

Annual Financial Report

**New Hanover Regional Medical Center
Wilmington, North Carolina
(A Component Unit of New Hanover County, North
Carolina)**

Years Ended September 30, 2012 and 2011

With Report of Independent Auditor

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Independent Auditor's Report

Board of Trustees
New Hanover Regional Medical Center
Wilmington, North Carolina

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units and the fiduciary fund information of New Hanover Regional Medical Center ("NHRMC"), a component unit of New Hanover County, North Carolina, as of and for the years ended September 30, 2012 and 2011, which collectively comprise NHRMC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of NHRMC's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Lower Cape Fear Hospice, Incorporated, which is a discretely presented component unit, which comprises 56% and 57% of the assets and 23% and 27% of the revenues of the aggregate discretely presented component units as of and for the years ended September 30, 2012 and 2011, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lower Cape Fear Hospice, Incorporated, is based on the reports of the other auditors.

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 financial statements are free of material misstatement. The fiduciary fund information and the financial statements of Carolina Healthcare Associates, Inc., Pender Memorial Hospital, Incorporated and Lower Cape Fear Hospice, Incorporated, the aggregate discretely presented component units, and New Hanover Regional Medical Center Foundation, Inc., a blended component unit, were not audited in accordance with *Government Auditing Standards*. 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 NHRMC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting amounts and disclosures in the 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the fiduciary fund information of New Hanover Regional Medical Center as of September 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, NHRMC changed its method of accounting for Carolina Healthcare Associates, Inc., a component unit, during the year ended September 30, 2012.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 6, 2012 and December 5, 2011 on our consideration of NHRMC'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 those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 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 States 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise NHRMC's financial statements. The supplementary information listed in the contents under supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audits and the reports of the other auditors as explained in the first paragraph of this report, the accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey LLP

Wilmington, North Carolina
December 6, 2012

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2012 and 2011**

Management's discussion and analysis of New Hanover Regional Medical Center's ("NHRMC") financial performance provides an overview of the medical center's activities for the fiscal years ended September 30, 2012 and 2011. Except as otherwise noted, the financial highlights in this analysis refer exclusively to New Hanover Regional Medical Center and its blended component unit (NHRMC).

FINANCIAL HIGHLIGHTS

For the year ended September 30, 2012

NHRMC's net assets increased over the prior year by \$36.4M (7.3%).

NHRMC reported operating income of \$29.1M or \$1.2M more than prior year.

Total non-operating activity resulted in net revenue of \$11.3M, representing a net revenue increase of \$16.5M over the prior year's net non-operating loss of \$5.2M.

For the year ended September 30, 2011

NHRMC's net assets increased over the prior year by \$17.8M (3.7%).

NHRMC reported operating income of \$27.9M or \$6.4M less than prior year.

Total non-operating activity resulted in net expense of \$5.2M, representing a net revenue decrease of \$6.9M over the prior year's net non-operating gain of \$1.7M.

SUMMARY OF NEW HANOVER REGIONAL MEDICAL CENTER

The reporting entity includes New Hanover Regional Medical Center, as well as New Hanover Regional Medical Center Foundation, Inc., blended component unit (collectively "NHRMC"), Carolina Healthcare Associates, Inc. ("CHA") (see Note 16), The Pension Plan of New Hanover Regional Medical Center, Pender Memorial Hospital, Incorporated ("PMH") and Lower Cape Fear Hospice, Incorporated ("LCFH"). CHA, PMH and LCFH are discretely presented component units. The reporting entity's business activities are presented in the Audited Financial Statements as Totals (Memorandum Only).

USING THIS ANNUAL REPORT

The Annual Financial Report includes the basic financial statements and notes to the financial statements. In using the statements, please refer to Note 1 of the basic financial statements for additional information regarding the definition of the reporting entity, blended component units and discretely presented component units.

The financial statements report information about NHRMC using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; fiduciary fund information; and notes to the financial statements. The balance sheet presents the financial position of NHRMC on a full accrual, historical cost basis. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event, when an obligation arises, or the depreciation of capital assets.

Fiduciary fund information is included as a result of NHRMC's fiduciary responsibility for a defined benefit plan it sponsors.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of the material data provided in the financial statements. The notes present information about NHRMC's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information presents the financial data of each entity blended to form NHRMC as reported in the financial statements as well as the financial data for each of the discretely presented component units. The activity of the blended component unit is not considered to be materially significant as compared to the activity of NHRMC (the Primary Government).

The financial statements were prepared by NHRMC's staff from the detailed books and records of NHRMC.

NHRMC'S OPERATING RESULTS AND CHANGES IN NET ASSETS:

	Years Ended		
	September 30, 2012	September 30, 2011	September 30, 2010
	(In Thousands)		
Net patient service revenue	\$ 645,780	\$ 615,078	\$ 588,866
Other revenue	21,080	18,113	17,212
Total operating revenue	666,860	633,191	606,078
Expenses:			
Health care services			
Salaries, wages and benefits	322,016	293,489	283,872
Medical supplies	139,614	137,964	130,269
Professional fees	22,591	15,393	13,018
Insurance	8,417	12,372	10,434
Purchased services and other	101,998	103,335	91,757
Depreciation and amortization	43,166	42,746	42,416
Total operating expenses	637,802	605,299	571,766
Operating income	29,058	27,892	34,312
Nonoperating revenues (expenses), net	11,329	(5,151)	1,715
	40,387	22,741	36,027
Capital and permanent endowment contributions and transfers to component units	(3,979)	(4,906)	(876)
Increase in net assets	36,408	17,835	35,151
Total net assets, beginning	500,119	482,284	447,133
Total net assets, ending	\$ 536,527	\$ 500,119	\$ 482,284

Discussion:

For the year ended September 30, 2012

Total operating revenue increased \$33.7M (5.3%). The increase in operating revenue is largely due to increased utilization of both inpatient and outpatient services from the previous year. In addition, NHRMC obtained sole community hospital status and updated reimbursement from the State of North Carolina's Medicaid Reimbursement Initiative (see Note 2). Net patient service revenue continues to be impacted by an increase in unreimbursed services as health insurers shift more reimbursement responsibility to individuals through increased deductibles and co-pays along with an increase in those individuals who have little or no health insurance or other means of payment. These trends are consistent in the healthcare industry. Other operating revenue consists primarily of cafeteria sales, outpatient pharmacy sales, grants, contributions and rental income from NHRMC owned facilities.

Total operating expenses increased \$32.5M. The increased utilization of services as described above as well as the implementation of the EPIC information system (see Note 6) contributed to the increase in operating expense. Costs for personnel, professional fees, and purchased services rose above the rate of increase in revenues; costs for medical supplies, insurance and depreciation rose at a rate below revenue growth. Increased costs for personnel and professional fees are directly attributable to the implementation of the EPIC information system (see Note 6). Through supply cost initiatives, the impact of increased costs for medical supplies due to the inflationary market was minimized.

NHRMC continues to ensure that wage and benefit costs remain competitive for healthcare employers, an industry continually experiencing workforce shortages. A focus on managing productivity through staffing targets along with increased focus on employee health and wellness activities helped to manage these personnel costs over the past year.

Operating income reflects income earned from operations before consideration of any interest income from investments, interest expense or other non-operating income. Operating income increased approximately \$1.2M as a result of increased net revenue from operations as a percentage of net expenses.

Income before capital contributions and transfers increased \$17.6M reflecting income from operations along with any interest earned on investments, increases and decreases in the fair value of investments, interest expense, and other non-operating items. This activity, when added to the decrease in operating income, accounted for the change from the prior year.

For the year ended September 30, 2011

Total operating revenue increased \$27.1M (4.5%). The increase in operating revenue is largely due to the increased utilization of both inpatient and outpatient services from the previous year. Net patient service revenue continues to be impacted by an increase in unreimbursed services as health insurers shift more reimbursement responsibility to individuals through increased deductibles and co-pays along with an increase in those individuals who have little or no health insurance or other means of payment. These trends are consistent in the healthcare industry. Other operating revenue consists primarily of cafeteria sales, outpatient pharmacy sales, grants, contributions and rental income from NHRMC owned facilities.

Total operating expenses increased \$33.5M. The increased utilization of services as described above contributed to the increase in operating expense. Costs for medical supplies, professional fees, insurance, and purchased services rose above the rate of increase in revenues; costs for personnel and depreciation rose at a rate below revenue growth. Increased costs for medical supplies, professional fees and purchased services are directly attributable to increased utilization of services. Through supply cost initiatives, the impact of increased costs for medical supplies due to the inflationary market was minimized. The increase in insurance expense was due to an increase in costs associated with hospital professional liability.

NHRMC continues to ensure that wage and benefit costs remain competitive for healthcare employers, an industry continually experiencing workforce shortages. A focus on managing productivity through staffing targets along with increased focus on employee health and wellness activities helped to manage these personnel costs over the past year.

Operating income reflects income earned from operations before consideration of any interest income from investments, interest expense or other non-operating income. Operating income decreased approximately \$6.4M as a result of increased net expenses as a percentage of net revenue from operations.

Income before capital contributions and transfers decreased \$13.3M reflecting income from operations along with any interest earned on investments, increases and decreases in the fair value of investments, interest expense, and other non-operating items. This activity, when added to the decrease in operating income, accounted for the change from the prior year.

SUMMARY OF NHRMC NET ASSETS

	September 30, 2012	September 30, 2011	September 30, 2010
	(In Thousands)		
Assets			
Current assets	\$ 176,917	\$ 160,161	\$ 154,976
Capital assets - tangible, net	433,762	429,670	417,737
Other noncurrent assets	358,944	345,598	338,471
Total assets	969,623	935,429	911,184
Liabilities			
Current liabilities	118,667	107,839	100,816
Long-term obligations	314,429	327,471	328,084
Total liabilities	433,096	435,310	428,900
Net Assets			
Invested in capital assets, net of related debt	165,531	156,274	143,160
Unrestricted net assets	358,884	332,547	327,428
Restricted net assets	12,112	11,298	11,696
Total net assets	\$ 536,527	\$ 500,119	\$ 482,284

Discussion:

For the year ended September 30, 2012

Total assets have increased by \$34.2M over the past fiscal year end. The increase in current assets is primarily due to an increase in patient accounts receivable. The increase in accounts receivable is attributable to increased utilization of services along with a smaller impact from the implementation of the EPIC information system. The increase in capital assets reflects increases in investments in capital improvements of NHRMC in property, plant and equipment during the past year. Increases in noncurrent assets are the result of interest earnings and unrealized gains / losses in the market value of NHRMC investments.

Total liabilities have decreased by \$2.2M over the past fiscal year end. An increase in current liabilities resulted primarily from an increase in trade payables, wages payable and self insured liability offset by a decrease in estimated third-party payor settlements. Estimated third-party payor settlements reflect potential settlements with Medicare and Medicaid upon final audit of cost reports. The reader may refer to Note 2 of the basic financial statements for additional information.

Net assets increased \$36.4M during the past year reflecting the overall performance during the past fiscal year.

For the year ended September 30, 2011

Total assets have increased by \$24.2M over the past fiscal year end. The increase in current assets is primarily due to an increase in patient accounts receivable. The increase in accounts receivable is attributable to increased utilization of services. The increase in capital assets reflects increases in investments in capital improvements of NHRMC in property, plant and equipment during the past year. Increases in noncurrent assets are the result of interest earnings and unrealized gains / losses in the market value of NHRMC investments.

Total liabilities have increased by \$6.4M over the past fiscal year end. An increase in current liabilities resulted primarily from an increase in trade payables, wages payable and self insured liability offset by a decrease in estimated third-party payor settlements. Estimated third-party payor settlements reflect potential settlements with Medicare and Medicaid upon final audit of cost reports. The reader may refer to Note 2 of the basic financial statements for additional information.

Net assets increased \$17.8M during the past year reflecting the overall performance during the past fiscal year.

LONG-TERM DEBT DISCUSSION

For the year ended September 30, 2012

Long-term debt (noncurrent portion) is approximately \$314.4M as of September 30, 2012 and includes Hospital Revenue Bonds issued in 2005, 2006, 2008 and 2011 as well as approximately \$11.8M in interest rate swaps related to the 2005 series Revenue bonds (see Note 7) and \$3.3M for a financing agreement with Epic Software (see Note 6).

NHRMC continues to make annual debt service and semi-annual interest payments on these bonds in compliance with bond documents. There have been no changes in the credit rating for New Hanover Regional Medical Center over the past year. Changes in long-term liabilities are summarized in Note 6 of the basic financial statements.

For the year ended September 30, 2011

Long-term debt (noncurrent portion) is approximately \$327.5M as of September 30, 2011 and includes Hospital Revenue Bonds issued in 2005, 2006, 2008 and 2011 as well as approximately \$12.5M in interest rate swaps related to the 2005 series Revenue bonds (see Note 7) and \$5.0M for a financing agreement with Epic Software (see Note 6).

NHRMC continues to make annual debt service and semi-annual interest payments on these bonds in compliance with bond documents. There have been no changes in the credit rating for New Hanover Regional Medical Center over the past year. Changes in long-term liabilities are summarized in Note 6 of the basic financial statements.

CAPITAL ASSETS DISCUSSION

For the year ended September 30, 2012

NHRMC has completed the renovation and expansion of dietary operations and a new data center to support the growth of the organization. In addition, NHRMC is implementing the EPIC information system product suite to replace most core clinical and revenue systems. The EPIC solutions will provide NHRMC and the local healthcare community with a fully integrated system, including easily accessible electronic medical records. Although implementation will be phased over several years, the majority of core systems functionality and the electronic medical record were deployed in the 4th quarter FY2012. With the EPIC product, NHRMC will have in place the requirements necessary to qualify for Meaningful Use stimulus incentives available through the federal government.

For the year ended September 30, 2011

NHRMC has completed the Tower Renovation project, which has improved the infrastructure systems, created private rooms and more efficient support spaces for the staff. Construction on the Tower Renovation project began during the 4th Quarter of 2008 and continued through the 1st Quarter of FY2011. Construction projects are now underway to renovate and expand dietary operations and to build a new data center. At the Cape Fear campus, the Endoscopy to Operating Room construction was completed in FY 2011.

NHRMC is implementing the EPIC information system product suite to replace most core clinical and revenue systems. The EPIC solutions will provide NHRMC and the local healthcare community with a fully integrated system, including easily accessible electronic medical records. Implementation will be phased over several years, with the majority of core systems functional and the electronic medical record available by 4th quarter FY2012. With the EPIC product, NHRMC will have in place the requirements necessary to qualify for Meaningful Use stimulus incentives available through the federal government.

NEXT YEAR'S BUDGET AND RATES

The operational environment for the health care industry continues to be challenging. Demands for new technology and services, increases in costs for medical supplies, and increasing challenges for cost containment because of reductions in reimbursement for services provided continue to impact the industry.

For the upcoming fiscal year beginning October 1, 2013, the Board of Trustees has approved a budget to include increases of \$8.1M in salaries and benefits for employees, \$135.6M in uncompensated care, and \$50.4M in capital investments (exclusive of the EPIC information systems project referenced in the Capital Assets section previously) and debt service.

To offset increases in operating costs, the budget reflects an increase in volumes in both inpatient and outpatient services along with anticipated cost savings in supplies, labor costs and improved focus on the hospital's revenue cycle. A price increase of 5.8% was approved for NHRMC to also offset additional operating costs.

OTHER ECONOMIC FACTORS

NHRMC continues to compensate for federal and state reimbursement below the rate of expense growth in the healthcare industry. Excluding the governmental programs, Medicare and Medicaid, there is no other payer that has a significant presence in New Hanover County. NHRMC continues to manage expense growth in an environment of lower reimbursement from governmental payers and an increasing burden on the patient to pay a higher portion of their medical care costs as seen through an increase in individual co-pays, deductibles and uninsured.

With slow growth in the national, state and local economies, unemployment has remained at elevated levels. NHRMC, like hospitals across the state, continues to serve as an economic engine in the community. New Hanover County and the surrounding primary service area of NHRMC, including Brunswick and Pender Counties, continue to see moderate growth resulting in additional demand for services provided by NHRMC. It is expected however, given the current job market, economic climate and other economic factors affecting healthcare, that NHRMC will be faced with absorbing more uninsured patients and more uncompensated care in the upcoming year. NHRMC receives no local taxpayer support to assist with this care.

CONTACTING THE FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of the finances of New Hanover Regional Medical Center and to demonstrate the accountability for the monies received for services provided. If you have any questions or concerns about this report or need additional financial information contact Ed Ollie, Executive Vice President / CFO, PO Box 9000, Wilmington, North Carolina 28402.

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New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)
Balance Sheets - Proprietary Fund
(Dollars in Thousands)

	September 30, 2012			September 30, 2011		
	Combined	Total		Combined	Total	
	Component	(Memorandum		Component	(Memorandum	
NHRMC	Units	Only)	NHRMC	Units	Only)	
ASSETS						
Current assets						
Cash and cash equivalents (Note 3)	\$ 15,637	\$ 7,163	\$ 22,800	\$ 20,481	\$ 10,778	\$ 31,259
Assets limited as to use (Note 3):						
Cash equivalents held by bond paying agent	11,922	-	11,922	7,998	-	7,998
Cash for debt service-not held by bond paying agent	4,411	-	4,411	4,085	-	4,085
Cash equivalents and investments for the future payment of claims liabilities	15,228	-	15,228	19,628	-	19,628
Receivables:						
Patient accounts, less allowance for bad debts (Note 2)	87,792	17,325	105,117	73,834	11,668	85,502
Due from health insurance programs (Note 2)	6,102	327	6,429	2,932	194	3,126
Due from primary government	-	2,045	2,045	-	1,438	1,438
Due from component units	388	-	388	-	-	-
Other receivables	8,487	890	9,377	4,919	420	5,339
Investments (Note 3)	-	2,672	2,672	-	3,171	3,171
Inventories	16,581	473	17,054	15,734	474	16,208
Prepaid expenses	10,369	2,389	12,758	10,550	1,845	12,395
Total current assets	176,917	33,284	210,201	160,161	29,988	190,149
Noncurrent cash, investments, and donor receivables						
Noncurrent Cash and Investments (Note 3):						
Designated by Board for operating and PDO reserve	-	11,073	11,073	-	9,672	9,672
Designated by Board for capital improvements	285,240	4,015	289,255	269,790	427	270,217
Designated by Board for ESC reserve	-	55	55	-	-	-
Restricted under loan agreement	-	45	45	-	34	34
Restricted under letter of credit	4,000	-	4,000	4,000	-	4,000
Designated by Board for supplemental retirement plans	1,672	-	1,672	1,456	-	1,456
Restricted by donors for specific purpose	2,432	-	2,432	1,908	-	1,908
Restricted by donors for endowments	1,777	1,308	3,085	1,669	1,120	2,789
	295,121	16,496	311,617	278,823	11,253	290,076
Pledges and grants receivable	1,748	232	1,980	1,872	495	2,367
Total noncurrent cash, investments, and donor receivables	296,869	16,728	313,597	280,695	11,748	292,443
Other assets						
Intangible capital assets, net of amortization (Note 4)	45,855	1,187	47,042	48,856	1,416	50,272
Investment in affiliates (Note 12)	423	-	423	561	-	561
Pension asset (Note 10)	4,396	-	4,396	4,396	-	4,396
Other long term assets	381	686	1,067	424	295	719
Deferred outflow of resources (Note 7)	11,020	356	11,376	10,666	308	10,974
Total other assets	62,075	2,229	64,304	64,903	2,019	66,922
Capital assets - tangible (Note 4)						
Land	11,622	4,702	16,324	11,622	3,401	15,023
Depreciable capital assets, net of accumulated depreciation	421,649	25,267	446,916	390,917	19,772	410,689
Construction in progress	491	1,180	1,671	27,131	1,294	28,425
Total capital assets - tangible	433,762	31,149	464,911	429,670	24,467	454,137
Total assets	\$ 969,623	\$ 83,390	\$ 1,053,013	\$ 935,429	\$ 68,222	\$ 1,003,651

See Notes to Financial Statements.

	September 30, 2012			September 30, 2011		
	NHRMC	Combined	Total	NHRMC	Combined	Total
		Component	(Memorandum		Component	(Memorandum
	Units	Only)	Units	Only)		
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable and other liabilities (Note 6)	\$ 30,332	\$ 8,277	\$ 38,609	\$ 22,373	\$ 5,155	\$ 27,528
Professional liability claims (Note 9)	17,298	-	17,298	19,417	-	19,417
Accrued salaries and wages	30,005	4,091	34,096	25,801	3,469	29,270
Estimated third-party payor settlements (Note 2)	10,048	114	10,162	14,319	412	14,731
Due to component units	2,037	-	2,037	1,438	-	1,438
Note payable, current portion (Note 6)	-	85	85	-	21	21
Accrued interest payable	5,191	53	5,244	5,440	55	5,495
Other self-insured liabilities (Note 9)	10,659	-	10,659	10,362	-	10,362
Capital lease obligations, notes and bonds payable, current portion (Notes 5 and 6)	13,097	248	13,345	8,689	104	8,793
Total current liabilities	118,667	12,868	131,535	107,839	9,216	117,055
Long-term obligations						
Capital lease obligations less current portion (Notes 5 and 6)	-	-	-	-	3	3
Net pension obligation (Notes 6 and 10)	-	231	231	-	231	231
Supplemental retirement plans (Notes 6 and 10)	1,672	-	1,672	1,456	-	1,456
Notes payable (Note 6)	3,340	3,142	6,482	4,984	2,011	6,995
Bonds payable, less current portion (Note 6)	297,649	5,855	303,504	308,579	7,100	315,679
Interest rate swap agreements (Note 7)	11,768	356	12,124	12,452	308	12,760
Total long-term obligations	314,429	9,584	324,013	327,471	9,653	337,124
Total liabilities	433,096	22,452	455,548	435,310	18,869	454,179
Commitments and contingencies (Notes 2, 4, 5, 6, 7, 9, 10, 11, 12, 13 and 14)						
Net assets						
Invested in capital assets, net of related debt	165,531	23,015	188,546	156,274	16,644	172,918
Unrestricted	358,884	36,367	395,251	332,547	29,214	361,761
Restricted	12,112	1,556	13,668	11,298	3,495	14,793
Total net assets	536,527	60,938	597,465	500,119	49,353	549,472
Total liabilities and net assets	\$ 969,623	\$ 83,390	\$ 1,053,013	\$ 935,429	\$ 68,222	\$ 1,003,651

New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)
Statements of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund
(Dollars in Thousands)

	Year Ended September 30, 2012			Year Ended September 30, 2011		
	Combined		Total	Combined		Total
	NHRMC	Units	Only)	NHRMC	Units	Only)
Operating revenues:						
Net patient service revenue (Notes 2 and 6)	\$ 645,780	\$ 116,335	\$ 762,115	\$ 615,078	\$ 88,145	\$ 703,223
Other revenue	21,080	24,288	45,368	18,113	22,304	40,417
Total operating revenue	666,860	140,623	807,483	633,191	110,449	743,640
Operating expenses:						
Salaries, wages and benefits	322,016	51,531	373,547	293,489	43,582	337,071
Medical supplies	139,614	16,725	156,339	137,964	5,909	143,873
Professional fees	22,591	39,305	61,896	15,393	26,447	41,840
Insurance	8,417	1,787	10,204	12,372	1,391	13,763
Purchased services and other	101,998	21,962	123,960	103,335	20,992	124,327
Depreciation and amortization	43,166	3,148	46,314	42,746	2,254	45,000
Total operating expenses	637,802	134,458	772,260	605,299	100,575	705,874
Operating income	29,058	6,165	35,223	27,892	9,874	37,766
Nonoperating revenues (expenses):						
Interest expense	(12,440)	(257)	(12,697)	(13,590)	(234)	(13,824)
Other nonoperating income	116	193	309	(372)	4	(368)
Interest earned on investments	5,289	-	5,289	6,198	-	6,198
Net (decrease) increase in fair value of investments	17,985	1,380	19,365	1,672	(300)	1,372
Gain (loss) on sale of assets	44	-	44	(65)	1	(64)
Equity in net income of joint ventures	335	-	335	1,006	-	1,006
Nonoperating revenues (expenses), net	11,329	1,316	12,645	(5,151)	(529)	(5,680)
Excess of revenues over expenses before capital contributions	40,387	7,481	47,868	22,741	9,345	32,086
Capital and permanent endowment contributions and capital transfers to/from component units	(3,979)	4,104	125	(4,906)	5,116	210
Increase in net assets	36,408	11,585	47,993	17,835	14,461	32,296
Total net assets, beginning (Note 16)	500,119	49,353	549,472	482,284	34,892	517,176
Total net assets, ending	\$ 536,527	\$ 60,938	\$ 597,465	\$ 500,119	\$ 49,353	\$ 549,472

See Notes to Financial Statements.

New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)
Statements of Cash Flows - Proprietary Fund
(Dollars in Thousands)

	Year Ended September 30, 2012			Year Ended September 30, 2011		
	Combined	Total		Combined	Total	
	Component	(Memorandum		Component	(Memorandum	
NHRMC	Units	Only)	NHRMC	Units	Only)	
Cash Flows From Operating Activities						
Cash received from and on behalf of patients	\$ 625,032	\$ 110,701	\$ 735,733	\$ 604,492	\$ 85,176	\$ 689,668
Cash payments to suppliers for services and goods	(267,998)	(76,419)	(344,417)	(265,839)	(52,181)	(318,020)
Cash payments to employees for services	(317,623)	(50,910)	(368,533)	(292,885)	(42,255)	(335,140)
Other operating cash receipts	16,044	23,812	39,856	22,388	19,977	42,365
Net cash provided by operating activities	55,455	7,184	62,639	68,156	10,717	78,873
Cash flows from noncapital financing activities						
Contributions and operating grants	1,592	-	1,592	1,306	-	1,306
Payments (to) from component unit	211	(591)	(380)	955	(955)	-
Net cash provided by (used in) noncapital financing activities	1,803	(591)	1,212	2,261	(955)	1,306
Cash flows from capital and related financing activities						
Acquisition of capital assets	(43,651)	(10,220)	(53,871)	(43,775)	(6,499)	(50,274)
Proceeds from disposed assets	411	2	413	2,497	84	2,581
Acquisition of intangible assets	-	-	-	(796)	(1,212)	(2,008)
Capital contributions	112	12	124	183	27	210
Principal payments on capital lease obligations	-	(4)	(4)	-	(59)	(59)
Principal payments on revenue bonds and other outstanding debt	(8,474)	(1,135)	(9,609)	(104,639)	(119)	(104,758)
Interest paid on capital financing	(13,113)	(297)	(13,410)	(13,949)	(252)	(14,201)
Proceeds from bonds/notes	-	1,230	1,230	96,616	3,400	100,016
Payment of bond issuance costs	-	-	-	(1,296)	-	(1,296)
Transfers (to) from component unit	(4,092)	4,092	-	(5,089)	5,089	-
Net cash (used in) provided by capital and related financing activities	(68,807)	(6,320)	(75,127)	(70,248)	459	(69,789)
Cash flows from investing activities						
(Purchases) sales of investments, net of maturities	17,871	(5,152)	12,719	(16,872)	(6,867)	(23,739)
Interest earned on investments	5,204	161	5,365	6,077	(307)	5,770
Contributions to partnerships	(767)	-	(767)	(5,376)	-	(5,376)
Distributions from partnerships	1,256	-	1,256	7,267	-	7,267
Other interest earned	105	42	147	238	11	249
Net cash provided by (used in) investing activities	23,669	(4,949)	18,720	(8,666)	(7,163)	(15,829)
Net increase (decrease) in cash and cash equivalents	12,120	(4,676)	7,444	(8,497)	3,058	(5,439)
Cash and cash equivalents at beginning of year	92,605	12,861	105,466	101,102	9,803	110,905
Cash and cash equivalents at end of year	\$ 104,725	\$ 8,185	\$ 112,910	\$ 92,605	\$ 12,861	\$ 105,466

(Continued)

New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)
Statements of Cash Flows - Proprietary Fund (Continued)
(Dollars in Thousands)

	Year Ended September 30, 2012			Year Ended September 30, 2011		
	Combined	Total		Combined	Total	
	Component	(Memorandum		Component	(Memorandum	
	NHRMC	Units	Only)	NHRMC	Units	Only)
Reconciliation of cash and cash equivalents to the balance sheet						
Unrestricted cash and cash equivalents	\$ 15,637	\$ 7,163	\$ 22,800	\$ 20,481	\$ 10,778	\$ 31,259
Cash and cash equivalents in noncurrent cash and investments						
Designated by Board for operating and PDO reserve	-	718	718	-	1,925	1,925
Designated by Board for ESC reserve	-	55	55	-	-	-
Reserved for debt service-held by bond paying agent	11,922	-	11,922	7,998	-	7,998
Reserved for debt service-not held by bond paying agent	4,411	-	4,411	4,085	-	4,085
Designated by Board for claims liabilities	289	-	289	225	-	225
Designated by Board for capital improvements	68,466	-	68,466	55,816	89	55,905
Restricted under loan agreement	-	45	45	-	34	34
Restricted under letter of credit	4,000	-	4,000	4,000	-	4,000
By donor restrictions	-	204	204	-	35	35
Cash and cash equivalents, including noncurrent cash and investments at end of year	\$ 104,725	\$ 8,185	\$ 112,910	\$ 92,605	\$ 12,861	\$ 105,466
Reconciliation of operating income to net cash provided by operating activities						
Cash flows from operating activities						
Operating income	\$ 29,058	\$ 6,165	\$ 35,223	\$ 27,892	\$ 9,874	\$ 37,766
Employee services included in nonoperating income	(27)	-	(27)	(647)	-	(647)
Operating grants in other revenue	(1,592)	-	(1,592)	(1,306)	-	(1,306)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	43,166	3,148	46,314	42,746	2,254	45,000
Changes in:						
Patient receivables and programs	(16,751)	(6,410)	(23,161)	57	(2,969)	(2,912)
Inventories	(847)	-	(847)	977	(50)	927
Prepaid expenses and other current assets	181	99	280	(2,046)	(1,135)	(3,181)
Accounts payable and other liabilities	(1,980)	3,403	1,423	(687)	1,717	1,030
Accrued salaries and wages	4,204	622	4,826	1,033	1,108	2,141
Pension asset	-	-	-	95	-	95
Net pension obligation	-	(1)	(1)	-	-	-
Other long term assets	43	158	201	42	(82)	(40)
Net cash provided by operating activities	\$ 55,455	\$ 7,184	\$ 62,639	\$ 68,156	\$ 10,717	\$ 78,873
Non-cash capital and related financing activities						
Unrealized (loss) gain	\$ 16,935	\$ -	\$ 16,935	\$ 3,479	\$ -	\$ 3,479
Noncash distribution from partnership:						
Intangible capital assets	\$ -	\$ -	\$ -	\$ 3,664	\$ -	\$ 3,664
Construction in progress	\$ -	\$ -	\$ -	\$ 523	\$ -	\$ 523
Inventories	\$ -	\$ -	\$ -	\$ 221	\$ -	\$ 221
Accounts payable	\$ -	\$ -	\$ -	\$ 95	\$ -	\$ 95
Software license acquired through financing agreement and accounts payable	\$ -	\$ -	\$ -	\$ 9,597	\$ -	\$ 9,597
Construction in process acquired through accounts payable and accrued expenses	\$ -	\$ -	\$ -	\$ 14	\$ -	\$ 14
Bond issuance costs paid with proceeds of refunded bonds	\$ -	\$ -	\$ -	\$ 1,296	\$ -	\$ 1,296
Deferred costs associated with refunded bonds	\$ -	\$ -	\$ -	\$ 1,306	\$ -	\$ 1,306

See Notes to Financial Statements.

New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)
Statements of Fiduciary Net Assets - Fiduciary Fund
December 31, 2011 and 2010
(Dollars in Thousands)

ASSETS	The Pension Plan of New Hanover Regional Medical Center	
	2011	2010
Investments (Note 3):		
Real estate	\$ 4,356	\$ 4,356
Money market funds	1,498	1,174
Mutual funds	125,440	124,804
Common stocks	32,894	33,114
	<u>164,188</u>	<u>163,448</u>
Receivable:		
Accrued income	81	225
	<u>81</u>	<u>225</u>
Total assets	<u>164,269</u>	<u>163,673</u>
Net assets held in trust for pension benefits	<u><u>\$ 164,269</u></u>	<u><u>\$ 163,673</u></u>

See Notes to Financial Statements.

New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)
Statements of Changes in Fiduciary Net Assets - Fiduciary Fund
Years Ended December 31, 2011 and 2010
(Dollars in Thousands)

	The Pension Plan of New Hanover Regional Medical Center	
	2011	2010
Additions		
Employer's contributions	\$ 10,600	\$ 9,781
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	(4,200)	11,476
Dividends and interest	3,984	3,268
	(216)	14,744
Total additions	10,384	24,525
Deductions		
Distributions to participants	9,220	9,795
Administrative expenses	568	508
Total deductions	9,788	10,303
Net increase in net assets	596	14,222
Net assets held in trust for pension benefits:		
Beginning of year	163,673	149,451
End of year	\$ 164,269	\$ 163,673

See Notes to Financial Statements.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

New Hanover Regional Medical Center (“NHRMC”) is a public, nonprofit corporation providing health care to residents of southeastern North Carolina. NHRMC is a component unit of New Hanover County (“County”), North Carolina for financial reporting purposes and is included in the basic financial statements of the County together with its component units, which are described below. As required by accounting principles generally accepted in the United States of America, these financial statements present NHRMC and its component units. All dollars presented in these Notes to Financial Statements are in thousands.

NHRMC

The New Hanover Regional Medical Center Foundation, Inc. (“Foundation”) is a 501(c)(3) nonprofit organization, which was founded by NHRMC in 1991 to serve solely NHRMC as a fundraising entity. As such, the Foundation is included in NHRMC’s financial statements as a blended component unit; the balances and transactions of this entity are blended with those of New Hanover Regional Medical Center in the accompanying financial statements, and referred to as “NHRMC”. Intercompany balances and transactions are eliminated in the process. The Foundation assets and revenues are less than 1% of the NHRMC total activities and the details of the Foundation are not considered material to the financial statements.

The Pension Plan of New Hanover Regional Medical Center comprises the fiduciary fund information. The Plan’s fiscal year ends included herein are December 31, 2011 and 2010.

Combined Component Units

The combined component units consist of the following discretely presented component units: Carolina Healthcare Associates, Inc. (“CHA”), (see Note 16), Lower Cape Fear Hospice, Incorporated (“LCFH”), and Pender Memorial Hospital, Incorporated (“PMH”). They are reported in a separate column in NHRMC’s basic financial statements to emphasize that they are legally separate from NHRMC.

CHA (doing business as NHRMC Physicians Group) is a 501(c)(3) nonprofit corporation governed by NHRMC. The NHRMC Executive Committee of the Board of Trustees, which includes 8 of the 17 voting members of NHRMC’s full Board of Trustees, serves as the CHA Board, thereby appointing 100% of CHA’s Board members. CHA provides an integrated primary and specialty care physician practice network to NHRMC in the form of physician and nurse practitioner services within NHRMC clinical areas and independent office locations in the NHRMC service area. Through contractual agreement, Carolinas Physician Network (CPN) operates and manages each of the medical practices owned by CHA and provides certain professional medical services for each of those practices. At the end of fiscal year 2012, CHA consisted of 99 physicians, 15 nurse practitioners, and 25 mid-level providers. CHA’s operating revenue was \$83,294 in fiscal year 2012 and \$57,824 in fiscal year 2011. During the years ended September 30, 2012 and 2011, NHRMC recorded an operating expense and CHA recorded other operating revenue in the amount of approximately \$16,027 and \$16,687, respectively, to fund CHA’s fiscal year operating deficits. Additionally, during 2012 and 2011, NHRMC infused capital into CHA of approximately \$2,853 and \$3,678, respectively.

LCFH is an affiliated organization of NHRMC. The Trustees of NHRMC appoint 80% of the board of directors of LCFH, a nonprofit organization that provides professional care to the terminally ill and support and education to the family and community. The organization currently serves 12 counties in southeastern North Carolina. During the years ended September 30, 2012 and 2011, NHRMC granted and paid LCFH approximately \$342 and \$298, respectively, in support of LCFH’s Palliative Care Program.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)**

PMH consists of Pender Memorial Hospital, a nonprofit acute care hospital, and NHRMC Homecare, a nonprofit home health care service. The hospital provides inpatient, outpatient, and emergency care services to the residents of Pender County and vicinity. NHRMC Homecare provides homecare services in Pender and other surrounding counties. PMH is an affiliated organization of NHRMC through a twenty-year operating agreement commencing in fiscal year 1999. NHRMC is required by the operating agreement to fund any operating deficit of PMH during any fiscal year the agreement is in effect. All operating income generated by PMH operations shall be returned to NHRMC on an annual basis. During the years ended September 30, 2012 and 2011, NHRMC recorded an operating expense and PMH recorded other operating revenue in the amount of approximately \$2,006 and \$1,384 to fund PMH's fiscal year operating deficits. Additionally under the operating agreement, beginning in fiscal year 2009 NHRMC committed to infuse capital into PMH as part of the NHRMC annual capital budget process. Upon termination of the operating agreement, PMH is required to reimburse NHRMC for the unamortized value of capital acquired under this commitment. During 2012 and 2011, NHRMC infused approximately \$1,239 and \$1,411, respectively, of capital into PMH.

Complete separate financial statements are issued by the following individual component units and may be obtained at their administrative offices:

New Hanover Regional Medical Center Foundation, Inc.
2259 South 17th Street
Wilmington, North Carolina 28401

Lower Cape Fear Hospice, Incorporated
1414 Physicians Drive
Wilmington, North Carolina 28401

Basis of Presentation

The balance sheets, statements of revenues, expenses and changes in net assets, and statements of cash flows present information about the primary entity ("NHRMC") and its component units. These statements include the financial activities of the overall entity, except for the fiduciary activities. The statements of fiduciary net assets and statements of changes in fiduciary net assets present information about The Pension Plan of New Hanover Regional Medical Center (NHRMC Pension Plan) (see Note 10).

Basis of Accounting

NHRMC uses enterprise fund accounting. Revenues and expenses of enterprise funds are recognized on the economic resources measurement focus and the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. NHRMC has elected to follow only the pronouncements of the Governmental Accounting Standards Board ("GASB") issued after November 30, 1989, pursuant to GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. As a result of that election, applicable Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989 are applied, when appropriate, but FASB pronouncements issued after that date are not applied.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)**

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents includes highly liquid investments maturing in three months or less from the date of purchase. All investments are carried at fair value.

Inventories

Inventories of supplies are valued at the lower of cost (first-in, first-out method) or market.

Designated Assets and Restricted Assets

Designated assets are set aside by the Board of Trustees for future capital or other long-term needs and the Board may, at its discretion, subsequently use them for other purposes. Additionally, as of September 30, 2012 and 2011, NHRMC had funds restricted under a letter of credit in conjunction with the issuance of Series 2008 bonds during the year ended September 30, 2009 (See Note 6) and amounts restricted by donors. Designated and restricted funds of LCFH are for LCFH programs.

Gifts, bequests, and grants restricted by the donor for specific operating purposes are recorded as restricted revenue in the period received. Gifts, bequests, and grants received with conditions as to their use or funding are recorded as deferred revenue when received and included as other operating revenue in the financial statements of the period in which expenses are made for the purpose intended by the donor. Resources restricted by donors for additions to capital assets are included in the statement of revenues, expenses and changes in net assets as capital contributions.

Investments

Investments are reported at fair value. Fair value of investments in equity securities and mutual funds is determined by quoted market prices. Fair value of fixed income investments is recorded at the amount reported by the financial institution, which approximates a value determined by a discounted cash flow model. Amounts in the NCCMT, an SEC registered (2a-7) money market fund, are valued at the fair value as determined by the share price. The amount recorded by the fiduciary fund as investment in real estate represents estimated fair value determined by appraisal.

Intangible Capital Assets

Intangible capital assets consist of bond issuance costs, goodwill and other intangibles and are recorded net of amortization. Goodwill and other intangibles are recorded at historical cost and amortized over the estimated life of the expected economic benefit, using the straight-line method. Bond issuance costs are amortized over the life of the related bond issue using the effective interest method for fixed rate bonds and the straight-line method for variable rate bonds.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)**

Tangible Capital Assets

Purchased or constructed tangible capital assets are recorded at cost. Donated capital assets are recorded at estimated fair value at the date received. NHRMC's, CHA's, and PMH's policies are to generally capitalize assets with a cost of one thousand dollars or greater and a useful life of at least one year. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets as recommended by the American Hospital Association. During fiscal year 2011, NHRMC revised its depreciation policy so that Core Information Technology Software is depreciated over 10 years, and Other Information Technology Software is depreciated over 5 years, which may be different than the AHA's recommendation. This policy will be applied prospectively to newly acquired assets, but software placed in service prior to 2011 will continue to be depreciated over its original assigned useful life. Amounts in construction-in-progress are not yet subject to depreciation. NHRMC's net interest costs of approximately \$986 and \$868 were incurred and capitalized during fiscal years ended September 30, 2012 and 2011, respectively, in the construction of long-term assets and will be amortized over the related assets' estimated useful lives.

LCFH calculates depreciation using accelerated methods using lives of 3 to 10 years for furniture and equipment and lives of 20 to 45 years for buildings.

Legal title to NHRMC's capital assets is in the name of either New Hanover County or New Hanover Regional Medical Center. Substantially all facilities, equipment, and future improvements are leased from New Hanover County (See Note 5). Legal title to CHA's capital assets is in CHA's name. Legal title to LCFH's capital assets is in LCFH's name. Legal title to PMH's capital assets is in the name of either Pender County or Pender Memorial Hospital, Incorporated. Substantially all of PMH's facilities are leased from Pender County (See Note 5).

Self-Funded Liabilities

NHRMC is self-insured for employee medical claims and contracts with a third party to administer the program. NHRMC's losses are limited under the contract by specific and aggregate stop-loss insurance coverage for claims above specified amounts. NHRMC is also self-insured for a portion of professional liabilities, workers' compensation, and unemployment benefits. Provisions for estimated unpaid claims outstanding at September 30, 2012 and 2011 have been made.

CHA employees are covered under the NHRMC medical and professional liability plans. CHA is self-insured for unemployment benefits. Provisions for estimated unpaid claims outstanding at September 30, 2012 and 2011 have been made.

Unamortized Deferral on Refunding and Unamortized Premiums

Bonds payable is recorded net of unamortized deferred losses on bond refunding and unamortized premiums (discounts) on bonds. Deferred losses are amortized over the shorter of the lives of the refunded debt or the refunding debt using the effective interest method for fixed rate bonds and the straight-line method for variable rate bonds recorded net of accumulated amortization. Premiums and discounts are amortized over the life of the related debt using the effective interest method (See Note 6).

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)**

Net Assets

Net asset classifications are defined as follows:

- *Net assets invested in capital assets, net of related debt* consists of capital asset, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* at NHRMC consist of those net assets generated from revenues that have constraints on their use imposed by third parties, creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of September 30, 2012 and 2011, restricted net assets consist of: expendable net assets restricted under letter of credit agreements of approximately \$4,000 and \$4,000, respectively; nonexpendable endowments of approximately \$2,000 and \$2,000, respectively; and other expendable net assets resulting from specific purpose donations and grants.
- *Unrestricted net assets* consist of net assets that have no third party restrictions on use and are not invested in capital assets.

Operating Income

Transactions resulting from the primary purpose of NHRMC, which is to provide medical services to the region, are reported as operating revenues and expenses. Revenues and expenses not meeting these criteria are reported as non-operating.

Interest Rate Swap Agreements

NHRMC and LCFH have entered into interest rate swap agreements to modify interest rates on certain outstanding debt. Net interest expenditures resulting from these agreements and the resulting accrued receivable or payable under the swap agreements are reflected in the financial statements. As discussed in Note 7, in accordance with GASB Statement 53, the estimated fair values of interest rate swaps are recorded as a liability on the balance sheet. The fair value of interest rate swaps is recorded at the values reported by the counterparties, which approximates a value determined by the discounted cash flow model. For all swap instruments determined to be ineffective, the change in fair value is recorded in the statement of revenues, expenses and changes in net assets as a component of the net increase (decrease) in fair value of investments. For all swap instruments determined to be effective, any change in fair value is deferred and recorded on the balance sheet as a deferred outflow of resources.

Charity Care

NHRMC provides care without charge or at amounts less than its established rates to patients who meet certain criteria for charity care, which are based on federal poverty guidelines and consideration of the level of incurred charges in relation to income and net worth. Because NHRMC does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care rendered by NHRMC at established charges totaled approximately \$43,993 and \$47,035 for the years ended September 30, 2012 and 2011, respectively. Charity care provided by component units is not considered significant.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)**

Net Patient Service Revenue and Net Patient Receivables

Net patient service revenue and net patient receivables are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Net patient service revenue includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated third-party payor settlements are accrued in the period the related services are rendered and adjusted in future periods, as final settlements are determined, and it is possible that the amounts of final settlements could be materially different than those initially estimated by management.

Sales and Income Taxes

NHRMC, CHA, LCFH, and PMH are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, they receive reimbursement from the State of North Carolina for sales taxes paid during the year.

Pension Plan

NHRMC maintains a defined benefit pension plan covering substantially all of its employees in addition to a few CHA employees grandfathered into the plan. PMH also maintains a separate defined benefit pension plan covering substantially all of its employees. NHRMC, and PMH recognize pension expense under a systematic approach whereby the measurement of the pension expense for an accounting period is similar to the employer's calculated required contributions for that period, in accordance with an established and actuarially sound funding policy, and the difference between pension payments and pension expense is recognized as a prepaid pension asset or net pension obligation on the balance sheet.

Total (Memorandum Only) Columns

Total "Memorandum Only" columns do not represent consolidated financial information of the reporting entity, and do not present information that reflects financial position, changes in financial position, or cash flows in conformity with accounting principles generally accepted in the United States of America. These columns are presented only to facilitate financial analysis.

Reclassification

Certain amounts presented in the prior year's data have been reclassified, as necessary, to be consistent with the 2012 presentation. Reclassifications had no effect on net assets or changes in net assets.

Note 2. Net Patient Service Revenue and Allowance and Provision for Bad Debts

NHRMC, CHA, LCFH, and PMH have agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of payment arrangements with major third-party payors are as follows:

Medicare

As of April 14, 2012, NHRMC was recognized by the Centers for Medicare and Medicaid Services (CMS) as a Sole Community Hospital (SCH). CMS reimburses SCH hospitals at a higher rate than Prospective Payment System hospitals.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 2. Net Patient Service Revenue and Allowance and Provision for Bad Debts (Continued)

Services for NHRMC Medicare acute inpatients are paid at interim rates subject to settlement, and non-acute inpatients and outpatients are paid at prospectively determined rates.

Other Medicare payments are based on interim rates with final settlement determined after submission of annual cost reports and audits of these reports by the Medicare fiscal intermediary. NHRMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2009.

PMH is a "Critical Access Hospital." This enables PMH to receive 101% cost based reimbursement from Medicare for its hospital based services. PMH's skilled nursing and home health services are reimbursed at prospectively determined rates. PMH's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2008.

Medicare services represent:

	Percentage of Net Patient Services Revenue for the Year Ended September 30,		Percentage of Net Patient Accounts Receivable as of September 30,	
	2012	2011	2012	2011
NHRMC	40%	41%	33%	26%
CHA	59%	58%	52%	32%
LCFH	90%	91%	75%	75%
PMH	56%	55%	60%	50%

Medicaid

Inpatient services rendered to NHRMC Medicaid patients are reimbursed at a prospectively determined rate. Services to outpatients are reimbursed at a percentage of cost as defined in the Medicaid regulations. Effective October 1, 2005, PMH is reimbursed at cost by Medicaid for both inpatient and outpatient critical access hospital services. NHRMC and PMH Medicaid cost reimbursement is based on tentative interim rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. NHRMC's Medicaid cost reports have been audited through September 30, 2010, and PMH's Medicaid cost reports have been audited through September 30, 2010. PMH's skilled nursing and home health services are reimbursed on prospective rates.

Medicaid services represent:

	Percentage of Net Patient Services Revenue for the Year Ended September 30,		Percentage of Net Patient Accounts Receivable as of September 30,	
	2012	2011	2012	2011
NHRMC	14%	14%	8%	15%
CHA	4%	4%	3%	4%
LCFH	4%	4%	18%	17%
PMH	21%	21%	19%	15%

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 2. Net Patient Service Revenue and Allowance and Provision for Bad Debts (Continued)

During 2011, the State of North Carolina enacted legislation (the "GAP Assessment Program") intended to implement a program in which hospitals pay an assessment designed to increase funds used to match Federal support such that the State can supplement existing Medicaid Disproportionate Share payments. The 2011 and 2012 GAP Assessment Programs were approved during 2012. During fiscal year ended September 30, 2012, NHRMC received approximately \$40,209 from the State of North Carolina under the Medicaid Reimbursement Initiative (MRI), of which \$4,469 was for 2011 GAP Assessment Program which was not finalized and accruable in 2011, and \$6,284 was for the 2012 GAP Assessment Program. The GAP Assessment Program balances are recorded net of assessments in net revenue. During the fiscal year ending September 30, 2011, NHRMC received approximately \$29,053 from the State of North Carolina under the MRI.

PMH received approximately \$274, of which \$61 was for 2011 GAP Assessment Program which was not finalized and accruable in 2011, and \$137 in supplemental payments during the fiscal years ended September 30, 2012 and 2011, respectively.

Both NHRMC and PMH have included in estimated third-party payor settlements, estimated supplemental payments due under the MRI at amounts management considers insignificant.

The MRI was audited and settled through September 30, 2003. Amounts of supplemental payments received by NHRMC for years 2004 through 2010 are not subject to settlement. Fiscal Year 2011 is the first year since 2003 where Medicare Upper Payment Limit Program audits can potentially have a financial impact and NHRMC has determined payments for 2012 and 2011 are not at risk.

Changes in Estimates Related to Third Party Payors

Adjustments to estimated third party payor settlements from prior years occurring in 2012 and 2011 increased NHRMC's change in net assets by approximately \$355 and \$7,318, respectively.

Adjustments to estimated third party payor settlements from prior years occurring in 2012 and 2011 decreased PMH's change in net assets by approximately \$74 and increased PMH's change in net assets by approximately \$381, respectively.

Recovery Audit Contractor Audits

In 2009, the Centers for Medicare and Medicaid Services (CMS) implemented nation-wide use of recovery audit contractors (RACs) as part of CMS' efforts to assure accurate claims payments. The RACs search for potentially improper Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. The North Carolina Department of Health and Human Services implemented a similar program in August 2012 for Medicaid payments.

During the years ended September 30, 2012 and 2011, the number of NHRMC claims chosen by RAC for review totaled 1,462 and 900, respectively. Net overpayments processed to date for fiscal year 2012 and 2011, respectively, are \$935 and \$108. NHRMC recorded a reserve for estimated assessments under future RAC audits of \$2,162 and \$2,378 at September 30, 2012 and 2011, respectively.

PMH RAC activity is immaterial at this time for either Medicare or Medicaid.

New Hanover Regional Medical Center
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Notes to Financial Statements
(Dollars in Thousands)

Note 2. Net Patient Service Revenue and Allowance and Provision for Bad Debts (Continued)

Allowances for Bad Debts

Allowance for bad debts are maintained for receivables which historically experience uncollectible accounts. The allowance for bad debts is as follows:

	September 30,	
	2012	2011
NHRMC	\$ 63,020	\$ 61,493
CHA	5,328	4,645
LCFH	440	202
PMH	4,088	2,975
	<u>\$ 72,876</u>	<u>\$ 69,315</u>

For the years ended September 30, 2012 and 2011, net patient service revenue is reported net of a provision for bad debts of:

	2012	2011
NHRMC	\$ 79,069	\$ 77,827
CHA	6,649	4,948
LCFH	811	618
PMH	4,519	5,114
	<u>\$ 91,048</u>	<u>\$ 88,507</u>

Note 3. Cash and Cash Equivalents and Investments

Deposits

As of September 30, 2012 and 2011, the carrying values and bank balances of deposits were as follows (in thousands):

	2012		2011	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
NHRMC	\$ 33,437	\$ 37,711	\$ 40,446	\$ 54,928
CHA	1,903	1,919	3,626	3,629
LCFH	4,166	4,533	7,198	4,598
PMH	1,352	2,094	824	1,094

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 3. Cash and Cash Equivalents and Investments (Continued)

Custodial credit risk for deposits is the risk that in the event of bank failure, a government's deposits may not be returned to it. NHRMC has no policy on custodial credit risk, but all deposits of NHRMC and PMH were with depositories covered under statewide single financial institution collateral pools (known as the Pooling Method) whereby collateral is maintained for all the depository's governmental units in the State. The North Carolina State Treasurer monitors Pooling Method depositories for adequate collateralization.

Under the Pooling Method, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. The amount of the pledged collateral is based on an approved averaging method for non-interest 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 NHRMC or PMH. Because of the inability to measure the exact amount of collateral pledged for NHRMC and PMH under the Pooling Method, the potential exists for undercollateralization, 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 Pooling Method depository.

As of September 30, 2012, financial institutions are each insured by the Federal Deposit Insurance Corporation (FDIC) for unlimited amounts deposited in non-interest bearing accounts and for deposits up to \$250 in interest bearing accounts. Substantially all deposits of the Foundation were covered by federal depository insurance. NHRMC and PMH have cash balances in financial institutions that exceed federal depository limits, but the excess is collateralized under the Pooling Method described above.

CHA and LCFH are not subject to the above described statutes. CHA and LCFH have cash balances in a financial institution that from time to time have exceeded federal depository insurance limits. Bank balances in excess of federal depository insurance limits are uninsured and uncollateralized and amounted to \$1,418 and \$2,914 for CHA and \$4,033 and \$4,098 for LCFH, as of September 30, 2012 and 2011, respectively.

Investments

North Carolina General Statute 159-30 authorizes NHRMC and PMH to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of specific U.S. government agencies; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; certain high quality issues of commercial paper and bankers' acceptances; a commingled investment pool established and administered by the North Carolina State Treasurer pursuant to North Carolina General Statute 147-69.3; certain repurchase agreements with respect to direct obligations of the United States or obligations which are guaranteed by the United States as to principal and interest; and the North Carolina Capital Management Trust (NCCMT). Additionally, North Carolina General Statute 159-30 also requires NHRMC and PMH to limit custodial credit risk as governed by the Statute. State statutes do not govern the Foundation's investment policies or those of LCFH.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 3. Cash and Cash Equivalents and Investments (Continued)

NHRMC's investment policy consists of strategies for the short-term and the long-term. The intent of the short-term fund investment strategy is to provide short-term liquidity and working capital for operations and other strategic purposes. Assets invested in the short-term fund are primarily in the NCCMT. The intent of the long-term fund investment strategy is to generate current income and maintain stability of principal. The long-term fund divides investments into three investment strategies: short/intermediate fixed income, broad duration fixed income, and domestic and international equity securities. NHRMC invests in domestic and international equity securities through deposits in a commingled investment pool administered by the North Carolina State Treasurer. These deposits are invested in preferred or common stocks allowable under North Carolina General Statute. NHRMC's participation in the commingled investment pool is voluntary, and generally only two withdrawals are allowed within any twelve-month period and are only permitted on the first business day of each calendar month.

The Foundation's investment policy allows investments to be allocated among fixed income securities, equity securities, and cash equivalents, with specific minimum target allocations and maximums by investment type.

LCFH's investment policy divides investment strategies into two investment categories, short-term and long-term. Allocation to each category is based on the liquidity needs of LCFH. The intent of the short-term fund investment strategy, generally LCFH operations, is to provide short-term liquidity and working capital for operations and other strategic purposes, with the primary strategy to be preservation of principal, and income a secondary consideration. The intent of the long-term fund investment strategy is to generate current income and maintain stability of principal.

CHA does not have a formal investment policy and generally does not retain funds for investments.

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Notes to Financial Statements
(Dollars in Thousands)

Note 3. Cash and Cash Equivalents and Investments (Continued)

As of September 30, 2012 and 2011, NHRMC had the following investments, concentrations and maturities, excluding fiduciary investments:

Investment Type	Weighted Average Maturity in Years	Fair Value 2012	Weighted Average Maturity in Years	Fair Value 2011
Municipal Bonds:				
Brunswick Cnty NC Enterprise Sys Rev Build				
America Bonds	5.5	\$ 2,036	6.5	\$ 1,968
US Government Treasury Notes	5.6	13,637	5.5	16,380
US Government Treasury Bonds	7.2	32,161	7.6	37,862
US Treasury Inflation Bond	-	-	29.4	3,960
US Government Agencies:				
Federal Farm Credit Bank	1.0	1,056	2.0	1,087
Federal Home Loan Bank	3.6	8,136	0.5	9,671
Federal Home Loan Mortgage Corp	3.4	19,814	4.4	19,936
Federal Nat'l Mortgage Association	1.7	11,997	5.1	12,385
Mortgage Backed Securities:				
Federal Home Loan Mtg Corp Pool	19.6	26,940	19.4	26,652
Federal Nat'l Mortgage Assoc Pool	21.2	34,989	21.6	33,452
Gov't Nat'l Mortgage Assoc Pool	16.7	13,126	17.3	15,810
Asset Backed CMO's:				
Gov't Nat'l Mortgage Assoc	17.1	1,338	18.1	1,579
Vendee Mortgage Trust Ser 1992-1 CL 2Z	9.6	878	10.6	1,026
Vendee Mortgage Trust Ser 1994-3B CL 2F	10.0	638	11.0	731
Vendee Mortgage Trus Ser 1995-1 CL 3ZB	12.4	768	13.4	876
Vendee Mortgage Trus Ser 1997-1 CL 2Z	14.4	449	15.4	498
Vendee Mortgage Trus Ser 1996-1 CL 1Z	13.4	982	14.4	1,096
NC Capital Management Trust - Cash Portfolio	N/A	71,269	N/A	52,140
Department of State Treasurer Trust Funds				
Investment Program - Equity Investment Fund	N/A	62,700	N/A	48,340
Department of State Treasurer Short Term				
Investment Fund (STIF)	N/A	68	N/A	68
Mutual Funds	N/A	5,881	N/A	5,033
		\$ 308,863		\$ 290,550

N/A = Not applicable.

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**Notes to Financial Statements
(Dollars in Thousands)**

Note 3. Cash and Cash Equivalents and Investments (Continued)

As of September 30, 2012 and 2011, LCFH had the following investments:

Investment Type	Fair Value	
	2012	2011
Bond Funds	\$ 7,379	\$ 2,526
Mutual Funds	10,767	9,815
	<u>\$ 18,146</u>	<u>\$ 12,341</u>

Interest Rate Risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. NHRMC's investment policy mitigates interest rate risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. NHRMC also invests in collateralized mortgage obligations and mortgage backed securities. The value of the securities is based on the cash flows from principal and interest payments due on the underlying mortgages. When interest rates decline, prepayments by mortgagees may increase. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.

LCFH's investment policy mitigates interest rate risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The policy does not formally limit maturities as a means of managing exposure to fair value losses arising from changes in interest rates.

Credit Risk. Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State Statutes limit NHRMC's investments to obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of specific U.S. government agencies; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; certain high quality issues of commercial paper and bankers' acceptances; investment in a commingled investment pool established and administered by the North Carolina State Treasurer; certain repurchase agreements with respect to direct obligations of the United States or obligations which are guaranteed by the United States as to principal and interest; and the North Carolina Capital Management Trust (NCCMT). NHRMC's investments in the NCCMT Cash Portfolio carried a rating of AAAM by Standard & Poor's as of September 30, 2012.

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**Notes to Financial Statements
(Dollars in Thousands)**

Note 3. Cash and Cash Equivalents and Investments (Continued)

NHRMC's investment portfolio includes debentures and mortgage backed securities (MBS) issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corp., Vendee Mortgage Trust, and the Government National Mortgage Association; debentures issued by Federal Home Loan Bank and Federal Farm Credit Bank; and certain municipal bonds. All are rated Aaa by Moody's Investors Service or backed by the full faith of the U.S. Government, which is rated Aaa, as of September 30, 2012 and 2011. With respect to NHRMC's investments in mortgage backed securities, NHRMC's investment portfolio consists of both traditional mortgage backed securities (MBS's) and asset backed collateralized mortgage obligations (CMO's). An MBS is an asset backed security whose cash flows are backed by the principal and interest payments of a pool of mortgage loans. Payments are typically made monthly over the lifetime of the underlying loans. CMO's, a type of mortgage backed security, are bonds that represent claims to specific cash flows from large pools of mortgages. The streams of principal and interest payments on the mortgages are distributed to the different classes of CMO interests. Credit risk associated with MBS's and CMO's is affected by homeowners or borrowers defaulting on their loans. NHRMC's investments in CMO's are explicitly guaranteed by the U.S. Government (Government National Mortgage Association and Vendee Mortgage Trust securities).

In addition to minimizing credit risk by limiting investments to those allowed by State Statute, it is NHRMC's policy to diversify the investment portfolio so that the impact of potential losses from any one type of security and/or issuer will be minimized.

LCFH's policy is to diversify the investment portfolio so that the impact of potential losses from any one type of security will be minimized.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of government's investment in a single issuer. NHRMC's investment policy requires a balance between short/intermediate fixed income securities, broad duration fixed income securities, and investment in a commingled investment pool established and administered by the North Carolina State Treasurer as allowable under State Statute; however it places no limit on the amount NHRMC may invest in any one issuer. As of September 30, 2012, securities issued/backed by Fannie Mae, Freddie Mac, and Ginnie Mae represent 15.3%, 15.2%, and 4.7% of the Hospital's investment portfolio, respectively. As of September 30, 2011, securities issued/backed by Fannie Mae, Freddie Mac, and Ginnie Mae represent 15.8%, 16.1%, and 6.0% of the Hospital's investment portfolio, respectively.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. NHRMC's investment in the State Treasurer's Trust Funds Investment Program-Equity Investment Fund exposes NHRMC to foreign currency risk as a result of its positions in foreign currency-denominated equity securities. NHRMC does not have an investment policy that limits its exposure to foreign currency risk, however NHRMC's investment policy provides for the maintenance of a balance between three investment strategies, one of which is the State Treasurer's Trust Funds Investment Program-Equity Investment Fund. At September 30, 2012 and 2011, NHRMC had approximately \$12,494 and \$10,444, respectively, exposed to foreign currency risk, of which 21% and 17%, respectively, represent investments denominated in the Euro; 16% and 17%, respectively, represent investments denominated in the British Pound; and 16% and 19%, respectively, represent investments denominated in the Japanese Yen.

Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported by NHRMC and LCFH in the balance sheet.

New Hanover Regional Medical Center
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Notes to Financial Statements
(Dollars in Thousands)

Note 3. Cash and Cash Equivalents and Investments (Continued)

Deposits and investments of NHRMC as of September 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		
Cash on hand	\$ 19	\$ 19
Deposits	4,904	12,287
Short-term mutual fund (1)	10,714	8,175
	<u>\$ 15,637</u>	<u>\$ 20,481</u>
Assets limited as to use:		
Held by bond paying agent		
Short-term mutual fund (1)	\$ 11,922	\$ 7,998
By Board for debt service		
Deposits	4,411	4,085
By Board for claims liabilities		
U.S. Treasury securities	3,026	5,975
U.S. Agency securities	11,913	13,428
Short-term mutual fund (1)	289	225
	<u>\$ 31,561</u>	<u>\$ 31,711</u>
Designated by Board for capital improvements		
U.S. Treasury securities	\$ 42,772	\$ 48,267
U.S. Agency securities	29,090	29,651
U.S. Government Inflation Bond	-	3,960
Municipal bonds	2,036	1,968
Other securities backed by		
U.S. Government/Gov't Agencies	80,108	81,720
Dept. of State Treasurer Trust Funds		
Investment Program -		
Equity Investment Fund	62,700	48,340
Dept. of State Treasurer Short Term		
Investment Fund (STIF)	68	68
Deposits	20,122	20,074
Short-term mutual fund (1)	48,344	35,742
	<u>\$ 285,240</u>	<u>\$ 269,790</u>
Restricted under LOC for 2008 bonds		
Deposits	\$ 4,000	\$ 4,000
	<u>\$ 4,000</u>	<u>\$ 4,000</u>
Designated by Board for employee benefit plans		
Mutual funds	\$ 1,672	\$ 1,456
	<u>\$ 1,672</u>	<u>\$ 1,456</u>
Restricted for Specific Purposes		
Mutual funds	\$ 2,432	\$ 1,908
	<u>\$ 2,432</u>	<u>\$ 1,908</u>
Restricted for Endowments		
Mutual funds	\$ 1,777	\$ 1,669
	<u>\$ 1,777</u>	<u>\$ 1,669</u>

(1) - North Carolina Capital Management Trust, a cash equivalent.

New Hanover Regional Medical Center
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Notes to Financial Statements
(Dollars in Thousands)

Note 3. Cash and Cash Equivalents and Investments (Continued)

Deposits of CHA as of September 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		
Cash on hand	\$ 6	\$ 5
Deposits	1,903	3,626
	<u>\$ 1,909</u>	<u>\$ 3,631</u>

Deposits and investments of LCFH as of September 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		
Cash on hand	\$ 3	\$ 3
Deposits	3,144	5,115
	<u>\$ 3,147</u>	<u>\$ 5,118</u>
Investments		
Bond and mutual funds	\$ 2,672	\$ 3,171
	<u>\$ 2,672</u>	<u>\$ 3,171</u>
By Board for operating and PDO reserve		
Deposits	\$ 718	\$ 1,925
Bond and mutual funds	10,355	7,747
	<u>\$ 11,073</u>	<u>\$ 9,672</u>
By Board for ESC reserve		
Deposits	\$ 55	\$ -
	<u>\$ 55</u>	<u>\$ -</u>
By Board for capital improvements		
Deposits	\$ -	\$ 89
Bond and mutual funds	4,015	338
	<u>\$ 4,015</u>	<u>\$ 427</u>
Under agreement		
Deposits	\$ 45	\$ 34
	<u>\$ 45</u>	<u>\$ 34</u>
Endowments		
Deposits	\$ 204	\$ 35
Bond and mutual funds	1,104	1,085
	<u>\$ 1,308</u>	<u>\$ 1,120</u>

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 3. Cash and Cash Equivalents and Investments (Continued)

Deposits and investments of PMH as of September 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		
Cash on hand	\$ 1	\$ 1
Deposits	1,352	824
Short-term mutual fund (1)	754	1,204
	<u>\$ 2,107</u>	<u>\$ 2,029</u>

(1) - North Carolina Capital Management Trust, a cash equivalent.

Pension Trust Investments

Investments of The Pension Plan of New Hanover Regional Medical Center ("Plan") are governed by North Carolina State Statutes, which generally provide for any type of investment subject to the prudent person rule.

The following table presents investments as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Real Estate:		
28.77 Acres of land and buildings in Wilmington, NC	\$ 4,356	\$ 4,356
Money market funds:		
Federated Government Obligations Fund	924	1,174
Federated U.S. Treasury Cash Reserves Fund	574	-
Mutual funds:		
Pimco Total Return Institutional Fund	67,095	63,879
Euro Pac Growth Fund	16,361	16,625
Royce Fund	8,799	9,270
Davis New York Venture Fund	33,185	35,030
Common stocks	32,894	33,114
	<u>\$ 164,188</u>	<u>\$ 163,448</u>

Interest Rate Risk. The Plan does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. The Plan may invest in domestic fixed income securities; however, the Plan's investment policy does not allow these securities to exceed 50% of the Plan's portfolio. The PIMCO Total Return Institutional Fund is an Intermediate-Term Bond Fund. The Fund's average effective maturity is 8.9 years. The average maturity of the Federated Government Obligations Fund and the Federated U.S. Treasury Cash Reserves fund is approximately 48 days and 55 days, respectively.

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**Notes to Financial Statements
(Dollars in Thousands)**

Note 3. Cash and Cash Equivalents and Investments (Continued)

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy limits the Plan's portfolio in domestic fixed income securities rated less than BBB to no more than 10% of the total plan portfolio. The Moody's credit quality rating of the Federated Government Obligations Fund is Aaa-mf, and the PIMCO Total Return Institutional Fund is not rated by credit agencies.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments and other assets that are in possession of an outside third party. The Plan's common stock are registered in the name of and held by the First Citizens Bank & Trust Company, trustee, and identified in First Citizens Bank & Trust Company's records as belonging to the Plan.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Money market funds and registered investment companies are excluded from this disclosure requirement. The Plan's policies restrict investment by type of investment, geographic location and percentage of total portfolio.

Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported in the statement of fiduciary net assets.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 4. Capital Asset Activity

Capital asset activity was as follows:

NHRMC - Year Ended September 30, 2012

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
NHRMC Activity:				
Capital assets, not being depreciated:				
Land	\$ 11,622	\$ -	\$ -	\$ 11,622
Construction in progress	27,131	37,626	(64,266)	491
Total capital assets, not being depreciated	38,753	37,626	(64,266)	12,113
Capital assets, being depreciated/amortized				
Intangible assets	69,456	-	-	69,456
Buildings and leasehold improvements	490,662	4,960	(722)	494,900
Equipment	267,764	66,345	(16,601)	317,508
Total capital assets being depreciated/amortized	827,882	71,305	(17,323)	881,864
Less accumulated depreciation/amortization for:				
Intangible assets	(20,600)	(3,001)	-	(23,601)
Buildings, leasehold improvements, and equipment	(367,509)	(40,165)	16,915	(390,759)
Total accumulated depreciation/amortization	(388,109)	(43,166)	16,915	(414,360)
Total capital assets being depreciated/ amortized, net	439,773	28,139	(408)	467,504
NHRMC activities, capital assets, net	\$ 478,526	\$ 65,765	\$ (64,674)	\$ 479,617

New Hanover Regional Medical Center
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Notes to Financial Statements
(Dollars in Thousands)

Note 4. Capital Asset Activity (Continued)

NHRMC - Year Ended September 30, 2011

	Beginning Balance	Additions	Retirements	Ending Balance
NHRMC Activity:				
Capital assets, not being depreciated:				
Land	\$ 11,966	\$ -	\$ (344)	\$ 11,622
Construction in progress	14,847	42,617	(30,333)	27,131
Total capital assets, not being depreciated	<u>26,813</u>	<u>42,617</u>	<u>(30,677)</u>	<u>38,753</u>
Capital assets, being depreciated/amortized				
Intangible assets	66,680	5,757	(2,981)	69,456
Buildings and leasehold improvements	473,470	18,721	(1,529)	490,662
Equipment	252,605	23,403	(8,244)	267,764
Total capital assets being depreciated/amortized	<u>792,755</u>	<u>47,881</u>	<u>(12,754)</u>	<u>827,882</u>
Less accumulated depreciation/amortization for:				
Intangible assets	(19,781)	(2,493)	1,674	(20,600)
Buildings, leasehold improvements, and equipment	(335,150)	(40,253)	7,894	(367,509)
Total accumulated depreciation/amortization	<u>(354,931)</u>	<u>(42,746)</u>	<u>9,568</u>	<u>(388,109)</u>
Total capital assets being depreciated/ amortized, net	<u>437,824</u>	<u>5,135</u>	<u>(3,186)</u>	<u>439,773</u>
NHRMC activities, capital assets, net	<u>\$ 464,637</u>	<u>\$ 47,752</u>	<u>\$ (33,863)</u>	<u>\$ 478,526</u>

New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)

Notes to Financial Statements
(Dollars in Thousands)

Note 4. Capital Asset Activity (Continued)

CHA - Year Ended September 30, 2012

	Beginning			Ending
	Balance	Additions	Retirements	Balance
CHA Activity:				
Capital assets, not being depreciated:				
Construction in progress	\$ 42	\$ 1,847	\$ (1,821)	\$ 68
Total capital assets, not being depreciated	42	1,847	(1,821)	68
Capital assets, being depreciated/amortized				
Intangible assets	1,976	-	-	1,976
Buildings and leasehold improvements	311	146	-	457
Equipment	3,203	2,406	(15)	5,594
Total capital assets being depreciated/amortized	5,490	2,552	(15)	8,027
Less accumulated depreciation/amortization for:				
Intangible assets	(596)	(396)	-	(992)
Buildings, leasehold improvements, and equipment	(492)	(1,146)	10	(1,628)
Total accumulated depreciation/amortization	(1,088)	(1,542)	10	(2,620)
Total capital assets being depreciated/amortized, net	4,402	1,010	(5)	5,407
CHA activities, capital assets, net	\$ 4,444	\$ 2,857	\$ (1,826)	\$ 5,475

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 4. Capital Asset Activity (Continued)

CHA - Year Ended September 30, 2011

	Beginning Balance	Additions	Retirements	Ending Balance
CHA Activity:				
Capital assets, not being depreciated:				
Construction in progress	\$ 158	\$ 5,255	\$ (5,371)	\$ 42
Total capital assets, not being depreciated	158	5,255	(5,371)	42
Capital assets, being depreciated/amortized				
Intangible assets	764	1,212	-	1,976
Buildings and leasehold improvements	98	213	-	311
Equipment	594	2,709	(100)	3,203
Total capital assets being depreciated/amortized	1,456	4,134	(100)	5,490
Less accumulated depreciation/amortization for:				
Intangible assets	(285)	(311)	-	(596)
Buildings, leasehold improvements, and equipment	(109)	(400)	17	(492)
Total accumulated depreciation/amortization	(394)	(711)	17	(1,088)
Total capital assets being depreciated/amortized, net	1,062	3,423	(83)	4,402
CHA activities, capital assets, net	\$ 1,220	\$ 8,678	\$ (5,454)	\$ 4,444

New Hanover Regional Medical Center
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Notes to Financial Statements
(Dollars in Thousands)

Note 4. Capital Asset Activity (Continued)

LCFH - Year Ended September 30, 2012

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
LCFH Activity:				
Capital assets, not being depreciated:				
Land	\$ 3,359	\$ 1,301	\$ -	\$ 4,660
Construction in progress	1,100	592	(1,061)	631
Total capital assets, not being depreciated	4,459	1,893	(1,061)	5,291
Capital assets, being depreciated/amortized:				
Intangible assets	-	180	-	180
Buildings and leasehold improvements	10,388	4,326	-	14,714
Equipment	2,864	404	(185)	3,083
Total capital assets being depreciated/amortized	13,252	4,910	(185)	17,977
Less accumulated depreciation/amortization for:				
Intangible assets	-	(3)	-	(3)
Buildings, leasehold improvements, and equipment	(3,558)	(651)	181	(4,028)
Total accumulated depreciation/amortization	(3,558)	(654)	181	(4,031)
Total capital assets being depreciated/ amortized, net	9,694	4,256	(4)	13,946
LCFH activities, capital assets, net	\$ 14,153	\$ 6,149	\$ (1,065)	\$ 19,237

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 4. Capital Asset Activity (Continued)

LCFH - Year Ended September 30, 2011

	Beginning Balance	Additions	Retirements	Ending Balance
LCFH Activity:				
Capital assets, not being depreciated:				
Land	\$ 2,846	\$ 513	\$ -	\$ 3,359
Construction in progress	89	1,011	-	1,100
Total capital assets, not being depreciated	<u>2,935</u>	<u>1,524</u>	<u>-</u>	<u>4,459</u>
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	10,333	55	-	10,388
Equipment	2,457	555	(148)	2,864
Total capital assets being depreciated/amortized	<u>12,790</u>	<u>610</u>	<u>(148)</u>	<u>13,252</u>
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements, and equipment	(3,017)	(675)	134	(3,558)
Total accumulated depreciation/amortization	<u>(3,017)</u>	<u>(675)</u>	<u>134</u>	<u>(3,558)</u>
Total capital assets being depreciated/ amortized, net	<u>9,773</u>	<u>(65)</u>	<u>(14)</u>	<u>9,694</u>
LCFH activities, capital assets, net	<u>\$ 12,708</u>	<u>\$ 1,459</u>	<u>\$ (14)</u>	<u>\$ 14,153</u>

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 4. Capital Asset Activity (Continued)

PMH - Year Ended September 30, 2012

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
PMH Activity:				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	152	1,226	(897)	481
Total capital assets, not being depreciated	194	1,226	(897)	523
Capital assets, being depreciated/amortized				
Intangible assets	191	-	-	191
Buildings and leasehold improvements	10,866	98	-	10,964
Equipment	7,964	878	(133)	8,709
Total capital assets being depreciated/amortized	19,021	976	(133)	19,864
Less accumulated depreciation/amortization for:				
Intangible assets	(155)	(10)	-	(165)
Buildings, leasehold improvements, and equipment	(11,774)	(942)	118	(12,598)
Total accumulated depreciation/amortization	(11,929)	(952)	118	(12,763)
Total capital assets being depreciated/amortized, net	7,092	24	(15)	7,101
PMH activities, capital assets, net	\$ 7,286	\$ 1,250	\$ (912)	\$ 7,624

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 4. Capital Asset Activity (Continued)

PMH - Year Ended September 30, 2011

	Beginning Balance	Additions	Retirements	Ending Balance
PMH Activity:				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	79	1,184	(1,111)	152
Total capital assets, not being depreciated	121	1,184	(1,111)	194
Capital assets, being depreciated/amortized				
Intangible assets	191	-	-	191
Buildings and leasehold improvements	10,247	619	-	10,866
Equipment	7,422	700	(158)	7,964
Total capital assets being depreciated/amortized	17,860	1,319	(158)	19,021
Less accumulated depreciation/amortization for:				
Intangible assets	(146)	(9)	-	(155)
Buildings, leasehold improvements, and equipment	(11,067)	(859)	152	(11,774)
Total accumulated depreciation/amortization	(11,213)	(868)	152	(11,929)
Total capital assets being depreciated/amortized, net	6,647	451	(6)	7,092
PMH activities, capital assets, net	\$ 6,768	\$ 1,635	\$ (1,117)	\$ 7,286

All depreciation is directly or indirectly related to the provision of healthcare services. NHRMC has active projects for building construction and leasehold improvements as of September 30, 2012 and 2011. As of September 30, 2012, NHRMC has remaining commitments of approximately \$969 on projects. PMH has an active project for leasehold improvements with a total contract amount of approximately \$850, of which \$155 had been spent as of September 30, 2012.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 5. Lease Obligations and Commitments

Under a lease agreement dated October 1, 1993 and most recently amended September 1, 2011, NHRMC leases its existing facilities and equipment and all future improvements from New Hanover County through October 2038, all of which have been recorded as capital assets in the accompanying balance sheets. Covenants under the lease agreement correspond to those in the Series 2005, 2006, 2008, and 2011 Revenue Bond Indentures. The County maintains a limited right under the bond order to terminate the lease with 90 days notice (after public hearing). In addition, under the lease agreement, NHRMC has agreed to maintain certain debt service coverage and cushion ratios as discussed further in Note 6.

NHRMC leases capital assets under operating leases that have initial or remaining noncancelable terms in excess of one year.

Scheduled payments on NHRMC's operating lease commitments are as follows:

Year Ending September 30,	Amount
2013	\$ 4,972
2014	4,510
2015	3,269
2016	3,281
2017	2,722
2018 - 2022	4,322
Total minimum payments	\$ 23,076

Rent expense on operating leases for NHRMC totaled approximately \$6,845 and \$7,433 in 2012 and 2011, respectively.

Under a facility and services agreement signed on October 1, 2012 between NHRMC and Atlantic Surgicenter, LLC, NHRMC leases an ambulatory surgical facility through October 1, 2017. The lease may be terminated by NHRMC in 2015; see note 12 for additional details.

Scheduled payments on this lease commitment are as follows:

Year Ending September 30,	Amount
2013	\$ 2,367
2014	2,429
2015	1,120
Total minimum payments	\$ 5,916

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 5. Lease Obligations and Commitments (Continued)

CHA leases office space and equipment under various noncancelable operating lease agreements that expires between 2013 and 2022. Scheduled payments on CHA's operating lease commitments are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2013	\$ 3,072
2014	3,032
2015	3,001
2016	3,030
2017	2,668
2018-2022	4,170
Total minimum payments	<u>\$ 18,973</u>

Rent expense on operating leases for CHA totaled approximately \$3,528 and \$2,645 in 2012 and 2011, respectively.

LCFH leases office space under various noncancelable operating lease agreements, which expire over the next two years. Rent expense related to these agreements totaled approximately \$61 and \$52 in 2012 and 2011, respectively.

PMH, under an amended and restated lease agreement dated November 15, 2004, leases its main facilities and equipment and all future improvements from Pender County for an initial period of twenty years with an option (at NHRMC's direction) to renew for ten additional years. Pender County and PMH maintain a limited right under the lease agreement to terminate the lease if specified provisions cannot be cured within 180 days, provided that NHRMC shall be permitted to cure any breach on behalf of PMH within established time frames.

PMH leases additional space under a noncancelable operating lease, which expires in fiscal year 2013. In addition, PMH leases certain medical equipment under operating leases that expires between 2013 and 2017. Scheduled payments on PMH's operating lease commitments are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2013	\$ 281
2014	43
2015	34
2016	34
2017	31
Total minimum payments	<u>\$ 423</u>

Rent expense on operating leases for PMH totaled approximately \$395 and \$426 in 2012 and 2011, respectively.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 5. Lease Obligations and Commitments (Continued)

PMH also leases various capital assets under noncancelable capital leases. As of September 30, 2012 and 2011, the leased assets had been recorded at \$109 and \$109, respectively, and had accumulated amortization of \$109 and \$109, respectively. A summary of capital lease obligations of PMH is as follows at September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Capital lease obligations, at an interest rate of 8.9% collateralized by leased equipment	\$ 3	\$ 7
Less current portion	<u>(3)</u>	<u>(4)</u>
Capital lease obligations, less current portion	<u>\$ -</u>	<u>\$ 3</u>

Scheduled payments on PMH's capital lease obligations are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2013	<u>\$ 3</u>
Total minimum payments	3
Less amount representing interest	-
Present value of net minimum payments	<u>\$ 3</u>

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities

Changes in long-term liabilities:

Long-term obligation activity for the year ended September 30, 2012 and 2011, was as follows:

NHRMC - Year Ended September 30, 2012

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable:					
Revenue bonds	\$ 320,580	\$ -	\$ (6,830)	\$ 313,750	\$ 11,320
Less deferred amounts:					
Deferrals on refundings and mode changes	7,949	-	(647)	7,302	-
Issuance discounts, (premiums), net	(2,778)	-	257	(2,521)	-
Total bonds payable	315,409	-	(6,440)	308,969	11,320
Supplemental retirement plans	1,456	216	-	1,672	-
Notes payable	6,843	-	(1,726)	5,117	1,777
Long-term obligations	\$ 323,708	\$ 216	\$ (8,166)	\$ 315,758	\$ 13,097

NHRMC - Year Ended September 30, 2011

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable:					
Revenue bonds	\$ 328,500	\$ 93,965	\$ (101,885)	\$ 320,580	\$ 6,830
Less deferred amounts:					
Deferrals on refundings and mode changes	6,718	1,729	(498)	7,949	-
Issuance discounts, (premiums), net	306	(2,651)	(433)	(2,778)	-
Total bonds payable	321,476	94,887	(100,954)	315,409	6,830
Supplemental retirement plans	1,333	401	(278)	1,456	-
Notes payable	-	9,597	(2,754)	6,843	1,859
Long-term obligations	\$ 322,809	\$104,885	\$ (103,986)	\$ 323,708	\$ 8,689

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

LCFH - Year Ended September 30, 2012

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 7,200	\$ -	\$ (1,100)	\$ 6,100	\$ 245
Note payable	2,032	1,230	(35)	3,227	85
	\$ 9,232	\$ 1,230	\$ (1,135)	\$ 9,327	\$ 330

LCFH - Year Ended September 30, 2011

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 3,900	\$ 3,400	\$ (100)	\$ 7,200	\$ 100
Note payable	2,051	-	(19)	2,032	21
	\$ 5,951	\$ 3,400	\$ (119)	\$ 9,232	\$ 121

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

PMH - Year Ended September 30, 2012

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases (Note 5)	\$ 7	\$ -	\$ (4)	\$ 3	\$ 3
Net pension obligation	231	-	-	231	-
	\$ 238	\$ -	\$ (4)	\$ 234	\$ 3

PMH - Year Ended September 30, 2011

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases (Note 5)	\$ 66	\$ -	\$ (59)	\$ 7	\$ 4
Net pension obligation	231	-	-	231	-
	\$ 297	\$ -	\$ (59)	\$ 238	\$ 4

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

NHRMC Bonds Payable

Series 1999, 2005, 2006, 2008, and 2011 bonds outstanding at September 30, 2012 and 2011, are as follows:

Revenue Bonds	Principal Amount	
	2012	2011
Series 1999 Revenue Bonds		
Serial revenue bonds with interest rates ranging from 3.1% to 5.25%, maturing annually through 2028 (1)	\$ -	\$ 2,785
Series 2005A Variable Rate Hospital Revenue Refunding Bonds, demand obligations with mandatory redemptions annually through 2023	16,765	17,850
Series 2005B Variable Rate Hospital Revenue Refunding Bonds, demand obligations with mandatory redemptions annually through 2026	45,200	47,390
Series 2006A Hospital Revenue Bonds		
Serial revenue bonds with interest rates ranging from 3.0% to 4.79%, maturing annually beginning October 2012 through 2024	60,000	60,000
Series 2006B Hospital Revenue Bonds		
Term revenue bonds maturing in 2027, with stated interest rate of 5.0%	26,440	26,440
Term revenue bonds maturing in 2031, with stated interest rate of 5.162%	33,560	33,560
Series 2008A Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	18,910	19,295
Series 2008B Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	18,910	19,295
Series 2011 Revenue Bonds		
Serial revenue bonds with interest rates ranging from 3.0% to 5.0%, maturing annually (beginning October 2012) through 2025	61,075	61,075
Term revenue bonds maturing in October 2026, with stated interest rates of 4.625% and 5.0%	7,535	7,535
Term revenue bonds maturing in October 2027, with stated interest rates of 4.625% and 5.0%	12,375	12,375
Term revenue bonds maturing in October 2028, with stated interest rates of 4.625% and 5.0%	12,980	12,980
Revenue bonds payable	313,750	320,580
Unamortized premiums, net	2,521	2,778
Deferred loss amount on refundings	(7,302)	(7,949)
Current portion	(11,320)	(6,830)
Total revenue bonds payable, long-term	\$ 297,649	\$ 308,579

(1) - These bonds were originally issued with annual maturities through 2028. During 2011, the bonds were defeased, with the exception of bonds maturing on October 1, 2011, as further discussed in this Note.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

Series 1999 Hospital Revenue and Series 2011 Hospital Revenue Refunding Bonds

The Series 1999 Bonds were issued February 15, 1999 through New Hanover County for the purpose of purchasing certain net assets of Cape Fear Hospital and to make certain renovations and improvements. On September 28, 2011, NHRMC issued \$93,965 of Series 2011 Fixed Rate Hospital Revenue Refunding Bonds through New Hanover County for use by NHRMC. The net proceeds (net of issuance costs) from the sale of the 2011 Series Bonds were used to redeem Series 1999 Bonds maturing on October 1, 2012 and thereafter (\$95,320) outstanding as of October 1, 2011. The net proceeds were held in escrow as of September 30, 2011 and then used to redeem all of the Refunded 1999 Bonds on October 1, 2011. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements as of September 30, 2011.

Interest on the Series 2011 bonds is paid at fixed rates established at the time of bond issuance. The Series 2011 bonds were originally issued at a premium of approximately \$2,651, which is being amortized under the effective interest method over the life of the bonds.

As a result of the immediate refunding on the 1999 Bonds, NHRMC estimated at the time of issuance that it will experience a reduction in future cash flows of approximately \$7,374 and an economic gain of approximately \$5,231. NHRMC recorded a deferred loss amount on the refunding of the 1999 Bonds in the amount of \$1,729 for unamortized discounts and issuance costs. This deferred loss is being amortized through 2028 using the effective interest method.

Series 2005 Variable Rate Hospital Revenue Refunding Bonds

On December 14, 2005, NHRMC issued Variable Rate Hospital Revenue Refunding Bonds (demand bonds) through New Hanover County, Series 2005A-1, Series 2005A-2, Series 2005B-1, and Series 2005B-2 (collectively the "2005 Bonds"), in the amounts of \$11,435, \$11,435, \$28,100, and \$28,100, respectively, for use by NHRMC. Interest on the Series 2005 bonds is set weekly at rates established by the applicable remarketing agents, not to exceed 12% per annum. As of September 30, 2012 and 2011, the rates on these bonds were 0.31% and 0.21%, respectively.

The 2005 bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven day's notice and delivery to the remarketing agent and the tender agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to the principal amount plus accrued and unpaid interest thereon, if any, to the purchase date.

On September 1, 2010, NHRMC and the County entered into a Standby Bond Purchase Agreement with a bank under which the bank agreed to purchase any 2005 bonds that are tendered for purchase, to the extent that remarketing proceeds are not sufficient or available. The agreement carries a variable interest rate equal to the "base rate" and the "base rate" plus 0.50% per annum for the first 90 days of the holding period and the remainder of the holding period, respectively. The "base rate" is the greater of the bank's prime lending rate plus 1.50% per annum, the Federal Funds Effective Rate in effect plus 3.00% per annum, and the bond interest rate, not to exceed the lesser of 25% per annum or the maximum legal rate. Under the terms of the Standby Bond Purchase Agreement, NHRMC is required to comply with certain restrictive covenants, including maintenance of certain measures of financial performance, including a minimum long-term debt service coverage ratio of 1.25, a minimum capitalization ratio of 0.65, and minimum days cash for operating expenses of 90 days.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

If the remarketing agent is unable to resell any bonds that are “put” within 367 days of the “put” date, the Standby Bond Purchase Agreement noted above contains provisions whereby the bank has agreed to convert the bonds to an installment loan payable over a four-year period in eight equal semi-annual installments, payable on April 1 and October 1, immediately following conversion (take out agreement), bearing a variable interest rate equal to the “base rate” plus 1.00%. The take out agreement expires on September 24, 2013. As of September 30, 2012, there were no bonds held by the bank under this agreement.

Under provisions of the Series Resolution adopted December 2005, if the Series 2005 Bonds bear interest at maximum rates as determined under the Resolution, or if the Series 2005 Bonds are held as liquidity facility bonds under the Standby Bond Purchase Agreement for more than sixty days (because the bonds cannot be remarketed), then the Series 2005 Bonds shall be converted to a fixed rate mode at the earliest practical time, under stated terms and conditions as defined in the Series Resolution, unless the bond insurer directs otherwise. If the liquidity facility bonds were to be successfully converted to the fixed rate mode prior to the end of a 367 day liquidity facility bond holding period, the take out agreement provision in the Standby Bond Purchase Agreement noted above will not be exercised.

During the term of the Standby Bond Purchase Agreement, NHRMC is required to pay to the bank a quarterly commitment fee which can vary based on the long-term ratings of the Series 2005 Bonds as determined by Moody’s and Standard & Poor’s. The interest commitment is determined by computing the outstanding principal amount of the Series 2005 Bonds for a period of 34 days out of a 365-day year at the rate of 12% per annum. NHRMC has paid a commitment fee of approximately \$383 and \$408 to the bank during fiscal years ended September 30, 2012 and 2011, respectively. In addition, the remarketing agent receives an annual fee of .07% of the outstanding principal amount of the bonds, payable quarterly.

Series 2006 Hospital Revenue Bonds (Fixed Rates)

On September 13, 2006, NHRMC issued \$60,000 of Series 2006A Variable Rate Hospital Revenue Bonds, and \$60,000 of Series 2006B Variable Rate Hospital Revenue Bonds (collectively the “2006 Bonds”) through New Hanover County for use by NHRMC. The bonds initially bore interest at an auction rate, established weekly. The bonds were issued for the purpose of providing funding, together with other available funds, to pay the costs of various construction projects including but not limited to the construction and equipping of a new 186,804 square foot surgical pavilion, construction and equipping of a new 194,995 square foot Women’s and Children’s Center, expansion and upgrading of the central energy plant, and, related site work including reconfiguration of existing parking lots.

In 2009, the Series 2006A Bonds were converted from auction rate securities to fixed rate mode for a discount of approximately \$168, and the Series 2006B Bonds were converted for a premium of \$358, both of which are being amortized under the effective interest method over the life of the bonds. There was no significant economic gain or loss resulting from this transaction.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

Series 2008 Variable Rate Hospital Revenue Bonds

On November 6, 2008, NHRMC issued Variable Rate Hospital Revenue Bonds (demand bonds) through New Hanover County, Series 2008A and Series 2008B (collectively, the "2008 Bonds"), in the amounts of \$20,000 and \$20,000, respectively, for use by NHRMC. The bonds bear interest at a variable rate, established weekly by the applicable remarketing agents. The bonds were issued to reimburse NHRMC for certain costs associated with construction and equipping of the surgical pavilion, Women's and Children's Center, and certain facilities improvements; acquisition of certain information system equipment; and acquisition of certain operating equipment. As of September 30, 2012 and 2011, the rates on these bonds were 0.17% and 0.21%, respectively.

The 2008 Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven day's notice and delivery to the remarketing agent and tender agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to the principal amount plus accrued and unpaid interest thereon, if any, to the purchase date.

NHRMC and the County have entered into a Reimbursement Agreement and an Irrevocable Letter of Credit with a bank under which NHRMC can draw down the funds to purchase any 2008 bonds that are tendered for purchase, to the extent that remarketing proceeds are not sufficient or available. The letter of credit expires on November 6, 2014. All unpaid drawings become due and payable upon expiration of the letter of credit in 2014. There were no unpaid drawings at September 30, 2012. The agreement carries a variable interest rate based on the bank's prime rate or a maximum of 18%. The agreement also carries a Letter of Credit fee, payable quarterly, and requires \$4,000 of NHRMC cash to be set aside for the life of the Letter of Credit.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

Debt Service and Covenants

Under the terms of the Bond indentures and related lease agreement with the County, NHRMC (excluding the Foundation component unit) and CHA are required to make semiannual debt service payments on unpaid fixed rate debt (1999, 2006 and 2011 bonds), monthly debt service payments on variable rate demand bonds (2005 and 2008 bonds) and are also required to comply with certain restrictive covenants, including limitations on incurrence of additional debt, limitations on transfer of assets, and maintenance of certain measures of financial performance, including a minimum long-term debt service ratio of 1.75 and a cushion ratio of 1.75, for as long as the bonds are outstanding.

The following table sets forth on an historical basis the maximum annual long-term debt service coverage ratio as of September 30, 2012 and 2011, calculated for NHRMC and CHA (excluding the Foundation):

Long-term debt service coverage ratio	Years Ended September 30,	
	2012	2011
Change in net assets	\$ 38,463	\$ 26,449
Plus:		
Depreciation and amortization	44,708	43,457
Interest expense	12,440	13,590
Income available for debt service	\$ 95,611	\$ 83,496
Maximum annual debt service	\$ 26,366	\$ 26,366
Maximum annual debt service coverage ratio	3.63	3.17

Cushion ratio	Years Ended September 30,	
	2012	2011
Cash	\$ 15,281	\$ 22,326
Designated by Board	285,240	269,790
Total unrestricted cash and investments	\$ 300,521	\$ 292,116
Maximum annual debt service	\$ 26,366	\$ 26,366
Cushion ratio	11.40	11.08

The Series 2005, 2006, 2008 and 2011 Revenue Bonds are secured by and payable from the net revenue of NHRMC and CHA, the money and securities held by the trustee pursuant to the bonds, as well as the income from the temporary investment of these trustee-held funds. Substantially all of NHRMC and CHA revenues are security for the revenue bonds which were \$732,535 and \$673,022 for September 30, 2012 and 2011, respectively.

Total funds held by the trustee (including amounts as bond paying agent) at September 30, 2012 and 2011, were approximately \$11,922 and \$7,998, respectively.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

Scheduled payments of principal and interest on bonded debt are as follows. (Interest on any variable rate bonds is included at the rates in effect as of September 30, 2012; payments are shown assuming the Standby Bond Purchase Agreement for the 2005 Bonds and letter of credit for the 2008 Bonds are renewed throughout the life of the bonds.)

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2013	\$ 11,320	\$ 9,870	\$ 21,190
2014	11,720	9,616	21,336
2015	12,170	9,340	21,510
2016	12,615	9,042	21,657
2017	13,105	8,723	21,828
2018 - 2022	73,710	38,255	111,965
2023 - 2027	91,005	26,415	117,420
2028 - 2032	74,155	8,481	82,636
2033 - 2037	9,560	54	9,614
2038 - 2040	4,390	4	4,394
	<u>\$ 313,750</u>	<u>\$ 119,800</u>	<u>\$ 433,550</u>

Interest paid related to these bonds was approximately \$13,032 and \$13,701 during fiscal years ended September 30, 2012 and 2011, respectively.

Other NHRMC Long-Term Liabilities

NHRMC is implementing the EPIC information system product suite to replace most core clinical and revenue systems. Implementation will be phased over several years, with the majority of core systems functional and the electronic medical record available by fourth quarter fiscal year 2012. With the EPIC product, NHRMC will have in place the requirements necessary to qualify for Meaningful Use stimulus incentives available through the federal government.

Pricing for product licensing and annual maintenance of the EPIC suite is based on current volume expectations; subscription fees are incurred per user or per usage, depending on the specific system component. NHRMC management estimates a total project cost of \$54,000; approximately \$40,000 has been expended as of September 30, 2012.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

Long-term financial commitments include a financing agreement with EPIC System Corporation related to implementation of the product, and annual maintenance agreements and subscription fees required for continued use of the product suite. NHRMC management plans to continue use of the EPIC system for no less than 10 years. The financing agreement requires 59 monthly installment payments to be made between November 2010 and September 2015. As of September 30, 2012, payments of principal and interest totaling approximately \$5,047 have been made. The net present value of the remaining payments under the agreement using a 4.5% discount rate is approximately \$5,117. Of this amount, \$1,777 is reflected in notes and bonds payable, current portion and \$3,340 in long term notes payable. If volumes dictate an increase in cost, this increase will be invoiced over the remaining payments due. The cost of maintenance agreements and subscription fees related to EPIC for the year ended September 30, 2012 was approximately \$1,400, with management estimating subsequent years averaging \$2,400 - \$3,100.

Scheduled payments on the related outstanding long-term debt are as follows:

Fiscal Year	Amount
2013	\$ 1,987
2014	1,834
2015	1,657
Total minimum payments	5,478
Less: amount representing interest	(361)
Present value of net minimum payments, including current portion, \$1,777	\$ 5,117

Lower Cape Fear Hospice 2007 Bonds

During the year ended September 30, 2008, LCFH issued \$4,000 of Series 2007 Variable Rate Health Care Facility Revenue Bonds (the "LCFH 2007 Bonds") through the North Carolina Medical Care Commission for use by LCFH. Interest is payable monthly, and based on weekly weighted average per the Bond Market Association Index (BMA). The bond funds were used to finance construction on a new administrative building in Wilmington, North Carolina, which was completed during fiscal year 2009. Repayment of principal is due annually through October 2027. The LCFH 2007 Bonds are secured by a letter of credit from a bank. Under the terms of the bonds, LCFH is required to maintain a minimum Long-Term Debt Service Coverage Ratio of 1.2, LCFH is required to maintain a maximum Debt to Net Assets Ratio of 0.75 to 1.0; LCFH is required to maintain a Cash Flow Coverage Ratio of 1.25 to 1.0; and LCFH's Total Net Assets must be more than \$9 million. As of September 30, 2012, LCFH was in compliance with this covenant.

Lower Cape Fear Hospice 2011 Bonds

During the year ended September 30, 2011, LCFH issued \$3,400 of Series 2011 Variable Rate Health Care Facility Revenue Bonds (the "LCFH 2011 Bonds") through the North Carolina Medical Care Commission for use by LCFH. The bonds bear interest at a variable rate of 78% of LIBOR plus 1.3%, adjusted monthly. The bond funds were used to finance construction of an inpatient facility in Brunswick County, North Carolina. Repayment of principal is due annually through November 2028. Under the terms of the bonds, LCFH is required to maintain a minimum Long-Term Debt Service Coverage Ratio of 1.2. As of September 30, 2012, LCFH was in compliance with this covenant.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)

During the year ended September 30, 2011, LCFH entered into an interest rate protection transaction. The agreement insures that LCFH's effective interest rate on the 2011 Bonds will not exceed 3.7% through April 13, 2018.

Scheduled payments of principal and interest on the LCFH 2007 and 2011 Bonds are as follows. (Interest on any variable rate bonds is included at the rates in effect as of September 30, 2012):

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2013	\$ 245	\$ 102	\$ 347
2014	313	98	411
2015	320	93	413
2016	325	88	413
2017	332	82	414
2018 - 2022	1,927	326	2,253
2023 - 2027	2,403	158	2,561
2028	235	6	241
	<u>\$ 6,100</u>	<u>\$ 953</u>	<u>\$ 7,053</u>

Lower Cape Fear Hospice Note Payable

During the year ended September 30, 2009, LCFH converted short-term debt into a long term loan with financing provided by USDA Rural Development. The funds were used to construct an inpatient facility in Whiteville, NC. The total amount of the loan was approximately \$2,071. The loan has a fixed interest rate of 4.5% and a repayment of 40 years. The loan is carried on the financial statements as of September 30, 2012 at approximately \$2,011. The Whiteville Care Center serves as collateral.

During the year ended September 30, 2012, LCFH borrowed \$1,230 from First Citizens Bank to purchase land adjacent to its other facilities. The loan has a fixed interest rate of 3.7% and a repayment of 15 years. The loan is carried on the financial statements as of September 30, 2012 at approximately \$1,216. The land serves as collateral.

Scheduled principal repayment on these notes payables are as follows:

Fiscal Year	Amount
2013	\$ 85
2014	88
2015	92
2016	96
2017	99
Thereafter	<u>2,767</u>
	3,227
Less current portion	<u>(85)</u>
	<u>\$ 3,142</u>

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 7. Derivative Investments

NHRMC has the following interest rate swap agreements:

As of September 30, 2012							
Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/12	Change in Fair Value for the year ended 9/30/12
Series 2005A-1	\$ 8,390	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (1,323)	\$ (19)
Series 2005A-2	8,375	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(1,320)	(17)
Series 2005B-1	22,605	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(4,189)	(160)
Series 2005B-2	22,595	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(4,188)	(158)
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd		
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index	avg LIBOR	(748)	1,038
						<u>\$ (11,768)</u>	

As of September 30, 2011							
Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/11	Change in Fair Value for the year ended 9/30/11
Series 2005A-1	\$ 8,920	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (1,304)	\$ (34)
Series 2005A-2	8,920	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(1,303)	(37)
Series 2005B-1	23,690	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(4,029)	(313)
Series 2005B-2	23,690	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(4,030)	(317)
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd		
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index	avg LIBOR	(1,786)	89
						<u>\$ (12,452)</u>	

Swaps associated with 2005 bonds

As a means to lower its borrowing costs when compared against fixed-rate bonds at the time of the issuance of the Series 2005 Variable Rate Hospital Revenue Refunding Bonds, NHRMC entered into two separate interest rate swaps in connection with the bonds.

The terms, fair values, and underlying bond issues of the outstanding swaps as of September 30, 2012 and 2011 are shown in the table above (in thousands). The notional amounts of the swaps approximate the principal amounts of the associated debt.

As of September 30, 2012 and 2011, the swaps were determined to be effective cash flow hedging derivative instruments in accordance with GASB Statement 53. Accordingly, the fair values of these swaps are recorded as a liability for interest rate swap agreements and a deferred outflow of resources in the balance sheet, and the change in fair value impacts only these balance sheet amounts.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 7. Derivative Investments (Continued)

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2012. However, should interest rates change and the fair value of the swap become positive, NHRMC would be exposed to credit risk in the amount of the swap's fair value.

NHRMC or the counterparties may terminate the swap if the other party fails to perform under the terms of the contract or there is a termination event, as defined in the contract. If the swaps are terminated, the variable rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swaps have negative fair values, NHRMC would be liable to the counterparties for payments equal to the swaps' fair values.

Using rates as of September 30, 2012, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Series 2005 Variable Rate Bonds		Interest Rate		Total
	Principal	Interest	Swaps, Net		
2013	\$ 3,405	\$ 172	\$ 2,032	\$	5,609
2014	3,535	161	1,910		5,606
2015	3,670	149	1,783		5,602
2016	3,810	137	1,651		5,598
2017	3,960	124	1,515		5,599
2018 - 2022	22,230	410	5,329		27,969
2023 - 2027	21,355	75	1,380		22,810
	<u>\$ 61,965</u>	<u>\$ 1,228</u>	<u>\$ 15,600</u>	<u>\$</u>	<u>78,793</u>

Basis Swap

During fiscal year 2002, NHRMC entered into a nineteen year interest rate swap (basis swap) agreement, with a notional amount of \$50 million related to its Series 1999 Hospital Revenue Bonds. NHRMC's objective was to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. Because NHRMC anticipated that interest rates might decline, NHRMC decided to synthetically create variable-rate debt by entering into a derivative. Terms of the rate swap agreement is described below.

Based on the swap agreement, NHRMC owes the counterparty interest calculated at a variable rate of the weighted-average BMA Municipal Bond Swap Index to the counterparty to the swap. In return, the counterparty owes NHRMC interest based on 73.875% of weighted-average one month US LIBOR. Under the swap agreement, only the net difference in the interest payments is actually exchanged with the counterparty. Settlement payments under the swap agreement are exchanged semi-annually. The notional amounts are not exchanged; they are only the basis on which the interest payments are calculated.

As of September 30, 2012 and 2011, the basis swap has an estimated negative fair value of approximately \$748 and \$1,786, respectively, which is recorded as a liability for interest rate swap agreements in the balance sheet. Under the provisions of GASB 53, the basis swap qualifies as an investment derivative instrument and therefore, changes in fair value of \$1,038 and \$89 for the years ended September 30, 2012 and 2011 have been recorded as a component of net (decrease) increase in fair value of investments in the statement of revenues, expenses and changes in net assets.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 7. Derivative Investments (Continued)

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2012. However, should interest rates change and the fair value of the swap become positive, NHRMC would be exposed to credit risk in the amount of the swap's fair value. NHRMC's objective for holding the basis swap was to preserve short-term cash resources in a market that was not favorable to the performance of the basis swap. NHRMC or the counter-party may terminate the swap if the other party fails to perform under the terms of the contract. If, at the time of the termination, the swap has a negative fair value, NHRMC would be liable to the counterparty for a payment equal to the swap's fair value.

LCFH Swap

LCFH hedged \$2,000 of its interest rate exposure associated with the LCFH 2007 Bonds through an interest rate swap agreement with a bank. As of September 30, 2012 and 2011, the \$1,850 and \$1,900 amounts, respectively, are hedged at an interest rate of 3.885%. Based on market tax exempt interest rates of about .164% and .2780%, the present value of cash payment under the swap arrangement is a negative position of approximately \$356 and \$308 as of September 30, 2012 and 2011, respectively, which is recognized as a liability. The objective of the swap agreement was to effectively change one half of the LCFH 2007 Bonds' variable rate to a fixed rate of 3.885%, to provide LCFH with a reduced possibility of a negative budget outcome. This swap has been effective from inception through September 30, 2012. The term of the LCFH 2007 Bonds and the swap are essentially the same, 20 years.

Credit Risk. The counterparty carries a guarantee by an entity rated A1 by Moody's Investors Service, A by Standard & Poor's, and A+ by Fitch Ratings.

Basis Risk. All interest rates in the swap are based on BMA and no basis risk exists.

Termination Risk. If at the time of termination the swap has a negative fair value, LCFH would be liable to the counterparty for a payment equal to the swap's fair value.

Fiscal Year	Series 2007 Variable Rate Bonds		Interest Rate		Total
	Principal	Interest	Swaps, Net		
2013	\$ 200	\$ 6	\$ 148	\$	354
2014	200	6	139		345
2015	200	5	130		335
2016	200	5	103		308
2017	200	5	103		308
2018 - 2022	1,200	22	431		1,653
2023 - 2027	1,500	16	252		1,768
	<u>\$ 3,700</u>	<u>\$ 65</u>	<u>\$ 1,306</u>	<u>\$</u>	<u>5,071</u>

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 8. Transactions with Health Sciences Foundation, Inc.

During the normal course of operations, NHRMC enters into transactions with Health Sciences Foundation, Inc., d/b/a South East Area Health Education Center ("SEAHEC") affiliated with NHRMC and the University of North Carolina. SEAHEC leases space from NHRMC for its operations and reimburses NHRMC for a portion of its medical resident salaries. NHRMC pays SEAHEC for educational services provided to its employees and subsidizes the SEAHEC medical education program and family practice program. NHRMC also pays SEAHEC for various contracted medical services not related to medical education programs, such as physician trauma coverage, neonatal and pediatric specialty services.

Note 9. Risk Management

NHRMC, CHA, LCFH, and PMH are exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of medical malpractice (hospital professional liability), natural disasters, employee and officer errors and omissions, and employee workers' compensation and medical claims.

NHRMC purchases commercial insurance coverage against risk of loss due to errors and omissions, fiduciary liability, property damage and theft, pollution liability and various other insurable risks. NHRMC carries property insurance in the amount of \$600,000 for 2012 and \$600,000 for 2011 with a deductible of \$100 for all perils except named windstorm. For 2012 and 2011, the minimum deductible for named storm is \$5,000 per location, with a maximum deductible of \$25,000 per location. For 2012 and 2011, NHRMC was self-insured for workers' compensation and employer's liability up to \$350 per claim. A specific limit of \$25,000 applies to worker's compensation. For 2012 and 2011, NHRMC was self-insured for professional liability and general liability claims up to \$5,000 with no annual aggregate. In both 2012 and 2011, hospital professional liability and general liability stop loss coverage is on a claims made basis; general liability is written on an occurrence basis. Excess commercial insurance is purchased to provide coverage above the self-insured retention levels for hospital professional liability and general liability. NHRMC is fully self-insured for hospital professional liability claims incurred prior to June 25, 2002, but not reported as of that date. No payments have exceeded insurance coverage in the past three fiscal years where insurance coverage applies, subject to the deductibles and retentions noted above. NHRMC is self-insured for employee medical claims up to \$350 per individual, excluding costs associated with domestic claims (claims for services provided at NHRMC).

NHRMC records an estimated liability for unpaid medical claims based upon reserve amounts and/or historical trends calculated by the third party administrators of the plans. The liabilities for workers' compensation, hospital professional liability and general liability claims are accrued at estimated amounts as determined by a third party actuary.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 9. Risk Management (Continued)

Following is a reconciliation of changes in NHRMC's recorded aggregate liability for claims, which is included in professional liability claims and other self-insured liabilities.

	Years Ended September 30,		
	2012	2011	2010
Beginning liability	\$ 29,779	\$ 24,951	\$ 24,016
Provisions for claims	52,956	50,680	45,065
Payments for claims	(52,791)	(43,821)	(42,251)
Administrative fees	(1,987)	(2,031)	(1,879)
Ending liability	<u>\$ 27,957</u>	<u>\$ 29,779</u>	<u>\$ 24,951</u>

The combined component units' risk management disclosures are not considered significant to the reporting entity.

Note 10. Pension and Supplemental Retirement Plan Obligations

NHRMC and PMH provide defined benefit pension plans, which are summarized as follows:

NHRMC Plan Description: NHRMC sponsors and has fiduciary responsibility for The Pension Plan of New Hanover Regional Medical Center (the NHRMC Plan). The Plan was originally effective June 14, 1967, and amended and restated effective January 1, 2005. The Plan was amended and restated twice during 2009. The first amendment was effective January 1, 2009 (the 2009 Amendment); the second amendment was effective March 1, 2009 (the 2009-1 Amendment). Prior to the 2009 Amendment, the Plan was a cost-sharing, multiple-employer, noncontributory defined benefit plan covering all employees of NHRMC (including Foundation), CHA, LCFH, and SEAHEC (see Note 8 – Transactions with Health Sciences Foundation, Inc.) who met eligibility requirements. Subsequent to the 2009 Amendments, the Plan is a single employer plan, covering all employees of NHRMC (including Foundation), and CHA who meet eligibility requirements. Subsequent to the 2009-1 Amendment, employees of CHA who were not employees prior to March 1, 2009 are no longer eligible for the Plan, except for those who became employees between March 1, 2009 and April 1, 2009, who were formerly employed by Health Sciences Foundation, Inc. ("SEAHEC").

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)

An employee is eligible to participate in the plan upon completion of 1,000 hours of service in a plan year. Employees may retire with unreduced retirement benefits upon attainment of the age of 65 (if participation in the plan was prior to January 1, 1988) or the later of age 65 or completion of five years of participation (if participation in the plan was on or after January 1, 1988). Employees hired prior to January 1, 2001 who retire under the above conditions are entitled to annual retirement benefits equal to 1.25% of their average compensation times the years of service up to thirty years and .65% of the excess, if any, of the average compensation over Social Security covered compensation, times the years of service up to thirty years. Employees hired on or after January 1, 2001, who retire under the above conditions are entitled to annual retirement benefits equal to .75% of their average compensation times the years of service up to thirty years and .65% of the excess, if any, of the average compensation over Social Security covered compensations, times the years of service up to thirty years. The average compensation is the average salary of the employee during the five highest paid consecutive calendar years of creditable service during the ten calendar years preceding the employee's retirement date. Employees may retire with reduced retirement benefits after reaching age 55 and completing five years of creditable service. Plan provisions also include death and disability retirement benefits, whereby the disabled employee is entitled to receive their normal retirement benefit accrued up to the date of disability retirement. Upon death of an employee before retirement, benefit payments will be paid to the surviving spouse, if any. If there is no surviving spouse, the death benefit will be split among surviving children or paid to a designated beneficiary. Upon the death of an employee after retirement, benefit payments will be distributed in accordance with the method elected by the employee.

The Plan issues a separate, stand-alone financial report that can be obtained by contacting the office of the Executive Vice President/CFO, P.O. Box 9000, Wilmington, North Carolina 28402. The Plan was created by act of the Trustees of New Hanover Regional Medical Center, who have the authority to amend or terminate the Plan.

Funding Policy: The contribution requirements of the contributing employers to the NHRMC plan are established by the Plan document and determined annually by NHRMC based on actuarial recommendations.

Annual Pension Cost and Net Pension Asset: NHRMC's annual pension cost and net pension asset were as follows for the years ended September 30, 2012 and 2011:

	2012	2011
Annual required contribution	\$ 10,600	\$ 9,781
Interest on net pension asset	(352)	(353)
Adjustment to annual required contribution	362	363
Annual pension cost	10,610	9,791
Contributions made	10,600	9,781
Other	10	(85)
(Increase) decrease in net pension asset	-	95
Net pension asset, beginning of year	(4,396)	(4,491)
Net pension asset, end of year	\$ (4,396)	\$ (4,396)

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)

The annual required contribution for the basic plan for the 2012 year was determined as part of the January 1, 2011 actuarial valuation. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% per year. Both (a) and (b) included an inflation component of 3%. The assumptions did not include post retirement benefit increases. The actuarial value of assets is valued at a market-related value that spreads gains and losses over five years. The actuarial funding method is currently the Projected Unit Credit Method. The 26% corridor limit for asset smoothing will be reduced by 2% per year until 20% and the amortization period is 30 years. The annual contributions for NHRMC for the years ended September 30, 2012 and 2011 were approximately \$10,600 and \$9,781, respectively.

Significant Accounting Policies of the Plan: The Plan prepares its financial statements on the accrual basis of accounting. Employer contributions are recognized when due and receivable. Distributions to participants are recognized when due and payable in accordance with the terms of the Plan. Investments are valued at fair value based on quoted market prices. The Plan's fiscal year end is December 31.

The Three-Year Trend Information is as follows:

Employer Contributions:

Fiscal Year Ending	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Asset
9/30/2010	\$ 8,970	100%	\$ 4,491
9/30/2011	9,791	100%	4,396
9/30/2012	10,610	100%	4,396

Funded Status and Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a - b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	((a - b) / c)
1/1/2010	\$ 163,563	\$ 181,718	\$ (18,155)	90%	\$ 200,573	-9.05%
1/1/2011	170,571	194,762	(24,191)	88%	205,914	-11.75%
1/1/2012	177,056	201,062	(24,006)	88%	214,146	-11.21%

**New Hanover Regional Medical Center
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**Notes to Financial Statements
(Dollars in Thousands)**

Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)

PMH Plan Description: PMH sponsors a single-employer, non-contributory defined benefit pension plan covering substantially all employees. All employees having completed two years of service who are at least 21 years old and work a minimum of 1,000 hours annually are eligible to participate in the Plan. Retirement benefits under the Plan are based upon earnings and number of years of service of Plan participants. Employer benefits vest to 100 percent after five years of service. Employees who retire at or after age 65 with five years of credited service are entitled to an annual retirement benefit, payable monthly for a maximum of 35 years based on service to normal retirement date, in an amount equal to .75% of their average compensation as defined by the Plan and .65% of average salary in excess of the applicable covered compensation for Social Security purposes for each year of credited service. Employees may retire with reduced retirement benefits after reaching age 60 and completing ten years of creditable service. The Plan also provides a death benefit for surviving spouses of vested employees.

The Plan issues a separate, stand-alone financial report that can be obtained by contacting the office of the Financial Officer, 507 E. Fremont Street, Burgaw, North Carolina, 28425.

Funding Policy: PMH is required to fund the Plan, as determined by an annual actuarial valuation. Employee contributions were required prior to January 1, 1992, based on 3% of their annual salary up to \$9 and 4.5% of annual salary over \$9. No employee contributions are required or permitted after 1991.

Annual Pension Cost and Net Pension Obligation: PMH's annual pension cost and net pension obligation were as follows for the year ended September 30, 2012 and 2011:

	2012	2011
Annual required contribution	\$ 359	\$ 317
Interest on net pension obligation	18	18
Adjustment to annual required contribution	(19)	(19)
Annual pension cost	358	316
Contributions made	358	316
Decrease in net pension obligation	-	-
Net pension obligation beginning of year	231	231
Net pension obligation end of year	\$ 231	\$ 231

The annual required contribution for the basic plan for the 2012 year was determined as part of the January 1, 2011 actuarial valuation. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% per year. Both (a) and (b) included an inflation component of 3%. The assumptions did not include post retirement benefit increases. The actuarial value of assets was determined using the market value of investments. The actuarial funding method is currently the Projected Unit Credit Method. The 26% corridor limit for asset smoothing will be reduced by 2% per year until 20% and the amortization period is 30 years. The annual contributions for PMH for the years ended September 30, 2012 and 2011 were approximately \$358 and \$316, respectively.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)

The Three-Year Trend Information is as follows:

Employer Contributions:

Fiscal Year Ending	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
9/30/2010	\$ 267	100%	\$ 231
9/30/2011	316	100%	231
9/30/2012	358	100%	231

Funded Status and Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a - b)	Funded Ratio (a/b)	Covered Payroll (c)	Deficit as a Percentage of Covered Payroll ((a - b) / c)
1/1/2010	\$ 3,388	\$ 4,266	\$ (878)	79%	\$ 6,875	-12.77%
1/1/2011	3,552	4,689	(1,137)	76%	7,231	-15.72%
1/1/2012	3,739	5,068	(1,329)	74%	8,372	-15.87%

Supplemental Retirement Plans:

NHRMC offers all employees a retirement plan created in accordance with the Internal Revenue Code, Section 457(b). NHRMC is not required to match employee contributions or make employer contributions to the plan. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in NHRMC's financial statements.

In addition, NHRMC offers two supplemental retirement plans under IRC Section 457(f) to certain eligible employees. NHRMC has recorded a liability of approximately \$1,437 and \$1,221 as of September 30, 2012 and 2011, respectively, in accordance with the provisions of these plans.

NHRMC has assumed assets and liabilities of the former Cape Fear Memorial Hospital, Inc. deferred compensation plan. The assets are valued at fair value as of the balance sheet date. There are no additional deferrals being made to the plan and no active employees participating.

Note 11. Defined Contribution Retirement Plans

NHRMC offers a defined contribution plan under IRS code section 403(b) which is available to all employees and administered by AIGValic. Under provisions of the Plan document, NHRMC matches employee contributions according to a Plan formula, which is weighted for years of service. This match was suspended in January 2010. Employee contributions vest when made, employer contributions vest after three calendar years of service with 1,000 hours worked in each year.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 11. Defined Contribution Retirement Plans (Continued)

Employee optional contributions totaled approximately \$8,335 and \$8,168, for the years ended September 30, 2012 and 2011, respectively. Employee contribution percentages were 3.33% and 3.65% of total payroll for the years ended September 30, 2012 and 2011, respectively. There were no employer matching contributions by NHRMC for the years ended September 30, 2012 and 2011.

CHA offers a defined contribution plan under IRS code section 403(b) which is available to all employees and administered by AIGValic. Under provisions of the Plan document, CHA matches employee contributions according to a Plan formula, which is weighted for years of service. Employee contributions vest when made, employer contributions vest after three calendar years of service with 1,000 hours worked in each year.

CHA employer required and actual matching contributions totaled approximately \$232 and \$146, and employee optional contributions totaled approximately \$464 and \$310, for the years ended September 30, 2012 and 2011, respectively. Employer matching contribution percentages were 1.72% and 1.68%, and employee contribution percentages were 3.45% and 3.56% of total payroll for the years ended September 30, 2012 and 2011, respectively.

As of January 1, 2009, LCFH adopted a defined contribution plan under IRS code section 403(b) and an elective deferral plan. The plans cover qualified employees of LCFH, which are generally all employees. LCFH can match contributions to the 403(b) plan, but is not required to do so. Employer contributions vest after three complete years of service. Employer contributions to these plans for the years ended September 30, 2012 and 2011 were \$696 and \$265, respectively.

PMH offers a defined contribution plan under IRS code section 403(b), which is available to all employees and is administered by AIGValic. There is no match made by PMH; all contributions are made by employees only. Employee contributions vest when made.

Note 12. Joint Ventures

In February 2005, NHRMC entered into a joint venture agreement to form South Atlantic Radiation Oncology, LLC ("SARO"). NHRMC has committed to contribute capital for 50% ownership in the joint venture. South Atlantic Radiation Oncology, LLC was formed to provide essential radiation oncology services for patients in Southeastern North Carolina.

In March 2005, NHRMC invested in Atlantic Surgicenter, LLC ("Surgicenter"), a joint venture formed to operate a freestanding ambulatory surgery center consisting of four general operating rooms and one non-licensed procedure room, located in New Hanover County, North Carolina. Annually, NHRMC invests additional funds as needed to maintain its 40% ownership in the joint venture. In May 2012, the Surgicenter entered into a commitment letter in the amount of \$2,781 with TD Bank, N.A. and NHRMC signed as the guarantor. NHRMC has guaranteed a portion of the debt up to their ownership percentage in the joint venture. In June 2012, resolutions were adopted by the members of the joint venture resulting in an increase in NHRMC ownership in the joint venture to 46% with additional capital contribution of \$767.

On October 1, 2012, NHRMC and Atlantic Surgicenter, LLC entered into a Facility and Services Agreement whereby the Surgicenter will provide NHRMC with the space, equipment, and services to operate the ambulatory surgical facility as a hospital-based facility.

Also in 2005, NHRMC entered into a joint venture agreement to form Porters Neck Imaging, LLC ("PNI"), committing to contribute capital for a 50% ownership in the joint venture. PNI was formed to provide mobile MRI services to New Hanover and surrounding counties.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 12. Joint Ventures (Continued)

In April 2007, NHRMC entered into a joint venture agreement to form Doshier/NHRMC, LLC. NHRMC has committed to contribute capital for a 50% ownership in the joint venture. The purpose of the joint venture is to operate healthcare related facilities and provide healthcare services in Brunswick County, North Carolina in a manner that furthers the charitable and tax-exempt purposes of the members.

In July 2007, NHRMC entered into a joint venture agreement to form Coastal Carolina Heart, LLC (CCH). NHRMC's ownership percentage (82%) was based on the fair market value of CCH's access to future revenue streams arising from the existing hospital-based volumes in NHRMC's cardiac catheterization and EP labs. As a result of the joint venture agreement, NHRMC contracted with CCH to manage the existing hospital-based cardiac catheterization and EP labs, and agreed to pay CCH a per procedure fee for services provided by CCH to NHRMC patients. In May 2011, NHRMC purchased the remaining 18% of minority interest in the joint venture and bought out existing management contracts the joint venture was party to for approximately \$5,189. As of September 30, 2012 and 2011, NHRMC had recorded an intangible asset related to the purchase of the minority interest of \$2,626 and \$3,359, respectively, net of related amortization. Subsequent to the acquisition of the remaining minority interest, a final distribution of all net assets in the joint venture was made to NHRMC and all operations of the joint venture were consolidated into the Hospital.

During its operation, the agreements related to the services provided by CCH were treated by NHRMC as an outsourcing arrangement. As such, the allocated income from CCH (approximately \$3,476 for the year ended September 30, 2011) was considered a reduction in the costs of services provided by CCH, resulting in decreased operating costs. During the year ended September 30, 2011, NHRMC recorded per-procedure fees for services provided by CCH, net of NHRMC's earnings from CCH operations, of approximately \$7,861, which are included in Purchased services and other in the statement of revenues, expenses and changes in net assets.

In March 2012, NHRMC entered into a joint venture agreement to acquire and maintain a 10% ownership in the newly formed company, Assuring Affordable, Quality Healthcare in North Carolina, LLC ("AAQHNC"). This company conducts advocacy activities in support of North Carolina state laws that are designed to ensure access to safe, affordable, quality healthcare.

A summary of NHRMC's joint venture investment activity as of and for the years ended September 30, 2012 and 2011 is as follows:

	Ownership Percentage	Method of Accounting	2012				Cumulative Contributions (net of distributions received)
			Net Income (Loss)	Investment as of September 30	2012 Capital Contributions	2012 Distributions Received	
SARO	50%	Equity	\$ 592	\$ 110	\$ -	\$ 559	\$ (1,062)
Surgicenter	46%	Equity	(873)	(108)	767	-	2,583
PNI	50%	Equity	626	310	-	697	(3,141)
Doshier/							
NHRMC	50%	Equity	(7)	97	-	-	181
AAQHNC	10%	Equity	(3)	14	18	-	18

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 12. Joint Ventures (Continued)

	Ownership Percentage	Method of Accounting	2011				Cumulative Contributions (net of distributions received)
			Net Income (Loss)	Investment as of September 30	2011 Capital Contributions	2011 Distributions Received	
SARO	50%	Equity	\$ 495	\$ 77	\$ -	\$ 506	\$ (503)
Surgicenter	40%	Equity	(185)	-	187	-	1,817
PNI	50%	Equity	706	380	-	792	(2,444)
Dosher/ NHRMC	50%	Equity	(18)	104	-	-	181
CCH	82%	Outsourcing	N/A	N/A	N/A	N/A	N/A

All investments noted above are included in the Investment in affiliates in the balance sheets. The net income (loss) of all equity investments is included in Equity in net income of joint ventures in the statements of revenues, expenses and change in net assets

Note 13. Contingencies

NHRMC is aware of various asserted and unasserted claims. Management has been unable to reasonably estimate the amount of the loss, if any, relative to these claims, since the ultimate resolution of these matters will be dependent upon future events. Management feels that these claims can be successfully defended and intends to resist the allegations of these matters in every way and does not plan to seek out-of-court settlements. In the event that judgments adverse to their interests should be rendered, management feels any liability will be fully covered by existing insurance or not be material to the financial statements.

NHRMC strives to be paid appropriately for services it provides, but third-party payors continue to provide lower rates of payments. In recent years, there have been numerous federal legislative and administrative actions, including the Health Care Reform Act, that have reduced the rate of increase in Medicare payments to hospitals and other health care providers. The federal government has also reduced the share of federal matching payments made to the states to subsidize the cost of Medicaid. Accordingly, NHRMC funding from Medicare and Medicaid is likely to be reduced.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. NHRMC believes that they are in compliance with all applicable laws and regulations and are not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

NHRMC has started a review of the Three Day Payment Window Policy issued by the Centers of Medicare and Medicaid Services (CMS), and the potential financial impact to any related entities. This review began in response to a clarification by CMS which is effective as of 2012. CMS has taken the position that all outpatient diagnostic services and other outpatient non-diagnostic services related to an inpatient admission that occur 3 days prior to an inpatient admission are related to the inpatient admission and should therefore be bundled into the DRG payment. NHRMC is currently working with legal counsel and external consultants to assess the potential liability. As of this report date, the potential liability to NHRMC is unknown and therefore not reflected in the financial statements currently presented.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 14. Physician Practice Management Commitments

CHA has engaged Carolinas Physician Network (CPN), a physician practice network within the nonprofit corporation of Carolinas HealthCare Systems, through contractual agreements, to operate and manage each of the medical practices owned by CHA and provide certain professional medical services for each of those practices. CPN provides physicians and mid-level providers to operate each of the medical practices owned by CHA and provides certain professional medical services for each of those practices. In exchange, CHA pays a flat annual fee adjusted annually to equal the estimated compensation of the Practice Providers. In its role as manager, CPN provides management and billing services, practice acquisition services, provider recruiting, and access to its practice management system. Fees under the management agreement are based on the number and specialties of the practices. The Management Services and Professional Services Agreements expire in 2014 and may be renewed for successive one year terms. During the years ended September 30, 2012 and 2011, CHA paid \$42,025 and \$30,120, respectively, to CPN under these agreements.

Note 15. Pending GASB Statements

The Governmental Accounting Standards Board (“GASB”) has issued several pronouncements prior to September 30, 2012 that have effective dates that may impact future financial presentations.

In December 2010, GASB issued GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of this Statement are required to be applied retroactively for all periods presented. Management does not expect the implementation of the Statement to have a significant impact on the financial statements.

In June 2011, GASB issued GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. Management does not expect the implementation of the Statement to have a significant impact on the financial statements.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 15. Pending GASB Statements (Continued)

In June 2011, GASB issued GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53." The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011, with earlier application encouraged. Management does not expect the implementation of the Statement to have a significant impact on the financial statements.

In March 2012, GASB issued GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. NHRMC is currently evaluating the impact GASB No. 65 will have on its financial statements.

In March 2012, GASB issued GASB Statement No. 66, "Technical Corrections – 2012, An Amendment of GASB Statements No. 10 and No. 62." The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from issuance of two pronouncements: Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" regarding fund type classification; and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30 1989 FASB and AICPA Pronouncements" regarding accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. NHRMC is currently evaluating the impact GASB No. 66 will have on its financial statements.

In June 2012, GASB issued GASB Statement No. 67, "Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25." The objective of this Statement is to improve financial reporting by state and local pension plans. This Statement and Statement No. 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013, with earlier application encouraged. NHRMC is currently evaluating the impact GASB No. 67 will have on its financial statements.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to Financial Statements
(Dollars in Thousands)**

Note 15. Pending GASB Statements (Continued)

In June 2012, GASB issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27." The objectives of this Statement include improving the accounting and financial reporting by state and local governments for pensions, and improving information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, with earlier application encouraged. NHRMC is currently evaluating the impact GASB No. 68 will have on its financial statements.

Note 16. Change in Accounting Principles

During the year ended September 30, 2012, NHRMC adopted GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 & No. 34." As a result of adoption, the presentation of CHA changed from a blended component unit to a discretely presented component unit, and this change was made retroactive to October 1, 2010 in accordance with the provisions of Statement No. 61 as follows:

	NHRMC	Combined Component Units
Net assets, October 1, 2010, as previously stated	\$ 485,012	\$ 32,164
Effect of accounting change	(2,728)	2,728
Net assets, October 1, 2010, as restated	<u>\$ 482,284</u>	<u>\$ 34,892</u>

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Supplementary Information

New Hanover Regional Medical Center
Combining Balance Sheet
September 30, 2012
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
ASSETS				
Current assets				
Cash and cash equivalents	\$ 13,372	\$ 2,265	\$ -	\$ 15,637
Assets limited as to use:				
Cash equivalents held by bond paying agent	11,922	-	-	11,922
Cash for debt service-not held by bond paying agent	4,411	-	-	4,411
Cash equivalents and investments for the future payment of claims liabilities	15,228	-	-	15,228
Receivables:				
Patient accounts, less allowance for bad debts	87,792	-	-	87,792
Due from health insurance programs	6,102	-	-	6,102
Due from component units	388	-	-	388
Other receivables	7,721	847	(81)	8,487
Inventories	16,581	-	-	16,581
Prepaid expenses	10,351	18	-	10,369
Total current assets	<u>173,868</u>	<u>3,130</u>	<u>(81)</u>	<u>176,917</u>
Noncurrent cash and investments				
Investments:				
Designated by Board for capital improvements	285,240	-	-	285,240
Restricted under letter of credit	4,000	-	-	4,000
Designated by Board for supplemental retirement plans	1,672	-	-	1,672
Restricted by donors for specific purpose	-	2,432	-	2,432
Restricted by donors for endowments	-	1,777	-	1,777
	<u>290,912</u>	<u>4,209</u>	<u>-</u>	<u>295,121</u>
Pledges and grants receivable	-	1,748	-	1,748
Total assets limited as to use	<u>290,912</u>	<u>5,957</u>	<u>-</u>	<u>296,869</u>
Other assets				
Intangible capital assets, net of amortization	45,855	-	-	45,855
Investment in affiliates	423	-	-	423
Pension asset	4,396	-	-	4,396
Other long term assets	371	10	-	381
Deferred outflow of resources	11,020	-	-	11,020
Total other assets	<u>62,065</u>	<u>10</u>	<u>-</u>	<u>62,075</u>
Capital assets - tangible				
Land	11,622	-	-	11,622
Depreciable capital assets, net of accumulated depreciation	421,649	-	-	421,649
Construction in progress	491	-	-	491
Total capital assets - tangible	<u>433,762</u>	<u>-</u>	<u>-</u>	<u>433,762</u>
Total assets	\$ 960,607	\$ 9,097	\$ (81)	\$ 969,623

New Hanover Regional Medical Center
Combining Balance Sheet
September 30, 2012
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and other liabilities	\$ 30,270	\$ 143	\$ (81)	\$ 30,332
Professional liability claims	17,298	-	-	17,298
Accrued salaries and wages	30,005	-	-	30,005
Estimated third-party payor settlements	10,048	-	-	10,048
Due to component units	2,037	-	-	2,037
Accrued interest payable	5,191	-	-	5,191
Other self-insured liabilities	10,659	-	-	10,659
Notes and bonds payable, current portion	13,097	-	-	13,097
Total current liabilities	118,605	143	(81)	118,667
Long-term obligations				
Supplemental retirement plans	1,672	-	-	1,672
Notes payable	3,340	-	-	3,340
Bonds payable, less current portion	297,649	-	-	297,649
Interest rate swap agreements	11,768	-	-	11,768
Total long-term obligations	314,429	-	-	314,429
Total liabilities	433,034	143	(81)	433,096
Net assets				
Invested in capital assets, net of related debt	165,531	-	-	165,531
Unrestricted	358,042	842	-	358,884
Restricted	4,000	8,112	-	12,112
Total net assets	527,573	8,954	-	536,527
Total liabilities and net assets	\$ 960,607	\$ 9,097	\$ (81)	\$ 969,623

New Hanover Regional Medical Center
Combining Balance Sheet
September 30, 2011
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
ASSETS				
Current assets				
Cash and cash equivalents	\$ 18,695	\$ 1,786	\$ -	\$ 20,481
Assets limited as to use:				
Cash equivalents held by bond paying agent	7,998	-	-	7,998
Cash for debt service-not held by bond paying agent	4,085	-	-	4,085
Cash equivalents and investments for the future payment of claims liabilities	19,628	-	-	19,628
Receivables:				
Patient accounts, less allowance for bad debts	73,834	-	-	73,834
Due from health insurance programs	2,932	-	-	2,932
Other receivables	3,928	1,018	(27)	4,919
Inventories	15,734	-	-	15,734
Prepaid expenses	10,520	30	-	10,550
Total current assets	157,354	2,834	(27)	160,161
Noncurrent cash and investments				
Investments:				
Designated by Board for capital improvements	269,790	-	-	269,790
Restricted under letter of credit	4,000	-	-	4,000
Designated by Board for supplemental retirement plans	1,456	-	-	1,456
Restricted by donors for specific purpose	-	1,908	-	1,908
Restricted by donors for endowments	-	1,669	-	1,669
	275,246	3,577	-	278,823
Pledges and grants receivable	-	1,872	-	1,872
Total assets limited as to use	275,246	5,449	-	280,695
Other assets				
Intangible capital assets, net of amortization	48,856	-	-	48,856
Investment in affiliates	561	-	-	561
Pension asset	4,396	-	-	4,396
Other long term assets	414	10	-	424
Deferred outflow of resources	10,666	-	-	10,666
Total other assets	64,893	10	-	64,903
Capital assets - tangible				
Land	11,622	-	-	11,622
Depreciable capital assets, net of accumulated depreciation	390,917	-	-	390,917
Construction in progress	27,131	-	-	27,131
Total capital assets - tangible	429,670	-	-	429,670
Total assets	\$ 927,163	\$ 8,293	\$ (27)	\$ 935,429

New Hanover Regional Medical Center
Combining Balance Sheet
September 30, 2011
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and other liabilities	\$ 22,283	\$ 117	\$ (27)	\$ 22,373
Professional liability claims	19,417	-	-	19,417
Accrued salaries and wages	25,801	-	-	25,801
Estimated third-party payor settlements	14,319	-	-	14,319
Due to component units	1,438	-	-	1,438
Accrued interest payable	5,440	-	-	5,440
Other self-insured liabilities	10,362	-	-	10,362
Notes and bonds payable, current portion	8,689	-	-	8,689
Total current liabilities	107,749	117	(27)	107,839
Long-term obligations				
Supplemental retirement plans	1,456	-	-	1,456
Notes payable	4,984	-	-	4,984
Bonds payable, less current portion	308,579	-	-	308,579
Interest rate swap agreements	12,452	-	-	12,452
Total long-term obligations	327,471	-	-	327,471
Total liabilities	435,220	117	(27)	435,310
Net assets				
Invested in capital assets, net of related debt	156,274	-	-	156,274
Unrestricted	331,669	878	-	332,547
Restricted	4,000	7,298	-	11,298
Total net assets	491,943	8,176	-	500,119
Total liabilities and net assets	\$ 927,163	\$ 8,293	\$ (27)	\$ 935,429

New Hanover Regional Medical Center
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended September 30, 2012
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Operating revenues:			
Net patient service revenue	\$ 645,780	\$ -	\$ 645,780
Other revenue	19,488	1,592	21,080
Total operating revenue	665,268	1,592	666,860
Operating expenses:			
Salaries, wages and benefits	321,417	599	322,016
Medical supplies	139,614	-	139,614
Professional fees	22,571	20	22,591
Insurance	8,417	-	8,417
Purchased services and other	101,534	464	101,998
Depreciation and amortization	43,166	-	43,166
Total operating expenses	636,719	1,083	637,802
Operating income	28,549	509	29,058
Nonoperating revenues (expenses):			
Interest expense	(12,440)	-	(12,440)
Other nonoperating income, net	93	23	116
Interest earned on investments	5,128	161	5,289
Net increase (decrease) in fair value of investments	17,461	524	17,985
Gain (loss) on sale of assets	44	-	44
Equity in net income (loss) of joint ventures	335	-	335
Nonoperating revenues (expenses), net	10,621	708	11,329
Income before capital contributions and operating transfers	39,170	1,217	40,387
Capital contributions and transfers:			
Capital and permanent endowment contributions	37	75	112
Capital transfers to component units	(3,577)	(514)	(4,091)
Total capital contributions and operating transfers	(3,540)	(439)	(3,979)
Change in net assets	35,630	778	36,408
Total net assets, beginning	491,943	8,176	500,119
Total net assets, ending	\$ 527,573	\$ 8,954	\$ 536,527

New Hanover Regional Medical Center
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended September 30, 2011
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Operating revenues:			
Net patient service revenue	\$ 615,078	\$ -	\$ 615,078
Other revenue	16,807	1,306	18,113
Total operating revenue	631,885	1,306	633,191
Operating expenses:			
Salaries, wages and benefits	292,916	573	293,489
Medical supplies	137,964	-	137,964
Professional fees	15,367	26	15,393
Insurance	12,372	-	12,372
Purchased services and other	102,944	391	103,335
Depreciation and amortization	42,746	-	42,746
Total operating expenses	604,309	990	605,299
Operating income	27,576	316	27,892
Nonoperating revenues (expenses):			
Interest expense	(13,590)	-	(13,590)
Other nonoperating income, net	(423)	51	(372)
Interest earned on investments	6,039	159	6,198
Net increase (decrease) in fair value of investments	1,891	(219)	1,672
Gain (loss) on sale of assets	(65)	-	(65)
Equity in net income (loss) of joint ventures	1,006	-	1,006
Nonoperating revenues (expenses), net	(5,142)	(9)	(5,151)
Income before capital contributions and operating transfers	22,434	307	22,741
Capital contributions and transfers:			
Capital and permanent endowment contributions	183	-	183
Capital transfers to component units	(4,382)	(707)	(5,089)
Total capital contributions and operating transfers	(4,199)	(707)	(4,906)
Change in net assets	18,235	(400)	17,835
Total net assets, beginning	473,708	8,576	482,284
Total net assets, ending	\$ 491,943	\$ 8,176	\$ 500,119

New Hanover Regional Medical Center
Combining Statement of Cash Flows
Year Ended September 30, 2012
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Cash Flows From Operating Activities			
Cash received from and on behalf of patients	\$ 625,032	\$ -	\$ 625,032
Cash payments to suppliers for goods and services	(267,552)	(446)	(267,998)
Cash payments to employees for services	(317,024)	(599)	(317,623)
Other operating cash receipts (payments)	15,749	295	16,044
Net cash provided by (used in) operating activities	56,205	(750)	55,455
Cash Flows From Noncapital Financing Activities			
Contributions and operating grants	-	1,592	1,592
Payments (to) from component unit	211	-	211
Advances between affiliates	514	(514)	-
Net cash (used in) provided by noncapital financing activities	725	1,078	1,803
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of property and equipment	(43,651)	-	(43,651)
Proceeds from disposed assets	411	-	411
Capital contributions	37	75	112
Principal payments on revenue bonds and other outstanding debt	(8,474)	-	(8,474)
Interest paid on capital financing	(13,113)	-	(13,113)
Transfers (to) from component unit	(4,092)	-	(4,092)
Net cash (used in) provided by capital and related financing activities	(68,882)	75	(68,807)
Cash Flows From Investing Activities			
(Purchases) sales of investments, net of maturities	17,871	-	17,871
Interest earned on investments	5,128	76	5,204
Contributions to partnerships	(767)	-	(767)
Distributions from partnerships	1,256	-	1,256
Other interest earned	105	-	105
Net cash provided by (used in) investing activities	23,593	76	23,669
Net increase in cash and cash equivalents	11,641	479	12,120
Cash and cash equivalents at beginning of year	90,819	1,786	92,605
Cash and cash equivalents at end of year	\$ 102,460	\$ 2,265	\$ 104,725

(Continued)

New Hanover Regional Medical Center
Combining Statement of Cash Flows (Continued)
Year Ended September 30, 2012
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Reconciliation of cash and cash equivalents to the balance sheet			
Unrestricted cash and cash equivalents	\$ 13,372	\$ 2,265	\$ 15,637
Cash and cash equivalents in noncurrent cash and investments			
Reserved for debt service-held by bond paying agent	11,922	-	11,922
Reserved for debt service-not held by bond paying agent	4,411	-	4,411
Designated by Board for payment of claims liabilities	289	-	289
Designated by Board for capital improvements	68,466	-	68,466
Restricted under letter of credit	4,000	-	4,000
Cash and cash equivalents, including noncurrent cash and investments at end of year	\$ 102,460	\$ 2,265	\$ 104,725
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Cash flows from operating activities			
Operating income (loss)	\$ 28,549	\$ 509	\$ 29,058
Employee services included in nonoperating income	(27)	-	(27)
Operating grants and contributions	-	(1,592)	(1,592)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	43,166	-	43,166
Changes in:			
Receivables	(17,046)	295	(16,751)
Inventories	(847)	-	(847)
Prepaid expenses	169	12	181
Accounts payable and other liabilities	(2,006)	26	(1,980)
Accrued salaries and wages	4,204	-	4,204
Other long term assets	43	-	43
Net cash provided by (used in) operating activities	\$ 56,205	\$ (750)	\$ 55,455
Non-cash capital and related financing activities			
Unrealized gain (loss)	\$ 17,461	\$ (526)	\$ 16,935

New Hanover Regional Medical Center
Combining Statement of Cash Flows
Year Ended September 30, 2011
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Cash Flows From Operating Activities			
Cash received from and on behalf of patients	\$ 604,492	\$ -	\$ 604,492
Cash payments to suppliers for goods and services	(265,301)	(538)	(265,839)
Cash payments to employees for services	(292,312)	(573)	(292,885)
Other operating cash receipts (payments)	21,763	625	22,388
Net cash provided by (used in) operating activities	68,642	(486)	68,156
Cash Flows From Noncapital Financing Activities			
Contributions and operating grants	-	1,306	1,306
Payments (to) from component unit	955	-	955
Advances between affiliates	707	(707)	-
Net cash provided by noncapital financing activities	1,662	599	2,261
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of property and equipment	(43,775)	-	(43,775)
Proceeds from disposed assets	2,497	-	2,497
Acquisition of intangible assets	(796)	-	(796)
Capital contributions	183	-	183
Principal payments on revenue bonds and other outstanding debt	(104,639)	-	(104,639)
Interest paid on capital financing	(13,949)	-	(13,949)
Proceeds from revenue bonds	96,616	-	96,616
Payment of bond issuance costs	(1,296)	-	(1,296)
Transfers (to) from component unit	(5,089)	-	(5,089)
Net cash (used in) provided by capital and related financing activities	(70,248)	-	(70,248)
Cash Flows From Investing Activities			
(Purchases) sales of investments, net of maturities	(16,872)	-	(16,872)
Interest earned on investments	6,039	38	6,077
Contributions to partnerships	(5,376)	-	(5,376)
Distributions from partnerships	7,267	-	7,267
Other interest earned	238	-	238
Net cash provided by (used in) investing activities	(8,704)	38	(8,666)
Net increase (decrease) in cash and cash equivalents	(8,648)	151	(8,497)
Cash and cash equivalents at beginning of year	99,467	1,635	101,102
Cash and cash equivalents at end of year	\$ 90,819	\$ 1,786	\$ 92,605

(Continued)

New Hanover Regional Medical Center
Combining Statement of Cash Flows (Continued)
Year Ended September 30, 2011
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Reconciliation of cash and cash equivalents to the balance sheet			
Unrestricted cash and cash equivalents	\$ 18,695	\$ 1,786	\$ 20,481
Cash and cash equivalents in noncurrent cash and investments			
Reserved for debt service-held by bond paying agent	7,998	-	7,998
Reserved for debt service-not held by bond paying agent	4,085	-	4,085
Designated by Board for payment of claims liabilities	225	-	225
Designated by Board for capital improvements	55,816	-	55,816
Restricted under letter of credit	4,000	-	4,000
Cash and cash equivalents, including noncurrent cash and investments at end of year	\$ 90,819	\$ 1,786	\$ 92,605
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Cash flows from operating activities			
Operating income (loss)	\$ 27,576	\$ 316	\$ 27,892
Employee services included in nonoperating income	(647)	-	(647)
Operating grants and contributions	-	(1,306)	(1,306)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	42,746	-	42,746
Changes in:			
Receivables	(568)	625	57
Inventories	977	-	977
Prepaid expenses	(2,016)	(30)	(2,046)
Accounts payable and other liabilities	(596)	(91)	(687)
Accrued salaries and wages	1,033	-	1,033
Pension asset	95	-	95
Other long term assets	42	-	42
Net cash provided by (used in) operating activities	\$ 68,642	\$ (486)	\$ 68,156
Non-cash capital and related financing activities			
Unrealized gain (loss)	\$ 3,698	\$ (219)	\$ 3,479
Noncash distribution from partnership:			
Intangible capital assets	\$ 3,664	\$ -	\$ 3,664
Construction in progress	\$ 523	\$ -	\$ 523
Inventories	\$ 221	\$ -	\$ 221
Accounts payable	\$ 95	\$ -	\$ 95
Software license acquired through financing agreement and accounts payable	\$ 9,597	\$ -	\$ 9,597
Construction in process acquired through accounts payable and accrued expenses	\$ 14	\$ -	\$ 14
Bond issuance costs paid with proceeds of refunded bonds	\$ 1,296	\$ -	\$ 1,296
Deferred costs associated with refunded bonds	\$ 1,306	\$ -	\$ 1,306

New Hanover Regional Medical Center

**Combining Balance Sheets - Discretely Presented Component Units
(Dollars in Thousands)**

	September 30, 2012				September 30, 2011			
	CHA	LCFH	PMH	Total Combined Units	CHA	LCFH	PMH	Total Combined Units
ASSETS								
Current assets								
Cash and cash equivalents	\$ 1,909	\$ 3,147	\$ 2,107	\$ 7,163	\$ 3,631	\$ 5,118	\$ 2,029	\$ 10,778
Patient accounts, less allowance for bad debts	10,287	3,238	3,800	17,325	5,037	3,274	3,357	11,668
Due from health insurance programs	-	-	327	327	-	-	194	194
Due from primary government	-	31	2,014	2,045	-	15	1,423	1,438
Other receivables	25	621	244	890	63	196	161	420
Investments	-	2,672	-	2,672	-	3,171	-	3,171
Inventories	-	-	473	473	-	-	474	474
Prepaid expenses	1,907	364	118	2,389	1,037	611	197	1,845
Total current assets	14,128	10,073	9,083	33,284	9,768	12,385	7,835	29,988
Noncurrent cash, investments, and donor receivables								
Noncurrent Cash and Investments:								
Designated by Board for operating and PDO reserve	-	11,073	-	11,073	-	9,672	-	9,672
Designated by Board for capital improvements	-	4,015	-	4,015	-	427	-	427
Designated by Board for ESC reserve	-	55	-	55	-	-	-	-
Restricted by agreement for USDA loan reserve	-	45	-	45	-	34	-	34
Restricted by donors for endowments	-	1,308	-	1,308	-	1,120	-	1,120
	-	16,496	-	16,496	-	11,253	-	11,253
Pledges and grants receivable	-	232	-	232	-	495	-	495
Total noncurrent cash, investments, and donor receivables	-	16,728	-	16,728	-	11,748	-	11,748
Other assets								
Intangible capital assets, net of amortization	984	177	26	1,187	1,380	-	36	1,416
Other long term assets	-	686	-	686	-	191	104	295
Deferred outflow of resources	-	356	-	356	-	308	-	308
Total other assets	984	1,219	26	2,229	1,380	499	140	2,019
Capital assets - tangible								
Land	-	4,660	42	4,702	-	3,359	42	3,401
Depreciable capital assets, net of accumulated depreciation	4,423	13,769	7,075	25,267	3,022	9,694	7,056	19,772
Construction in progress	68	631	481	1,180	42	1,100	152	1,294
Total capital assets - tangible	4,491	19,060	7,598	31,149	3,064	14,153	7,250	24,467
Total assets	\$ 19,603	\$ 47,080	\$ 16,707	\$ 83,390	\$ 14,212	\$ 38,785	\$ 15,225	\$ 68,222

New Hanover Regional Medical Center

**Combining Balance Sheets - Discretely Presented Component Units
(Dollars in Thousands)**

	September 30, 2012				September 30, 2011			
	CHA	LCFH	PMH	Total Combined Units	CHA	LCFH	PMH	Total Combined Units
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable and other liabilities	\$ 4,542	\$ 1,683	\$ 2,052	\$ 8,277	\$ 2,231	\$ 1,240	\$ 1,684	\$ 5,155
Accrued salaries and wages	1,286	1,818	987	4,091	1,039	1,571	859	3,469
Estimated third-party payor settlements	-	-	114	114	-	-	412	412
Note payable, current portion	-	85	-	85	-	21	-	21
Accrued interest payable	-	53	-	53	-	55	-	55
Capital lease obligations and bonds payable, current portion	-	245	3	248	-	100	4	104
Total current liabilities	5,828	3,884	3,156	12,868	3,270	2,987	2,959	9,216
Long-term obligations								
Capital lease obligations less current portion	-	-	-	-	-	-	3	3
Note payable, less current portion	-	3,142	-	3,142	-	2,011	-	2,011
Net pension obligation	-	-	231	231	-	-	231	231
Bonds payable, less current portion	-	5,855	-	5,855	-	7,100	-	7,100
Interest rate swap agreements	-	356	-	356	-	308	-	308
Total long-term obligations	-	9,353	231	9,584	-	9,419	234	9,653
Total liabilities	5,828	13,237	3,387	22,452	3,270	12,406	3,193	18,869
Commitments and contingencies								
Net assets								
Invested in capital assets, net of related debt	5,475	9,910	7,630	23,015	4,444	4,921	7,279	16,644
Unrestricted	8,300	22,377	5,690	36,367	6,498	17,963	4,753	29,214
Restricted	-	1,556	-	1,556	-	3,495	-	3,495
Total net assets	13,775	33,843	13,320	60,938	10,942	26,379	12,032	49,353
Total liabilities and net assets	\$ 19,603	\$ 47,080	\$ 16,707	\$ 83,390	\$ 14,212	\$ 38,785	\$ 15,225	\$ 68,222

New Hanover Regional Medical Center

**Combining Statements of Revenues, Expenses, and Changes in Net Assets - Discretely Presented Component Units
(Dollars in Thousands)**

	Year Ended September 30, 2012				Year Ended September 30, 2011			
	CHA	LCFH	PMH	Total Combined Units	CHA	LCFH	PMH	Total Combined Units
Operating revenues:								
Net patient service revenue	\$ 66,007	\$ 27,961	\$ 22,367	\$ 116,335	\$ 40,612	\$ 26,024	\$ 21,509	\$ 88,145
Other revenue	17,287	4,451	2,550	24,288	17,212	3,283	1,809	22,304
Total operating revenue	83,294	32,412	24,917	140,623	57,824	29,307	23,318	110,449
Operating expenses:								
Salaries, wages and benefits	16,454	18,838	16,239	51,531	11,768	16,920	14,894	43,582
Medical supplies	10,777	4,023	1,925	16,725	-	3,723	2,186	5,909
Professional fees	38,535	95	675	39,305	25,574	195	678	26,447
Insurance	1,328	138	321	1,787	915	157	319	1,391
Purchased services and other	14,674	2,503	4,785	21,962	14,325	2,314	4,353	20,992
Depreciation and amortization	1,542	654	952	3,148	711	675	868	2,254
Total operating expenses	83,310	26,251	24,897	134,458	53,293	23,984	23,298	100,575
Operating income	(16)	6,161	20	6,165	4,531	5,323	20	9,874
Nonoperating revenues (expenses):								
Interest expense	-	(238)	(19)	(257)	-	(213)	(21)	(234)
Other nonoperating income	(4)	161	36	193	4	(7)	7	4
Net decrease in fair value of investments	-	1,380	-	1,380	-	(300)	-	(300)
Gain (loss) on sale of assets	-	-	-	-	1	-	-	1
Nonoperating revenues (expenses), net	(4)	1,303	17	1,316	5	(520)	(14)	(529)
Excess of revenues over expenses before capital contributions	(20)	7,464	37	7,481	4,536	4,803	6	9,345
Capital and permanent endowment contributions and transfers from component units	2,853	-	1,251	4,104	3,678	-	1,438	5,116
Increase in net assets	2,833	7,464	1,288	11,585	8,214	4,803	1,444	14,461
Net assets								
Beginning	10,942	26,379	12,032	49,353	2,728	21,576	10,588	34,892
Ending	\$ 13,775	\$ 33,843	\$ 13,320	\$ 60,938	\$ 10,942	\$ 26,379	\$ 12,032	\$ 49,353

New Hanover Regional Medical Center

**Combining Statements of Cash Flows - Discretely Presented Component Units
(Dollars in Thousands)**

	Year Ended September 30, 2012				Year Ended September 30, 2011			
	CHA	LCFH	PMH	Total	CHA	LCFH	PMH	Total
				Combined Units				Combined Units
Cash flows from operating activities								
Cash received from and on behalf of patients	\$ 60,518	\$ 28,773	\$ 21,410	\$ 110,701	\$ 37,291	\$ 25,802	\$ 22,083	\$ 85,176
Cash payments to suppliers for services and goods	(62,952)	(6,316)	(7,151)	(76,419)	(40,123)	(5,964)	(6,094)	(52,181)
Cash payments to employees for services	(16,207)	(18,592)	(16,111)	(50,910)	(10,985)	(16,526)	(14,744)	(42,255)
Other operating cash receipts	17,287	3,976	2,549	23,812	17,212	2,121	644	19,977
Net cash provided by (used in) operating activities	(1,354)	7,841	697	7,184	3,395	5,433	1,889	10,717
Cash flows from noncapital financing activities								
Payments (to) from component unit	-	-	(591)	(591)	-	-	(955)	(955)
Net cash provided by (used in) noncapital financing activities	-	-	(591)	(591)	-	-	(955)	(955)
Cash flows from capital and related financing activities								
Acquisition of capital assets	(3,217)	(5,699)	(1,304)	(10,220)	(2,996)	(2,117)	(1,386)	(6,499)
Proceeds from disposed assets	(5)	-	7	2	84	-	-	84
Acquisition of intangible assets	-	-	-	-	(1,212)	-	-	(1,212)
Capital contributions	-	-	12	12	-	-	27	27
Principal payments on capital lease obligations	-	-	(4)	(4)	-	-	(59)	(59)
Interest paid on capital financing	-	(278)	(19)	(297)	-	(231)	(21)	(252)
Proceeds from bonds	-	1,230	-	1,230	-	3,400	-	3,400
Payments on notes payable	-	(1,135)	-	(1,135)	-	(119)	-	(119)
Transfers from component unit	2,853	-	1,239	4,092	3,678	-	1,411	5,089
Net cash used in capital and related financing activities	(369)	(5,882)	(69)	(6,320)	(446)	933	(28)	459
Cash flows from investing activities								
(Purchases) sales of investments, net of maturities	-	(5,152)	-	(5,152)	-	(6,867)	-	(6,867)
Interest earned on investments	-	161	-	161	-	(307)	-	(307)
Other interest earned	1	-	41	42	4	-	7	11
Net cash provided by (used in) investing activities	1	(4,991)	41	(4,949)	4	(7,174)	7	(7,163)
Net increase (decrease) in cash and cash equivalents	(1,722)	(3,032)	78	(4,676)	2,953	(808)	913	3,058
Cash and cash equivalents at beginning of year	3,631	7,201	2,029	12,861	678	8,009	1,116	9,803
Cash and cash equivalents at end of year	\$ 1,909	\$ 4,169	\$ 2,107	\$ 8,185	\$ 3,631	\$ 7,201	\$ 2,029	\$ 12,861

(Continued)

New Hanover Regional Medical Center

Combining Statements of Cash Flows - Discretely Presented Component Units (Continued)

(Dollars in Thousands)

	Year Ended September 30, 2012				Year Ended September 30, 2011			
	CHA	LCFH	PMH	Total Combined	CHA	LCFH	PMH	Total Combined
				Units				Units
Reconciliation of cash and cash equivalents to the balance sheet								
Unrestricted cash and cash equivalents	\$ 1,909	\$ 3,147	\$ 2,107	\$ 7,163	\$ 3,631	\$ 5,118	\$ 2,029	\$ 10,778
Cash and cash equivalents in noncurrent cash and investments								
Designated by Board for operating reserve	-	718	-	718	-	1,925	-	1,925
Designated by Board for ESC reserve	-	55	-	55	-	-	-	-
Designated by Board for capital improvements	-	-	-	-	-	89	-	89
Restricted under agreement	-	45	-	45	-	34	-	34
By donor restrictions	-	204	-	204	-	35	-	35
Cash and cash equivalents, including noncurrent cash and investments at end of year	\$ 1,909	\$ 4,169	\$ 2,107	\$ 8,185	\$ 3,631	\$ 7,201	\$ 2,029	\$ 12,861
Reconciliation of operating income to net cash provided by operating activities								
Cash flows from operating activities								
Operating income (loss)	\$ (16)	\$ 6,161	\$ 20	\$ 6,165	\$ 4,531	\$ 5,323	\$ 20	\$ 9,874
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	1,542	654	952	3,148	711	675	868	2,254
Changes in:								
Patient receivables and programs	(5,489)	36	(957)	(6,410)	(3,321)	(222)	574	(2,969)
Inventories	-	-	-	-	-	-	(50)	(50)
Prepaid expenses and other current assets	(226)	246	79	99	(695)	(410)	(30)	(1,135)
Accounts payable and other liabilities	2,588	443	372	3,403	1,386	101	230	1,717
Accrued salaries and wages	247	247	128	622	783	175	150	1,108
Net pension obligation	-	-	(1)	(1)	-	-	-	-
Other long term assets	-	54	104	158	-	(209)	127	(82)
Net cash provided by (used in) operating activities	\$ (1,354)	\$ 7,841	\$ 697	\$ 7,184	\$ 3,395	\$ 5,433	\$ 1,889	\$ 10,717

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New Hanover Regional Medical Center
Combining Balance Sheets - Obligated Unit
September 30, 2012
(Dollars in Thousands)

	September 30, 2012			September 30, 2011		
	New Hanover Regional Medical Center	CHA	Combined	New Hanover Regional Medical Center	CHA	Combined
ASSETS						
Current assets						
Cash and cash equivalents	\$ 13,372	\$ 1,909	\$ 15,281	\$ 18,695	\$ 3,631	\$ 22,326
Assets limited as to use:						
Cash equivalents held by bond paying agent	11,922	-	11,922	7,998	-	7,998
Cash for debt service-not held by bond paying agent	4,411	-	4,411	4,085	-	4,085
Cash equivalents and investments for the future payment of claims liabilities	15,228	-	15,228	19,628	-	19,628
Receivables:						
Patient accounts, less allowance for bad debts	87,792	10,287	98,079	73,834	5,037	78,871
Due from health insurance programs	6,102	-	6,102	2,932	-	2,932
Due from component units	388	-	388	-	-	-
Other receivables	7,721	25	7,746	3,928	63	3,991
Inventories	16,581	-	16,581	15,734	-	15,734
Prepaid expenses	10,351	1,907	12,258	10,520	1,037	11,557
Total current assets	<u>173,868</u>	<u>14,128</u>	<u>187,996</u>	<u>157,354</u>	<u>9,768</u>	<u>167,122</u>
Noncurrent cash and investments						
Investments:						
Designated by Board for capital improvements	285,240	-	285,240	269,790	-	269,790
Restricted under letter of credit	4,000	-	4,000	4,000	-	4,000
Designated by Board for supplemental retirement plans	1,672	-	1,672	1,456	-	1,456
Total assets limited as to use	<u>290,912</u>	<u>-</u>	<u>290,912</u>	<u>275,246</u>	<u>-</u>	<u>275,246</u>
Other assets						
Intangible capital assets, net of amortization	45,855	984	46,839	48,856	1,380	50,236
Investment in affiliates	423	-	423	561	-	561
Pension asset	4,396	-	4,396	4,396	-	4,396
Other long term assets	371	-	371	414	-	414
Deferred outflow of resources	11,020	-	11,020	10,666	-	10,666
Total other assets	<u>62,065</u>	<u>984</u>	<u>63,049</u>	<u>64,893</u>	<u>1,380</u>	<u>66,273</u>
Capital assets - tangible						
Land	11,622	-	11,622	11,622	-	11,622
Depreciable capital assets, net of accumulated depreciation	421,649	4,423	426,072	390,917	3,022	393,939
Construction in progress	491	68	559	27,131	42	27,173
Total capital assets - tangible	<u>433,762</u>	<u>4,491</u>	<u>438,253</u>	<u>429,670</u>	<u>3,064</u>	<u>432,734</u>
Total assets	<u>\$ 960,607</u>	<u>\$ 19,603</u>	<u>\$ 980,210</u>	<u>\$ 927,163</u>	<u>\$ 14,212</u>	<u>\$ 941,375</u>

New Hanover Regional Medical Center
Combining Balance Sheets - Obligated Unit
September 30, 2012
(Dollars in Thousands)

	September 30, 2012			September 30, 2011		
	New Hanover Regional Medical Center			New Hanover Regional Medical Center		
	Center	CHA	Combined	Center	CHA	Combined
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable and other liabilities	\$ 30,270	\$ 4,542	\$ 34,812	\$ 22,283	\$ 2,231	\$ 24,514
Professional liability claims	17,298	-	17,298	19,417	-	19,417
Accrued salaries and wages	30,005	1,286	31,291	25,801	1,039	26,840
Estimated third-party payor settlements	10,048	-	10,048	14,319	-	14,319
Due to component units	2,037	-	2,037	1,438	-	1,438
Accrued interest payable	5,191	-	5,191	5,440	-	5,440
Other self-insured liabilities	10,659	-	10,659	10,362	-	10,362
Notes and bonds payable, current portion	13,097	-	13,097	8,689	-	8,689
Total current liabilities	118,605	5,828	124,433	107,749	3,270	111,019
Long-term obligations						
Supplemental retirement plans	1,672	-	1,672	1,456	-	1,456
Notes payable	3,340	-	3,340	4,984	-	4,984
Bonds payable, less current portion	297,649	-	297,649	308,579	-	308,579
Interest rate swap agreements	11,768	-	11,768	12,452	-	12,452
Total long-term obligations	314,429	-	314,429	327,471	-	327,471
Total liabilities	433,034	5,828	438,862	435,220	3,270	438,490
Net assets						
Invested in capital assets, net of related debt	165,531	5,475	171,006	156,274	4,444	160,718
Unrestricted	358,042	8,300	366,342	331,669	6,498	338,167
Restricted	4,000	-	4,000	4,000	-	4,000
Total net assets	527,573	13,775	541,348	491,943	10,942	502,885
Total liabilities and net assets	\$ 960,607	\$ 19,603	\$ 980,210	\$ 927,163	\$ 14,212	\$ 941,375

New Hanover Regional Medical Center
Combining Statements of Revenues, Expenses, and Changes in Net Assets - Obligated Unit
(Dollars in Thousands)

	Year Ended September 30, 2012				Year Ended September 30, 2011			
	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined
Operating revenues:								
Net patient service revenue	\$ 645,780	\$ 66,007	\$ -	\$ 711,787	\$ 615,078	\$ 40,612	\$ -	\$ 655,690
Other revenue	19,488	17,287	(16,027)	20,748	16,807	17,212	(16,687)	17,332
Total operating revenue	665,268	83,294	(16,027)	732,535	631,885	57,824	(16,687)	673,022
Operating expenses:								
Salaries, wages and benefits	321,417	16,454	-	337,871	292,916	11,768	-	304,684
Medical supplies	139,614	10,777	-	150,391	137,964	-	-	137,964
Professional fees	22,571	38,535	-	61,106	15,367	25,574	-	40,941
Insurance	8,417	1,328	-	9,745	12,372	915	-	13,287
Purchased services and other	101,534	14,674	(16,027)	100,181	102,944	14,325	(16,687)	100,582
Depreciation and amortization	43,166	1,542	-	44,708	42,746	711	-	43,457
Total operating expenses	636,719	83,310	(16,027)	704,002	604,309	53,293	(16,687)	640,915
Operating income	28,549	(16)	-	28,533	27,576	4,531	-	32,107
Nonoperating revenues (expenses):								
Interest expense	(12,440)	-	-	(12,440)	(13,590)	-	-	(13,590)
Other nonoperating income, net	93	(4)	-	89	(423)	4	-	(419)
Interest earned on investments	5,128	-	-	5,128	6,039	-	-	6,039
Net increase (decrease) in fair value of investments	17,461	-	-	17,461	1,891	-	-	1,891
Gain (loss) on sale of assets	44	-	-	44	(65)	1	-	(64)
Equity in net income (loss) of joint ventures	335	-	-	335	1,006	-	-	1,006
Nonoperating revenues (expenses), net	10,621	(4)	-	10,617	(5,142)	5	-	(5,137)
Income before capital contributions and operating transfers	39,170	(20)	-	39,150	22,434	4,536	-	26,970
Capital contributions and transfers:								
Capital and permanent endowment contributions	37	-	-	37	183	-	-	183
Capital transfers (to) from component units	(3,577)	2,853	-	(724)	(4,382)	3,678	-	(704)
Total capital contributions and operating transfers	(3,540)	2,853	-	(687)	(4,199)	3,678	-	(521)
Change in net assets	35,630	2,833	-	38,463	18,235	8,214	-	26,449
Total net assets, beginning	491,943	10,942	-	502,885	473,708	2,728	-	476,436
Total net assets, ending	\$ 527,573	\$ 13,775	\$ -	\$ 541,348	\$ 491,943	\$ 10,942	\$ -	\$ 502,885

New Hanover Regional Medical Center
Combining Statements of Cash Flows - Obligated Unit
(Dollars in Thousands)

	Year Ended September 30, 2012				Year Ended September 30, 2011			
	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined
Cash Flows From Operating Activities								
Cash received from and on behalf of patients	\$ 625,032	\$ 60,518	\$ -	\$ 685,550	\$ 604,492	\$ 37,291	\$ -	\$ 641,783
Cash payments to suppliers for goods and services	(267,552)	(62,952)	16,027	(314,477)	(265,301)	(40,123)	16,687	(288,737)
Cash payments to employees for services	(317,024)	(16,207)	-	(333,231)	(292,312)	(10,985)	-	(303,297)
Other operating cash receipts (payments)	15,749	17,287	(16,027)	17,009	21,763	17,212	(16,687)	22,288
Net cash provided by (used in) operating activities	56,205	(1,354)	-	54,851	68,642	3,395	-	72,037
Cash Flows From Noncapital Financing Activities								
Payments (to) from component unit	211	-	-	211	955	-	-	955
Advances between affiliates	514	-	-	514	707	-	-	707
Net cash (used in) provided by noncapital financing activities	725	-	-	725	1,662	-	-	1,662
Cash Flows From Capital and Related Financing Activities								
Acquisition and construction of property and equipment	(43,651)	(3,217)	-	(46,868)	(43,775)	(2,996)	-	(46,771)
Proceeds from disposed assets	411	(5)	-	406	2,497	84	-	2,581
Acquisition of intangible assets	-	-	-	-	(796)	(1,212)	-	(2,008)
Capital contributions	37	-	-	37	183	-	-	183
Principal payments on revenue bonds and other outstanding debt	(8,474)	-	-	(8,474)	(104,639)	-	-	(104,639)
Interest paid on capital financing	(13,113)	-	-	(13,113)	(13,949)	-	-	(13,949)
Proceeds from revenue bonds	-	-	-	-	96,616	-	-	96,616
Payment of bond issuance costs	-	-	-	-	(1,296)	-	-	(1,296)
Transfers (to) from component unit	(4,092)	2,853	-	(1,239)	(5,089)	3,678	-	(1,411)
Net cash (used in) provided by capital and related financing activities	(68,882)	(369)	-	(69,251)	(70,248)	(446)	-	(70,694)
Cash Flows From Investing Activities								
(Purchases) sales of investments, net of maturities	17,871	-	-	17,871	(16,872)	-	-	(16,872)
Interest earned on investments	5,128	-	-	5,128	6,039	-	-	6,039
Contributions to partnerships	(767)	-	-	(767)	(5,376)	-	-	(5,376)
Distributions from partnerships	1,256	-	-	1,256	7,267	-	-	7,267
Other interest earned	105	1	-	106	238	4	-	242
Net cash provided by (used in) investing activities	23,593	1	-	23,594	(8,704)	4	-	(8,700)
Net increase (decrease) in cash and cash equivalents	11,641	(1,722)	-	9,919	(8,648)	2,953	-	(5,695)
Cash and cash equivalents at beginning of year	90,819	3,631	-	94,450	99,467	678	-	100,145
Cash and cash equivalents at end of year	\$ 102,460	\$ 1,909	\$ -	\$ 104,369	\$ 90,819	\$ 3,631	\$ -	\$ 94,450

(Continued)

New Hanover Regional Medical Center
Combining Statements of Cash Flows - Obligated Unit (Continued)
(Dollars in Thousands)

	Year Ended September 30, 2012				Year Ended September 30, 2011			
	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined
Reconciliation of cash and cash equivalents to the balance sheet								
Unrestricted cash and cash equivalents	\$ 13,372	\$ 1,909	\$ -	\$ 15,281	\$ 18,695	\$ 3,631	\$ -	\$ 22,326
Cash and cash equivalents in noncurrent cash and investments								
Reserved for debt service-held by bond paying agent	11,922	-	-	11,922	7,998	-	-	7,998
Reserved for debt service-not held by bond paying agent	4,411	-	-	4,411	4,085	-	-	4,085
Designated by Board for payment of claims liabilities	289	-	-	289	225	-	-	225
Designated by Board for capital improvements	68,466	-	-	68,466	55,816	-	-	55,816
Restricted under letter of credit	4,000	-	-	4,000	4,000	-	-	4,000
Cash and cash equivalents, including noncurrent cash and investments at end of year	\$ 102,460	\$ 1,909	\$ -	\$ 104,369	\$ 90,819	\$ 3,631	\$ -	\$ 94,450
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities								
Cash flows from operating activities								
Operating income (loss)	\$ 28,549	\$ (16)	\$ -	\$ 28,533	\$ 27,576	\$ 4,531	\$ -	\$ 32,107
Employee services included in nonoperating income	(27)	-	-	(27)	(647)	-	-	(647)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	43,166	1,542	-	44,708	42,746	711	-	43,457
Changes in:								
Receivables	(17,046)	(5,489)	-	(22,535)	(568)	(3,321)	-	(3,889)
Inventories	(847)	-	-	(847)	977	-	-	977
Prepaid expenses and other current assets	169	(226)	-	(57)	(2,016)	(695)	-	(2,711)
Accounts payable and other liabilities	(2,006)	2,588	-	582	(596)	1,386	-	790
Accrued salaries and wages	4,204	247	-	4,451	1,033	783	-	1,816
Pension asset	-	-	-	-	95	-	-	95
Other long term assets	43	-	-	43	42	-	-	42
Net cash provided by (used in) operating activities	\$ 56,205	\$ (1,354)	\$ -	\$ 54,851	\$ 68,642	\$ 3,395	\$ -	\$ 72,037
Non-cash capital and related financing activities								
Unrealized gain (loss)	\$ 17,461	\$ -	\$ -	\$ 17,461	\$ 3,698	\$ -	\$ -	\$ 3,698
Noncash distribution from partnership:								
Intangible capital assets	\$ -	\$ -	\$ -	\$ -	\$ 3,664	\$ -	\$ -	\$ 3,664
Construction in progress	\$ -	\$ -	\$ -	\$ -	\$ 523	\$ -	\$ -	\$ 523
Inventories	\$ -	\$ -	\$ -	\$ -	\$ 221	\$ -	\$ -	\$ 221
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 95	\$ -	\$ -	\$ 95
Software license acquired through financing agreement and accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 9,597	\$ -	\$ -	\$ 9,597
Construction in process acquired through accounts payable and accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ 14	\$ -	\$ -	\$ 14
Bond issuance costs paid with proceeds of refunded bonds	\$ -	\$ -	\$ -	\$ -	\$ 1,296	\$ -	\$ -	\$ 1,296
Deferred costs associated with refunded bonds	\$ -	\$ -	\$ -	\$ -	\$ 1,306	\$ -	\$ -	\$ 1,306

**New Hanover Regional Medical Center
(A Component Unit of New Hanover
County, North Carolina)**

Compliance Reports
September 30, 2012

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COMPLIANCE REPORTS

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**Independent Auditor's 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
New Hanover Regional Medical Center
Wilmington, North Carolina

We have audited the financial statements of the business-type activities, the aggregate discretely presented component units and the fiduciary fund information of New Hanover Regional Medical Center (Medical Center), a component unit of New Hanover County, North Carolina, as of and for the year ended September 30, 2012, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated December 6, 2012. Our report includes a reference to other auditors and a change in accounting principles. 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. Other auditors audited the financial statements of Lower Cape Fear Hospice, Incorporated, a discretely presented component unit, as described in our report on the Medical Center's financial statements. The fiduciary fund information and the financial statements of Lower Cape Fear Hospice, Incorporated, Carolina Healthcare Associates, Inc. and Pender Memorial Hospital, Incorporated (the aggregated discretely presented component units) and New Hanover Regional Medical Center Foundation, Inc. (a blended component unit) were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of New Hanover Regional Medical Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered New Hanover Regional Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Hanover Regional Medical Center's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of New Hanover Regional Medical Center's internal control over financial reporting.

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 a 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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designated 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 New Hanover Regional Medical Center's 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit 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*.

We noted certain matters that we reported to management of New Hanover Regional Medical Center in a separate letter dated December 6, 2012.

This report is intended solely for the information and use of New Hanover Regional Medical Center's board of trustees, management, federal and state awarding agencies, pass-through entities, and the North Carolina State Auditor's office and is not intended to be and should not be used by anyone other than those specified parties.

The image shows a handwritten signature in cursive script that reads "McGladrey LLP". The signature is written in black ink and is positioned above the typed name and date.

Wilmington, North Carolina
December 6, 2012



**Independent Auditor's Report on Compliance with
Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133
and the State Single Audit Implementation Act**

To the Board of Trustees
New Hanover Regional Medical Center
Wilmington, North Carolina

Compliance

We have audited New Hanover Regional Medical Center's compliance with the types of compliance requirements described in the *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 New Hanover Regional Medical Center's major federal programs for the year ended September 30, 2012. New Hanover Regional Medical Center'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 federal programs is the responsibility of New Hanover Regional Medical Center's management. Our responsibility is to express an opinion on New Hanover Regional Medical Center's compliance based on our audit.

New Hanover Regional Medical Center's basic financial statements include fiduciary fund information and the operations of Lower Cape Fear Hospice, Incorporated, Carolina Healthcare Associates, Inc. and Pender Memorial Hospital, Incorporated, (the aggregate discretely presented component units), and New Hanover Regional Medical Center Foundation, Inc., a blended component unit. Our audit, described below, did not include the fiduciary fund information and the operations of these component units because Lower Cape Fear Hospice, Incorporated was audited by other auditors and the fiduciary fund, Carolina Healthcare Associates, Inc., Pender Memorial Hospital, Incorporated and New Hanover Regional Medical Center Foundation, Inc. did not receive federal awards.

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; OMB Circular A-133; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133 and the State Single Audit Implementation Act, 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 New Hanover Regional Medical Center'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 New Hanover Regional Medical Center's compliance with those requirements.

In our opinion, New Hanover Regional Medical Center 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 September 30, 2012.

Internal Control over Compliance

Management of New Hanover Regional Medical Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered New Hanover Regional Medical Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 New Hanover Regional Medical Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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 a 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 over compliance 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.

Schedule of Expenditures of Federal and State Awards

We have audited the financial statements of the business-type activities, the aggregate discretely presented component units and the fiduciary fund information of New Hanover Regional Medical Center (Medical Center), a component unit of New Hanover County, North Carolina, as of and for the year ended September 30, 2012, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated December 6, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Medical Center's financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of New Hanover Regional Medical Center's board of Trustees, management, federal and state awarding agencies, pass-through entities, and the North Carolina State Auditor's office and is not intended to be and should not be used by anyone other than these specified parties.



Wilmington, North Carolina
December 6, 2012

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Schedule of Findings and Questioned Costs (Continued)
For the Year Ended September 30, 2012**

Section II --- Financial Statement Findings

None reported.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Schedule of Findings and Questioned Costs (Continued)
For the Year Ended September 30, 2012**

Section III --- Federal Award Findings and Questioned Costs

None reported.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Summary Schedule of Prior Audit Findings
For the year Ended September 30, 2012**

No unresolved prior audit findings.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2012**

Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	State/ Pass-through Entity Identifying Number	Federal Expenditures	State Expenditures
Federal Awards:				
Cash Assistance:				
U.S. Department of Health and Human Services:				
Direct programs:				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		\$ 362,720	
Cancer Centers Support Grants: Improving Cancer Outcomes for Underserved Populations in SE North Carolina	93.397		416,851	
Grants for Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		3,370	
Affordable Care Act: Primary Care Residency Expansion	93.510		176,698	
Passed through NC Department of Health and Human Services:				
Ryan White Title II HIV Primary Care	93.917	00705-11 26260	161,111 148,044 <u>309,155</u>	
CDC Public Health Epidemiologist	93.069	01405-12 00026984	66,997 12,099 <u>79,096</u>	
Medical Reserve Corps Unit	93.008	MRC07013 MRC11348	8 532 <u>540</u>	
National Bioterrorism Hospital Preparedness Program ASPR RAC Administration	93.889	00027132	84,663	
ASPR SERAC Amendment #1		HP-12-2322	99,735	
ASPR RAC Administration		HP-12-2322	213,709	
ASPR National Hospital Preparedness Grant		HP-12-2322	270,067 <u>668,174</u>	
Total Federal Cash Assistance			<u>2,016,604</u>	
<i>Total Expenditures of Federal Awards</i>			<u><u>\$ 2,016,604</u></u>	
State Awards:				
Medication Assistance Program		00025613		\$ 21,857
Stroke Education Enhancement Project		01602-11		11,776
Coastal Family Medicine-Emergency Room Diversion				<u>4,974</u>
<i>Total Expenditures of State Awards</i>				<u><u>\$ 38,607</u></u>

See Notes to Schedule.

**New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)**

**Notes to the Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2012**

Note 1. General

The accompanying Schedule of Expenditures of Federal and State Awards represents the activity of all Federal and State award programs of New Hanover Regional Medical Center, excluding any of Lower Cape Fear Hospice, Incorporated, Carolina Healthcare Associates, Incorporated and Pender Memorial Hospital, Incorporated, discrete component units, New Hanover Regional Medical Center Foundation, Inc., a blended component unit, and New Hanover Regional Medical Center's fiduciary fund. All Federal and State awards received directly or indirectly (flow-through) from Federal and State awarding agencies are included on the schedule. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133 and the State Single Audit Implementation Act.

Note 2. Basis of Accounting

The accompanying schedule has been prepared on the modified accrual basis. Under this method of accounting, revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which a liability is incurred.