

**Catawba Valley Medical Center
and Affiliate**
(A Component Unit of Catawba County)

Combined Financial Statements,
Compliance Reports and
Supplemental Schedules

Years Ended June 30, 2012 and 2011



DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

Catawba Valley Medical Center and Affiliate

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Catawba Valley Medical Center and Affiliate

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Catawba Valley Medical Center and Affiliate
Hickory, North Carolina

We have audited the accompanying combined balance sheets of Catawba Valley Medical Center and Affiliate (the "Medical Center"), a component unit of Catawba County, as of June 30, 2012 and 2011, and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Catawba Valley Medical Center and Affiliate as of June 30, 2012 and 2011, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2012 on our consideration of Catawba Valley Medical Center and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and employee's pension plan required supplementary information - schedule of funding progress and notes to the required schedule and the condensed schedule of revenues and expenses information - budget to actual on pages 3 through 6 and 34 through 35, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Medical Center's basic financial statements. The supplemental schedules of net patient service revenues, other operating revenues and operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The supplemental schedules of net patient service revenues, other operating revenues and operating expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the Unit States of America. In our opinion, the supplemental schedules of net patient service revenues, other operating revenues and operating expenses and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Dixon Hughes Goodman LLP

October 22, 2012

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis of Catawba Valley Medical Center and Affiliate's financial performance provides an overview of the Medical Center's financial position and financial activities for the fiscal years ended June 30, 2012 and 2011. This narrative should be read in conjunction with the combined financial statements and the accompanying notes to those combined financial statements.

The combined balance sheets present all of the Medical Center's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Medical Center's net assets may serve as a useful indicator of whether the financial position of the Medical Center is improving or deteriorating. The combined statement of revenues, expenses and changes in net assets presents information showing how the Medical Center's net assets changed during the most recent fiscal year. It includes operating revenues, operating expenses, nonoperating income, and capital grants and contributions to arrive at the increase in net assets.

**Catawba Valley Medical Center and Affiliate
Combined Balance Sheets**

ASSETS	June 30, 2012	June 30, 2011	June 30, 2010
Current assets	\$ 125,634,186	\$ 124,675,667	\$ 110,612,589
Restricted investments	5,517,682	5,382,097	5,322,530
Capital assets, net	104,149,776	79,834,278	69,005,681
Other assets	<u>19,084,962</u>	<u>15,416,071</u>	<u>14,891,255</u>
TOTAL ASSETS	<u>\$ 254,386,606</u>	<u>\$ 225,308,113</u>	<u>\$ 199,832,055</u>
 LIABILITIES			
Current liabilities	\$ 44,479,411	\$ 37,280,067	\$ 33,035,811
Long-term liabilities	<u>53,674,395</u>	<u>46,364,647</u>	<u>37,391,602</u>
TOTAL LIABILITIES	<u>98,153,806</u>	<u>83,644,714</u>	<u>70,427,413</u>
 NET ASSETS			
Invested in capital assets, net of related debt	55,013,990	47,545,314	46,383,114
Restricted:			
Debt service	-	1,313,810	1,170,287
Capital projects	5,517,682	5,382,097	5,322,530
Other specific purposes	69,059	37,659	189,293
Unrestricted	<u>95,632,069</u>	<u>87,384,519</u>	<u>76,339,418</u>
TOTAL NET ASSETS	<u>156,232,800</u>	<u>141,663,399</u>	<u>129,404,642</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 254,386,606</u>	<u>\$ 225,308,113</u>	<u>\$ 199,832,055</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Catawba Valley Medical Center and Affiliate
Combined Statements of Revenues, Expenses and Changes in Net Assets**

	June 30, 2012	June 30, 2011	June 30, 2010
OPERATING REVENUES			
Patient service revenues	\$ 650,739,216	\$ 601,244,844	\$ 573,557,881
Contractual allowances, adjustments, provision for bad debts, and charity care	<u>444,071,082</u>	<u>412,694,653</u>	<u>389,284,333</u>
Net patient service revenues	206,668,134	188,550,191	184,273,548
Other operating revenues	<u>3,977,796</u>	<u>4,239,449</u>	<u>4,353,110</u>
TOTAL OPERATING REVENUES	<u>210,645,930</u>	<u>192,789,640</u>	<u>188,626,658</u>
OPERATING EXPENSES			
Wages, salaries and benefits	110,027,409	101,535,939	100,826,006
Materials and supplies	38,357,526	38,854,793	38,524,134
Purchased services	20,674,103	15,127,072	14,512,013
Other	13,270,815	12,369,204	11,427,611
Contractual services and professional fees	577,467	284,690	264,082
Insurance	2,285,548	1,719,247	2,207,517
Depreciation	12,525,812	12,537,331	12,961,346
Amortization	60,000	60,000	60,000
Gain on disposal of capital assets	<u>(214,181)</u>	<u>(43,524)</u>	<u>(816,566)</u>
TOTAL OPERATING EXPENSES	<u>197,564,499</u>	<u>182,444,752</u>	<u>179,966,143</u>
INCOME FROM OPERATIONS	<u>13,081,431</u>	<u>10,344,888</u>	<u>8,660,515</u>
NONOPERATING INCOME, NET	<u>1,478,067</u>	<u>1,884,991</u>	<u>2,287,309</u>
CAPITAL GRANTS AND CONTRIBUTIONS	<u>9,903</u>	<u>28,878</u>	<u>41,957</u>
INCREASE IN NET ASSETS	<u>\$ 14,569,401</u>	<u>\$ 12,258,757</u>	<u>\$ 10,989,781</u>

MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE

Patient Services Revenues

Gross patient revenues increased 8.2% during fiscal year 2012, from approximately \$601 million in fiscal year 2011 to approximately \$651 million in fiscal year 2012. Outpatient revenues as a percent of total patient service revenues remained stable at 59%. Increased volumes and the addition of new services offered have contributed to the revenue growth. During fiscal year 2012, the Medical Center experienced slight increases in the percentages of Managed Care, Medicare and Medicaid to total revenues, as demonstrated in the chart below.

FINANCIAL CLASS	<u>Fiscal Year 2012</u>	<u>Fiscal Year 2011</u>	<u>Fiscal Year 2010</u>
Self-Pay	7.3%	7.4%	7.8%
Blue Cross	16.3%	17.3%	20.1%
Workers Compensation	1.0%	1.1%	1.1%
Managed Care	14.5%	14.2%	13.3%
Commercial	1.7%	1.7%	2.0%
Medicare	42.2%	41.4%	38.9%
Medicaid	14.8%	14.4%	14.3%
Other	2.2%	2.5%	2.5%

Adjustments to Gross Revenues

Adjustments to total patient service revenues, which include Medicare and Medicaid contractual adjustments and other adjustments and allowances, amounted to 68.2% of patient service revenues for the year ended June 30, 2012 compared to 68.6% for the year ended June 30, 2011. In 2012, the percentage of self-pay/charity care adjustments as a percentage of total patient service revenues was 7.3% as compared to 7.9% in 2011. There was a .5% increase in bad debt and charity care adjustments in 2012 from \$47.3 million in 2011 to \$47.5 million in 2012.

Expenses

Operating expenses increased 8.3% during fiscal year 2012. New and expanded services accounted for the majority of this increase. Overall, expenses increased slightly as a percentage of total patient service revenues from 30.3% in fiscal year 2011 to 30.4% in fiscal year 2012.

During the 2011-2012 fiscal year, Catawba Valley Medical Center expanded its physician group – Catawba Valley Medical Group, by adding a cardiology practice and an additional primary care location. Management continues to be committed to expense control through management of the employee workforce and overtime, management of supply utilization, elimination of nonessential expenses and utilization of Premier group purchasing agreements.

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE MANAGEMENT'S DISCUSSION AND ANALYSIS

Increase in Net Assets

The increase in net assets increased from approximately \$12.3 million in fiscal year 2011 to \$14.6 million in fiscal year 2012. The increase in net assets represented approximately 6.5% and 7.0% of net patient service revenues in fiscal year 2011 and fiscal year 2012, respectively.

Assets

Total assets of the Medical Center have increased from \$225.3 million in fiscal year 2011 to \$254.4 million in fiscal year 2012 (12.9% increase). This increase is largely the result of a \$24.3 million increase in capital assets. Cash, cash equivalents, and investments have increased from \$89.4 million in fiscal year 2011 to \$95.8 million in fiscal year 2012.

Net accounts receivable as measured in net days outstanding (net accounts receivable multiplied by the number of days in the period divided by net patient service revenue generated) as of June 30, 2012 equaled 45 days and reflects management's commitment to an aggressive receivables management program.

Net capital assets equaled \$79.8 million in fiscal year 2011 and \$104.1 million in fiscal year 2012. The Medical Center recorded approximately \$35.7 million in capital equipment and facility additions during fiscal year 2012. The most significant capital expenditures during fiscal year 2012 related to the Medical Center's construction project.

Liabilities and Net Assets

The Medical Center's long-term debt increased from fiscal year 2011 to fiscal year 2012. As a percentage of net assets, long-term debt, excluding current installments, has increased from 32.7% in fiscal year 2011 to 34.4% in fiscal year 2012. During February 2012, the final \$11 million from the 2010 bond issue was funded. These bonds were issued to finance the Medical Center's five-level women's and oncology pavilion. During August 2011, the County issued \$11.3 million of tax-exempt revenue bonds. These bonds were privately placed with BB&T at a fixed interest rate of 3.23 percent and a 6-year term. The funds from these bonds were used to refund the County's 1999 hospital revenue bonds and finance the cost of this bond issue.

Net assets have grown from \$141.7 million in fiscal year 2011 to \$156.2 million in fiscal year 2012 (10.2% increase) largely due to the profitable performance of the Medical Center over the past year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Catawba Valley Medical Center's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to: Finance Department, Catawba Valley Medical Center, 810 Fairgrove Church Road SE, Hickory, North Carolina 28602.

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
COMBINED BALANCE SHEETS
June 30, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 27,538,138	\$ 29,078,364
Certificates of deposit	53,816,075	46,004,055
Receivables:		
Patients (net of allowance for uncollectible accounts of approximately \$25,891,000 in 2012 and \$25,784,000 in 2011)	25,323,298	21,403,687
Other receivables	2,966,711	2,800,334
Refundable sales taxes	1,360,591	1,263,388
Accrued interest	83,505	272,067
Inventories	5,494,074	4,940,369
Other current assets	1,745,740	1,354,721
Restricted assets:		
Cash and cash equivalents	69,059	37,659
Investments held by bond trustee for current debt service liabilities	-	1,313,810
Investments restricted for capital acquisition by bond agreement	7,236,995	16,207,213
TOTAL CURRENT ASSETS	125,634,186	124,675,667
RESTRICTED INVESTMENTS		
Held by County for capital projects	5,517,682	5,382,097
CAPITAL ASSETS, at cost		
Land and construction in progress	32,653,184	22,890,380
Other capital assets, net of depreciation	71,496,592	56,943,898
CAPITAL ASSETS, NET	104,149,776	79,834,278
OTHER ASSETS		
Investments, designated by Board of Trustees	8,971,701	8,920,083
Other investments	702,580	701,136
Prepaid pension costs	4,512,588	1,087,748
Cash value of life insurance	3,827,415	3,592,391
Bond issuance costs, net	1,023,694	1,007,729
Intangible assets, net	46,984	106,984
TOTAL OTHER ASSETS	19,084,962	15,416,071
TOTAL ASSETS	\$ 254,386,606	\$ 225,308,113

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
COMBINED BALANCE SHEETS
June 30, 2012 and 2011

LIABILITIES	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Current installments of long-term debt	\$ 2,460,000	\$ 1,890,000
Current installments of obligations under capital leases	238,386	241,530
Accounts and contracts payable	8,259,261	7,318,518
Accrued salaries	1,736,668	1,167,466
Accrued compensated absences	4,224,634	4,023,333
Accrued interest	117,308	161,013
Third-party payor settlements payable	21,450,118	17,216,267
Other current liabilities	<u>5,993,036</u>	<u>5,261,940</u>
TOTAL CURRENT LIABILITIES	<u>44,479,411</u>	<u>37,280,067</u>
LONG-TERM LIABILITIES		
Long-term debt, excluding current installments (net of deferred loss on defeased debt of \$645,687 in 2012 and \$768,699 in 2011)	53,489,313	45,928,138
Non-current installments of obligations under capital leases	<u>185,082</u>	<u>436,509</u>
TOTAL LONG-TERM LIABILITIES	<u>53,674,395</u>	<u>46,364,647</u>
TOTAL LIABILITIES	<u>98,153,806</u>	<u>83,644,714</u>
NET ASSETS		
Invested in capital assets, net of related debt	55,013,990	47,545,314
Restricted:		
Debt service	-	1,313,810
Capital projects	5,517,682	5,382,097
Other specific purposes	69,059	37,659
Unrestricted	<u>95,632,069</u>	<u>87,384,519</u>
TOTAL NET ASSETS	<u>156,232,800</u>	<u>141,663,399</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 254,386,606</u>	<u>\$ 225,308,113</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Net patient service revenues (net of provision for bad debts of approximately \$31,838,000 in 2012 and approximately \$32,319,000 in 2011)	\$ 206,668,134	\$ 188,550,191
Other operating revenues	<u>3,977,796</u>	<u>4,239,449</u>
TOTAL OPERATING REVENUES	<u>210,645,930</u>	<u>192,789,640</u>
OPERATING EXPENSES		
Nursing services	55,339,262	54,560,129
Other professional services	50,706,798	49,364,235
Catawba Valley Medical Group	10,172,042	6,582,239
General services	14,098,826	12,996,273
Administrative services	54,875,940	46,388,069
Depreciation	12,525,812	12,537,331
Amortization	60,000	60,000
Gain on disposal of capital assets	<u>(214,181)</u>	<u>(43,524)</u>
TOTAL OPERATING EXPENSES	<u>197,564,499</u>	<u>182,444,752</u>
INCOME FROM OPERATIONS	<u>13,081,431</u>	<u>10,344,888</u>
NONOPERATING INCOME (EXPENSE)		
Interest expense	(1,014,956)	(1,373,032)
Investment income	704,954	1,350,464
Income from investees	948,595	1,007,483
Noncapital grants and contributions	<u>839,474</u>	<u>900,076</u>
NONOPERATING INCOME, NET	<u>1,478,067</u>	<u>1,884,991</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	14,559,498	12,229,879
CAPITAL GRANTS AND CONTRIBUTIONS	<u>9,903</u>	<u>28,878</u>
INCREASE IN NET ASSETS	14,569,401	12,258,757
NET ASSETS, BEGINNING	<u>141,663,399</u>	<u>129,404,642</u>
NET ASSETS, ENDING	<u>\$ 156,232,800</u>	<u>\$ 141,663,399</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$ 206,779,665	\$ 190,800,973
Cash paid to employees	(109,321,712)	(104,383,766)
Cash paid to suppliers	(76,249,446)	(67,141,055)
Other receipts from operations	4,256,112	4,222,372
	<u>25,464,619</u>	<u>23,498,524</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from noncapital grants and contributions	839,474	900,076
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and contributions	9,903	28,878
Capital expenditures	(35,695,808)	(21,044,421)
Principal payment on revenue bonds, net of amortization	(2,868,825)	(1,347,446)
Interest paid	(1,058,661)	(1,365,654)
Payments of capital lease obligations	(254,571)	(253,537)
Proceeds from issuance of new debt	11,000,000	11,000,000
Payment of bond issuance costs, net	(15,965)	(228,211)
Proceeds from disposal of capital assets	370,376	223,875
Contribution of prepaid pension costs	(3,424,840)	-
	<u>(31,938,391)</u>	<u>(12,986,516)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	893,516	1,368,757
Purchases of investments, net	10,096,825	(80,212)
Purchases of certificates of deposit, net	(7,812,020)	(5,903,489)
Payments received from investees	947,151	1,033,814
	<u>4,125,472</u>	<u>(3,581,130)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(1,508,826)	7,830,954
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	<u>29,116,023</u>	<u>21,285,069</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		
	<u>\$ 27,607,197</u>	<u>\$ 29,116,023</u>
CLASSIFIED AS:		
Unrestricted	\$ 27,538,138	\$ 29,078,364
Restricted	69,059	37,659
	<u>\$ 27,607,197</u>	<u>\$ 29,116,023</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011**

SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

The Medical Center and Affiliate incurred accounts payable to purchase fixed assets having a total cost of \$5,011,338 and \$3,709,641 during the years ended June 30, 2012 and 2011, respectively.

The Medical Center and Affiliate had net unrealized gains on investments of \$0 and \$12,098 during the years ended June 30, 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 13,081,431	\$ 10,344,888
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	12,525,812	12,537,331
Amortization of intangible assets	60,000	60,000
Gain on disposal of capital assets	(214,181)	(43,524)
Increase in cash value of life insurance	(235,024)	(238,434)
Increase in bad debt expense	107,000	709,000
Change in assets and liabilities:		
Decrease in patient receivables	(4,026,611)	(1,841,202)
(Increase) decrease in other receivables	(166,377)	22,610
(Increase) decrease in refundable sales taxes	(97,203)	828,498
(Increase) decrease in inventories	(553,705)	73,550
Increase in other current assets	(391,019)	(263,241)
Increase (decrease) in accounts and contracts payable	(360,954)	204,192
Increase (decrease) in accrued salaries	569,202	(2,902,894)
Increase in accrued compensated absences	201,301	7,711
Increase in third-party payor settlements payable	4,233,851	3,360,252
Increase in other current liabilities	731,096	639,787
	<u>731,096</u>	<u>639,787</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 25,464,619</u>	<u>\$ 23,498,524</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Catawba Valley Medical Center (the "Medical Center") was organized in 1962 by resolution of the Commissioners of Catawba County, North Carolina (the "County"). The governing body of the Medical Center is the Board of Trustees, which is appointed by the Commissioners of Catawba County. At least one member must also be a member of the County Board of Commissioners. The Medical Center is an instrumentality of the County and, as such, is not subject to income tax. The Medical Center is included as a discretely presented component unit in the financial statements of the County.

On October 1, 2011, Catawba Valley Medical Center established a separate 501(c) (3) entity for its medical group called Catawba Valley Medical Group, Inc. ("Medical Group"). The Medical Group was established to conduct health care and related services. Its operations consist of physician practices to provide physician services to the community. The Medical Center's Board of Trustees recommends directors for appointment to the Medical Group's Board of Trustees. All significant intercompany balances and transactions have been eliminated in combination. The combined entities are hereinafter referred to as the "Medical Center."

Use of Estimates

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

Basis of Accounting

The accompanying combined financial statements are prepared and presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as recommended in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to healthcare organizations.

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially, all revenues and expenses are subject to accrual.

Pursuant to Governmental Accounting Standards, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Medical Center has elected to apply the provisions of all relevant pronouncements of the codification, except for those that conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Charity Care

The Medical Center has a charity care policy whereby care to patients meeting certain established criteria is without charge or at amounts less than established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not included in patient service revenues.

Cash and Cash Equivalents

The Medical Center considers cash on hand and highly liquid investments with an original maturity of 90 days or less when purchased to be cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value).

Receivables from Patients

Patient accounts receivable are recorded at estimated net realizable value. Allowance for uncollectible accounts are computed based on statistical information from current and prior years' experience. The Medical Center grants credit to patients without collateral, substantially, all of whom are from the surrounding area.

Capital Assets

Capital assets are stated at cost, including interest costs incurred during construction. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which range from 18 to 40 years for buildings and land improvements and 3 to 15 years for equipment and leasehold improvements.

Restricted Assets

Restricted assets include assets that are subject to donor-imposed stipulations and assets held by the County or other trustees under indenture agreements.

Investments

Investments in debt instruments are stated at fair value. The stated amounts for investments approximate their fair values. Gains and losses, both realized and unrealized, are included in nonoperating income (expense).

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Investments (Continued)

Other investments and other assets are stated at cost except for the Medical Center's investment in a purchasing company, 50% ownership in an imaging management company and a 50% ownership in a heart services management company, which are accounted for on the equity method of accounting.

Intangible Assets

Intangible assets consist of the cost of purchasing a medical practice in excess of the value of the assets acquired. Beginning in the year ended June 30, 2011, intangible assets are measured for impairment annually.

Impairment Losses

Impairment losses are recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Medical Center has evaluated the carrying values of its long-lived assets and have determined that no writedowns for impairment were necessary for 2012 or 2011.

Net Assets

Net assets are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of governments, or imposed through state statute. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt or restricted.

Cost of Borrowing

Bond issuance costs are capitalized and amortized over the period the bonds are outstanding. Bond discounts and premiums are deferred and amortized over the period the bonds are outstanding.

Accrued Compensated Absences

The vacation policy of the Medical Center provides for the accumulation of up to 40 days earned vacation leave with such leave being fully vested when earned.

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Net Patient Service Revenues

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts, including a provision for doubtful accounts from patients, third-party payors, and others, for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as settlements are determined.

Grants and Contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenues. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses.

Operating Revenues and Expenses

The Medical Center's combined statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, except for interest, which is a nonoperating expense.

Restricted Resources

Resources restricted by donor-imposed stipulations are used before unrestricted resources. Resources restricted by the County or other trustees are not used unless unrestricted resources are insufficient or unavailable.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Deferred Compensation Plan

The Medical Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all Medical Center employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets, as required, are placed in trust for the exclusive benefit of the participants and their beneficiaries, and are excluded from the Medical Center's combined financial statements.

NOTE B - DEPOSITS

All deposits of the Medical Center are made in board-designated official depositories and are secured as required by North Carolina General Statute ("G.S.") 159-31. The Medical Center may designate, as an official depository, any bank or savings and loan whose principal office is located in North Carolina. Also, the Medical Center may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

All of the Medical Center's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage are collateralized with securities held by the Medical Center's agent in the Medical Center's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Medical Center, these deposits are considered to be held by the Medical Center's agent in the Medical Center's name. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Medical Center or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Medical Center under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE C - INVESTMENTS

Investments - Held by the Medical Center

G.S. 159-30(c) authorizes the Medical Center to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public hospital; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, an SEC-registered mutual fund.

Investments - Held by the Trustee

As of June 30, 2012, the Medical Center had certain investments held by a trustee as discussed in Note E. These investments were held by the trustee in the North Carolina Capital Management Trust.

Investments - Held by the County

The Medical Center also has investments, which are held by the County, and for which the County exercises depository and investment control as discussed in Note E.

These investments are held by the County in a cash and investment pool that is used by substantially all funds of the County. The County's cash and investment pool is invested in demand deposits, certificates of deposit, money market funds, the North Carolina Capital Management Trust and certain U.S. government agencies. At June 30, 2012 and 2011, approximately 3.7% and 3.4%, respectively, of the pooled cash and investment balances of the County were Medical Center funds.

At June 30, the Medical Center had the following investments and maturities:

	2012			2011		
	Fair Value	Less than One Year	One to Five Years	Fair Value	Less than One Year	One to Five Years
Held by Medical Center						
Certificates of deposit	\$ 2,925,180	\$ -	\$ 2,925,180	\$ 2,898,106	\$ 2,898,106	\$ -
Money rate savings accounts	<u>13,283,516</u>	<u>13,283,516</u>	<u>-</u>	<u>22,229,190</u>	<u>22,229,190</u>	<u>-</u>
Total held by Medical Center	<u>16,208,696</u>	<u>13,283,516</u>	<u>2,295,180</u>	<u>25,127,296</u>	<u>25,127,296</u>	<u>-</u>
Held by Trustee						
N.C. Capital Management Trust Cash Portfolio	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,313,810</u>	<u>1,313,810</u>	<u>-</u>
Total held by Trustee	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,313,810</u>	<u>1,313,810</u>	<u>-</u>
Held by County						
Pooled investments	<u>5,517,682</u>	<u>5,517,682</u>	<u>-</u>	<u>5,382,097</u>	<u>5,382,097</u>	<u>-</u>
Total held by County	<u>5,517,682</u>	<u>5,517,682</u>	<u>-</u>	<u>5,382,097</u>	<u>5,382,097</u>	<u>-</u>
Total investments	<u>\$ 21,726,378</u>	<u>\$ 18,801,198</u>	<u>\$ 2,925,180</u>	<u>\$ 31,823,203</u>	<u>\$ 31,823,203</u>	<u>\$ -</u>

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE C - INVESTMENTS (Continued)

Interest Rate Risk

The Medical Center has an investment policy designed to limit its exposure to losses from rising interest rates. Generally, the average time to maturity of Medical Center investments shall not exceed one year and the maximum term of a specific investment shall not exceed two years. However, if extending average maturities permits trading and portfolio advantages, then maturities can exceed these limits.

Investment Return

The Medical Center had \$704,954 and \$1,338,366 in interest income and \$- and \$12,098 in unrealized gains for the years ended June 30, 2012, and 2011, respectively.

NOTE D - CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended June 30, 2012 and 2011 were as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Non-depreciable assets:					
Land	\$ 3,389,125	\$ 66,762	\$ -	\$ -	\$ 3,455,887
Construction-in-progress	19,501,255	27,819,120	-	(17,918,958)	29,401,417
Depreciable assets:					
Land improvements	3,147,658	42,260	-	2,795	3,192,713
Buildings and fixed equipment	104,835,138	821,783	(19,635)	13,889,915	119,527,201
Movable equipment	97,639,889	8,235,630	(4,248,156)	3,633,962	105,261,325
Leasehold improvements	<u>1,966,365</u>	<u>11,950</u>	<u>-</u>	<u>392,286</u>	<u>2,370,601</u>
Total at historical cost	<u>230,479,430</u>	<u>36,997,505</u>	<u>4,267,791</u>	<u>-</u>	<u>263,209,144</u>
Less accumulated depreciation for:					
Land improvements	1,975,149	92,395	-	-	2,067,544
Buildings and fixed equipment	73,302,802	3,888,818	(8,076)	-	77,183,544
Movable equipment	74,283,317	8,322,750	(4,103,520)	-	78,502,547
Leasehold improvements	<u>1,083,884</u>	<u>221,849</u>	<u>-</u>	<u>-</u>	<u>1,305,733</u>
Total accumulated depreciation	<u>150,645,152</u>	<u>12,525,812</u>	<u>(4,111,596)</u>	<u>-</u>	<u>159,059,368</u>
Capital assets, net	<u>\$ 79,834,278</u>	<u>\$ 24,471,693</u>	<u>\$ (156,195)</u>	<u>\$ -</u>	<u>\$ 104,149,776</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE D - CAPITAL ASSETS (Continued)

	Balance June 30, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Non-depreciable assets:					
Land	\$ 3,368,433	\$ 20,692	\$ -	\$ -	\$ 3,389,125
Construction-in-progress	12,579,140	15,745,951	-	(8,823,836)	19,501,255
Depreciable assets:					
Land improvements	2,344,062	-	-	803,596	3,147,658
Buildings and fixed equipment	97,532,670	842,909	(1,495)	6,461,054	104,835,138
Movable equipment	93,630,766	6,841,420	(4,391,483)	1,559,186	97,639,889
Leasehold improvements	<u>1,874,342</u>	<u>95,307</u>	<u>(3,284)</u>	<u>-</u>	<u>1,966,365</u>
Total at historical cost	<u>211,329,413</u>	<u>23,546,279</u>	<u>(4,396,262)</u>	<u>-</u>	<u>230,479,430</u>
Less accumulated depreciation for:					
Land improvements	1,892,313	82,836	-	-	1,975,149
Buildings and fixed equipment	69,573,370	3,730,105	(673)	-	73,302,802
Movable equipment	69,978,043	8,520,184	(4,214,910)	-	74,283,317
Leasehold improvements	<u>880,006</u>	<u>204,206</u>	<u>(328)</u>	<u>-</u>	<u>1,083,884</u>
Total accumulated depreciation	<u>142,323,732</u>	<u>12,537,331</u>	<u>(4,215,911)</u>	<u>-</u>	<u>150,645,152</u>
Capital assets, net	<u>\$ 69,005,681</u>	<u>\$ 11,008,948</u>	<u>\$ (180,351)</u>	<u>\$ -</u>	<u>\$ 79,834,278</u>

NOTE E - RESTRICTED ASSETS

The 1999 bond order required monthly deposits by the Medical Center to the trustee in amounts sufficient to fund certain future principal and interest maturities. The bonds were refunded effective August 4, 2011 (see Note H). A summary of the funds under indenture - held by trustee at June 30, 2012 and 2011, is as follows:

	2012	2011
Bond Principal Fund	\$ -	\$ 1,152,366
Bond Interest Fund	<u>-</u>	<u>161,444</u>
Total assets	<u>\$ -</u>	<u>\$ 1,313,810</u>

Assets are held in the Medical Center Construction and Operations Fund under an agreement with the County and are utilized only for capital outlay projects with the approval of the County Commissioners. Substantially all of the assets of the fund are invested by the County in interest-bearing cash investments. Total assets amounted to \$5,517,682 and \$5,382,097 at June 30, 2012 and 2011, respectively.

Restricted assets include cash and cash equivalents that are subject to donor-imposed stipulations amounting to \$69,059 and \$37,659 at June 30, 2012 and 2011, respectively.

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE F - AGREEMENTS WITH THIRD-PARTY PAYORS

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the significant payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services are paid based on a cost reimbursement methodology. The Medicare program pays outpatient services at prospectively determined rates per visit. Under this system, as with inpatient services, rates vary according to a patient classification system that is based upon clinical diagnostics and other factors.

Medicaid - Inpatient acute care services and nonacute services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid program.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 41% and 14%, of the Medical Center's net patient service revenue for the years ended June 30, 2012 and 2011, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in estimated retroactive settlement adjustments and the recording of current year estimates decreased net patient service revenue by approximately \$2,526,000 in 2012 and increased net patient service revenue by approximately \$1,535,000 in 2011.

The Medical Center's Medicare and Medicaid cost reports have been audited by the fiscal intermediary through June 30, 2009.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2012 and 2011**

NOTE F - AGREEMENTS WITH THIRD-PARTY PAYORS (Continued)

The Hospital receives payments for serving a high volume of Medicaid patients. These payments require regulatory approval prior to disbursement. The payments under the plan each year are subject to cost settlement. The Hospital received \$9,451,803 and \$9,443,329 of Medicaid supplemental payments for the fiscal years ended June 30, 2012 and 2011, respectively. These payments were recorded as a liability pending final settlement by Medicaid. During the current year, certain amounts that were classified as a liability for the fiscal year June 30, 2011 were reclassified into net patient service revenue. The total amount reclassified during the years ended June 30, 2012 and 2011 related to these future years was \$7,172,013 and \$6,698,093, respectively. Of the total funds of \$31,842,843 received for 2009 through 2012, \$15,921,422 has been reserved and is included in the estimated third-party payor settlements payable on the combined balance sheet at June 30, 2012. Of the total funds of \$32,010,682 received for 2007 through 2011, \$13,641,632 has been reserved and is included in the estimated third-party payor settlements payable on the combined balance sheet at June 30, 2011.

In April 2012, the Centers for Medicare and Medicaid Services (“CMS”) approved a North Carolina Medicaid Assessment Plan (“MAP”) to reduce the gap between Medicaid/uninsured costs and payments retroactive to January 1, 2011. Hospitals that participate in the program pay an assessment fee and in turn receive a payment from the MAP. The Medical Center paid approximately \$2,603,000 and recognized approximately \$6,709,000 for the year ended June 30, 2012 for the MAP program. The net impact of approximately \$4,106,000 is included in income from operations on the combined statement of revenues, expenses and changes in net assets.

NOTE G - ACCOUNTS RECEIVABLE AND PAYABLE

Patient Accounts Receivable

The Medical Center provides services primarily to the residents of Catawba and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to the large number of patients served and the formalized agreements with third-party payors. The Medical Center has significant accounts receivable whose collectibility is dependent upon the performance of certain governmental programs, primarily Medicare and Medicaid. Management does not believe there are significant credit risks associated with these governmental programs. An allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of patient receivables. The allowance is based on historical collection experience and a review of the current status of the existing receivables. The mix of receivables from patients and third-party payors at June 30 is as follows:

	<u>2012</u>	<u>2011</u>
Medicare	25%	20%
Medicaid	9	9
Blue Cross	6	8
Other third-party payors	24	25
Patients	<u>36</u>	<u>38</u>
	<u>100%</u>	<u>100%</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE G - ACCOUNTS RECEIVABLE AND PAYABLE (Continued)

Accounts Payable and Accrued Expenses

Accounts payable (including accrued expenses) reported as current liabilities by the Medical Center at June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Payable to employees (including payroll taxes)	\$ 5,961,302	\$ 5,190,799
Payable to suppliers	<u>8,259,261</u>	<u>7,318,518</u>
Total accounts payable and accrued expenses	<u>\$ 14,220,563</u>	<u>\$12,509,317</u>

NOTE H - LONG-TERM DEBT

A summary of long-term debt at June 30, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Series 1999 Hospital Revenue Bonds refunded as part of the 2011 bond issuance as of August 4, 2011.	\$ -	\$ 12,550,000
Series 2009 Taxable Variable Rate Hospital Revenue Bonds, due in varying annual installments starting October 1, 2018 through October 1, 2039, from the general revenues of the Medical Center.	25,000,000	25,000,000
Series 2010 Hospital Revenue Bonds, bearing interest at 4.96%, due in varying annual installments through December 1, 2030, from the general revenues of the Medical Center.	21,640,000	11,000,000
Series 2011 Hospital Refunding Revenue Bonds, bearing interest at 3.23%, due in varying annual installments through October 1, 2017, from the general revenues of the Medical Center.	<u>9,955,000</u>	<u>-</u>
Total long-term debt	56,595,000	48,550,000
Add unamortized premium on revenue bonds	<u>-</u>	<u>36,837</u>
Total long-term debt, net of premium	56,595,000	48,586,837
Less current installments of long-term debt	(2,460,000)	(1,890,000)
Less deferred loss on defeased debt	<u>(645,687)</u>	<u>(768,699)</u>
Long-term debt, excluding current installments	<u>\$ 53,489,313</u>	<u>\$ 45,928,138</u>

The following is a summary of changes in the Medical Center's long-term debt for the years ended June 30, 2012 and 2011:

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE H - LONG-TERM DEBT (Continued)

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Amounts due within one year</u>
Series 1999 Hospital Revenue Bonds	\$ 12,550,000	\$ -	\$ 12,550,000	\$ -	\$ -
Series 2009 Hospital Revenue Bonds	25,000,000	-	-	25,000,000	-
Series 2010 Hospital Revenue Bonds	11,000,000	11,000,000	360,000	21,640,000	720,000
Series 2011 Hospital Revenue Bonds	<u>-</u>	<u>11,340,000</u>	<u>1,385,000</u>	<u>9,955,000</u>	<u>1,740,000</u>
	<u>\$ 48,550,000</u>	<u>\$ 22,340,000</u>	<u>\$ 14,295,000</u>	<u>\$ 56,595,000</u>	<u>\$ 2,460,000</u>

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>	<u>Amounts due within one year</u>
Series 1999 Hospital Revenue Bonds	\$ 14,015,000	\$ -	\$ 1,465,000	\$ 12,550,000	\$ 1,530,000
Series 2009 Hospital Revenue Bonds	25,000,000	-	-	25,000,000	-
Series 2010 Hospital Revenue Bonds	<u>-</u>	<u>11,000,000</u>	<u>-</u>	<u>11,000,000</u>	<u>360,000</u>
	<u>\$ 39,015,000</u>	<u>\$ 11,000,000</u>	<u>\$ 1,465,000</u>	<u>\$ 48,550,000</u>	<u>\$ 1,890,000</u>

On August 12, 2009, the County issued County of Catawba, North Carolina Taxable Variable Rate Demand Hospital Revenue Bonds (Catawba Valley Medical Center Project) Series 2009 (the "Series 2009 Bonds") through a commercial lender totaling \$25,000,000 for the purpose of funding a construction project that will renovate and retrofit the current facilities while providing a utilities substructure that will allow for possible future expansion. At June 30, 2012, the variable rate was 0.28%. Payments of principal begin October 1, 2018 and continue through October 1, 2039. The bonds are secured by an irrevocable letter of credit with an initial term ending August 2014.

Costs of \$753,582 were incurred in connection with the issuance of the Series 2009 Bonds and have been deferred. Such costs are being amortized over the remaining term of the Series 2009 Bonds.

On December 6, 2010, the County approved issuance of County of Catawba, North Carolina Hospital Revenue Bonds (Catawba Valley Medical Center Project) Series 2010 (the "Series 2010 Bonds") through a commercial lender totaling \$22,000,000 for the purpose of funding a construction project that will provide additional healthcare facilities and the acquisition and installation of health care equipment.

Costs of \$323,434 were incurred in connection with the issuance of the Series 2010 Bonds and have been deferred. Such costs are being amortized over the remaining term of the Series 2010 Bonds.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE H - LONG-TERM DEBT (Continued)

On August 4, 2011, the County issued County of Catawba, North Carolina Refunding Revenue Bonds (Catawba Memorial Hospital Project) Series 2011 (the "Series 2011 Bonds") through a commercial lender totaling \$11,340,000 for the purpose of refunding the Series 1999 Hospital Revenue Bonds ("Series 1999 Bonds") which had previously refunded the Series 1992 bonds ("Series 1992 Bonds"). Losses totaling \$2,286,075 and \$62,800 were deferred on the refunding of the Series 1992 Bonds and the Series 1999 Bonds, respectively. These losses are being amortized over the life of the Series 2011 Bonds.

The Series 2011 Bonds current refunding of the Series 1999 bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$62,800. This difference, reported in the combined balance sheets as a deduction from long-term debt, is being charged as interest expense through October 1, 2017, using the straight line method. The Medical Center completed the current refunding to reduce its total debt service payments over the next five years by approximately \$1,100,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$493,000.

The following table summarizes the annual requirements to amortize the bonds payable at prevailing interest rates:

<u>Year Ending June 30, 2012</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,460,000	\$ 1,441,721
2014	2,575,000	1,346,360
2015	2,665,000	1,247,140
2016	2,750,000	1,146,670
2017	2,880,000	1,036,510
2018-2022	9,420,000	4,136,248
2023-2027	11,210,000	2,594,287
2028-2032	11,585,000	722,610
2033-2037	7,490,000	93,856
2038-2040	<u>3,560,000</u>	<u>5,110</u>
	<u>\$ 56,595,000</u>	<u>\$ 13,770,512</u>

Interest expense, letter of credit fees, amortization of bond issuance costs, and amortization of deferred loss on defeased debt was \$897,648 in 2012 and \$1,373,032 in 2011.

Interest cost incurred on borrowed funds during the period of construction of capital assets of \$715,887 and \$153,154 was capitalized during the years ended June 30, 2012 and 2011, respectively.

The 2009, 2010 and 2011 bond series have various financial covenants, the most restrictive of which require the Medical Center to maintain a Long-Term Debt Service Coverage Ratio (as defined) of 1.20 or higher, a Debt to Capitalization ratio of no greater than 65% and the Days Cash on Hand must not be less than 80 days. The Medical Center was in compliance with all applicable covenants as of and for the years ended June 30, 2012 and 2011, respectively.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE I - CAPITAL LEASE OBLIGATIONS

The Medical Center leases certain medical equipment that requires monthly payments. Title passes to the Medical Center at the end of the lease terms. The assets held under these capital leasing arrangements are included in equipment within the total capital assets reported by the Medical Center. At June 30, 2012, assets under capital leases had a cost of \$1,501,558 and accumulated depreciation of \$1,126,169. At June 30, 2011, assets under capital lease had a cost of \$1,501,558 and accumulated depreciation of \$875,909.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of June 30, 2012, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 256,892
2014	<u>168,379</u>
Minimum lease payments	425,271
Less: amount representing interest	<u>(1,803)</u>
Present value of minimum lease payments	423,468
Less: current installments of capital lease obligations	<u>(238,386)</u>
Long-term capital lease obligations	<u>\$ 185,082</u>

The following is a summary of changes in the Medical Center's capital lease obligations for the years ended June 30, 2012 and 2011:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Amounts due within one year</u>
ADVIA Workcell	\$ 199,732	\$ -	\$ 74,990	\$ 124,742	\$ 70,222
ADVIA Centrifuge/ Decapper	204,569	-	76,806	127,763	71,923
ADVIA 1800 Lab Automation	167,504	-	62,890	104,614	58,891
ADVIA Centaur XP	69,789	-	26,202	43,587	24,537
ADVIA Centaur CP	<u>36,445</u>	<u>-</u>	<u>13,683</u>	<u>22,762</u>	<u>12,813</u>
	<u>\$ 678,039</u>	<u>\$ -</u>	<u>\$ 254,571</u>	<u>\$ 423,468</u>	<u>\$ 238,386</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE I - CAPITAL LEASE OBLIGATIONS (Continued)

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2011</u>	Amounts due within <u>one year</u>
ADVIA Workcell	\$ 271,986	\$ -	\$ 72,254	\$ 199,732	\$ 71,148
ADVIA Centrifuge/ Decapper	278,648	-	74,079	204,569	72,871
ADVIA 1800 Lab Automation	216,743	-	49,239	167,504	59,668
ADVIA Centaur XP	107,930	-	38,141	69,789	24,860
ADVIA Centaur CP	<u>56,269</u>	-	<u>19,824</u>	<u>36,445</u>	<u>12,983</u>
	<u>\$ 931,576</u>	<u>\$ -</u>	<u>\$ 253,537</u>	<u>\$ 678,039</u>	<u>\$ 241,530</u>

NOTE J - OPERATING LEASES

The Medical Center is party to certain building and equipment leases that are classified as noncancelable operating leases, which require annual rentals of approximately \$1,090,900 in 2013, \$859,300 in 2014, \$551,700 in 2015, \$234,100 in 2016 and \$84,600 in 2017. Total rent expense in connection with such leases was \$1,672,011 and \$1,611,227 for the years ended June 30, 2012 and 2011, respectively.

NOTE K - PENSION PLAN

Catawba Valley Medical Center Employees' Pension Plan is a single-employer noncontributory defined benefit plan which provides retirement, disability, termination and death benefits to plan members. The Medical Center is required to contribute based on an actuarially determined amount. The Plan issues a stand-alone financial report that may be obtained from the Medical Center.

The Medical Center's annual pension cost and prepaid pension costs for the current and prior year were as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 4,634,503	\$ 4,603,539
Interest on prepaid pension costs	(81,540)	(81,540)
Adjustment to annual required contribution	<u>106,646</u>	<u>106,646</u>
Annual pension cost	4,659,609	4,628,645
Contributions made	<u>8,084,449</u>	<u>4,628,645</u>
Change in prepaid pension costs	3,424,840	-
Prepaid pension costs, beginning of year	<u>1,087,748</u>	<u>1,087,748</u>
Prepaid pension costs, end of year	<u>\$ 4,512,588</u>	<u>\$ 1,087,748</u>

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE K - PENSION PLAN (Continued)

The annual required contribution for the current year was determined as part of the July 1, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 7.5% investment rate of return and (b) projected salary increases of 5.0% per year. Both (a) and (b) included an inflation component of 3.0%. The unfunded actuarial accrued liability is being amortized over a rolling 20-year period. For purposes of minimum funding requirements under the Employee Retirement Income Security Act of 1974 (ERISA), any changes in the actuarial accrued liability from changes in the actuarial assumptions or changes from plan amendments are amortized over a set period of years as required by IRS minimum rules.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Prepaid Pension Costs</u>
June 30, 2010	\$ 4,261,232	100	\$ 1,087,748
June 30, 2011	4,628,645	100	1,087,748
June 30, 2012	4,659,609	174	4,512,588

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 84.9% funded. The actuarial accrued liability for benefits was \$77,868,022, and the actuarial value of assets was \$66,127,780, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,740,242. The covered payroll (annual payroll of active employees covered by the plan) was \$73,157,309, and the ratio of the UAAL to the covered payroll was 16%.

The schedule of funding progress, presented as required supplementary information following the notes to the combined financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE L - DEFERRED COMPENSATION PLAN

The Medical Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by an unrelated insurance company under the direction of the Medical Center. The plan, available to all Medical Center employees, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, disability, retirement, death, or financial hardship. The plan provides for Medical Center matching contributions, ranging from 15% to 25% for the years ended June 30, 2012 and 2011, of employee contributions based upon length of employment. Contributions are invested in participant-directed investment fund options, which include growth, income and stable funds. The Medical Center's contributions to this plan were \$695,198 and \$669,940 for the years ended June 30, 2012 and 2011, respectively.

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE M - COMMITMENTS AND CONTINGENCIES

As of June 30, 2012, the Medical Center has entered into construction and equipment purchase contracts on various projects. The total commitment for these contracts is approximately \$48,894,000 of which approximately \$27,141,000 had either been paid or accrued as of June 30, 2012.

The Medical Center has numerous other contracts for physician and other professional services for terms of one year or more.

The Medical Center has entered into an agreement to sell, to a third party, certain patient accounts receivable that meet eligibility criteria, as defined. A service fee of 4% of the principal balance is charged. The remaining principal balances collected on each purchased receivable will be paid to the Medical Center monthly after collection until the related obligor shall have paid for three consecutive months the minimum scheduled monthly payment due, at which time, the Medical Center will receive the balance of the purchase price. The Medical Center must repurchase, upon demand, any purchased receivable which fails to meet the eligibility criteria, as defined, or for which the obligor has failed to make the minimum monthly payment due as scheduled for three consecutive months. Approximately \$6,000 and \$9,000 of purchased receivables were held by the third-party with recourse at June 30, 2012 and 2011, respectively.

NOTE N - RISK MANAGEMENT

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; injuries to employees; natural disasters; employee health, dental and accident benefits; and medical malpractice. The Medical Center carries commercial insurance for these risks of loss.

The Medical Center's employee health insurance program is self-insured with stop-loss coverage provided by a commercial insurance company. At June 30, 2012 and 2011, the Medical Center has a liability of \$1,833,056 and \$1,135,298, respectively, for unpaid health insurance claims and health insurance claims incurred, but not reported. The following is a summary of changes in the claims liability for the year ended June 30:

	<u>2012</u>	<u>2011</u>
Claims liability at beginning of fiscal year	\$ 1,135,298	\$ 810,276
Incurred claims and IBNR expenses	17,719,493	14,798,135
Payments	<u>(17,021,735)</u>	<u>(14,473,113)</u>
Claims liability at end of fiscal year	<u>\$ 1,833,056</u>	<u>\$ 1,135,298</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2012 and 2011**

NOTE N - RISK MANAGEMENT (Continued)

The Medical Center is aware of potential or threatened claims alleging malpractice liability of the Medical Center with respect to certain incidents arising in the normal course of operations. The Medical Center purchases malpractice insurance coverage on an occurrence basis from a commercial insurance company. The limit for claims paid applicable to the Medical Center's coverage is \$1,000,000 for any one claim subject to a \$250,000 deductible per claim. The annual aggregate limit for claims paid applicable to the Medical Center's coverage is \$3,000,000. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Medical Center has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. In management's opinion, the accrued malpractice losses provide an adequate reserve for loss contingencies. The Medical Center also purchases an Umbrella Policy on a claims-made basis that provides additional coverage over the Healthcare Professional Liability, Commercial General Liability, Automobile Liability and Workers' Compensation/ Employers Liability Insurance.

The Medical Center maintains an employee dishonesty bond that covers all employees with a range in amounts from \$15,000 to \$1,000,000, depending on the type of dishonesty.

NOTE O - RELATED PARTIES

Catawba Medical Foundation, Inc. (the "Foundation") was established for charitable, scientific and educational purposes primarily for the benefit of the citizens of Catawba County, North Carolina and the vicinity thereof. These objectives are to be achieved by (1) supporting, supplementing, enhancing and enriching the facilities, programs and services provided by Catawba Valley Medical Center; (2) promoting and assisting in the establishment, expansion, maintenance and operation of facilities to provide medical research, training, education and services; and (3) making distributions, grants or donations to exempt organizations. The Foundation is supported primarily from public contributions. The Foundation made contributions of \$16,607 and \$18,712 to the Medical Center during the years ended June 30, 2012 and 2011, respectively.

A summary of assets and net assets of Catawba Medical Foundation, Inc. as of June 30, 2012 and 2011, and of revenues and other support, and changes in net assets for the years ended June 30, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Total assets	<u>\$ 3,682,596</u>	<u>\$ 1,482,962</u>
Net assets	<u>\$ 3,682,596</u>	<u>\$ 1,482,962</u>
Revenues and other support	<u>\$ 2,263,149</u>	<u>\$ 1,053,450</u>
Increase in net assets	<u>\$ 2,199,634</u>	<u>\$ 996,841</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE O - RELATED PARTIES (Continued)

The above information is summarized from the audited financial statements of the Foundation for the years ended June 30, 2012 and 2011.

The Medical Center transacts business with trustee-related banks as allowed by North Carolina General Statutes provided that such trustee abstains from voting on these matters. The Medical Center maintains its general operating bank accounts and significant investment balances at a bank in which a member of the Board of Trustees is an officer. The cash balance is approximately \$25,200,000 and \$24,700,000 as of June 30, 2012 and 2011, respectively. The investment balances are approximately \$63,200,000 and \$63,900,000 as of June 30, 2012 and 2011, respectively.

NOTE P - CHARITY CARE

The Medical Center maintains records to identify and monitor the level of charity care it provides. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, estimated costs have been incurred, but associated charges have not been reflected in net patient service revenues. The Medical Center created the estimate of costs incurred by multiplying the cost to charge ratio by the charges forgone by the Medical Center. The following information relates to the level of charity care provided during the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Estimated costs incurred for charity care patients	\$ 4,766,000	\$ 4,533,000
Equivalent percentage of charity care patients to all patients served	3.1%	3.3%

NOTE Q - ADJUSTMENTS TO GROSS REVENUES

Gross revenues are reduced by the following adjustments to arrive at net patient service revenues for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Contractual adjustments	\$ 365,260,288	\$ 338,202,816
Provision for bad debt	31,838,046	32,319,099
Charity care	15,660,591	14,934,082
Miscellaneous adjustments	927,972	1,039,734
Other	<u>30,384,185</u>	<u>26,198,922</u>
	<u>\$ 444,071,082</u>	<u>\$ 412,694,653</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE R - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Medical Center in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the combined balance sheet for cash and cash equivalents approximates fair value.

Certificates of Deposit

The carrying amount reported in the combined balance sheet for certificates of deposit approximates fair value.

Investments

These assets consist primarily of cash equivalents, certificates of deposit, money rate savings accounts and interest receivable. The carrying amounts approximate their fair values.

Accounts and Contracts Payable

The carrying amount reported in the combined balance sheet for accounts and contracts payable approximates fair value.

Third-Party Settlements Receivable and Payable

The carrying amount reported in the combined balance sheet for estimated third-party payor settlements approximates fair value.

Long-Term Debt

Fair values of the Medical Center's bonds are based on the current traded value. The fair value of the Medical Center's remaining long-term debt is estimated using discounted cash flow analyses, based on the Medical Center's current incremental borrowing rates for similar types of borrowing arrangements.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE R - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and fair values of the Medical Center's financial instruments at June 30, 2012 and 2011 are as follows:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 27,607,197	\$ 27,607,197	\$ 29,116,023	\$ 29,116,023
Certificates of deposit	53,816,075	53,816,075	46,004,055	46,004,055
Accounts receivable	25,323,298	25,323,298	21,403,687	21,403,687
Investments	21,726,378	21,726,378	31,823,203	31,823,203
Accounts and contracts payable	8,259,261	8,259,261	7,318,518	7,318,518
Third-party settlements payable	21,450,118	21,450,118	17,216,267	17,216,267
Long-term debt	56,595,000	56,595,000	48,586,837	48,604,137
Capital lease obligations	423,468	423,468	678,039	678,039

NOTE S - DESIGNATIONS

The Medical Center has total investments designated by the Board of Trustees as a depreciation fund for the future replacement and expansion of capital assets in the amount of \$8,971,701 and \$8,920,083 at June 30, 2012 and 2011, respectively.

NOTE T - RECLASSIFICATIONS

Certain items in the 2011 combined financial statements have been reclassified to be consistent with the presentation in the 2012 combined financial statements.

NOTE U - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 22, 2012, which is the date these combined financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
EMPLOYEES' PENSION PLAN REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
Year Ended June 30, 2012**

Actuarial Valuation Date	Plan Assets at Fair Value (a)	Accrued Liability (b)	Unfunded Liability (b) - (a)	Funded Ratio (a) ÷ (b)	Payroll (c)	Unfunded % Payroll ((b) - (a)) ÷ (c)
07/01/02	\$ 32,015,927	\$ 30,334,363	\$ (1,681,564)	105.5%	\$ 43,080,956	-3.9%
07/01/03	33,336,840	34,292,483	955,643	97.2%	44,233,199	2.2%
07/01/04	35,313,763	39,086,955	3,773,192	90.3%	46,908,589	8.0%
07/01/05	37,603,002	44,567,746	6,964,744	84.4%	53,564,890	13.0%
07/01/06	41,587,609	49,263,387	7,675,778	84.4%	55,926,307	13.7%
07/01/07	47,419,226	54,313,573	6,894,347	87.3%	61,911,029	11.1%
07/01/08	53,258,358	59,917,467	6,659,109	88.9%	65,746,396	10.1%
07/01/09	55,359,594	64,943,418	9,583,824	85.2%	71,835,260	13.3%
07/01/10	60,805,230	72,130,190	11,324,960	84.3%	73,872,981	15.3%
07/01/11	66,127,780	77,868,022	11,740,242	84.9%	73,157,309	16.0%

NOTES TO THE REQUIRED SCHEDULE

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial

Valuation date:	July 1, 2011
Actuarial cost method:	Projected unit credit
Amortization method:	Rolling 20-year period
Remaining amortization period:	20 years
Asset valuation method:	Five-year smoothing method
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.0%
* Includes inflation at	3.0%
Cost of living adjustments	N/A

CATAWBA VALLEY MEDICAL CENTER
CONDENSED SCHEDULE OF REVENUES AND EXPENSES INFORMATION -
BUDGET TO ACTUAL
Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Total operating revenues	\$ 201,662,962	\$ 210,645,930	\$ 8,982,968
Total operating expenses	<u>201,540,207</u>	<u>197,564,499</u>	<u>3,975,708</u>
Income from operations	122,755	13,081,431	12,958,676
Nonoperating income, net, capital grants and contributions	<u>2,544,747</u>	<u>1,487,970</u>	<u>(1,056,777)</u>
Increase in net assets	<u><u>\$ 2,667,502</u></u>	<u><u>\$ 14,569,401</u></u>	<u><u>\$ 11,901,899</u></u>

COMPLIANCE SECTION



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Catawba Valley Medical Center and Affiliate
Hickory, North Carolina

We have audited the combined financial statements of Catawba Valley Medical Center and Affiliate as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Catawba Valley Medical Center and Affiliate is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Medical Center and Affiliate's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center and Affiliate's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center and Affiliate's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the finance committee, management, the Board of Trustees, Catawba County, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

October 22, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees
Catawba Valley Medical Center and Affiliate
Hickory, North Carolina

Compliance

We have audited the compliance of Catawba Valley Medical Center and Affiliate with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Catawba Valley Medical Center and Affiliate's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major programs is the responsibility of the Medical Center and Affiliate's management. Our responsibility is to express an opinion on the Medical Center and Affiliate's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center and Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Medical Center and Affiliate's compliance with those requirements.

In our opinion, Catawba Valley Medical Center and Affiliate complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

The management of Catawba Valley Medical Center and Affiliate is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Medical Center and Affiliate's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center and Affiliate's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance; such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the finance committee, management, the Board of Trustees, Catawba County, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

October 22, 2012

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Federal (Pass-Through) Expenditures</u>
FEDERAL AWARDS: Full accrual basis			
U.S. Department of Health and Human Services Ryan White Early Intervention Services for HIV Disease	93.918		\$ 356,937
Passed through North Carolina Department of Health and Human Services, Division of Public Health and Service Administration:			
HRSA HIV Formula Care Grant	93.917	56-0789196	407,170
Total U.S. Department of Health and Human Services			<u>764,107</u>
Total federal awards			<u>\$ 764,107</u>

Notes to the Schedule of Expenditures of Federal Financial Awards:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Catawba Valley Medical Center and is presented on the full accrual basis of accounting.

**CATAWBA VALLEY MEDICAL CENTER
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2012**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to combined financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major federal programs:

<u>CFDA #</u>	<u>Names of Federal Program or Cluster</u>
93.917	HRSA HIV Formula Care Grant
93.918	Ryan White Program

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

**CATAWBA VALLEY MEDICAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2012**

SECTION II - COMBINED FINANCIAL STATEMENT FINDINGS

Findings

No significant deficiencies or material weaknesses were noted for the years ended June 30, 2012 or 2011.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUPPLEMENTAL SCHEDULES INFORMATION

CATAWBA VALLEY MEDICAL CENTER
SUPPLEMENTAL SCHEDULES OF NET PATIENT SERVICE
REVENUES INFORMATION
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
INPATIENT CHARGES AT ESTABLISHED RATES		
Birthing center	\$ 3,487,698	\$ 3,397,382
Surgical unit	1,966,417	2,045,421
Medical unit	3,446,410	3,345,994
Pediatrics	399,028	446,200
Psychiatry	4,743,965	5,026,078
Oncology unit	709,055	836,872
Critical care unit	5,055,792	5,203,235
Inpatient rehab unit	1,655,986	1,960,396
Nursery	7,219,529	5,783,309
Surgical suite	39,202,321	38,967,715
Post-anesthesia recovery	5,611,113	5,425,960
Occupational health	-	-
Laboratory	28,685,006	26,998,874
Electrocardiogram	599,886	600,078
Neurodiagnostic lab	238,933	226,446
Cardiovascular lab	2,616,313	2,339,519
Anesthesiology	16,786,188	12,387,387
Radiology	4,213,015	3,947,932
Lithotripsy	86,740	80,316
Endoscopy	930,076	954,325
Cardiac catheterization lab	10,494,625	10,007,849
CT scan	9,957,568	9,893,141
Radiation therapy	1,078,266	658,624
Nuclear medicine	1,126,251	1,371,483
Magnetic resonance imaging	4,122,463	4,064,215
Radiology - sonics lab	1,300,535	1,203,986
Pharmacy	51,850,834	52,226,531
Central supply	3,159,177	3,002,411
Hospitalists	25,968	2,418,620
	<u>232,934,633</u>	<u>228,181,129</u>
Total inpatient charges at established rates		

CATAWBA VALLEY MEDICAL CENTER
SUPPLEMENTAL SCHEDULES OF NET PATIENT SERVICE
REVENUES INFORMATION
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OUTPATIENT CHARGES AT ESTABLISHED RATES		
Surgical suite	\$ 60,652,482	\$ 59,227,930
Post-anesthesia recovery	11,218,994	10,341,425
Birthing center	835,797	740,190
Emergency center	20,189,977	18,566,942
Day surgery	774,915	720,130
Catawba Valley Psychiatric Services	1,733,504	1,562,611
Occupational health	918,078	904,295
GYN clinic	-	9,542
Health First Center	15,444	14,363
Laboratory	30,764,720	30,277,368
Electrocardiogram	1,141,311	1,219,197
Neurodiagnostic lab	535,910	516,865
Cardiovascular lab	4,453,590	3,279,404
Anesthesiology	31,273,307	25,032,437
Radiology	55,885,877	53,445,584
Lithotripsy	4,918,923	3,885,768
Endoscopy	4,278,961	3,925,617
Cardiac catheterization lab	15,156,146	12,818,590
CT scan	29,437,737	29,555,142
Radiation therapy	26,818,646	21,526,146
Nuclear medicine	4,511,152	3,702,312
Magnetic resonance imaging	8,982,498	8,906,743
Radiology - sonics lab	3,894,836	2,573,981
Pharmacy	47,532,116	45,256,709
Central supply	1,297,818	1,312,555
Respiratory care	2,268,519	2,289,616
Diabetes education	183,658	191,959
Mobile wellness unit	726,401	698,122
Ryan White Clinic	475,405	562,593
Cardiac rehabilitation	613,092	675,496
Pain management	575,145	618,391
Nurse practitioner program	133,535	141,121
Hickory Infectious Disease Consultants	378,856	393,577
Medical Outpatient	1,918,748	1,660,437
Sleep Disorder Center	1,661,030	1,808,585
Surgical Weight Management	11,286	16,212
Outpatient therapies	5,853,692	5,808,047
Internal Medicine	25,841	254,417
Wound Healing	1,743,822	-
Hospitalists	2,795,359	712
Palliative Care	26,239	-
Total outpatient charges at established rates	<u>386,613,367</u>	<u>354,441,131</u>

**CATAWBA VALLEY MEDICAL CENTER
SUPPLEMENTAL SCHEDULES OF NET PATIENT SERVICE
REVENUES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CATAWBA VALLEY MEDICAL GROUP		
Maiden Family Practice	2,725,800	2,033,761
Southeast Catawba Family Practice	1,379,268	1,003,663
Catawba Family Practice	883,978	721,374
Claremont Family Practice	1,291,361	1,159,908
Viewmont Family Practice	2,075,343	1,443,958
North Hickory Family Practice	966,014	981,590
Northeast Family Practice	2,588,946	1,771,586
Family Medicine Associates	2,908,328	2,808,642
Catawba Valley Cardiology	2,049,437	-
Catawba Valley Urgent Care	97,461	-
Catawba Valley Family Medicine	344,132	-
Total Catawba Valley Medical Group charges at established rates	<u>17,310,068</u>	<u>11,924,482</u>
MEDICAID REIMBURSEMENT	<u>13,881,148</u>	<u>6,698,102</u>
TOTAL	<u>650,739,216</u>	<u>601,244,844</u>
CONTRACTUAL ALLOWANCES, ADJUSTMENTS AND CHARITY CARE		
Medicare	\$ 194,269,639	\$ 175,645,891
Medicaid	79,864,116	73,362,027
Managed care	91,126,533	89,194,898
Charity care	15,660,591	14,934,082
Miscellaneous adjustments	927,972	1,039,734
Provision for bad debts	31,838,046	32,319,099
Other	30,384,185	26,198,922
Total contractual allowances, adjustments, provision for bad debts, and charity care	<u>444,071,082</u>	<u>412,694,653</u>
NET PATIENT SERVICE REVENUES	<u>\$ 206,668,134</u>	<u>\$ 188,550,191</u>
	68.24%	68.64%

CATAWBA VALLEY MEDICAL CENTER
SUPPLEMENTAL SCHEDULES OF OTHER OPERATING
REVENUES INFORMATION
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Sale of meals	\$ 861,585	\$ 792,582
Rental income - lithotripter	742,150	690,300
Purchase discounts	22,710	30,786
Medical records fees	55,091	44,079
Laundry processing	71,827	76,919
Auxiliary and lifeline	884,282	878,053
Other rental income	306,003	359,395
Maternity services	529,023	766,437
Other, net	<u>505,125</u>	<u>600,898</u>
TOTAL OTHER OPERATING REVENUES	<u><u>\$ 3,977,796</u></u>	<u><u>\$ 4,239,449</u></u>

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
NURSING SERVICES		
Nursing administration:		
Salaries	\$ 1,885,514	\$ 1,569,367
Materials and supplies	5,845	3,880
Purchased services	21,343	17,928
Other	73,420	73,962
Total	<u>1,986,122</u>	<u>1,665,137</u>
Infection control:		
Salaries	179,807	171,678
Materials and supplies	493	523
Purchased services	6,545	6,112
Other	5,150	2,170
Total	<u>191,995</u>	<u>180,483</u>
Obstetrics and gynecology:		
Salaries	3,278,547	2,991,251
Materials and supplies	233,379	210,803
Purchased services	652,771	611,580
Other	37,318	29,653
Total	<u>4,202,015</u>	<u>3,843,287</u>
Surgical:		
Salaries	1,651,110	1,578,469
Materials and supplies	3,856	6,087
Purchased services	704	850
Other	8,340	9,601
Total	<u>1,664,010</u>	<u>1,595,007</u>
Medical:		
Salaries	2,356,317	2,355,709
Materials and supplies	191,556	204,465
Purchased services	1,315	2,081
Other	37,871	14,725
Total	<u>2,587,059</u>	<u>2,576,980</u>
Ortho/neuro unit:		
Salaries	1,214,372	1,116,515
Materials and supplies	83,208	79,277
Purchased services	239	807
Other	7,739	4,816
Total	<u>1,305,558</u>	<u>1,201,415</u>

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Pediatrics:		
Salaries	\$ 525,111	\$ 549,393
Materials and supplies	24,252	27,636
Purchased services	249	114
Other	2,330	3,389
Total	<u>551,942</u>	<u>580,532</u>
Psychiatry:		
Salaries	3,190,704	3,184,129
Materials and supplies	83,086	88,370
Purchased services	2,478	2,620
Other	21,806	29,042
Total	<u>3,298,074</u>	<u>3,304,161</u>
Oncology:		
Salaries	728,325	725,386
Materials and supplies	164,268	156,985
Purchased services	1,160	228
Other	7,914	4,035
Total	<u>901,667</u>	<u>886,634</u>
Critical care unit:		
Salaries	3,373,705	3,431,906
Materials and supplies	286,190	303,973
Purchased services	191,188	194,896
Other	42,758	43,841
Total	<u>3,893,841</u>	<u>3,974,616</u>
Nursery:		
Salaries	2,163,094	1,977,061
Materials and supplies	178,046	166,864
Purchased services	163,007	150,308
Other	14,302	9,728
Total	<u>2,518,449</u>	<u>2,303,961</u>
Surgical suite:		
Salaries	3,638,989	3,627,949
Materials and supplies	14,994,557	15,660,452
Purchased services	480,236	359,788
Other	75,941	67,716
Total	<u>19,189,723</u>	<u>19,715,905</u>

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Pre-anesthesia screening:		
Salaries	\$ 288,242	\$ -
Materials and supplies	108	-
Other	351	-
Total	<u>288,701</u>	<u>-</u>
Post-anesthesia recovery unit:		
Salaries	1,001,535	1,015,646
Materials and supplies	26,379	25,888
Purchased services	320	252
Other	5,420	5,247
Total	<u>1,033,654</u>	<u>1,047,033</u>
Day surgery:		
Salaries	851,600	1,111,370
Materials and supplies	98,722	97,115
Purchased services	3,826	4,452
Other	7,583	13,823
Total	<u>961,731</u>	<u>1,226,760</u>
Endoscopy:		
Salaries	174,800	169,272
Materials and supplies	127,545	127,405
Purchased services	84	388
Other	44	174
Total	<u>302,473</u>	<u>297,239</u>
Emergency department:		
Salaries	3,208,150	3,151,833
Materials and supplies	387,715	396,448
Purchased services	437,869	424,402
Other	72,899	67,909
Total	<u>4,106,633</u>	<u>4,040,592</u>
Occupational health:		
Salaries	790,884	788,118
Materials and supplies	201,941	218,465
Purchased services	2,311	2,599
Other	426,660	500,310
Total	<u>1,421,796</u>	<u>1,509,492</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Distribution:		
Salaries	\$ 367,507	\$ 369,835
Materials and supplies	789,156	746,560
Purchased services	202,466	186,562
Other	11,572	2,340
Total	<u>1,370,701</u>	<u>1,305,297</u>
Organizational learning:		
Salaries	331,437	337,612
Materials and supplies	2,973	3,865
Purchased services	84,846	55,975
Other	(7,809)	16,235
Total	<u>411,447</u>	<u>413,687</u>
Neonatal nurse practitioner:		
Salaries	597,015	580,450
Materials and supplies	884	562
Other	7,383	10,143
Total	<u>605,282</u>	<u>591,155</u>
Ryan White Clinic:		
Salaries	481,588	471,492
Materials and supplies	106,088	93,855
Purchased services	222,785	206,028
Other	90,218	111,562
Total	<u>900,679</u>	<u>882,937</u>
Pain management:		
Salaries	176,268	172,954
Materials and supplies	7,880	10,016
Purchased services	42,792	43,720
Other	10,274	14,651
Total	<u>237,214</u>	<u>241,341</u>
Nurse practitioner program:		
Salaries	118,987	126,488
Materials and supplies	2,191	720
Other	880	582
Total	<u>122,058</u>	<u>127,790</u>

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Patient care information systems:		
Salaries	\$ 464,718	\$ 404,116
Materials and supplies	868	954
Purchased services	9,638	10,664
Other	23,150	10,525
Total	<u>498,374</u>	<u>426,259</u>
Infusion therapy:		
Salaries	406,586	326,180
Materials and supplies	47,158	38,467
Purchased services	67,789	55,592
Other	19,380	17,705
Total	<u>540,913</u>	<u>437,944</u>
Research and Evidence-Based Practice:		
Salaries	104,387	102,673
Materials and supplies	1,721	4,995
Purchased services	10,001	90
Other	16,749	11,958
Total	<u>132,858</u>	<u>119,716</u>
HIC System Management:		
Salaries	67,271	29,795
Materials and supplies	3,508	6,616
Purchased services	11,876	7,305
Other	31,638	21,053
Total	<u>114,293</u>	<u>64,769</u>
TOTAL NURSING SERVICES	<u>55,339,262</u>	<u>54,560,129</u>
 OTHER PROFESSIONAL SERVICES		
Laboratory:		
Salaries	1,844,127	1,759,667
Materials and supplies	2,734,732	2,745,381
Purchased services	79,636	85,027
Other	40,153	89,414
Total	<u>4,698,648</u>	<u>4,679,489</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Neurodiagnostic lab:		
Salaries	97,932	82,625
Materials and supplies	5,610	4,996
Purchased services	34,460	28,960
Other	1,535	1,906
Total	<u>139,537</u>	<u>118,487</u>
Health First Center:		
Salaries	\$ 351,147	\$ 401,426
Materials and supplies	7,389	3,350
Purchased services	136,545	144,926
Other	242,611	230,222
Total	<u>737,692</u>	<u>779,924</u>
Cardiovascular lab:		
Salaries	323,465	285,471
Materials and supplies	8,962	7,201
Purchased services	1,867	417
Other	3,936	1,350
Total	<u>338,230</u>	<u>294,439</u>
Anesthesiology:		
Salaries	4,310,242	4,364,868
Materials and supplies	504,397	479,697
Purchased services	7,548	5,205
Other	52,183	63,035
Total	<u>4,874,370</u>	<u>4,912,805</u>
Radiology:		
Salaries	2,443,809	2,439,810
Materials and supplies	509,988	541,481
Purchased services	582,607	579,590
Other	1,414,247	1,580,736
Total	<u>4,950,651</u>	<u>5,141,617</u>
Lithotripsy:		
Salaries	186,961	175,271
Materials and supplies	1,713	1,637
Purchased services	94,391	114,690
Other	56,010	64,954
Total	<u>339,075</u>	<u>356,552</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CAT scan:		
Salaries	445,950	447,192
Materials and supplies	162,970	155,066
Purchased services	272	4,320
Other	860	1,568
Total	<u>610,052</u>	<u>608,146</u>
Radiation therapy:		
Salaries	\$ 1,094,276	\$ 1,076,828
Materials and supplies	156,308	265,632
Purchased services	53,779	53,691
Other	16,680	9,299
Total	<u>1,321,043</u>	<u>1,405,450</u>
Magnetic resonance imaging:		
Salaries	237,625	227,488
Materials and supplies	48,014	50,444
Purchased services	5,880	4,905
Other	315	2,164
Total	<u>291,834</u>	<u>285,001</u>
Cardiac catheterization lab:		
Salaries	767,244	711,356
Materials and supplies	2,619,460	2,511,643
Purchased services	48,459	43,528
Other	4,367	2,251
Total	<u>3,439,530</u>	<u>3,268,778</u>
Electrocardiogram		
Salaries	43,902	39,065
Total	<u>43,902</u>	<u>39,065</u>
Nuclear medicine:		
Salaries	158,292	135,213
Materials and supplies	326,661	296,401
Purchased services	34	377
Other	1,815	271
Total	<u>486,802</u>	<u>432,262</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Radiology - sonics lab:		
Salaries	321,501	271,850
Materials and supplies	21,088	13,133
Purchased services	534	394
Other	6,264	133
Total	<u>349,387</u>	<u>285,510</u>
Pharmacy:		
Salaries	\$ 2,779,988	\$ 2,455,092
Materials and supplies	9,146,587	9,630,438
Purchased services	474,758	498,117
Other	39,503	49,023
Total	<u>12,440,836</u>	<u>12,632,670</u>
Clinical resource management:		
Salaries	1,064,595	1,134,929
Materials and supplies	1,744	4,084
Purchased services	781,852	711,175
Other	13,672	18,338
Total	<u>1,861,863</u>	<u>1,868,526</u>
Respiratory care:		
Salaries	1,507,719	1,482,044
Materials and supplies	737,014	636,892
Purchased services	44,170	16,488
Other	10,029	20,426
Total	<u>2,298,932</u>	<u>2,155,850</u>
Inpatient rehab:		
Salaries	1,127,823	1,181,339
Materials and supplies	16,027	32,872
Purchased services	20,904	11,714
Other	18,697	14,001
Total	<u>1,183,451</u>	<u>1,239,926</u>
Wound healing:		
Salaries	142,366	-
Materials and supplies	193,096	-
Purchased services	275,075	-
Other	48,411	-
Total	<u>658,948</u>	<u>-</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Physical therapy:		
Salaries	1,980,011	1,968,209
Materials and supplies	110,113	116,795
Purchased services	92,940	135,280
Other	50,760	62,766
Total	<u>2,233,824</u>	<u>2,283,050</u>
Diabetes education:		
Salaries	\$ 143,532	\$ 132,349
Materials and supplies	3,423	3,972
Purchased services	129	3,085
Other	4,670	10,033
Total	<u>151,754</u>	<u>149,439</u>
Physician-led weight-loss:		
Salaries	76,442	83,085
Materials and supplies	289	-
Purchased services	31,800	-
Other	430	63,167
Total	<u>108,961</u>	<u>146,252</u>
Cardiac rehab:		
Salaries	257,427	264,285
Materials and supplies	4,429	5,247
Purchased services	2,357	583
Other	1,996	3,220
Total	<u>266,209</u>	<u>273,335</u>
Lifeline:		
Salaries	65,983	71,655
Materials and supplies	19,780	13,019
Purchased services	288,556	211,943
Other	4,445	65,220
Total	<u>378,764</u>	<u>361,837</u>
PRN pool:		
Salaries	2,132	499
Other	-	739
Total	<u>2,132</u>	<u>1,238</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Catawba Valley Psychiatric Services:		
Salaries	1,399,260	1,217,055
Materials and supplies	1,947	2,281
Purchased services	225,626	8,614
Other	40,415	26,360
Total	<u>1,667,248</u>	<u>1,254,310</u>
Center for Women's Specialties:		
Salaries	64,704	65,933
Materials and supplies	32	521
Purchased services	75,931	78,630
Other	-	2,256
Total	<u>140,667</u>	<u>147,340</u>
Parenting network:		
Salaries	<u>\$ 78,356</u>	<u>\$ 91,303</u>
Total	<u>78,356</u>	<u>91,303</u>
Hickory Infectious Disease Consultants:		
Salaries	379,642	363,999
Materials and supplies	22,234	23,854
Purchased services	1,351	1,808
Other	14,996	18,122
Total	<u>418,223</u>	<u>407,783</u>
Surgical Weight Management:		
Salaries	140,070	136,639
Materials and supplies	1,099	1,426
Purchased services	24,990	28,575
Other	12,114	8,753
Total	<u>178,273</u>	<u>175,393</u>
Sleep Disorder Center:		
Salaries	308,420	295,736
Materials and supplies	45,608	41,673
Purchased services	29,322	38,158
Other	69,199	60,401
Total	<u>452,549</u>	<u>435,968</u>
Childhood Obesity Prevention:		
Salaries	216,938	212,421
Materials and supplies	3,133	1,407
Purchased services	883	1,344
Other	25,130	28,486
Total	<u>246,084</u>	<u>243,658</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Internal Medicine Practice:		
Salaries	6,418	156,544
Purchased services	18,292	222,516
Other	160	1,549
Total	<u>24,870</u>	<u>380,609</u>
Physician Specialty Practice		
Purchased services	156,634	66,182
Total	<u>156,634</u>	<u>66,182</u>
Hospitalists		
Salaries	\$ 2,778,439	\$ 2,200,564
Materials and supplies	1,056	1,354
Purchased services	357,972	240,123
Total	<u>3,137,467</u>	<u>2,442,041</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>50,706,798</u>	<u>49,364,235</u>

CATAWBA VALLEY MEDICAL GROUP

Maiden Family Practice:		
Salaries	1,073,809	990,801
Materials and supplies	105,867	72,107
Purchased services	71,610	38,332
Other	260,444	183,174
Total	<u>1,511,730</u>	<u>1,284,414</u>
Southeast Catawba Family Practice:		
Salaries	484,685	365,479
Materials and supplies	56,405	41,141
Purchased services	46,696	22,087
Other	147,814	101,843
Total	<u>735,600</u>	<u>530,550</u>
Catawba Family Practice:		
Salaries	216,640	197,040
Materials and supplies	22,546	13,006
Purchased services	27,465	12,382
Other	106,090	64,025
Total	<u>372,741</u>	<u>286,453</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Claremont Family Practice:		
Salaries	401,740	437,635
Materials and supplies	34,300	30,043
Purchased services	36,883	21,532
Other	172,323	130,618
Total	<u>645,246</u>	<u>619,828</u>
Viewmont Family Practice:		
Salaries	959,738	649,951
Materials and supplies	45,713	31,868
Purchased services	43,077	21,270
Other	293,261	203,373
Total	<u>1,341,789</u>	<u>906,462</u>
North Hickory Family Practice:		
Salaries	\$ 390,631	\$ 372,931
Materials and supplies	34,973	32,069
Purchased services	40,595	27,590
Other	97,395	75,257
Total	<u>563,594</u>	<u>507,847</u>
Northeast Family Practice:		
Salaries	992,872	789,634
Materials and supplies	69,238	49,277
Purchased services	56,582	30,317
Other	245,513	155,075
Total	<u>1,364,205</u>	<u>1,024,303</u>
Family Medicine Associates:		
Salaries	1,081,144	1,015,973
Materials and supplies	112,856	86,670
Purchased services	100,196	56,546
Other	268,121	220,340
Total	<u>1,562,317</u>	<u>1,379,529</u>
Catawba Valley Cardiology:		
Salaries	1,477,487	26,460
Materials and supplies	43,209	15,807
Purchased services	13,267	89
Other	214,968	451
Total	<u>1,748,931</u>	<u>42,807</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Catawba Valley Urgent Care:		
Salaries	19,052	46
Materials and supplies	2,802	-
Purchased services	242	-
Other	6,630	-
Total	<u>28,726</u>	<u>46</u>
Catawba Valley Family Care:		
Salaries	203,572	-
Materials and supplies	42,549	-
Purchased services	32,001	-
Other	70,942	-
Total	<u>349,064</u>	<u>-</u>
Catawba Valley Medical Group:		
Salaries	\$ 66,961	\$ -
Materials and supplies	2,439	-
Purchased services	9,079	-
Other	(130,380)	-
Total	<u>(51,901)</u>	<u>-</u>
TOTAL CATAWBA VALLEY MEDICAL GROUP	<u>10,172,042</u>	<u>6,582,239</u>
GENERAL SERVICES		
Nutrition care:		
Salaries	1,390,609	1,343,905
Materials and supplies	1,314,272	1,214,770
Purchased services	24,890	46,607
Other	49,224	34,586
Total	<u>2,778,995</u>	<u>2,639,868</u>
Plant operations:		
Salaries	1,555,525	1,582,449
Materials and supplies	101,429	126,643
Purchased services	2,157,056	2,045,080
Other	834,339	869,266
Total	<u>4,648,349</u>	<u>4,623,438</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Clinical technology services:		
Salaries	372,835	355,685
Materials and supplies	1,285	1,331
Purchased services	2,158,250	1,715,421
Other	286,702	281,520
Total	<u>2,819,072</u>	<u>2,353,957</u>
Laundry:		
Salaries	27,211	25,104
Materials and supplies	828	700
Purchased services	5,514	5,183
Total	<u>33,553</u>	<u>30,987</u>
Environmental services:		
Salaries	1,242,983	1,159,807
Materials and supplies	193,433	195,003
Purchased services	560,170	484,709
Other	715,336	573,704
Total	<u>2,711,922</u>	<u>2,413,223</u>
Print shop:		
Salaries	\$ 60,317	\$ 71,680
Materials and supplies	35,534	24,392
Purchased services	386,337	260,885
Other	138,922	143,585
Total	<u>621,110</u>	<u>500,542</u>
Auxiliary units:		
Salaries	236,720	199,825
Materials and supplies	150,164	147,709
Purchased services	9,529	9,145
Other	89,412	77,579
Total	<u>485,825</u>	<u>434,258</u>
TOTAL GENERAL SERVICES	<u>14,098,826</u>	<u>12,996,273</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ADMINISTRATIVE SERVICES		
Administration:		
Salaries	2,596,885	2,262,277
Materials and supplies	63,724	45,359
Purchased services	4,334,544	1,299,225
Other	1,454,379	1,320,000
Total	<u>8,449,532</u>	<u>4,926,861</u>
Managed care:		
Salaries	262,627	235,336
Materials and supplies	2,448	3,779
Purchased services	112,962	20,437
Other	305,350	308,409
Total	<u>683,387</u>	<u>567,961</u>
Finance:		
Salaries	396,333	378,394
Materials and supplies	1,936	1,874
Purchased services	355	2,686
Other	(17,173)	2,816
Total	<u>381,451</u>	<u>385,770</u>
Corporate communications:		
Salaries	-	89,878
Materials and supplies	-	1,260
Purchased services	23	5,748
Other	1,317,561	975,785
Total	<u>1,317,584</u>	<u>1,072,671</u>
Business services:		
Salaries	\$ 1,947,188	\$ 1,899,783
Materials and supplies	401,696	389,492
Purchased services	978,901	917,506
Other	(19,966)	(18,982)
Total	<u>3,307,819</u>	<u>3,187,799</u>
Communications:		
Salaries	238,893	232,707
Materials and supplies	2,668	3,908
Purchased services	1,753	832
Other	7,147	6,139
Total	<u>250,461</u>	<u>243,586</u>

CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Administrative services:		
Salaries	339,555	314,282
Materials and supplies	1,989	1,896
Purchased services	20,289	42,414
Other	4,520	7,704
Total	<u>366,353</u>	<u>366,296</u>
Management information systems:		
Salaries	1,749,317	1,515,147
Materials and supplies	10,206	13,352
Purchased services	1,370,385	1,541,994
Other	2,662,114	2,340,071
Total	<u>5,792,022</u>	<u>5,410,564</u>
Human resources:		
Salaries	437,790	408,145
Materials and supplies	2,190	4,467
Purchased services	73,821	2,302
Other	(8,811)	254,698
Total	<u>504,990</u>	<u>669,612</u>
Employee benefits	<u>27,346,315</u>	<u>24,129,852</u>
Materials management:		
Salaries	310,422	292,891
Materials and supplies	9,627	11,189
Purchased services	40,592	49,957
Other	274,543	268,107
Total	<u>635,184</u>	<u>622,144</u>
Risk management:		
Salaries	\$ 115,658	\$ 130,756
Materials and supplies	264	285
Purchased services	11,233	13,032
Other	(34,382)	9,311
Total	<u>92,773</u>	<u>153,384</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE
SUPPLEMENTAL SCHEDULES OF OPERATING
EXPENSES INFORMATION
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Health information services:		
Salaries	1,177,503	1,619,997
Materials and supplies	20,333	21,143
Purchased services	1,382,414	748,058
Other	(9,816)	(14,133)
Total	<u>2,570,434</u>	<u>2,375,065</u>
Professional buildings:		
Other	226,102	198,327
Total	<u>226,102</u>	<u>198,327</u>
Utilization Management:		
Salaries	16,387	-
Materials and supplies	-	-
Purchased services	-	-
Other	-	-
Total	<u>16,387</u>	<u>-</u>
Payroll:		
Salaries	74,697	74,134
Materials and supplies	2,127	1,110
Other	(5,193)	(1,613)
Total	<u>71,631</u>	<u>73,631</u>
Professional fees	577,467	284,690
Insurance	2,285,548	1,719,247
Other	500	609
TOTAL ADMINISTRATIVE SERVICES	<u>54,875,940</u>	<u>46,388,069</u>
DEPRECIATION	<u>12,525,812</u>	<u>12,537,331</u>
AMORTIZATION	<u>60,000</u>	<u>60,000</u>
GAIN ON DISPOSAL OF CAPITAL ASSETS	<u>(214,181)</u>	<u>(43,524)</u>
TOTAL OPERATING EXPENSES	<u>\$ 197,564,499</u>	<u>\$ 182,444,752</u>