible for retirement benefits. Novant Health has the right to modify or terminate these benefits. The unfunded obligation in the consolidated balance sheets at December 31, 2023 and 2022 was \$15,124 and \$15,835, respectively. The expense associated with these plans totaled \$181 for 2023 and \$3,846 for 2022. The discount rate used in determining the benefit obligation ranged between 4.50% and 4.70% for 2023 and 4.70% and 4.90% for 2022. The health care costs increase trend rate used was 6.25% in 2023 and 6.50% in 2022. The health care cost increase trend rate is projected to gradually decline to 4.50% by 2027.

In addition to these plans, Novant Health sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to \$140,273 and \$115,294 in 2023 and 2022, respectively.

Eligible Novant Health employees participate in cafeteria plans which provide certain benefits, including basic medical and dental coverage, long-term disability benefits, reimbursement of supplemental dependent care expenses and group life insurance benefits. The Company contributes predetermined amounts for each eligible full-time and part-time employee, which is allocated to the

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

20. Net Assets without Donor Restrictions

The following table reconciles the carrying amounts of the Company's controlling interest and the noncontrolling interests for net assets without donor restrictions:

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

21. Net Assets with Donor Restrictions

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

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

22. Professional and General Liability Insurance Coverage

Novant Health is self-insured for professional and general liability exposures up to certain limits. The Company has umbrella policies in place above those limits. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for reported claims and claims incurred but not reported. Novant Health also participates in a self-insured program for workers' compensation and is self-insured for certain health benefits options. A portion of these self-insured professional liabilities is funded through a revocable trust fund operated by Novant Health. This fund was converted to claims-made status on January 1, 2020, and prior reported liabilities under this coverage were placed in run-off. Effective January 1, 2020, funding for self-insured professional liabilities are

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

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

23. Commitments and Contingencies

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

24. Concentrations of Credit Risk

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

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

	2023	2022
Medicare	30.2%	29.2%
Medicaid	8.8%	9.5%
Other third-party payors	57.2%	57.4%
Patients	3.8%	3.9%
	<u>100.0%</u>	<u>100.0%</u>

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.

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

25. Functional Expenses

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

Expenses relating to providing these services are as follows:

	December 31, 2023			
	Health Care Services		Support Services	
	Acute Care Facilities	Outpatient Locations	General & Administrative	Total
Salaries and employee benefits	\$ 2,398,445	\$ 1,718,121	\$ 354,949	\$ 4,471,515
Supplies and other	2,076,815	814,796	366,750	3,258,361
Depreciation and amortization expense	225,728	55,994	48,795	330,517
Interest expense	66,756	5,718	15,501	87,975
Other non-operating expenses	-	2,567	694	3,261
Total expenses	\$ 4,767,744	\$ 2,597,196	\$ 786,689	\$ 8,151,629

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

Novant Health, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(in thousands of dollars)

26. Subsequent Events

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

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

27. Significant Recent Accounting Pronouncements

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

Other Financial Information



Report of Independent Auditors

To the Board of Trustees of Novant Health, Inc.

We have audited the consolidated financial statements of Novant Health, Inc. and Affiliates (the "Company") as of and for the years ended December 31, 2023 and 2022, and have issued our report thereon dated March 29, 2024, which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information as of and for the year ended December 31, 2023 and the supplemental schedule of cost of community benefit programs for the year ended December 31, 2023 appearing on pages 45-51 (collectively referred to herein as the "information" are presented for purposes of additional analysis and are not a required part of the consolidated financial statements nor are they intended to present, and we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual entities. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental information, excluding the schedule of cost of community benefit programs information marked "unaudited," has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, excluding the schedule of costs of community benefit programs information marked "unaudited," is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The schedule of costs of community benefit programs information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

Charlotte, North Carolina
March 29, 2024

Novant Health, Inc. and Affiliates
Schedule of Cost of Community Benefit Programs (unaudited)
December 31, 2023

In addition to providing charity care to uninsured patients, Novant Health also provides services to beneficiaries of public programs and various other community health services intended to improve the health of the communities in which the Company operates. Novant Health uses the following four categories to identify the resources utilized for the care of persons who are underserved and for providing community benefit programs to the needy:

- Traditional charity care, which includes the cost of services provided to persons who cannot afford health care because of inadequate resources and who are uninsured.
- Unpaid cost of Medicare, which represents the unpaid cost of services provided to persons through the government program for individuals age 65 and older as well as those that qualify for federal disability benefits.
- Unpaid cost of Medicaid, which represents the unpaid cost of services provided to persons covered by the government program for medically indigent patients.
- Community benefit programs, which consist of the unreimbursed costs of certain programs and services for the general community, mainly for indigent patients but also for people with chronic health risks. Examples of these programs include health promotion and education, free clinics and screenings and other community services.

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

	2023
Traditional charity care	\$ 224,873
Unpaid cost of Medicare	1,114,765
Unpaid cost of Medicaid	125,779
Community benefit programs	<u>146,726</u>
	<u>\$ 1,612,143</u>

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

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

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

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

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

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

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

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

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

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

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

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

Novant Health, Inc. and Affiliates

Notes to Consolidating or Combining Supplemental Schedules

December 31, 2023

1. Reporting Entity

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

2. Basis of Presentation and Summary of Significant Accounting Policies

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

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

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

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

Combined Group Combining Balance Sheet and Statement of Operations

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

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

Restricted Affiliates represent entities that are not directly obligated to pay obligations under the Agreement, but the members of the Obligated Group have covenanted in the Agreement to cause the Restricted Affiliates to provide funds to the members of the Obligated Group to pay obligations under the Agreement. The Company has designated ten of its affiliates as Restricted Affiliates. Six of these Restricted Affiliates, Medical Park Hospital, LLC d/b/a Novant Health Medical Park Hospital,

Novant Health, Inc. and Affiliates
Notes to Consolidating or Combining Supplemental Schedules
December 31, 2023

Novant Health Thomasville Medical Center, LLC, Novant Health Matthews Medical Center, LLC, Brunswick Community Hospital, LLC d/b/a Novant Health Brunswick Medical Center, Novant Health Mint Hill Medical Center, LLC, and Novant Health New Hanover Regional Medical Center, LLC, operate, or maintain a significant investment in, hospitals. The other four Restricted Affiliates, Carolina Mediacorp Enterprises, LLC, Foundation Health Systems Corp., Novant Medical Group, Inc. f/k/a Presbyterian Regional Healthcare Corp. and Salem Health Services, Inc., provide, or invest in subsidiaries or joint ventures which provide health care and ancillary services. All of the members of the Combined Group, except Salem Health Services, Inc., are exempt from federal and state income taxation.

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

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

Appendix D: Statements Regarding Participation in Federal Health Care Programs and Licensure

Provide a statement as to whether or not the proposer, any subsidiary or any shareholder, officer or director of the proposer or any subsidiary has ever been suspended or excluded from or denied participation in any federal health care program, including without limitation Medicare, Medicaid and TRI CARE. Please indicate whether there are any threatened or ongoing investigations relating to Medicare, Medicaid or TRICARE.

No, Novant Health, Inc., or any subsidiary, officer or director thereof has never been suspended or excluded from or denied participation in any federal health care program, including without limitation Medicare, Medicaid and TRI CARE.

Provide a statement as to whether or not the licensure or accreditation of the proposer or any Subsidiary, or any hospital owned or operated by the proposer or any Subsidiary of the Company, has ever been suspended, revoked or denied.

No, the licensure or accreditation of Novant Health, Inc. or any subsidiary or any hospital owned or operated by Novant Health or subsidiary has never been suspended, revoked or denied.

Appendix E: Insurance Coverages

Novant Health Insurance Coverage

Novant Health maintains Novant Health Casualty, LLC (“NHC”), a captive insurance company under the laws and regulatory guidance of North Carolina. NHC is acknowledged by the North Carolina Captive Insurance Association as a captive member in good standing. NHC provides a number of various types of insurance coverage, including, but not limited to, professional liability coverage for physicians employed or credentialed by affiliates of Novant Health, healthcare professional liability, general liability, deductible/retention programs, pollution liability and medical stop loss liability. NHC also purchases reinsurance from multiple commercial reinsurance carriers that significantly reduces its exposure to the insurance coverages that it provides.

Novant Health maintains insurance coverage for the types of claims and in amounts that are customary for similar healthcare enterprises. General liability, healthcare professional liability, workers’ compensation, automobile liability, crime, D&O (including employment practices and fiduciary), network privacy and security (cyber) and property risks are insured through NHC and other third-party insurers. Novant Health also maintains substantial excess liability coverage in amounts that are customary for similar healthcare enterprises for amounts in excess of the limits on its self-insurance coverage. Such excess liability coverage is provided through multiple commercial insurance carriers.

Appendix F: Indigent and Charity Care Policies

TITLE	Charity Care		
NUMBER	NH-LD-FM-111.1	Last Revised/Reviewed Effective Date:	Feb21
TJC FUNCTIONS	LD-FM		
APPLIES TO	Novant Health: Hospitals, NHMG, Freestanding Surgery Centers, Rehabilitation Centers, Corporate Departments and Entities NH UVA: HAMC, PWMC, Caton Merchant House, Cancer Center, NHMG NH New Hanover Regional Medical Center (NH NHRMC), NHMG Coastal Region, LLC		

I. SCOPE / PURPOSE

The Novant Health mission statement, “improving the health of communities’ one person at a time” reflects Novant Health’s not-for-profit heritage and social accountability to the communities in which we are located.

II. POLICY

All Novant Health Affiliates (“Novant Health”) will provide charity care (free care) for qualified low-income patients. This service, along with other community benefit services, is essential to Novant Health’s mission fulfillment.

The purpose of this policy is to establish the criteria and conditions for providing charity care to patients whose financial status makes it impractical or impossible to pay for emergency or medically necessary services. This policy does not cover elective services. Individuals who meet the eligibility criteria established in this policy qualify to receive free care for emergency or medically necessary services. Confidentiality of information and individual dignity will be maintained for all who seek assistance under this Policy.

The Novant Health Executive Leadership Team and/or the Novant Health Board of Directors must approve any modification of this policy.

A. Eligibility for Charity Care.

1. Service Area –

- a. *Hospital patients:* residents within a Novant Health Service Area (see attached), are eligible to apply for Charity Care, as defined in this Policy.
- b. *Non-provider based physician clinic (“Physician Clinic”) patients:* patients must live in the traditional service area for the clinic, as defined and documented at each clinic and available upon request by a patient.
- c. *Outpatient radiology at a non-acute care facility (“Outpatient Radiology”) patients:* patients residing within a 25-mile radius of the facility are eligible to apply for Charity Care, as defined in this Policy. Patients outside the applicable Novant Health Service Area will be reviewed and approved by Market Presidents and/or designees. For planned

registrations, without prior approval, patients will be expected to pay for services rendered if the patient resides outside of the Novant Health service area.

2. Established Patient. In the case of a Physician Clinic, a patient must be a patient who has been treated by a Novant Health Medical Group primary care physician within the previous three (3) years.
 3. Income. The patient must be uninsured, be unable to access Entitlement Programs, have annual family income less than or equal to 300% of the available current year Federal Poverty Guidelines and must be without substantial liquid assets (i.e. cash-on-hand). Coverage of insured parties shall only be granted in limited circumstances upon management's review and approval of all Charity Care documents.
 4. Covered Services. For hospital and Outpatient Radiology patients, Covered Services include emergency and Medically Necessary Services received at a Novant Health hospital, provider-based practice, or an Outpatient Radiology setting. For patients of a Physician Clinic, Covered Services are determined by physician evaluation. Covered Services do not include cosmetic, elective, non-urgent tests, services or procedures, fertility services or experimental treatments. In the case of Physician Clinics, prescription medications are not included as Covered Service.
 5. Other Health Coverage. Patients who are known to have chosen not to participate in employer sponsored health plans and / or not eligible for government sponsored health coverage due to non-compliance with program requirements are not eligible for Charity Care under this Policy. This exclusion does not apply to patients who are known to have chosen not to participate in the healthcare exchange established by the Affordable Care Act.
 6. Special Circumstances. Deceased patients without an estate or third party coverage may be considered for Charity Care eligibility. Patients who are in bankruptcy may also be eligible for Charity Care.
- B. Application - An application (see attached application) providing all supporting data required to verify Charity Care eligibility will be completed by the patient and returned to the business office, revenue cycle advocate or a financial counselor at the facility or clinic. Supporting data includes proof of income documents such as W2 forms, pay stubs or the previous year's tax return. Patients without an income source should supply a letter of support stating their need for Charity Care consideration based on their current financial situation. Letters should at a minimum state that the patient has no supporting financial documentation to supply. See Section G below. Applications will be maintained in the facility or clinic business office and provided to individuals requesting Charity Care or identified as potential candidates for Charity Care. Applications are available in English and Spanish. Assistance may be provided in completing the application by contacting a financial counselor at any of the phone numbers listed in Section O of this Policy.
- C. Determination Based Upon Application - Once complete documents are received and an eligibility determination has been made, a notification letter will be sent to each applicant advising them of the facility's or clinic's decision. If the patient meets eligibility requirements, they will be designated as eligible to receive Charity Care. Patients who submit incomplete applications and/or do not provide

supporting documentation will be contacted via phone or mail.

- D. Presumptive Eligibility Determination –An account may be reviewed for presumptive eligibility for Charity Care.. Any account without insurance coverage is reviewed by obtaining the household size and household income through Experian Healthcare, a data and analytics company, and calculating the Federal Poverty Percentage based on the most recent Federal Poverty Guidelines. Any account with a Federal Poverty Percentage under 300% and no insurance coverage will be eligible to receive Charity Care and will obtain a 100% adjustment to any charges for services covered under this Policy.
- E. Providers Delivering Emergency and Medically Necessary Care – Each NH facility maintains a list of providers that deliver emergency or other medically necessary care in the NH facility, which identifies which providers are covered under this Policy (“List of Providers”). This list may be updated on a regular basis without approval by the NH facility governing board. A List of Providers may be obtained through Novant Health’s website or by contacting a financial counselor at any of the phone numbers listed in Section O of this Policy.
- F. Eligibility Period – The Charity Care application and documentation must be updated every six months, or at any time during that six month period the patient’s family income or insurance status changes to such an extent that the patient becomes ineligible. Each visit within the six month period will be reviewed for potential access to other Entitlement Programs.
- G. No Supporting Financial Documentation - Patients without an income source may be classified as charity if they do not have a job, mailing address, residence or insurance. Consideration must also be given to patients who do not provide adequate information as to their financial status. Patients without an income source should supply a letter of support stating their need for Charity Care consideration based on their current financial situation. Letters should at a minimum state that the patient has no supporting financial documentation to supply. Charity care may not be denied under this Policy based on an applicant's failure to provide information or documentation that this Policy or application form does not require an individual to submit.
- H. Billing and Collection Actions –For information regarding Novant Health’s billing and collection activities please see the Novant Health Billing and Collections Policy. A copy of the policy may be obtained through Novant Health’s website or by contacting a financial counselor at any of the phone numbers listed in Section O of this Policy.
- I. Effective Date of Charity Care. While it is desirable to determine a patient’s eligibility for Charity Care as close to the time of service as possible, so long as the patient submits the required documentation within the Application Period, Charity Care will be provided, if deemed eligible.
- J. Record Keeping –Records relating to potential Charity Care patients must be readily obtained for use. Document images related to Charity Care are accessible in the following areas at the account or medical record level of the patient for

retrieval:

- NHMG Revenue Cycle: Application documentation is kept in locked file cabinets for 30 days and then scanned in to Hyland OnBase and/or media manager in Dimensions for storage.
- NH Outpatient Radiology Facilities: Documents are scanned in to media manager in Dimensions for storage.
- NH Dimension Acute Facilities: Documents are scanned in to media manager in Dimensions for storage.

K. Charges. No Charity Care-eligible individual will be charged for emergency or other medically necessary care under this Policy. If Novant Health were to charge for emergency or other medically necessary care under this Policy, it would use the prospective method to determine amounts generally billed using Medicaid rates (“AGB”) and would not charge a Charity Care-eligible individual more than AGB.

L. Charity Care Budget. The availability of Charity Care may be limited based upon Novant Health’s budget or other financial constraints, which would impact the ability of Novant Health to remain financially viable.

M. Public Notice and Posting – Novant Health will make available to the public information about the assistance provided in this Policy as follows:

- This Policy, the application and a Plain Language Summary shall be available on NH’s website;
- Paper copies of this Policy, the application and a Plain Language Summary shall be available upon request and without charge, both by mail and in public locations throughout Novant Health facilities, including at a minimum the ER and admissions areas;
- Charity care brochures, which inform the reader about the financial assistance available under this Policy, how to obtain more information about this Policy and the application process, and how to obtain copies of this Policy, the application and a Plain Language Summary, will be available at various free community health clinics within the Novant Health Service Areas;
- Patients shall be offered a paper copy of the Plain Language Summary as part of the intake or discharge process;
- Billing statements will have a conspicuous notice on them to inform the reader of this Policy, as set forth in more detail in Novant Health’s Billing and Collections Policy; and
- Conspicuous public displays that notify and inform patients of this Policy will be displayed in public locations throughout Novant Health facilities, including at a minimum the ER and admissions areas.

N. Accessibility to LEP Individuals - Novant Health shall make this Policy, the application form and the Plain Language Summary available to all significant populations that have limited English proficiency (“LEP”). To determine whether a population is significant, Novant Health will use a reasonable method to determine LEP language groups within a Novant Health Service Area.

O. Availability of Policy and Related Documents. For hospital patients, a copy of this Policy, Plain Language Summary, an application, the List of Providers and the

Billing and Collections Policy may be obtained by:

- Visiting the Novant Health website at <http://www.novanthealth.org/GiveBack/FinancialAssistance.aspx>
- Visiting the Financial Counseling office at any Novant Health hospital.
- Calling Customer Service toll free at 888-844-0080
- Calling any Novant Health hospital financial counselor at the numbers listed below:

Novant Health Forsyth Medical Center Novant Health Clemmons Medical Center Novant Health Kernersville Medical Center Novant Health Medical Park Hospital Novant Health Thomasville Medical Center	(336) 718-5393
Novant Health Presbyterian Medical Center Novant Health Matthews Medical Center Novant Health Huntersville Medical Center Novant Health Charlotte Orthopedic Hospital Novant Health Brunswick Medical Center Novant Health Rowan Medical Center Novant Health Mint Hill Medical Center	(704) 384-0539
Novant Health New Hanover Regional Medical Center	(910) 667-7050
Novant Health Prince William Medical Center Novant Health Heathcote Medical Center Novant Health Haymarket Medical Center	(703) 369-8020

For Physician Clinics and Outpatient Radiology, a copy of the charity care policy, plain language summary, an application and the billing and collections policy may be obtained by contacting the particular clinic.

EXCLUSIONS: This policy only applies to services rendered at Novant Health affiliates and does not apply to services rendered by any independent physicians or practitioners. This policy also does not apply to services provided within or outside the hospital/facility by physicians or other healthcare providers including but not limited to Anesthesiologists, Radiologists, and/or Pathologists, who are not employed by Novant Health.

III. QUALIFIED PERSONNEL

N/A

IV. EQUIPMENT

N/A

V. PROCEDURE

The procedure serves as a guideline to assist personnel in accomplishing the goals of the policy. While following these procedural guidelines personnel are expected to exercise judgment within their scope of practice and/or job responsibilities.

N/A

VI. DOCUMENTATION

N/A

VII. DEFINITIONS

Affiliate – includes Novant Health, Inc. and any wholly-owned entity or an entity operated under the Novant Health name.

Application Period – the period that begins on the date the care is provided to an individual and ends on the 240th day after the individual is provided with the first billing statement for the care.

Charity Care – Services needed to treat an illness, injury, condition, disease, or its symptoms and that meet accepted standards of medicine, which, if not promptly treated, would lead to an adverse change in the health status.

Entitlement Program – a government program guaranteeing certain health care benefits to a segment of the population. This does not include the healthcare exchange established by the Affordable Care Act.

Family – Includes husband, wife, and any children (including stepchildren) that live in the home and are qualifying dependents for tax purposes.

Income – Annual family earnings and cash benefits from all sources before taxes, less payments made for alimony and child support.

Medically Necessary Services – Services for a condition which, if not promptly treated, would lead to an adverse change in the health status of a patient.

Plain Language Summary – A written statement that notifies an individual that the Novant Health facility offers financial assistance under this Policy and provides the following additional information in language that is clear, concise, and easy to understand: (i) a brief description of the eligibility requirements and assistance offered under this Policy; (ii) a brief summary of how to apply for assistance under this Policy; (iii) the direct website address (or URL) and physical locations where the individual can obtain copies of this Policy and application form; (iv) instructions on how the individual can obtain a free copy of this Policy and application form; (v) the contact information, including telephone number and physical location, of the facility office or department that can provide information about this Policy and either the office or department that can provide assistance with the application or a nonprofit or governmental agency that can provide assistance; (vi) a statement of the availability of translations of this Policy, application and Plain Language Summary in other languages, if applicable, and (vii) a statement that a Charity Care eligible individual may not be charged more than the amount generally billed to individuals with insurance covering the same emergency care or other medically necessary care.

Traditional Service Area – Defined and consistently applied by the relevant Physician

Clinic and includes 80-90% of their patients.

VIII. RELATED DOCUMENTS

Catastrophic Settlement, Uninsured Discount, Payment Plan, Admissions, Charges and Financial Counseling, Billing and Collections

IX. REFERENCES

N/A

X. SUBMITTED BY

Novant Health Charity Care/ Bad Debt Sub-Committee

XI. KEY WORDS

Charity, uninsured patient, charity care, financial assistance

XII. INITIAL EFFECTIVE DATE	June 1, 2015
DATES REVISIONS EFFECTIVE	01/2016; 08/15/18, 03/2020, 02/2021 (NH-NHRMC, NHMG Coastal Region, LLC adoption)
DATES REVIEWED (No changes)	
Date Due for Next Review	February 2024

SIGNATURE SHEET

TITLE	Charity Care
NUMBER	NH-LD-FM-111.1
TJC FUNCTIONS	LD-FM
APPLIES TO	Novant Health: BMC, FMC (FMC main, CMC, KMC & all other locations), HMC, MMC, MPH, MHMC, PMC (PMC main, COH & all other locations), RMC, TMC, NHMG, Freestanding Surgery Centers, Rehabilitation Centers, Corporate Departments and Entities NH UVA: HAMC, PWMC, Caton Merchant House, Cancer Center, NHMG NH New Hanover Regional Medical Center (NH NHRMC), NHMG Coastal Region, LLC
ACTION	Revised

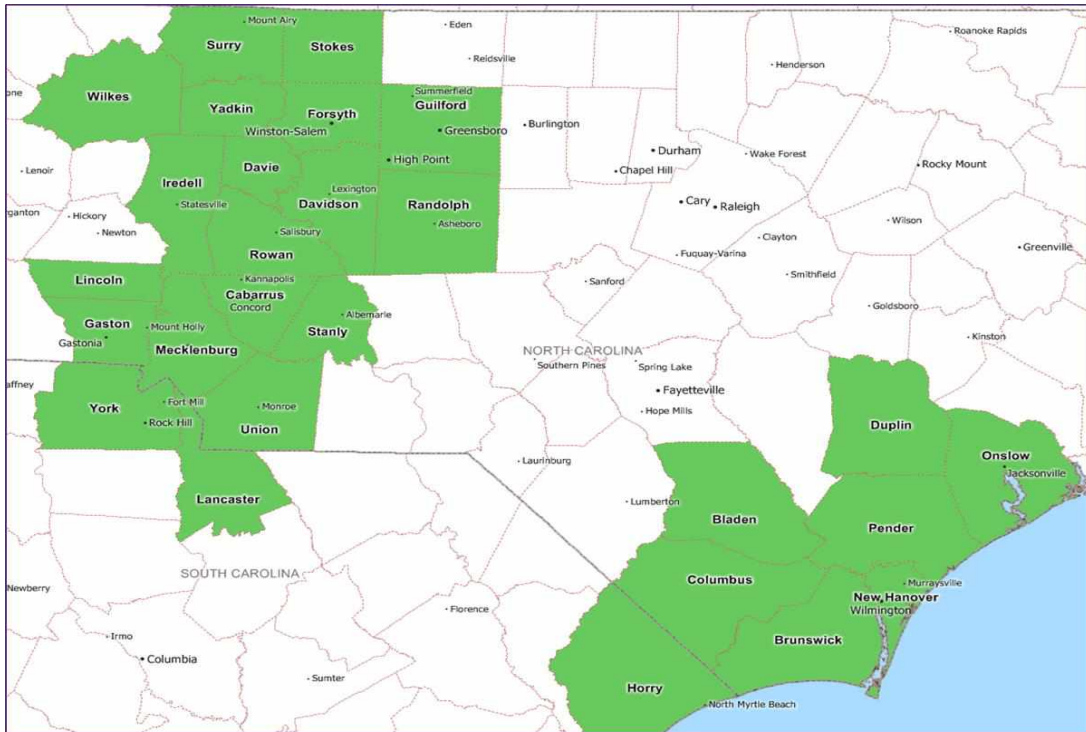
APPROVED BY:

Title	Approved By	Signature	Date
EVP, CFO	Fred Hargett		See electronic approval

COMMITTEES APPROVED BY:

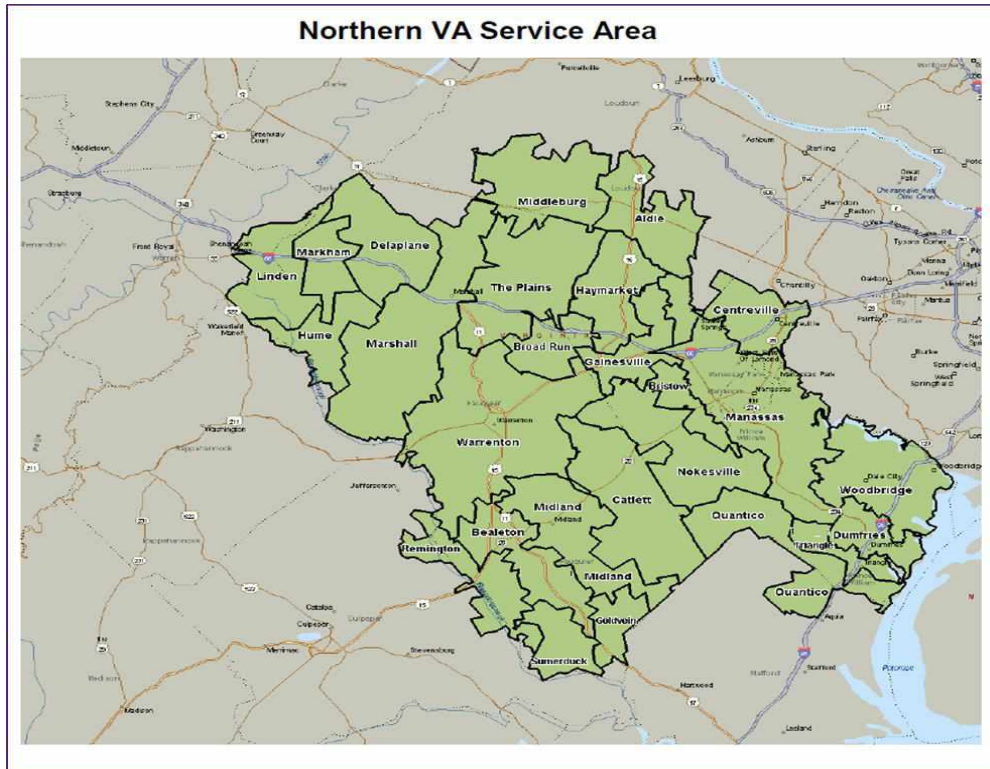
Committee	Chairperson/Designee	Date
NH Executive Team	Fred Hargett	2/11/2020
NHMG Clinic Standards/Patient Safety Committee	John Card, MD, Chairman	1/28/2020

NC and SC Service Area



Northern VA Service Area

Northern VA Service Area





Financial Assistance Application

I. Patient Demographics

Patient Name: _____
(Last) (First) (Middle) (SSN) (DOB)

Guarantor Name: _____
(Last) (First) (Middle) (SSN) (DOB)

Address: _____
(Street) (City) (State) (Zip Code)

Phone: _____

Have you applied for Financial Assistance with any Novant Health, Inc. facility (e.g. Novant Health Medical group, Novant Health hospital, Novant Health Imaging center) in the past? ____Yes ____No

If yes, date of application or approval? _____

II. Household Information

Marital Status (Circle One)	Married	Single	Separated	Total in Household:
Dependent Name(s) (Attach separate sheet for addtl. Dependents)		Dependent Date of Birth		

III. Employment/Income

Patient/Guarantor Employer:	
Gross Monthly Income Amount: \$	
Income source – Please attaché verification or explanation of current situation	
Spouse or Other Income Source and Gross Monthly Amount: \$	
Total Annual Gross Household Income: \$	
Do you have an active bank account?	Did you file taxes for the prior year?

IV. Insurance Verification

Do you have any health insurance?	YES	NO
Name of insurance company:		
Are you employed?	YES	NO
For current employer or is you have become unemployed within the last 90 days, former employer, please provide: The name of employer (and dates of employment if no longer employed):		
Give the name of your employer sponsored insurance carrier (if any):		
If recently unemployed; Are you eligible for COBRA benefits?		

I certify that the information provided is true and to the best of my knowledge. I understand that fraudulent or misleading information will make me ineligible for any financial assistance. I authorize the release of any information needed to verify the information provided and for billing and collections in compliance with applicable federal and state laws. Proof of income may be required before any consideration is made. Acceptable proof of income maybe but not limited to: copy of paycheck stubs, copy of last year's tax return, or letter from employer stating present salary and hours worked.

Signature of Patient/Guarantor		Date:
Signature of Interviewer		Date:
Signature of Manager		Date:
Signature of Director		Date:
Signature of VP		Date:
Comments		

TITLE	Catastrophic Settlement		
NUMBER	NH-Dept-FIN-BCD-LD-111.4	Last Revised/Reviewed Effective Date:	Feb21
CATEGORY	LD		
APPLIES TO	Novant Health: Hospitals Novant Health: New Hanover Regional Medical Center		
DIVISION/DEPT	Finance: Billing, Collection and Discounts		

I. SCOPE / PURPOSE

The Novant Health mission statement, “improving the health of communities’ one person at a time” reflects Novant Health’s not-for-profit heritage and social accountability to the communities in which we are located. All hospitals within the Novant Health healthcare system, and Novant Health Medical Group, provide medically emergent and medically urgent care to all individuals regardless of their ability to pay, according to applicable policies.

The purpose of this policy is to identify circumstances in which Novant Health Affiliates may work with patients to meet their financial obligations when they have large out-of-pocket expenses related to a visit that is not covered by financial assistance.

II. POLICY

A Catastrophic Settlement will be provided to uninsured patients or those covered by insurance who have a Catastrophic balance. Novant assumes that the balance places an unreasonable hardship on the patient however they have the ability to pay a portion of their bill.

Confidentiality of information and individual dignity will be maintained for all patients. The handling of personal health information will meet HIPAA requirements. The Novant Health Executive Leadership Team and/or the Novant Health Board of Directors must approve any modification of this policy.

Eligibility Criteria – individuals considered for this program must meet all the following criteria:

- A. The remaining account balance after insurance payments must be at least 20% of their annual household income.
- B. The account has received the expected payment from the insurance company (if applicable).
- C. The patient or responsible party must provide all supporting documentation required to verify annual household income.
- D. The individual does not meet Charity Care / Financial Assistance requirements, as set forth in Novant Health’s Charity Care Policy.
- E. Settlements will apply to only medically urgent and emergent, non-elective services. Elective procedures will not be eligible for adjustment.

- F. Any account that has been submitted to bad debt for collection purposes will be reviewed on a case-by-case basis.
- G. The settlement amounts will be calculated based on the amounts generally billed to Medicare patients that do not exceed the Catastrophic amount. The bill will be adjusted to reflect the lesser of the amount that would be paid by Medicare and a Medicare beneficiary for the emergency or other medically necessary care or the Catastrophic amount. Any account with a Federal Poverty Percentage under 300% may be considered for additional discounts, up to balance in full.
- H. Potential outcomes will include full payment, and/or partial write-off with agreed-upon payment plan.
- I. Failure by the patient or responsible party to meet the obligations of the contract within the agreed upon time frame will result in further collection action up to and including referral to a collection agency.

EXCLUSIONS: This policy only applies to services rendered at Novant Health affiliates and does not apply to services rendered by any independent physicians or practitioners. This policy also does not apply to services provided within or outside the hospital/facility by physicians or other healthcare providers including but not limited to Anesthesiologists, Radiologists, and/or Pathologists, who are not employed by Novant Health. For application of financial assistance, see the Novant Hospital Financial Assistance Policy.

III. QUALIFIED PERSONNEL

N/A

IV. EQUIPMENT

N/A

V. PROCEDURE

The procedure serves as a guideline to assist personnel in accomplishing the goals of the policy. While following these procedural guidelines personnel are expected to exercise judgment within their scope of practice and/or job responsibilities.

VI. DOCUMENTATION

N/A

VII. DEFINITIONS

Medically Elective – Procedures that an individual decides to undertake that may be helpful but are not essential or for purely cosmetic purposes (i.e., hernia repairs, carpal tunnel, cosmetic, infertility, etc).

Medically Emergent - Unexpected onset of life threatening or disabling condition which if not treated may result in loss of life or limb.

Medically Urgent – Medical Care that is not life threatening but deemed as reasonable, necessary, and/or appropriate, based on evidence-based clinical standards of care.

Uninsured – Any patient or responsible party that does not have health insurance.

Catastrophic Balance – Any patient balance greater than 20% of the patient's annual household income.

VIII. RELATED DOCUMENTS

Charity Care Policy; Payment Plan Policy; Uninsured Discount Policy; Admissions, Charges and Financial Counseling;

IX. REFERENCES

N/A

X. SUBMITTED BY

Novant Health Southern Piedmont and Triad Patient Financial Services

XI. KEY WORDS

Catastrophic, charity care, financial assistance, discount, medically necessary

XII. INITIAL EFFECTIVE DATE	December 1, 2005
DATES REVISIONS EFFECTIVE	Jan 2013
DATES REVIEWED (No changes)	(01/28/14 added HAMC), 09/2015, 04/2018, 10/2020, 02/2021 +NH NHRMC adopted
Date Due for Next Review	February 2024

SIGNATURE SHEET

TITLE	Catastrophic Settlement
NUMBER	NH-Dept-FIN-BCD-LD-111.4
CATEGORY	LD
APPLIES TO	Novant Health BalMC, BMC, FMC (FMC main, CMC, KMC & other locations), HMC, MMC, MPH, MHMC, PMC (PMC main, COH & other locations), RMC, TMC Novant Health: New Hanover Regional Medical Center
DIVISION/DEPT	Finance: Billing, Collection and Discounts
ACTION	Reviewed

APPROVED BY:

Title	Approved By	Signature	Date
VP Revenue Cycle	Melissa Masterton		See electronic approval

COMMITTEES APPROVED BY:

Committee	Chairperson/Designee	Date
N/A		

TITLE	Uninsured Discount		
NUMBER	NH-Dept-FIN-BCD-LD-111.3	Last Revised/Reviewed Effective Date:	Feb21
CATEGORY	LD-FM		
APPLIES TO	Novant Health: Hospitals, NHMG, Accountable Care Organization I, LLC, Freestanding Imaging Centers, Freestanding Surgery Centers, Rehabilitation Centers, Specialty Pharmacies, Cancer Institute Pharmacies, Corporate Departments and Entities, Foundations, Auxiliaries, Finance Focused Novant Health: New Hanover Regional Medical Center		
DIVISION/DEPT	Corporate Finance: Billings, Collections and Discounts		

I. SCOPE / PURPOSE

The Novant Health mission statement, “improving the health of communities’ one person at a time” reflects Novant’s not-for-profit heritage and social accountability to the communities in which we are located. All tax-exempt hospitals within the Novant Health healthcare system, will provide medical care to all individuals regardless of their ability to pay, according to applicable policies. Novant acknowledges that uninsured patients who do not qualify for our charity policy but remain unable to pay the full cost of their medical care, as well as those financially sound patients who choose not to purchase health insurance, could be disadvantaged due to their inability to access the associated discounts afforded to contracted payers.

The purpose of this policy is to identify circumstances in which Novant Health Acute and Outpatient Services may discount care to patients who are not eligible or not currently covered by insurance. We realize the uninsured population continues to increase and we want to ensure a fair and consistent discount to accommodate our patient’s financial needs. We are committed to establishing the appropriate guidelines and procedures for communicating our discount guidelines to our patients, their families and our staff. Our goal is to educate our staff so they can better assist patients who are struggling to pay their bills.

II. POLICY

Novant Health will offer all uninsured patients who are not eligible for our charity policy, discounts for services based on established criteria.

Confidentiality of information and individual dignity will be maintained for all patients who seek discounts for our services. The handling of personal health information will meet HIPAA requirements.

The Novant Executive Leadership Team and/or the Novant Board of Directors must approve any modification of this policy.

Eligibility Criteria

- A. The patient or responsible party does not have any health insurance coverage, nor is eligible for any other medical coverage including but not limited to Medicaid, COBRA, or Healthcare Exchange Plan.
- B. The uninsured discount cannot be used in conjunction with any other discount or adjustment.
- C. Uninsured discount will not apply to elective procedures or those not normally covered by health insurance (cosmetic surgery).
- D. The discounted amounts will be determined by Novant Health region based upon the average discount given to contracted Managed Care Payers. The amount will be provided annually by Business Development and Sales and approved by the Novant Health Executive Team.
- E. Discounts will be reversed for any accounts where insurance payments are received.

EXCLUSIONS: This policy only applies to services rendered at Novant Health Acute and Outpatient Services and does not apply to services rendered by Novant Health ambulatory or any independent physicians or practitioners. This policy also does not apply to services provided within or outside the hospital/facility by physicians or other healthcare providers including but not limited to Anesthesiologists, Radiologists, and/or Pathologists, who are not employed by Novant.

III. QUALIFIED PERSONNEL

N/A

IV. EQUIPMENT

N/A

V. PROCEDURE

The procedure serves as a guideline to assist personnel in accomplishing the goals of the policy. While following these procedural guidelines personnel are expected to exercise judgment within their scope of practice and/or job responsibilities.

N/A

VI. DOCUMENTATION

N/A

VII. DEFINITIONS

Medically Elective – Procedures that an individual decides to undertake that may be helpful but are not essential or for purely cosmetic purposes (i.e. hernia repairs, carpal tunnel, cosmetic, infertility, etc).

Medically Emergent - Unexpected onset of life threatening or disabling condition which if not treated may result in loss of life or limb.

Medically Urgent – Medical Care that is not life threatening but deemed as reasonable,

necessary, and/or appropriate, based on evidence-based clinical standards of care.

Uninsured – Any patient or responsible party that does not have health insurance.

Managed Care Payers – Includes insurance companies and benefits administrators who contract for commercial group health benefits products, whether insured or self-funded, but specifically excludes: Medicare, Medicaid, Medicare Advantage, Worker’s Compensation, and the NC State Employees Health Plan.

VIII. RELATED DOCUMENTS

Charity Care, Catastrophic Settlement, Payment Plan; Admissions, Charges and Financial Counseling; Billing and Collections;

IX. REFERENCES

N/A

X. SUBMITTED BY

Novant Health Revenue Cycle Services

XI. KEY WORDS

Charity care, catastrophic, uninsured, discount, medically necessary

XII. INITIAL EFFECTIVE DATE	December 1, 2005
DATES REVISIONS EFFECTIVE	July 2011, May 2015, 02/2018
DATES REVIEWED (No changes)	(01/28/14 added HAMC), 07/2020, 02/2021, +11/10/2022 NH NHRMC via PolicyStat;
Date Due for Next Review	February 2024

SIGNATURE SHEET

TITLE	Uninsured Discount
NUMBER	NH-Dept-FIN-BCD-LD-111.3
CATEGORY	LD-FM
APPLIES TO	Novant Health: BaIMC, BMC, FMC (FMC main, CMC, KMC & other locations), HMC, MMC, MPH, MHMC, PMC (PMC main, COH & other locations), RMC, TMC, NHMG, Accountable Care Organization I, LLC, Freestanding Imaging Centers, Freestanding Surgery Centers, Rehabilitation Centers, Specialty Pharmacies, Cancer Institute Pharmacies, Corporate Departments and Entities, Foundations, Auxiliaries, Finance Focused Novant Health: New Hanover Regional Medical Center
DIVISION/DEPT	Corporate Finance: Billings, Collections and Discounts
ACTION	Reviewed

APPROVED BY:

Title	Approved By	Signature	Date
SVP of Revenue Cycle Services	Geoff Gardner		See electronic approval
EVP, CFO	Fred Hargett		See electronic approval

COMMITTEES APPROVED BY:

Committee	Chairperson/Designee	Date
N/A		

Appendix G: 2022 Community Benefit Report



Forward, together
Pursuing health equity
in our community

2022 community impact report

Table of contents

1. Health equity is everyone's business.
2. What is community benefit?
3. Financials
4. When getting healthy starts at the barbershop
5. This event helps give babies the best start.
6. How we keep parents informed about safe sleeping practices for babies
6. Let's swim!
7. Patients can connect to social services resources when needed most.
8. Community health worker goes where needed — including home visits.
10. This program provides groceries so pregnant patients are not hungry.
11. Here's what our patients are saying.
12. We're treating hunger, one patient at a time.
13. Forsyth Backpack Program addresses food insecurity in local schools.
14. Our cruiser met this sheriff where he works: in the community.
15. Mammography is one way we pursue health equity.
16. We're dedicated to reducing pregnancy-related mortality rates among Black patients.
17. Her job is to reach out and support victims of community violence.
18. Helping to keep our communities safe is a top priority.
19. Novant Health and Cape Fear Habitat for Humanity invest in housing well-being at the coast.
20. Building a healthier Mecklenburg County takes a 'Village.'
20. We're partners in the mission to help men in need.
21. Exploring innovative solutions can help end chronic homelessness.
22. Combining healthcare mission with community passion is part of our culture.
23. It's vital to invest in the talent we have — and the talent we want.
24. It's important to create career opportunities for students.
25. Leadership

Health equity is everyone's business.

Advancing health equity is a vital part of our mission at Novant Health, and our commitment to health equity strategies goes far beyond a singular initiative. Every day we work together to create a healthier future and bring remarkable experiences to life for each patient in our community, and the only way to thrive is if we work together to discover what makes each patient unique. To do so, we must understand the complex reasons behind health disparities.

No matter the patient's journey, there is a cumulative effect of social determinants of health – the conditions in environments where we are born, live and work that impact our long-term health. As we dig deep to address the root causes of health disparities, Novant Health is creating new ways to improve the health of our patients and transform our communities through four key areas: access to care, food and housing security and the development of our current and future workforce.

As we have focused on ensuring equitable care for every patient in our communities through these four areas, our impact has drawn national attention. In 2022, our work to advance equity earned Novant Health a special recognition, as part of the first cohort of the National Committee for Quality Assurance's Health Equity Accreditation Plus program. Novant Health was one of only two health systems in the country to leverage expertise, resources and commitment to simultaneously achieve both the Health Equity Accreditation and the Health Equity Accreditation Plus.

Health Equity Accreditation Plus helps organizations develop and enhance processes and partnerships to address inequities in care and health outcomes. Novant Health partners with community-based organizations, offers resources that support clinical and social needs, collects data on community social risk factors and patients' social needs, and makes clear to partners and patients how their information is used, shared and protected.

More recently, The Cigna Group launched the Health Equity Action Awards to celebrate and recognize its Collaborative Accountable Care provider partners who are going above and beyond to achieve health equity. Novant Health received the Health Equity Action Gold Award, the highest honor, for developing Novant Health Nourishes, a campaign designed to address food insecurity. The award recognized our greater Winston-Salem region, where, since the program launched in January 2022, we have conducted nearly 370,000 screenings for food insecurity and connected food-insecure patients with a local community resource.

To continue improving health equity for all, we must continue creating shared accountability and action. We are grateful for our community partners who are working together with Novant Health to empower every patient, help them thrive and ensure our communities grow and succeed.

Carl S. Armato
President and CEO, Novant Health



What is community benefit?

It's more than our responsibility — it's our commitment.

At Novant Health, community benefit is a core priority. Through strategic planning and investment, our community benefit initiatives create avenues to improve health and create positive change throughout our communities.

“When we pay attention to our patients’ unique needs, such as their access to food and health services, we can provide them with Novant Health’s highest level of safety, quality and compassionate care.”

— Chere Gregory, MD, senior vice president and chief health equity officer at Novant Health

Because of this work, we also know that regardless of the care we provide in our clinics and hospitals, there will always be outside factors that influence a person’s health. These factors often are referred to as social determinants of health — the deep and complex economic and social conditions that influence an individual’s health status. From a lack of access to nutritious foods, to working multiple jobs that leave no time to see a doctor, these barriers to healthy outcomes influence the risk for chronic diseases.

“Our community benefit initiatives help shape how we approach social determinants of health, as well as our ability to be sure that everyone is seen, heard and receives the healthcare they deserve,” said Chere Gregory, MD, senior vice president and chief health equity officer at Novant Health. “When we pay attention to our patients’ unique needs, such as their access to food and health services, we can provide them with Novant Health’s highest level of safety, quality and compassionate care.”

Community benefit includes programs or activities that provide treatment or promote health and healing as a response to identified community needs — and meet at least one of these objectives:

- Improve access to healthcare services
- Enhance the health of the community
- Advance medical or health knowledge
- Relieve or reduce the burden on government to provide health services

Novant Health’s community impact includes hundreds of programs that address the most pressing health needs of the communities we serve, particularly among historically excluded groups. This includes unreimbursed health services to individuals with Medicaid and Medicare coverage; free community health education and screenings; support groups; investments in health-focused community groups; and participation in medical research and academic health programs.

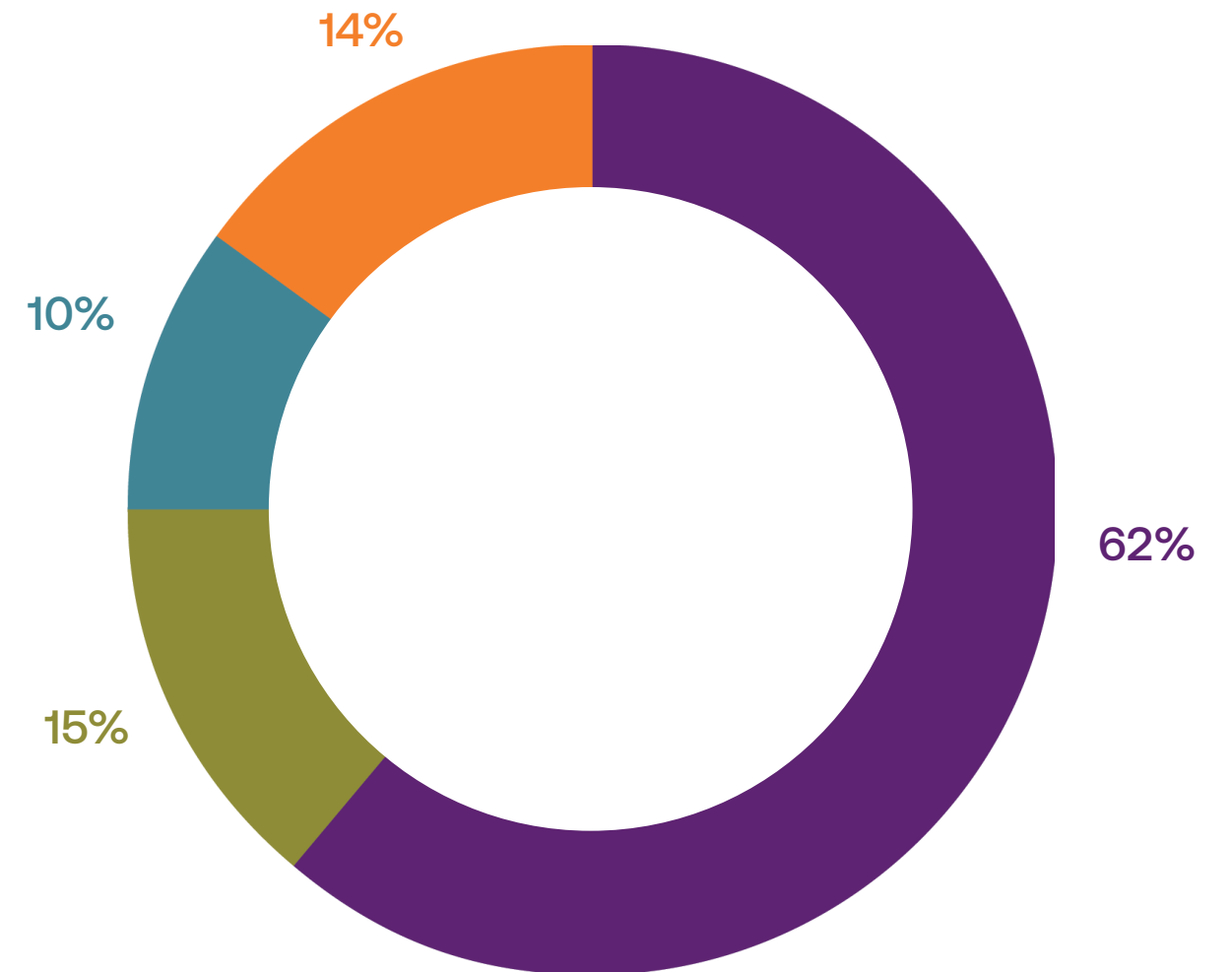


When you see this icon, you’ll know where Novant Health is promoting health and wellness in response to each community’s health needs assessment.

In 2022, Novant Health provided more than

\$1.5 billion

in community benefit, up from \$1.1 billion in 2021.



- Unpaid cost of Medicare
- Unpaid cost of Medicaid
- Community benefit programs
- Financial assistance

Total may vary due to rounding.

ACCESS TO CARE

When getting healthy starts at the barbershop



Novant Health New Hanover Regional Medical Center supports a Barbershop Initiative to provide convenient health screenings.

With our commitment to improving the health of our community, one person at a time, Novant Health New Hanover Regional Medical Center supports a Barbershop Initiative to provide convenient health screening opportunities. Through partnerships with area barbershops, Novant Health team members offer blood pressure checks, health information, physician referrals and vaccines. Appointments are not required.

Launched in 2017 by the community engagement team and Black/African American business resource group (BRG) at New Hanover Regional Medical Center, the Barbershop Initiative builds relationships within the community — while highlighting wellness education in convenient, nontraditional settings. Following a pause of about two years due to the COVID-19 pandemic, the program returned in 2022 with the same mission: delivering health services and education to community members who might not seek them on their own. The barbershop team partnered with the Todos Unidos (Hispanic/Latinx) BRG to make connections at Paola's Salon & Barber, a shop that styles a primarily Hispanic clientele.

“This is really about creating access in unconventional places, where we are not waiting for people to come to the hospital when they are already sick,” said Kevin Briggs, senior director of health equity, inclusion and belonging at New Hanover Regional Medical Center. “We are proactively going out and providing these services while building on key relationships for the future of health in the region.”



BY THE NUMBERS

- 15 Barbershop Initiative screening events completed
- 30 volunteers involved
- 6 barbershops located in Wilmington
- 2 rounds of community barbershop sessions conducted in the spring and fall

“This is really about creating access in unconventional places, where we are not waiting for people to come to the hospital when they are already sick.”

— Kevin Briggs, senior director of health equity, inclusion and belonging



ACCESS TO CARE

This event helps gives babies the best start.



Novant Health Brunswick Medical Center continues tradition of hosting annual baby shower for the community.

When the call went out from Novant Health Brunswick Medical Center for item drop-offs for the annual community baby shower, team members and a range of community donors and nonprofits came through. The medical center's yearly tradition — an initiative funded by the Novant Health Foundation — provides expectant parents with encouragement and much-appreciated supplies that help get their babies off to the best start possible.

The baby shower fulfills our organization's mission of collaborating with community partners to provide whole-person care to the communities we serve. Attendees also were screened for food insecurity in an effort to address additional needs of expecting parents.

BY THE NUMBERS

- Over 200 gift bags distributed with baby clothes, bibs, sippy cups, diapers, wipes, books and toiletries
- Over 200 Novant Health bags distributed with information on how people can receive services at reduced rates, along with a box of diapers, wipes, baby thermometer, toiletries and books
- 15 food boxes shared



ACCESS TO CARE

How we keep parents informed about safe sleeping practices for babies



Our hospitals and clinics in Forsyth County helped spread the word on safe-sleep awareness.

In 2022, hospitals and clinics in Forsyth County distributed an educational flyer warning parents of an unfortunate statistic. Between 2014 and 2019, 29 infants in Forsyth County died due to unsafe sleep practices.

However, parents can take simple steps to reduce the risk. By sharing a QR code and information from [HealthyChildren.org/SafeSleep](https://www.HealthyChildren.org/SafeSleep), we're helping to protect the communities where we live and work.

Tips shared:

- Put baby on back to sleep.
- Keep face and head clear from soft items.
- Have babies sleep in their own sleep space.



Let's swim!



Novant Health is a proud partner in promoting water safety for children in our communities.

What is the leading cause of death for children ages 1 to 4 in the United States? Drowning. And children from underserved and historically underrepresented communities are especially vulnerable.

Participation in formal swimming lessons can reduce the risk of drowning among children and young adults, according to the Centers for Disease Control and Prevention. That's why Novant Health is a proud partner in supporting initiatives that promote water safety in our communities. In 2022, we supported the High Point Swim Club in High Point and NSEA Swim Foundation in Wilmington. These organizations provide swim lessons for children in communities without access to lessons.

More facts from the CDC:

Ages 5 to 14

For children in this age group, drowning is the second leading cause of unintentional injury death, after motor vehicle crashes.

About 40% of drownings among children in this age group occur in natural water. About 30% occur in swimming pools.

Ages 5 to 9

For Black children in this age group, drowning death rates are 2.6 times higher than the rates for white children.

ACCESS TO CARE

Patients can connect to social services resources when needed most.



Through MyCommunity, patients receive help with transit fares, food, housing and more.

While navigating the legal challenge of seeking custody of young family members, a Winston-Salem woman learned she faced a health obstacle, as well: prediabetes. She reached out for help from her Novant Health community health worker, who connected the grandmother with a comprehensive list of resources that would aid both her health management journey and the well-being of her family.

Those resources included financial counseling through Novant Health and Financial Pathways of the Piedmont, prediabetes patient education and recipes through Lexicomp, and child care services through Family Services - Head Start and Child Care Resource Center. She also received free mental health counseling through Sunrise-Amanecer, legal services through Legal Aid of North Carolina, and a free TytoCare medical device for at-home guided medical exams with a Novant Health clinician.

Those connections were made possible through Novant Health MyCommunity, an online platform powered by Find Help that connects patients to free and reduced-cost social service resources for housing, food, help with transit fares and more. Clinicians, team members and the community go to NovantHealth.org/MyCommunity to connect those in need with resources available in their area.

MyCommunity offers resources outside of traditional healthcare that support overall well-being and address social needs. Novant Health community engagement team members are always connecting with local organizations and adding them to the platform to expand the referral base. Any community member can search for and connect with resources for free at NovantHealth.org/MyCommunity.

BY THE NUMBERS

MyCommunity connections

Here are the number of referrals made between Jan. 1, 2022, and Dec. 31, 2022, in the following categories:

Health: 1,918

Money: 1,206

Transit: 187

Work: 202

Care*: 1,438

Housing: 655

Food: 1,066

*support for various needs



ACCESS TO CARE

Community health worker goes where needed — including home visits.

When families face big obstacles, community health workers are there.

Jasmine Swain assists pediatric patients and their families at a specialty pediatric clinic in Wilmington, North Carolina. But what she does for her clients goes way beyond addressing just their physical health.

Swain, a community health worker at Novant Health Nunnelee Pediatric Multispecialty Care Clinic (who also works with the senior population), said her job description is simple: “I’m here to connect patients to the resources they need to help them thrive.”

She helps families drill down on complex challenges that can be connected to the child’s health issues, advocates with schools and other institutions, and sometimes makes home visits so she can assess what’s really going on.

Nurse Vanessa Van Gilder manages the clinic where Swain works. “Jasmine and other community health workers take care of things that aren’t in the realm of healthcare but affect people’s health,” Van Gilder explained. “If those simple, basic things — housing, food, transportation — aren’t met, then your health won’t be a priority.”

‘A real aha moment’

Swain’s work was supported by the Novant Health New Hanover Regional Medical Center Foundation, which provided a grant for the community health worker pilot.

Not long ago, doctors at Nunnelee had a young patient struggling with his weight and behavioral issues. He and his mom were missing appointments, and the staff worried about the care the boy was getting at home. They looped in Swain.

“When Jasmine got involved, she discovered that the mom couldn’t read well,” Van Gilder said. “There’s so much verbal information given to patients, so we provide written information they can refer to after their

appointment. Written information provides a way for them to go back and refresh their memory. But if you struggle with reading, then that information isn’t useful.

“It was a real aha moment,” she continued. “It wasn’t until Jasmine went into the home and started talking with mom that she realized mom had trouble reading. She’d been missing appointments and was confused about her son’s medicine. Jasmine put it all together and was able to help her take better care of her child.”



Community health worker Jasmine Swain

It’s all about achieving health equity. Swain’s involvement — and home visits — helped solve a mystery. And ultimately this mom is able to take better care of her child.

Another parent of a patient has three children. Her teenage son struggles with his weight, is prediabetic, has PTSD and is undergoing testing for autism. “His last school, his middle school, wasn’t supportive at all,” his mom said.

“They kind of treated him like a bad kid. So, when Jasmine offered her help, I said yes,” the mother said. “I needed the school board to take me seriously. Jasmine just stepped

“She advocated for us. I was very grateful to have her on our side. My boy has had a rough time. It’s hard for him to trust other people, but he trusts Jasmine.”

— Parent of a pediatric patient

right in. I was having trouble finding testing for him for autism, and she immediately found someone for that. She attended the Zoom meeting. Anything I had questions about, she was on it immediately. On one of her home visits, she even brought over a portion plate to help him see what healthy portions look like. She went above and beyond.”

He is doing so well that the family is planning to transition him from home schooling to high school. “Jasmine helped us get a special plan in place,” the mom said. “If he needs to leave the classroom because of an anxiety attack, he’ll be able to.”

“She advocated for us,” she concluded. “I was very grateful to have her on our side. My boy has had a rough time. It’s hard for him to trust other people, but he trusts Jasmine. He really bonded with her, and that’s a big deal.”

As for Swain, she’s fulfilling her calling by helping these and other clients as a community health worker.

“It’s just always been in my world to be there for others,” Swain said. “It made sense with this job.”



When families need help, community health workers like Jasmine Swain are there.

HEALTH EQUITY

This program provides groceries so pregnant patients are not hungry.



Our Maternal Food Security Program uses food as healthcare during and after pregnancy.

Novant Health is dedicated to tackling maternal food insecurity and improving the health of mothers and babies in our communities. We understand that good maternal health is essential for healthy babies, and that maternal and infant mortality are indicators of the health of the community. The Novant Health Maternal Food Security Program helps address our commitment to improve maternal and infant health.

“Our food security initiatives are about keeping pregnant patients and their families from going hungry and using food as healthcare during and after pregnancy — especially during the postpartum period — which is often overlooked,” according to Noellee Clarke, MD, Novant Health vice president and chief medical information officer for digital health. “Not worrying about one’s next meal can have a huge positive impact on mental health, adherence to visits and overall comfort.”

It starts by asking questions during appointments to help identify pregnant patients experiencing food insecurities. At OB-GYN clinics throughout the Charlotte

region, pregnant food insecure patients can be referred to a community health worker, who arranges food pack delivery throughout their pregnancy and addresses additional social needs. Results show promising reduction in maternal anxiety and depression and increases in the baby’s birth weight.

In addition to providing food resources, our community health workers stay in contact with the mother throughout her pregnancy journey, and after delivery, addressing any additional needs and connecting her to local resources.

We are confident that by providing this combination of food resources and social support, Novant Health is helping reduce preterm birth rates and decrease the need for emergency care. Food insecurity screening is an effective way to identify other social needs, too, so we can take steps to address them.

“The combination of food resources plus social support makes a huge difference,” Clarke said. “We are making a difference for moms who, without this program, would have been going to bed hungry.”

BY THE NUMBERS



Food intervention at OB-GYN clinics in 2022

- 60+ patients enrolled
- 79% food utilization rate when compared to food pantry pickup rate, which is typically 20%
- 12 weeks: length of time participants continue receiving healthy, convenient food postpartum

HEALTH EQUITY

Here’s what our patients are saying.



Here’s how community health workers are making a difference in people’s lives.

Delivering the kind of human-centered care patients need and deserve sometimes comes down to asking the unexpected, such as, do you need assistance with food, rent, utilities or other matters.

Forging these connections with people — and connecting them with services that can help — is what matters most

to our community health workers. When Novant Health OB-GYN clinics and community health workers in the Charlotte region asked pregnant patients whether they had consistent access to healthy food and connected them to food resources with community partner Loaves & Fishes, they learned the food insecurity screening was a gateway to identifying additional needs.

Asking matters. Here’s why, according to our patients.

“I give all 5 stars to Tammy [Marshall-Reed, community health worker]. At first, I was a little skeptical or afraid to join this program because I didn’t want to be labeled, ‘I can’t help myself or I can’t get the help I need.’ The program is different. To be honest, I learned a lot with new knowledge that I wasn’t aware about. It’s true when they say it takes a village to raise a baby. I didn’t know it would be outside of family and friends.”

“Thank you for caring about me, for saying that at Novant Health you are trying to treat me as a whole person — it means so much to be seen and helped.”

“Thank you so much for the food delivery. I thanked them so many times. It was amazing and so helpful right now. What you are doing is truly incredible.”

“My experience with Novant Health was a really positive experience. Ms. Tammy was able to help me with not only the food referral but also help with my own personal challenges and talking things through. It is a great thing when you can have a healthcare advocate that goes above and beyond the job description (or what is being asked of her). I think that Novant Health should continue this program because it not only helps people with food insecurity but also their overall health and well-being.”

“You have been such a blessing to me and my family — we feel like you are an angel sent to help us.”

HEALTH EQUITY

We're treating hunger, one patient at a time.



Novant Health screened more than a million patients for food insecurity and connected them, as needed, with food source options.

Among North Carolina residents, 1,248,880 people are facing hunger.

Adults who do not have consistent access to food are more likely to experience many different negative health issues and health disparities. Food insecurity can have serious health consequences due to the physical and mental strain it puts on the body. Kids are particularly vulnerable to the ill effects of food insecurity because their brains and bodies are still growing.

Realizing how the pandemic has worsened food insecurity, Novant Health started a Hunger Vital Sign strategy in 2022 to screen patients for food insecurity and connect them with local food pantries and other community resources to help reduce food insecurity. The initiative, called Novant Health Nourishes, is a campaign designed to address food insecurity in partnership with the Novant Health Foundation and multiple community partners.

During a clinic visit, patients are asked two screening questions: "Within the last 12 months, have you worried that your food would run out before you got the money to buy more? Within the last 12 months, has the food you bought not lasted and you did not have the money to get more?" If a patient answers "often true" to both questions and does not have food for that day, they are offered an emergency food pack from the clinic's supply. Each pack provides one person or a family with a four-day supply of food.

Clinics also connect patients, as needed, with local food pantries, the supplemental nutrition programs SNAP and WIC, and other community resources to reduce food insecurity and hunger.

Inspired by efforts in the Coastal region, emergency food packs launched in mid-July 2022 in the greater Winston-Salem area, with plans to launch in January 2023 in Charlotte. Any Novant Health team member can contribute to the success of this project, either through financial support to the Novant Health

Foundation or volunteering with local food bank and food pantry partners. Novant Health team members participated in three volunteer events to support the packaging and labeling of over 400 emergency food packs for clinic distribution.

Novant Health recognizes the critical importance of this project. Among North Carolina residents, 1,248,880 people are facing hunger. Of that number, 353,450 are children, according to Feeding America, a nationwide network of food banks, food pantries and community-based organizations. The COVID-19 pandemic caused this number to rise significantly.

Food insecurity has been linked to a number of health issues, including birth defects, diabetes, anemia, high blood pressure, hyperlipidemia, oral health problems, poor sleep outcomes, aggression and anxiety, depression, and suicidal ideation. In order to provide whole-patient care, it is necessary to address the root causes of health problems, such as hunger.

BY THE NUMBERS

Addressing hunger in 2022

- 3,600 patients across Novant Health screened positive for hunger each month, on average
- 400 to 600 food-insecure patients each month expressed not having food for the day or weekend
- ~440 emergency food packs were distributed from July to December during the program pilot in the greater Winston-Salem area

HEALTH EQUITY

Forsyth Backpack Program addresses food insecurity in local schools.



This initiative aligns with Novant Health's mission to influence food availability.

Novant Health is dedicated to supporting the Forsyth Backpack Program, a local nonprofit organization that provides nutritious food to students identified by school personnel as being in need. We recognize the serious and long-term effects that persistent hunger can have on children, such as depression, anxiety, post-traumatic stress disorder, and an increased risk of chronic illnesses like high blood pressure, heart disease and diabetes.

In November 2022, before the Thanksgiving break, team members from across the Winston-Salem region gathered at Novant Health Conference Center, located on the campus of Novant Health Forsyth Medical Center. They packed hundreds of backpacks with food to help local school children who may have little to no access to food outside of school. This food provides the nutrition that children need to stay focused, learn and have fun when school is not in session.

We are highly focused on achieving the same goals as the Forsyth Backpack Program, as our Hunger Vital Signs initiative has revealed the importance of exploring solutions to food insecurity and its influence on health and health outcomes.

BY THE NUMBERS

November 2022 volunteer event

- 85 tons of food packed in 4,000 backpacks
- 16,000 meals assembled
- 900 students received backpacks
- 13 underserved schools served
- Over 115 team members volunteered almost 100 hours of time packing



Our cruiser met this sheriff where he works: in the community.

Novant Health deploys a new Community Care Cruiser to advance health equity across the Triad.

Forsyth County Sheriff Bobby F. Kimbrough Jr. can't always find a break in his schedule to stay on top of his health needs, so Novant Health came to him.

Kimbrough boarded the Novant Health Community Care Cruiser we brought to the Triad area in 2022 and took advantage of the health screenings our team of experts offered. The cruiser allows Triad-area community members to receive physicals, vaccinations, health screenings, management of chronic diseases and referrals to specialty care clinics and other social services.

The 38-foot-long Community Care Cruiser, part of a fleet that includes cruisers in Charlotte and New Hanover, was funded through Novant Health Forsyth Medical Center Foundation. It's part of Novant Health's long-standing commitment to advance health equity for all patients.

"The Novant Health Community Care Cruiser attended a community event we hosted in downtown Winston-Salem. With my busy schedule, I had the opportunity to receive my screening results in less than 15 minutes," Kimbrough said. "The staff was friendly and engaging throughout



the process, helped me better understand my numbers, recommended ways to continue to improve my health and provided resources. This is a great service to help prevent serious health events."

Kimbrough is just one of thousands of people in our communities Novant Health reached as we brought care outside clinic and hospital walls.

As part of our mission as a not-for-profit healthcare organization, we give back to our region — in financial assistance for medical care, in free or reduced-cost health screenings, immunizations and mammograms, and in hundreds of hours of volunteering in the communities we serve. We're focused on extending health equity and opportunity, ensuring that all have access to health and well-being.

"We're very excited to expand healthcare beyond the traditional clinic or hospital setting in order to reach patients where they are and with the services they need close to home," said Chad Setliff, senior vice president and president of Novant Health Forsyth Medical Center and the greater Winston-Salem market. "The new Community Care Cruiser will allow us to continue to work strategically with our community partners to close the gaps in health disparities."

BY THE NUMBERS

- 3 Community Care Cruisers were in the Novant Health fleet in 2022, with plans for expansion in 2023
- 2 days a week, the cruiser in the Winston-Salem region is used by the Community Health & Wellness Institute team to provide direct primary care to communities in need



Mammography is one way we pursue health equity.

Our mobile mammography cruisers are here to help make this easy and accessible for all.

At Novant Health, we are passionate about delivering high-quality healthcare that is accessible to everyone. That's why we're committed to using cultural understanding and community outreach in our mammography care. Funding from the Novant Health Foundation for two mobile mammography units in Charlotte, two in the Winston-Salem area and one in Salisbury, allows us to provide outreach in historically underserved communities.

Through the dedicated work of our office of health equity and our business resource groups, we identified two patient populations — Latino and Asian patients — who were less likely to get mammograms. Through our research, we found that Asian patients often express concerns around modesty and meeting someone for the first time and having to disrobe. We are working to incorporate this into our patient education to ensure that our patients still feel comfortable and respected while going through the procedure. Our research also revealed that cancer is not always discussed openly among Latino/Hispanic families, which can be a barrier to care. We are striving to provide information to our patients to help start the conversation and encourage them to speak to their families about their health.

One woman's cancer diagnosis encouraged her sister to get screened, and this is a great example of how Novant Health's equity work made a difference in one Latina's life.

"After the patient was diagnosed with breast cancer, she ultimately discussed it with her sister because we recommended talking to her family about medical history," explained Chere Gregory, MD, senior vice president, Novant Health, and chief health equity officer at Novant Health. "Her sister, who was actually younger than we would normally expect women to have breast cancer, decided to be screened. And as a result of that screening, she also was diagnosed with breast cancer.

"What we really need to do as an organization is continue to hold true to our service standards [Know me, Respect me, Care about me and Delight me] and understand our patients. The 'Know me' standard helps us to have conversations with our patients in a unique and personalized way, based on some of the things that they may fear or misunderstand culturally, to ensure that they attain the highest level of wellness possible."

In addition to our mobile mammography outreach work, the Novant Health Cancer Institute's prevention and early detection department provides screening mammograms and breast health education for uninsured populations in Charlotte and Salisbury.

BY THE NUMBERS

Mobile mammogram units in Winston-Salem in 2022

- 35 grant-funded community events completed
- Over 560 3D screening mammograms provided to uninsured and underinsured women
- Over 170 grant-funded diagnostic exams completed at Novant Health Breast Center in Winston-Salem

In Charlotte and Salisbury in 2022

- 594 free mammography screenings completed in Charlotte (574 mobile screenings and 20 at Novant Health Matthews Medical Center breast imaging center)
- 122 free mammograms completed in Salisbury (110 mobile screenings and 12 at Novant Health Imaging Julian Road)

HEALTH EQUITY

We're dedicated to reducing pregnancy-related mortality rates among Black patients.



Novant Health is investing in initiatives to address preventable pregnancy-related complications and improve infant health.

Health equity is achieved when everyone has what they need individually to attain the highest level of health and well-being for all people. And yet, studies show Black women in the United States have one of the highest rates of pregnancy-related deaths in the world and are more likely than women of other ethnicities to lose an infant to premature death.

These alarming facts are why Novant Health has established a long-term goal focused on preventing pregnancy-related deaths, reducing infant mortality and improving patient health outcomes during and after birth.

"Black maternal health — like many health inequities and disparities, is a complex topic, but we have the power to reverse the trends we're seeing," said Pam Oliver, MD, executive vice president and chief medical officer for Novant Health. "We've made an intentional commitment to address implicit bias, strengthen care pathways and partner with our patients to address social determinants of health, like food insecurity."

What our work looks like

We're talking about access to nutritious foods. We want to be sure that we ask all pregnant patients about food insecurity and identify resources and community partners that can help address this, as well as other social and economic needs that could influence a healthy pregnancy.

We're asking patients questions — and encouraging a dialogue. We're reaching out to our communities to spread the message that if you think you are pregnant, early and adequate prenatal care is crucial. So it's important to find a doctor as soon as possible. It's also critical for patients to know that their voice is incredibly valuable — so they should be an advocate for themselves, sharing with their care team what they're experiencing and asking questions about what may or may not be normal.

"Black maternal health — like many health inequities and disparities — is a complex topic, but we have the power to reverse the trends we're seeing."

— Pam Oliver, MD, executive vice president and chief medical officer

"Most pregnancy-related deaths are considered preventable," said Lewis Lipscomb, MD, an ob-gyn in Winston-Salem and physician leader of the Novant Health Women's & Children's Institute. "We can influence this. It's not an easy issue. It's a complex issue, but we all need to lean in and really ask the hard questions and be willing to have the hard conversations."

We are committed to compassionate care. "One of the things that we are doing as an organization is helping people to understand implicit bias and how to mitigate the impact on patients," said Chere Gregory, MD, senior vice president and chief health equity officer for Novant Health.

"If you breathe, you're biased. All of us are — and so we are willing to understand our own humanity as we care for all populations. We want to be sure that at any given time, we are able to understand our patients. Team members have committed to ongoing learning and conversation about the importance of culturally and linguistically appropriate care for all of our patients."

We recognize that this is about everyone. Pursuing health equity is essential to achieving good health outcomes for all patients. By prioritizing health equity, we can ensure that all patients receive the same high-quality care and that all can benefit from expert, advanced health services. Ultimately, it's about ensuring successful pregnancies and healthy babies.

COMMUNITY SOLUTIONS

Her job is to reach out and support victims of community violence.



With foundation support, Novant Health New Hanover Regional Medical Center takes on new challenge.

You matter.

That's the message Tammie Jones-Hall shares with people affected by community violence in Wilmington, North Carolina.

Jones-Hall, a violence intervention specialist with Novant Health, launched a new violence intervention program at Novant Health New Hanover Regional Medical Center in 2022. Her goal: working to stop the cycle of community violence by helping victims and their surrounding community find the tools and resources they need to move on in life. And Jones-Hall has seen firsthand the toll community violence can take. As an employee of Lutheran Social Services and Pathways Inc. for Brothers United Program, she aided in serving the gang and incarceration reentry populations in Detroit and Ohio.

"I want to let them know I am here to provide whatever they need to provide stability in their lives."

— Tammie Jones-Hall, violence intervention specialist

"It led me to navigate within the community," she said. "Once I found an avenue where I was able to use this skill, I was glad to do it. I wanted these men to know they matter, and there is help for them."

Community violence and gang-related violence are issues in Wilmington. The violence intervention program is headed by Sarah Arthur, director of community engagement at New Hanover Regional Medical Center. Novant Health New



Hanover Regional Medical Center Foundation is paying for the program for two years with a \$200,000 grant. Jones-Hall said her team is focusing on building positive community outreach.

Jones-Hall's role is to provide support and advocacy for victims of community violence, as well as families. She will receive the emergency department log every morning during the week to check for victims and point them in the right direction of services they may need. Jones-Hall may also address weekend and nighttime incidents if she is available.

"I want to let them know I am here to provide whatever they need to provide stability in their lives," she said. "I'm not making any promises, but asking their needs, whether it's a referral, counseling, mediation or more."

Jones-Hall also will try to help with problems that can snowball and drag families into a bad situation. That could include trouble making rent, mental health challenges and more. She also will try to help people who may need a medical specialist and related financial assistance. It's all part of Novant Health's philosophy of treating the whole patient.

COMMUNITY SOLUTIONS

Helping to keep our communities safe is a top priority.



We invest in strategies that help protect our most vulnerable populations and prevent trauma occurrences.

At Novant Health, we take an active role in sponsoring community safety and trauma prevention programs to help strengthen our communities. We realize that trauma can have a serious, lasting impact on the physical and emotional health of residents — and understand the power of taking action to help protect the communities we serve. Here's a look at some of our initiatives.



YOUTH

- Joined community partners to provide anti-bullying education to kids.
- Worked with the Novant Health Community Cruiser at immunization clinics to distribute backpacks funded by Novant Health Foundation. The backpacks included pedestrian safety and teen dating violence education.
- Hosted a webinar for Novant Health team members on identifying and responding to child maltreatment and abuse. Provided an in-person class for nurses and clinicians.
- Planted pinwheel gardens at Novant Health Presbyterian Medical Center, Novant Health Matthews Medical Center, Novant Health Mint Hill Medical Center and Novant Health Huntersville Medical Center for National Child Abuse Prevention Month.
- Conducted monthly car seat checks with community partners to ensure child safety seats are installed correctly.
- Hosted the Impact Teen Drivers course at two local high schools to focus on distracted driving and the importance of a graduated licensing process for teens.

SENIORS

- Sponsored the Matter of Balance course for older adult fall prevention, along with multiple education sessions and webinars on fall prevention.

CAR AND BIKE SAFETY

- Fitted and distributed 225 free bike helmets to community members at Hola Charlotte Festival. Also provided bike safety education and helmets at Play Streets 704. The helmets were funded by Novant Health Foundation.
- Partnered with NC Vision Zero on road safety, provided education at the GovPorch family fun space at the Charlotte-Mecklenburg Government Center Plaza and created a video with Vision Zero on the effects of motor vehicle collisions.

SAFETY AND TRAUMA

- Participated in television interviews on WCCB Healthy Headlines on various injury topics to raise awareness of safety issues and provide tips to decrease risk.
- Hosted the bimonthly Trauma Talks for Novant Health clinicians on various trauma topics.

COMMUNITY SOLUTIONS

Novant Health and Cape Fear Habitat for Humanity invest in housing well-being at the coast.



We're committed to improving health through housing.

Well-being starts at home — and at Novant Health, we are steadfast in our commitment to addressing social determinants of health, like housing, across our region. That's why Novant Health New Hanover Regional Medical Center has built a tradition of helping our team members and our community through a partnership with Cape Fear Habitat for Humanity. Volunteers from New Hanover Regional Medical

Center invested more than 462 hours in building this home, and, in August 2022, team members and leaders participated in a special house dedication ceremony.

Influencing health through housing remains a top priority for our organization — because we know that a safe, stable living environment can have an enormous impact on our health.



COMMUNITY SOLUTIONS

Building a healthier Mecklenburg County takes a 'Village.'



Village HeartBEAT focuses on reducing risks of cardiovascular disease.

Village HeartBEAT (Building Education & Accountability Together) is a joint health initiative that takes place in the Charlotte area. It is led by the Mecklenburg County Health Department and several African American and Hispanic/Latino faith-based organizations. Its purpose is to reduce the likelihood of cardiovascular diseases. Novant Health has been a partner of the program for several years, offering healthcare education and screening services in the areas where we live and work. In addition, Novant Health's physician ambassadors are regular speakers on health-related topics.

BY THE NUMBERS

Village HeartBEAT in 2022

- 748 people were screened
- 20% of those served were uninsured
- 7 years is the length of time Novant Health has been a Village HeartBEAT partner

We're partners in the mission to help men in need.



Novant Health, Samaritan Ministries work together to tackle substance use disorder.

From the homeless man who hiked 70 miles to get there, to the struggling father grateful for a chance to turn his life around, a growing number of men have made their way to Project Cornerstone. And they credit that move with saving their lives.

Project Cornerstone, run by Winston-Salem's Samaritan Ministries, is a residential program for men in long-term recovery, overcoming substance use disorder. While living at Samaritan Ministries, participants develop job and life skills, and work toward becoming self-sufficient. Novant Health has partnered with Samaritan Ministries since 2017.

In addition to Project Cornerstone, Samaritan Ministries also runs Samaritan Inn, a 70-bed homeless shelter for men, and The Soup Kitchen, Winston-Salem's only one, which serves 300 to 400 guests daily. Novant Health team members routinely volunteer in the soup kitchen. From May to November 2022, Novant Health Community Care Cruiser also made monthly stops at Samaritan Ministries to provide health screenings, COVID-19 vaccines and flu shots.

BY THE NUMBERS

Samaritan Ministries

- 90 people were served through Novant Health Community Care Cruiser health screening events in 2022
- 13 to 18 months was the average length of stay for men enrolled in Project Cornerstone, undergoing treatment for substance use disorder

COMMUNITY SOLUTIONS

Exploring innovative solutions can help end chronic homelessness.



How Novant Health is helping address healthcare needs at Charlotte's Roof Above.

While the challenges of developing healthcare solutions for those who are chronically homeless can be daunting, it's essential for improving lives. In Charlotte, Novant Health is partnering with Roof Above, a comprehensive homeless services provider working to end homelessness, to help reduce the burden of chronic health conditions among the homeless population.

Roof Above transformed a former hotel into a community of 88 affordable studio apartments for individuals experiencing health issues and chronic homelessness. On-site services include a nurse funded by Novant Health and the availability of TytoCare, a portable medical exam device that connects users with a Novant Health clinician for virtual appointments. Roof Above provides apartment units for five Novant Health patients who are chronically homeless.

Apartment community residents also have a medical home at Novant Health Michael Jordan Family Medical Clinic, thanks to funding from Novant Health Foundation. More than 30 residents are connected to the clinic, receiving support with issues like medication compliance,

care for chronic health issues and support with ongoing medical needs. Case managers based at the apartment community said residents going to the clinic for care find Novant Health team members welcoming and understanding of their challenges.

For many residents, their first visit to the Michael Jordan Family Medical Clinic represents the first time, or the first time in many years, they have connected with a healthcare professional.

The care is making a lasting impact.

One resident in particular "is learning more about himself and is taking care of himself in a different way than he has in the past," his case manager said.



COMMUNITY SOLUTIONS

Combining healthcare mission with community passion is part of our culture.



Novant Health Cares matches team members to volunteer opportunities.

Volunteering is an important part of the workplace experience for many Novant Health team members. Giving time to important causes builds public trust, enhances engagement in our workplace and communities, and supports a key philosophy of our organization: Our business is the care of all people.



To that end, our team members donate thousands of hours every year to community causes — volunteering with the Jerusalem Fire Department in Mocksville, building homes with Habitat for Humanity in Charlotte, distributing over-the-counter medications to those who need them at a Winston-Salem giveaway event, sharing health information at events like “Community Engagement Day - Passport to Health” at Livingstone College in Salisbury, and more.

By engaging with Novant Health Cares, our online team member platform, volunteers can review a range of

opportunities where they can donate their time. In addition to getting matched to opportunities, team members can log their own volunteer hours.

For some, volunteering in 2022 was about reconnecting with colleagues and community members, especially as we emerged from the social isolation of the pandemic. For others, volunteering was an opportunity to connect to a cause they had not considered before.

Well before the COVID-19 challenge, Kristy Styborski, prospect research and grants management specialist for the Novant Health Rowan Medical Center Foundation, was enthusiastic about volunteering. However, the pandemic and its effect on the health and well-being of others inspired her to volunteer even more of her time to those in need.

“I’ve always been passionate about volunteering, but Novant Health Cares has helped me find new, unique opportunities, and has helped me make new friendships at work, which I can’t get from other volunteer opportunities. It’s the best!”

BY THE NUMBERS

Our team members in the greater Charlotte and Winston-Salem regions made time to help others between December 2021 and December 2022.

- 5,714 volunteer hours were logged.
- 676 team members volunteered.

WORKFORCE DEVELOPMENT

It’s vital to invest in the talent we have — and the talent we want.



Our student programs in health professional education provide valuable hands-on experience.

Investing in workforce development is not only important to our present workforce but tomorrow’s, too. Prioritizing workforce training helps shape our work toward delivering the kind of human-centered care that matters to our patients. It also encourages upward mobility among our workforce and within the community we serve.

Here’s a look at two initiatives.

6 workforce development scholarship recipients were named in the inaugural Novant Health Latino/Latina Nurse Aide Scholarship program through Davidson-Davie Community College. Investing in the instruction and development of bilingual nurse aides creates a more diverse healthcare workforce — and builds a hiring pipeline that reflects the Hispanic community in Davidson County. The scholarship helps eliminate barriers for students. The grant from Novant Health Thomasville Medical Center covers student fees for blood pressure cuffs, stethoscopes, scrubs, shoes and watches.

20 team members were chosen for the Upward Mobility RN Educational Assistance Fund, a work-study and scholarship program supported with the help of Novant Health Foundation. The fund provides team members up to two years of upfront coverage of tuition and fees for an accredited nursing program leading to licensure as a registered nurse, flexibility of working a reduced schedule without a reduction in current compensation and benefits, and access to mentorship and career coaching.



Upward Mobility scholarship recipient Marci Caceres

WORKFORCE DEVELOPMENT

It's important to create career opportunities for students.



Our student programs in health professional education initiatives provide valuable hands-on experience.

While it is well-known that our hospitals provide essential medical services for the community, what may not be as obvious is the fact our medical centers provide comprehensive student programming. Our health professional education programs offer students in various stages of their career opportunities for development and hands-on experience in real-world learning environments.

Opportunities for students

Bridges to Healthcare

In May 2022, Novant Health's first cohort of 20 high school students enrolled in the Bridges to Healthcare program finished their experience. During the students' 16-week rotations at Novant Health Presbyterian Medical Center and Novant Health Forsyth Medical Center, they participated in an orientation process, wore team member badges and received a regular salary for their work.

The opportunity allowed students to experience firsthand what it's like being a part of Novant Health. They worked alongside preceptors in the people and culture service center, pharmacy, rehabilitation, radiology, nursing, sterile processing, digital products and services, community engagement, and Novant Health Medical Group.

Bridges to Healthcare is Novant Health's first paid program aimed at supporting the education of high school students and graduates and providing early exposure to healthcare careers. It was made possible by a \$1.4 million gift from the John M. Belk Endowment, secured by the Novant Health Foundation. Eleven participants in Bridges to Healthcare are now engaged in the next phase of the program — having received financial assistance to pursue a certificate, diploma or associate degree from a local community college.

Bridges to Healthcare brings to life our organization's commitment to providing access to work-based learning opportunities in the communities we serve — and ultimately strengthens our talent pipeline.

Nth Dimensions

To help create more opportunities for exceptionally talented, historically underrepresented candidates in this highly specialized field of medicine, the Novant Health Orthopedics & Sports Medicine Institute partners with Nth Dimensions, an educational nonprofit, for an eight-week clinical and research summer internship in Charlotte.

Nth Dimensions encourages, educates and supports students of color, women and underrepresented minorities qualified to enter orthopedics. Since its founding in 2004, Nth Dimensions has mentored and educated over 350 orthopedic surgeons. Interns, such as those who joined the program in 2022, are paired with a surgeon mentor during clinics and in the operating room. They also complete a research project, which may be shared at the National Medical Association's annual meeting.

Black Men In White Coats Youth Summit

To encourage students of younger ages to consider healthcare as a career, Novant Health hosted the inaugural Black Men In White Coats Youth Summit at Johnson C. Smith University in Charlotte. Novant Health Foundation funded and helped secure the venue for the summit. Boys and girls from sixth grade up, many from groups historically underrepresented in the medical field, attended the day of inspiration and education. They met doctors, participated in workshops and networked over lunch to learn about the careers they could explore in medicine.

Pipeline and recruitment programs

We're reaching students through student observations, clinical rotations, unpaid non-clinical internships, and paid internships to high school and college students.

BY THE NUMBERS

5,000+ students served

350+ academic affiliations maintained

LEADERSHIP

NOVANT HEALTH EXECUTIVE LEADERSHIP TEAM

Carl S. Armato

President and CEO

Frank E. Emory Jr.

Executive vice president and chief legal officer

John H. Gizdic

Executive vice president and chief administrative officer

Sanjay Gupta

Executive vice president and chief transformation officer

Kimberly A. Henderson

Executive vice president and chief of staff

Jeffery T. Lindsay

Executive vice president and chief operating officer

Denise B. Mihal

Executive vice president and chief nursing and clinical operations officer

Onyeka N. Nchege

Senior vice president and chief information officer

Pamela A. Oliver, MD

Executive vice president and chief medical officer

J. Dean Swindle

Executive vice president and president of Novant Health Enterprises

NOVANT HEALTH 2022 BOARD OF TRUSTEES

Chair

Robert M. Barr, MD

Mecklenburg Radiology Associates, PA

Vice chair and strategic growth committee chair

Laura A. Schulte

Wells Fargo (retired)

Secretary/Treasurer

James F. Amos

U.S. Marine Corps (retired general)

Carl S. Armato

Novant Health

Brandon T. Adcock

Adaptive Health

Deborah M. Ally

United Way of Gaston County (retired)

Compensation & leadership committee chair

Alvaro G. de Molina

Bank of America (retired)

Christopher "Jay" Duggins, MD

Providence Anesthesiology Associates

Brian C. Eckel

Cape Fear Commercial

Lari E. Harding

Inmar Intelligence

(Ex-officio, non-voting member)

Joia M. Johnson

Hanesbrands

Audit & compliance committee chair

Christine P. Katziff

Bank of America

David P. King

Labcorp (retired)

John M. Lewis

Charlotte Area Transit System
(Ex-officio, non-voting member)

Safety & quality committee chair

Ian A. McDonald

BAE Systems (retired)

B. Dawn Moose, MD

Piedmont Radiation Oncology

T. David Neill

Bob Neill, Inc.

G. Patrick Phillips

Bank of America (retired)

David R. Plyler

Forsyth County Board of Commissioners

Corporate governance & responsibility committee chair

Elwood L. Robinson

Winston-Salem State University

Jason R. Thompson

American Property Experts

The community impact report prepared by Novant Health is a systemwide report that includes qualitative and quantitative information. Please note that the numeric data in this report are not based on the IRS Form 990, Schedule H criteria and should not be relied upon as the organization's Form 990, Schedule H Community Benefit Report, its Community Health Needs Assessment or Community Benefit Implementation Strategy.

Nondiscrimination and access to healthcare: Novant Health does not exclude from participation, deny benefits to, or otherwise discriminate against patients, students, or visitors on the basis of race; color; religion; national origin; culture; language; physical or mental disability; age; sex, including pregnancy, childbirth or related medical conditions; marital status; sexual orientation; gender identity or gender expression; socioeconomic status; source of payment; or any other protected status in admission to, participation in, or receipt of the services and benefits of any of its programs and activities, whether carried out by Novant Health directly or through a contractor or other entity with whom Novant Health arranges to carry out its programs and activities.

Free foreign language interpreters are available for individuals with limited English proficiency. Free sign language and oral interpreters, TTYs and other services are available to deaf and hard-of-hearing persons. For further information about this policy, contact: Novant Health director of internal audit and compliance, 704-384-7638 or TDD 800-735-8262.

Novant Health, 2085 Frontis Plaza Blvd., Winston-Salem, NC 27103

NovantHealth.org    

Appendix H: List of Owned & Operated Hospitals and Services

List of Owned & Operated Hospitals and Services

Novant Health owns and operates 18 inpatient medical centers in North Carolina and South Carolina, including 3 tertiary referral centers, 11 community hospitals, 2 hospitals focused on surgical services, and 1 critical access hospital.

Novant Health Medical Centers:

Novant Health Forsyth Medical Center is an 859-bed tertiary care hospital located in Winston-Salem, North Carolina that offers a full continuum of emergency, medical, surgical, rehabilitative and behavioral health services.

- Forsyth Cardiac and Vascular Center has developed a complete service continuum, comprising aggressive prevention programs with leading edge diagnostic and treatment technology, followed by a rehabilitation program recognized for its success rates. It has been recognized as a Cardiac Center of Excellence by both UnitedHealthcare and Blue Cross Blue Shield of North Carolina and has received an accreditation as a Chest Pain Center by the Society of Chest Pain Centers. Forsyth Cardiac and Vascular Center was also the first program in the Carolinas to receive National Certification for its Congestive Heart Failure program. Novant Health Forsyth Medical Center has been named a certified chest pain center by the Chest Pain Society and is the first in North Carolina to obtain advanced heart failure certification from The Joint Commission.
- The Novant Health Derrick L. Davis Cancer Center (“DLDC”) offers a wide range of services for the prevention, early detection and treatment of virtually every form of cancer, including breast, prostate, colon, lung, gynecologic cancers and malignant/non-malignant hematology. State-of-the-art technology, such as SpaceOAR (hydrogel for radiation treatment to the prostate), minimally invasive robotic surgery techniques for prostatectomies and gynecology oncology hysterectomies, and phase 1 clinical trial options are offered, providing a variety of options for cancer care. DLDC is one of the largest cancer centers in North Carolina. DLDC is accredited as a network cancer program with the Commission on Cancer with American College of Surgeons and was the first program in North Carolina to receive this designation. DLDC is also a National Accreditation Program for Breast Centers and certified at the highest level by the American College of Radiology.
- Forsyth Neurovascular Center combines state-of-the-art technology with leading edge research and internationally recognized medical staff to provide comprehensive, neuro-interventional coverage 24 hours a day, seven days a week. One of the few non-academic medical centers in the Southeast providing such depth of coverage, the center offers an interdisciplinary treatment approach for individuals with brain, spine and other nervous system conditions. Diagnostic and therapeutic care is facilitated by two MRI scanners, four multi-slice CT scanners (including two 64-slice scanners) and three angiography suites. The center was one of the first in North Carolina to receive a Comprehensive Stroke Center Certification from The Joint Commission and is one of the busiest stroke centers offering cutting edge research trials only available to a dozen other centers in the United States and Canada. Additionally, Novant Health Forsyth Medical Center, through research, supports an initiative aimed at reducing excessively high rates of stroke, stroke disabilities and stroke deaths that disproportionately occur in the southeastern region of the United States.

- The Maya Angelou Center for Women’s Health and Wellness at Novant Health Forsyth Medical Center was created to provide individualized care for women in all life-stages. In keeping with Dr. Angelou’s strong, inspiring spirit, the center reaches out to promote women’s and girls’ health and wellness locally, nationally and internationally. The center was the region’s first hospital to have a da Vinci robotic surgical system dedicated to performing minimally invasive surgical procedures for women, receiving the designation as a Center of Excellence in Minimally Invasive Gynecology in 2012, making the center one of the first in North Carolina to receive such a designation. It also established the region’s first Women’s Heart Center, a comprehensive center for heart care, combining prevention, early diagnosis, research and education. The center operates the largest birthing center in North Carolina and is the Regional Perinatal Referral Center for the 20 northwest counties of North Carolina. It also achieved Baby-Friendly designation in 2017 by Baby Friendly USA, a joint collaboration between the World Health Organization and the United Nations Children’s Fund. The center extends care outside of the community through prenatal care at clinics such as Novant Health Today’s Woman and through in-home nurse visits for new mothers with a program called Forsyth Connects.

Novant Health Thomasville Medical Center is a 146-bed facility located in Thomasville, North Carolina that offers a full range of inpatient and outpatient services, birthing rooms and an emergency department. The hospital’s specialty programs include The Triad Heartburn Treatment Center, The Total Joint Center, The Spine Center, Geriatric Behavioral Health, The Chest Pain Center and The Sleep Disorders Center.

Novant Health Medical Park Hospital is a 22-bed hospital located in Winston-Salem, North Carolina that specializes in elective, outpatient and short-stay surgical procedures.

Novant Health Kernersville Medical Center is a 50-bed community hospital located in Kernersville, North Carolina that provides surgery, emergency care, diagnostic testing, inpatient care, heart and cancer care and other medical services.

Novant Health Clemmons Medical Center is a 36-bed community hospital located in Clemmons, North Carolina. The facility first opened in 2013 with an emergency department and two operating rooms. In 2017, an expansion was completed that added an additional three operating rooms along with 36 medical surgical beds and six observation beds. This community hospital now provides 24/7 emergency care, surgery, imaging and diagnostic testing, and advanced orthopedic services.

Novant Health Presbyterian Medical Center is a 576-bed tertiary care facility located in Charlotte, North Carolina. Some of the honors and specialized services at Novant Health Presbyterian Medical Center include:

- The Belk Heart & Vascular Institute brings together 32 cardiologists, cardiac surgeons and vascular surgeons offering innovative and life-changing care for patients with heart and vascular diseases in one location. The specialty clinics include noninvasive cardiac testing, electrophysiology, cardiac rehabilitation, cardio-oncology, heart failure, interventional cardiology, preventive cardiology, structural heart intervention, minimally invasive cardiac surgery, valve replacement, noninvasive vascular lab and peripheral arterial disease. Special features include the heart valve clinic, which combines therapeutic options and state-of-the-art technologies to treat heart valve disease. Here, cardiologists and cardiac surgeons come together to evaluate and plan the best options for each patient, which may include traditional open-heart interventions, minimally invasive approaches or completely percutaneous repairs and replacements of heart valves. The institute also provides patients

with an Intersocietal Accreditation Commission-accredited vascular laboratory, which provides noninvasive ultrasound evaluations of vascular disease, including carotid disease, deep vein thrombosis, venous disease, arterial disease perforator vein and venous insufficiency. Finally, The Bank of America Wellness Center offers programs for cardiac and cancer patients, including exercise therapy, education on lifestyle and disease management, nutrition counseling along with mindfulness, well-being and social support.

- The Weisiger Cancer Institute brings together 32 cancer specialists representing 12 specialty clinics, including gastrointestinal and hepatobiliary, genitourinary, head and neck, gynecologic, breast, hematology and thoracic oncology. Additionally, the institute offers advanced treatments, radiation oncology, breast cancer care, cellular therapy and developmental therapeutics. The institute provides high-level treatment technology, including two linear accelerators. In addition, it provides a dedicated area for cancer research and phase I, II and III clinical trials and gives patients access to the newest treatments available. The facility includes 80 chemotherapy infusion suites with floor-to-ceiling windows that overlook the Charlotte skyline. Multidisciplinary care provides patients the opportunity to meet with multiple top cancer experts in one place and at one time to explore best treatment options, ask questions and address concerns. Another feature of the facility is the Sherry Strong Integrative Medicine Center, a holistic center that addresses the physical, emotional, spiritual and environmental needs of cancer patients to promote health and wellness. For continued support, the institute includes cancer rehabilitation services, including wellness and fatigue management, physical, occupational and speech therapy, nutritional counseling and lymphedema services. The cancer program has been re-accredited as an Integrated Network by the American College of Surgeons Commission on Cancer.
- The Neurosciences Institute and Innovation Center is comprised of industry-leading clinicians and care across the entire spectrum of brain and spine needs. Novant Health Presbyterian Medical Center is home to one of two comprehensive stroke centers, a status that only five other systems in the nation currently hold. The stroke program at Novant Health Presbyterian Medical Center was the first facility in Charlotte, North Carolina to achieve comprehensive stroke status. In addition to stroke, Novant Health Presbyterian Medical Center is home to an array of subspecialists in the practice of Neurology and Neurosurgery. Novant Health Presbyterian Medical Center performs pediatric neurosurgeries under the expertise of Charlotte's only fellowship trained pediatric neurosurgeon and is developing a functional neurosurgery program with the only fellowship trained functional neurosurgeon in the Charlotte region. The facility is staffed 24/7 by neurocritical care trained neurologists and endovascular neurosurgeons, maintaining the capacity to treat the highest acuity emergent brain and nervous system needs.
- Novant Health Presbyterian Medical Center for Women's Health offers comprehensive services for women of every age. The center, which opened in September 2004, provides care for women in a state-of-the-art setting. The Women's Center has 49 licensed obstetric beds (labor & delivery, ante partum and post-partum rooms) and has 38 licensed Level IV (highest State of North Carolina designation) neo-natal intensive care beds. The Maternity Center takes patients and their families through every step of the childbirth process, from preconception planning to birth and neonatal intensive care services to parenting education. The Nursing Mother's Place is the largest breastfeeding program in the area and the Osteoporosis Center provides testing, counseling and education for women at risk of developing osteoporosis.

- Novant Health Hemby Children’s Hospital is a regional leader dedicated to family-centered care for children. One of the hospital’s main goals is to make a child’s hospital stay as comfortable as possible. Family rooms feature a parent bed, private bathroom, kitchen area with microwave, and multimedia entertainment center. A child-life staff coordinates individual and group play, either in the large colorful playroom or in the child’s own room. Arts and crafts, games and music are some of the activities that help children and families cope with the stress of hospitalization and illness. A pediatric intensive care unit is staffed by pediatric intensivists and a team of specially trained pediatric registered nurses.
- Novant Health Presbyterian Medical Center was honored as one of the 50 best hospitals in America by Becker’s Hospital Review.

Novant Health Charlotte Orthopedic Hospital, located on the campus of Novant Health Presbyterian Medical Center, is a 58-bed specialty orthopedic and spine hospital. As one of the few hospitals in the nation dedicated solely to orthopedic and spine injuries and diseases, Novant Health Charlotte Orthopedic Hospital has received national recognition with five disease specific certifications from The Joint Commission, rated 33rd in overall quality nation-wide by CareChex, and named Top 100 Orthopedic Programs nationally by Becker’s Hospital Review. Orthopedic specialists use advanced technology to diagnose and treat injuries and diseases of the bones, spine and joints. For spine surgery, total joint replacement or sports medicine services, Novant Health Charlotte Orthopedic Hospital provides expert diagnosis, treatment and rehabilitation quickly and effectively. The medical team includes board-certified orthopedic surgeons, physiatrists, anesthesiologists, physician assistants, certified registered nurses, physical therapists, occupational therapists, radiology and surgical technologists. Novant Health Charlotte Orthopedic Hospital offers the most advanced technologies available in a seven-room orthopedic surgery suite, a five-room outpatient surgery center, three specialized patient care units and a full-service diagnostic imaging department. A cutting-edge replacement facility was completed in 2017 and was designed around the entire patient care continuum, starting with a pre-op surgical wellness clinic, moving to new, state-of-the-art operating rooms, 32 new patient rooms and a rehabilitation gym for post-operative care.

Novant Health Matthews Medical Center is a 157-bed acute care facility located southeast of Charlotte in Matthews, North Carolina. Built in 1994 to accommodate the population growth in the area, Novant Health Matthews Medical Center offers a full range of medical services, including inpatient and outpatient surgery, radiology, laboratory, emergency services and cardiac catheterization. The emergency department, including a chest pain emergency room, features two entrances, one for patients arriving by ambulance and one for ambulatory patients. Novant Health Matthews Medical Center also offers services for cardiology, cancer, rehabilitation and sleep medicine. The Family Maternity Center is a 23-bed unit with rooms offering appealing decor and amenities such as a recliner, refrigerator, multimedia entertainment center, balcony and jacuzzi. Novant Health Matthews Medical Center is also home to the Health Library, the region’s most comprehensive resource library for health and medical information available to the community. An expansion completed in 2013 added a fifth floor to the hospital, with an additional 23 patient rooms, nine observation beds and three hospice beds.

Novant Health Huntersville Medical Center is a 139-bed acute care facility located north of Charlotte in Huntersville, North Carolina. Opened in November 2004, services provided include an emergency department that is staffed 24 hours a day, seven days a week. The state-of-the-art surgery center is equipped with six operating rooms and four endoscopy suites. The facility also offers intensive care services, comprehensive cardiac services including a heart catheterization lab, labor and delivery, medical-surgical services and Level II neo-natal intensive care services.

Novant Health Mint Hill Medical Center is a 36-bed acute care facility located east of Charlotte in Mint Hill, North Carolina. Opened in October 2018, services provided include an emergency department, inpatient and outpatient surgery and diagnostic and imaging services. The center also includes a freestanding medical office building and a physician plaza for general and specialized inpatient and outpatient care.

Novant Health Ballantyne Medical Center is a 36-bed acute care facility located in south Charlotte approximately two miles from the South Carolina border. Opened in 2023, services provided include emergency and inpatient services, diagnostic and surgical services, maternity care and a variety of on-site specialty care services, including women's health, orthopedics and cancer.

Novant Health Rowan Medical Center is a 268-bed facility that provides services such as emergency room, maternity center, surgery, diagnostics, rehabilitation and other specialty care, such as hospice and psychiatry.

Novant Health New Hanover Regional Medical Center is an 800-bed teaching hospital, regional referral center and UNC School of Medicine branch campus located in Wilmington, North Carolina, that offers a full continuum of emergency, medical, surgical, rehabilitation and behavioral health services. Of the 800 licensed beds, 678 are for general acute care, 60 are for rehabilitation and 62 are for psychiatric care. Some of the honors and specialized services found at Novant Health New Hanover Regional Medical Center include:

- DNV GL Healthcare USA, Inc. has certified Novant Health New Hanover Regional Medical Center as a Comprehensive Stroke Center, reflecting the highest level of competence for treatment of serious stroke events. The Comprehensive Stroke Center Certification affirms that the medical center addresses the full spectrum of stroke care – diagnosis, treatment, rehabilitation and education – and establishes clear metrics to evaluate outcomes. Novant Health New Hanover Regional Medical Center is the only hospital in southeastern North Carolina to offer 24/7 neuro-interventional coverage to treat patients suffering cerebrovascular emergencies, including stroke and aneurysms. Additionally, Novant Health New Hanover Regional Medical Center has received the Get With The Guidelines – Stroke Gold Plus Quality Achievement Award from the American Stroke Association/American Heart Association. The award recognizes a commitment to ensuring stroke patients receive the most appropriate treatment according to nationally recognized, research-based guidelines.
- Novant Health New Hanover Regional Medical Center has been recognized for excellence in preventing heart attacks and strokes by Million Hearts, a national initiative that aims to prevent one million heart attacks and strokes in five years. Million Hearts, an initiative coled by the Centers for Disease Control and Prevention and CMS, focuses on a small set of priorities selected for their ability to reduce heart disease, stroke, and related conditions. Novant Health New Hanover Regional Medical Center was selected based upon the use of innovative care strategies and prevention and treatment achievements.
- Novant Health New Hanover Regional Medical Center has been recognized for treatment of patients who suffer heart attacks and those with congestive heart failure by the American Heart Association (“AHA”). Novant Health New Hanover Regional Medical Center received the AHA’s Mission: Lifeline NSTEMI Gold Quality Achievement Award and the Mission: Lifeline Gold Plus STEMI Receiving Quality Achievement Award for implementing specific quality improvement measures outlined by the AHA for the treatment of patients who suffer heart attacks. Novant Health New Hanover Regional

Medical Center earned the awards by providing quick and appropriate emergency treatment to re-establish blood flow to blocked arteries in heart attack patients coming into the hospital directly or by transfer from another facility. Additionally, Novant Health New Hanover Regional Medical Center received the Get With The Guidelines – Heart Failure Silver Plus Quality Achievement Award for ensuring heart failure patients receive the most appropriate treatment according to nationally recognized, research-based guidelines. The goal is speeding recovery and reducing hospital readmissions for heart failure patients. Novant Health New Hanover Regional Medical Center earned the award by meeting specific quality achievement measures for the diagnosis and treatment of heart failure patients.

- The Novant Health New Hanover Regional Medical Center Zimmer Cancer Center in Wilmington, North Carolina, is the only comprehensive center dedicated to the diagnosis, treatment and support of cancer patients in southeastern North Carolina. The center also houses the hospital's cancer clinical trials program, giving local residents a chance to participate in national treatment studies. Novant Health New Hanover Regional Medical Center approaches treating cancer as a complex group of diseases that requires consultation among surgeons, medical and radiation oncologists, diagnostic radiologists, pathologists, and other specialists. This treatment approach results in improved patient care. Novant Health New Hanover Regional Medical Center's cancer program is accredited by the Commission on Cancer. To earn the voluntary accreditation, Novant Health New Hanover Regional Medical Center met quality care standards and is required to maintain levels of excellence in the delivery of comprehensive patient-centered care.
- The Betty H. Cameron Women's and Children's Hospital at Novant Health New Hanover Regional Medical Center provides comprehensive tertiary care for women in specially designed units for high-risk pregnancy, labor and delivery, mother/baby, and gynecological conditions including urogynecology and gynecological oncology. The children's units include pediatrics, pediatric intensive care and neonatal intensive care. The pediatric intensive care unit and pediatrics unit are the only units designed specifically for children in southeastern North Carolina. Every child's room includes a sleep sofa for parents. A family living room, kitchen and washer/dryer unit provide basic amenities for parents staying with children. The all private room neonatal intensive care unit is available for infants born prematurely or requiring specialty care. Pediatric care is supported by pediatric hospitalists, pediatric intensivists and pediatric surgeons available 24 hours a day. Transport service is available to provide tertiary level neonatal services to community hospitals in a seven-county region.
- The Novant Health New Hanover Regional Medical Center Rehabilitation Hospital provides inpatient services to patients requiring rehabilitation services for treatment of conditions such as arthritis, multiple sclerosis, stroke, amputation and traumatic brain and spinal cord injuries. The Rehabilitation Hospital also offers day hospital services for those patients undergoing therapies of four to six hours per day.
- The Novant Health New Hanover Regional Medical Center Behavioral Health Hospital provides inpatient psychiatric programs, including for patients with co-occurring mental health and substance abuse disorders. It is staffed by a comprehensive team of mental healthcare professionals, including board-certified psychiatrists and psychiatric nurse practitioners, counselors, clinical social workers and recreation therapists.

- Novant Health New Hanover Regional Medical Center Orthopedic Hospital in Wilmington, North Carolina, offers highly specialized orthopedic services and features specialty trained orthopedic nurses, therapists, technicians and surgeons who are board-certified or eligible in orthopedic surgery. The hospital has specialists in hand and shoulder, foot and ankle, sports medicine and joint replacement, and has earned Blue Distinction Center+ designations for Knee and Hip Replacement from Blue Cross Blue Shield. The campus also includes a full-service 24-hour emergency department and radiology services.

Novant Health Brunswick Medical Center is a 74-bed acute care hospital located in Bolivia, North Carolina that offers maternity care, 24/7 emergency services, intensive and progressive care units, surgery, outpatient diagnostic testing and other community healthcare programs. Formerly known as Brunswick Community Hospital, the new and larger replacement medical center, located in the heart of Brunswick County, opened in the summer of 2011.

Pender Medical Center is a 25-bed critical access hospital with 43 skilled nursing home beds located in Burgaw, North Carolina, approximately 25 miles northeast of Wilmington.

Novant Health East Cooper Medical Center is a full-service 130 bed acute-care facility located in Mount Pleasant, South Carolina that was completed in 2010. The facility includes a Level III trauma certified emergency department, helicopter landing pad, dedicated women's services and breast centers, an outpatient rehabilitation center, a sleep disorder center, and 10 state-of-the-art operating rooms.

Novant Health Hilton Head Hospital is a 93-bed acute-care facility located in Hilton Head, South Carolina providing services in cardiac care, orthopedics, obstetrics, surgery, physical rehabilitation, and 24-hour emergency care.

Novant Health Coastal Carolina Hospital is a 44-bed acute-care facility located in Hardeeville, South Carolina which opened in 2004. Services provided include surgical services, diagnostic imaging including MRI and CT, 24-hour emergency care, and inpatient rehabilitation.