

**Annual Financial Report**

**New Hanover Regional Medical Center**

**Wilmington, North Carolina**

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

**Years Ended September 30, 2011 and 2010**

**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, 2011 and 2010, 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 72% and 69% of the assets and 56% and 57% of the revenues of the aggregate discretely presented component units as of and for the years ended September 30, 2011 and 2010, 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, the financial statements of Pender Memorial Hospital, Incorporated and Lower Cape Fear Hospice, Incorporated, 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 5, 2011 and December 3, 2010 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.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of NHRMC. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, based upon our audits and the reports of other auditors as explained in the first paragraph of this report, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Wilmington, North Carolina  
December 5, 2011

**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, 2011 and 2010**

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, 2011 and 2010. Except as otherwise noted, the financial highlights in this analysis refer exclusively to New Hanover Regional Medical Center and its blended component units (NHRMC).

**FINANCIAL HIGHLIGHTS**

For the year ended September 30, 2011

NHRMC's net assets increased over the prior year by \$26.0M (5.4%).

NHRMC reported operating income of \$32.4M or \$2.8M less than prior year.

Total non-operating activity resulted in net expense of \$5.1M, representing a net revenue decrease of \$6.8M over the prior year's net non-operating gain of \$1.7M.

For the year ended September 30, 2010

NHRMC's net assets increased over the prior year by \$36.3M (8.1%).

NHRMC reported operating income of \$35.2M or \$1.2M less than prior year.

Total non-operating activity resulted in net revenue of \$1.7M, representing a net revenue increase of \$5.1M over the prior year's net non-operating loss of \$3.4M.

**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. and Carolina Healthcare Associates, Inc., blended component units (collectively "NHRMC"), The Pension Plan of New Hanover Regional Medical Center, Pender Memorial Hospital, Incorporated ("PMH") and Lower Cape Fear Hospice, Incorporated ("LCFH"). 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 units 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, 2011	September 30, 2010	September 30, 2009
	(In Thousands)		
Net patient service revenue	\$ 655,690	\$ 599,018	\$ 591,466
Other revenue	18,638	17,542	16,529
<b>Total operating revenue</b>	<b>674,328</b>	616,560	607,995
Expenses:			
Health care services			
Salaries, wages and benefits	305,257	287,103	285,590
Medical supplies	137,964	130,269	127,130
Professional fees	40,967	22,503	22,507
Insurance	13,287	10,903	7,692
Purchased services and other	100,973	87,946	88,327
Depreciation and amortization	43,457	42,652	40,407
<b>Total operating expenses</b>	<b>641,905</b>	581,376	571,653
<b>Operating income</b>	<b>32,423</b>	35,184	36,342
Nonoperating revenues (expenses), net	(5,146)	1,716	(3,358)
	27,277	36,900	32,984
Capital and permanent endowment contributions and transfers to/from component units	(1,228)	(551)	610
<b>Increase in net assets</b>	<b>26,049</b>	36,349	33,594
Total net assets, beginning	485,012	448,663	415,069
Total net assets, ending	\$ 511,061	\$ 485,012	\$ 448,663

Discussion:

For the year ended September 30, 2011

Total operating revenue increased \$57.8M (9.4%). The increase in operating revenue is largely due to the expansion of the NHRMC physician network (see Note 14) combined with 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 \$60.5M. The expansion of the NHRMC physician network and increased utilization of services as described above contributed to the increase in operating expense. Costs for professional fees, insurance, and purchased services rose above the rate of increase in revenues; costs for personnel, medical supplies and depreciation rose at a rate below revenue growth. Increased costs for professional fees and purchased services are directly attributable to expansion of the physician network. Through supply cost initiatives, the impact of increased costs for medical supplies due to the inflationary market were 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 \$2.8M as a result of increased net expenses as a percentage of net revenue from operations.

Income before capital contributions and transfers decreased \$9.6M 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, 2010

Total operating revenue increased \$8.6M (1.4%). The increase in net patient revenue resulting from increased utilization of outpatient services contributed to the increase in revenue 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 \$9.7M. Increases in outpatient services as described above contributed to the increase in operating expense. Costs for medical supplies, insurance, and depreciation rose above the rate of increase in revenues; personnel costs rose at a rate below revenue growth and costs for professional fees and purchased services decreased compared to the prior year. Through supply cost initiatives, the impact of increased costs for medical supplies due to the inflationary market were minimized. The increase in insurance expense was due to an increase in costs associated with hospital professional liability. Depreciation expense increased due to partially completed Tower Renovation.

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 \$1.2M as a result of increased net expenses as a percentage of net revenue from operations.

Income before capital contributions and transfers increased \$3.9M 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. An increase on earnings from investments along with a decrease in interest expense costs contributed to the overall increase in non-operating income. This activity, when added to the increase in operating income, accounted for the change from the prior year.

## SUMMARY OF NHRMC NET ASSETS

	<b>September 30, 2011</b>	September 30, 2010	September 30, 2009
	(In Thousands)		
<b>Assets</b>			
Current assets	<b>\$ 169,289</b>	\$ 156,945	\$ 143,583
Capital assets - tangible, net	<b>432,734</b>	418,478	406,745
Other noncurrent assets	<b>346,978</b>	338,950	322,726
<b>Total assets</b>	<b>949,001</b>	914,373	873,054
<b>Liabilities</b>			
Long-term obligations	<b>327,471</b>	328,084	326,486
Current liabilities	<b>110,469</b>	101,277	97,905
<b>Total liabilities</b>	<b>437,940</b>	429,361	424,391
<b>Net Assets</b>			
Invested in capital assets, net of related debt	<b>160,718</b>	144,380	128,577
Unrestricted net assets	<b>339,045</b>	328,936	308,589
Restricted net assets	<b>11,298</b>	11,696	11,497
<b>Total net assets</b>	<b>\$ 511,061</b>	\$ 485,012	\$ 448,663

Discussion:

### For the year ended September 30, 2011

Total assets have increased by \$34.6M 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 and the expansion of the NHRMC physician network. 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 \$8.6M 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 \$26.0M during the past year reflecting the overall performance during the past fiscal year.

#### For the year ended September 30, 2010

Total assets have increased by \$41.3M over the past fiscal year end. The increase in current assets, particularly cash and cash equivalents, and other noncurrent assets contributed to the overall increase in assets. These increases are due to increased earnings on invested monies and increased cash reserves resulting from improvements in revenue cycle activity. The increase in capital assets reflects increases in investments in capital improvements of NHRMC in property, plant and equipment during the past year.

Total liabilities have increased by \$5.0M over the past fiscal year end. An increase in other liabilities resulted primarily from an increase in estimated third-party payor settlements, salaries and wages payable and self insured liability offset slightly by a decrease in trade payables. 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 \$36.3M during the past year reflecting the overall performance during the past fiscal year.

### **LONG-TERM DEBT DISCUSSION**

#### 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.

#### For the year ended September 30, 2010

Long-term debt (noncurrent portion) is approximately \$328.1M as of September 30, 2010 and includes Hospital Revenue Bonds issued in 1999, 2005, 2006 and 2008.

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, 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 4<sup>th</sup> Quarter of 2008 and continued through the 1<sup>st</sup> 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 4<sup>th</sup> 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, 2010

NHRMC is nearly complete with the Tower Renovation project, which will improve the infrastructure systems, create private rooms and more efficient support spaces for the staff. Construction on the Tower Renovation project began during the 4<sup>th</sup> Quarter of 2008 and was scheduled to continue through the 4<sup>th</sup> Quarter of 2010. At the Cape Fear campus, the Endoscopy to Operating Room construction was underway in FY 2010.

#### **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, 2011, the Board of Trustees has approved a budget to include increases of \$17.8M in salaries and benefits for employees, \$140.3M in uncompensated care, and \$35.4M 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 4.0% 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, 2011			September 30, 2010		
	Combined		Total	Combined		Total
	NHRMC	Units	Component (Memorandum Only)	NHRMC	Units	Component (Memorandum Only)
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents (Note 3)	\$ 24,112	\$ 7,147	\$ 31,259	\$ 24,126	\$ 4,922	\$ 29,048
Assets limited as to use (Note 3):						
Cash equivalents held by bond paying agent	7,998	-	7,998	7,940	-	7,940
Cash for debt service-not held by bond paying agent	4,085	-	4,085	3,963	-	3,963
Cash equivalents and investments for the future payment of claims liabilities	19,628	-	19,628	16,969	-	16,969
Receivables:						
Patient accounts, less allowance for bad debts (Note 2)	78,231	6,631	84,862	66,010	6,254	72,264
Due from health insurance programs	2,932	194	3,126	2,114	778	2,892
Due from primary government	-	1,438	1,438	-	765	765
Due from component units	-	-	-	297	-	297
Other receivables	4,982	357	5,339	10,380	494	10,874
Investments (Note 3)	-	3,171	3,171	-	1,671	1,671
Inventories	15,734	474	16,208	16,490	424	16,914
Prepaid expenses	11,587	808	12,395	8,656	497	9,153
<b>Total current assets</b>	<b>169,289</b>	<b>20,220</b>	<b>189,509</b>	<b>156,945</b>	<b>15,805</b>	<b>172,750</b>
Noncurrent cash, investments, and donor receivables						
Noncurrent Cash and Investments (Note 3):						
Designated by Board for operating and PDO reserve	-	9,672	9,672	-	6,090	6,090
Designated by Board for capital improvements	269,790	427	270,217	259,608	433	260,041
Restricted under loan agreement	-	34	34	-	23	23
Restricted under letter of credit	4,000	-	4,000	4,000	-	4,000
Designated by Board for supplemental retirement plans	1,456	-	1,456	1,333	-	1,333
Restricted by donors for specific purpose	1,908	-	1,908	2,032	-	2,032
Restricted by donors for endowments	1,669	1,120	2,789	1,654	1,160	2,814
	278,823	11,253	290,076	268,627	7,706	276,333
Pledges and grants receivable	1,872	495	2,367	2,250	312	2,562
<b>Total noncurrent cash, investments, and donor receivables</b>	<b>280,695</b>	<b>11,748</b>	<b>292,443</b>	<b>270,877</b>	<b>8,018</b>	<b>278,895</b>
Other assets						
Intangible capital assets, net of amortization (Note 4)	50,236	36	50,272	47,378	45	47,423
Investment in affiliates (Note 12)	561	-	561	5,773	-	5,773
Pension asset (Note 10)	4,396	-	4,396	4,491	-	4,491
Other long term assets	424	295	719	466	396	862
Deferred outflow of resources (Note 7)	10,666	308	10,974	9,965	271	10,236
<b>Total other assets</b>	<b>66,283</b>	<b>639</b>	<b>66,922</b>	<b>68,073</b>	<b>712</b>	<b>68,785</b>
Capital assets - tangible (Note 4)						
Land	11,622	3,401	15,023	11,966	2,888	14,854
Depreciable capital assets, net of accumulated depreciation	393,939	16,750	410,689	391,507	16,375	407,882
Construction in progress	27,173	1,252	28,425	15,005	168	15,173
<b>Total capital assets - tangible</b>	<b>432,734</b>	<b>21,403</b>	<b>454,137</b>	<b>418,478</b>	<b>19,431</b>	<b>437,909</b>
<b>Total assets</b>	<b>\$ 949,001</b>	<b>\$ 54,010</b>	<b>\$ 1,003,011</b>	<b>\$ 914,373</b>	<b>\$ 43,966</b>	<b>\$ 958,339</b>

See Notes to Financial Statements.

	September 30, 2011			September 30, 2010		
	Combined		Total	Combined		Total
	NHRMC	Units	Component (Memorandum Only)	NHRMC	Units	Component (Memorandum Only)
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities						
Accounts payable and other liabilities (Note 6)	\$ 23,964	\$ 2,924	\$ 26,888	\$ 15,995	\$ 2,593	\$ 18,588
Professional liability claims (Note 9)	19,417	-	19,417	14,777	-	14,777
Accrued salaries and wages	26,840	2,430	29,270	24,733	2,106	26,839
Estimated third-party payor settlements (Note 2)	14,319	412	14,731	18,563	232	18,795
Due to primary government	-	-	-	-	297	297
Due to component units	1,438	-	1,438	787	-	787
Due to affiliates (Note 12)	-	-	-	4,149	-	4,149
Note payable, current portion (Note 6)	-	21	21	-	18	18
Accrued interest payable	5,440	55	5,495	5,534	55	5,589
Other self-insured liabilities (Note 9)	10,362	-	10,362	10,174	-	10,174
Capital lease obligations, notes and bonds payable, current portion (Notes 5 and 6)	8,689	104	8,793	6,565	159	6,724
<b>Total current liabilities</b>	<b>110,469</b>	<b>5,946</b>	<b>116,415</b>	<b>101,277</b>	<b>5,460</b>	<b>106,737</b>
Long-term obligations						
Capital lease obligations less current portion (Notes 5 and 6)	-	3	3	-	7	7
Net pension obligation (Notes 6 and 10)	-	231	231	-	231	231
Supplemental retirement plans (Notes 6 and 10)	1,456	-	1,456	1,333	-	1,333
Notes payable (Note 6)	4,984	2,011	6,995	-	2,033	2,033
Bonds payable, less current portion (Note 6)	308,579	7,100	315,679	314,911	3,800	318,711
Interest rate swap agreements (Note 7)	12,452	308	12,760	11,840	271	12,111
<b>Total long-term obligations</b>	<b>327,471</b>	<b>9,653</b>	<b>337,124</b>	<b>328,084</b>	<b>6,342</b>	<b>334,426</b>
<b>Total liabilities</b>	<b>437,940</b>	<b>15,599</b>	<b>453,539</b>	<b>429,361</b>	<b>11,802</b>	<b>441,163</b>
Commitments and contingencies (Notes 2, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14 and 16)						
Net assets						
Invested in capital assets, net of related debt	160,718	12,200	172,918	144,380	13,404	157,784
Unrestricted	339,045	22,716	361,761	328,936	16,362	345,298
Restricted	11,298	3,495	14,793	11,696	2,398	14,094
<b>Total net assets</b>	<b>511,061</b>	<b>38,411</b>	<b>549,472</b>	<b>485,012</b>	<b>32,164</b>	<b>517,176</b>
<b>Total liabilities and net assets</b>	<b>\$ 949,001</b>	<b>\$ 54,010</b>	<b>\$ 1,003,011</b>	<b>\$ 914,373</b>	<b>\$ 43,966</b>	<b>\$ 958,339</b>

**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, 2011			Year Ended September 30, 2010		
	Combined	Total		Combined	Total	
	Component (Memorandum			Component (Memorandum		
NHRMC	Units	Only)	NHRMC	Units	Only)	
Operating revenues:						
Net patient service revenue (Notes 2 and 6)	\$ 655,690	\$ 47,533	\$ 703,223	\$ 599,018	\$ 41,323	\$ 640,341
Other revenue	18,638	5,092	23,730	17,542	4,512	22,054
<b>Total operating revenue</b>	<b>674,328</b>	<b>52,625</b>	<b>726,953</b>	<b>616,560</b>	<b>45,835</b>	<b>662,395</b>
Operating expenses:						
Salaries, wages and benefits	305,257	31,814	337,071	287,103	27,018	314,121
Medical supplies	137,964	5,909	143,873	130,269	4,976	135,245
Professional fees	40,967	873	41,840	22,503	848	23,351
Insurance	13,287	476	13,763	10,903	478	11,381
Purchased services and other	100,973	6,667	107,640	87,946	5,524	93,470
Depreciation and amortization	43,457	1,543	45,000	42,652	1,589	44,241
<b>Total operating expenses</b>	<b>641,905</b>	<b>47,282</b>	<b>689,187</b>	<b>581,376</b>	<b>40,433</b>	<b>621,809</b>
Operating income	32,423	5,343	37,766	35,184	5,402	40,586
Nonoperating revenues (expenses):						
Interest expense	(13,590)	(234)	(13,824)	(13,039)	(223)	(13,262)
Other nonoperating income	(368)	-	(368)	256	254	510
Interest earned on investments	6,198	-	6,198	6,175	-	6,175
Net (decrease) increase in fair value of investments	1,672	(300)	1,372	7,550	123	7,673
Loss on sale of assets	(64)	-	(64)	(54)	-	(54)
Equity in net income of joint ventures	1,006	-	1,006	828	-	828
Nonoperating revenues (expenses), net	(5,146)	(534)	(5,680)	1,716	154	1,870
<b>Excess of revenues over expenses before capital contributions</b>	<b>27,277</b>	<b>4,809</b>	<b>32,086</b>	<b>36,900</b>	<b>5,556</b>	<b>42,456</b>
Capital and permanent endowment contributions and capital transfers to/from component units	(1,228)	1,438	210	(551)	1,309	758
<b>Increase in net assets</b>	<b>26,049</b>	<b>6,247</b>	<b>32,296</b>	<b>36,349</b>	<b>6,865</b>	<b>43,214</b>
Total net assets, beginning	485,012	32,164	517,176	448,663	25,299	473,962
Total net assets, ending	\$ 511,061	\$ 38,411	\$ 549,472	\$ 485,012	\$ 32,164	\$ 517,176

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, 2011			Year Ended September 30, 2010		
	Combined	Total		Combined	Total	
	Component	(Memorandum		Component	(Memorandum	
	NHRMC	Units	Only)	NHRMC	Units	Only)
<b>Cash Flows From Operating Activities</b>						
Cash received from and on behalf of patients	\$ 641,783	\$ 47,885	\$ 689,668	\$ 611,250	\$ 39,913	\$ 651,163
Cash payments to suppliers for services and goods	(289,275)	(12,058)	(301,333)	(249,436)	(10,372)	(259,808)
Cash payments to employees for services	(303,870)	(31,270)	(335,140)	(286,564)	(26,960)	(313,524)
Other operating cash receipts	22,913	2,765	25,678	14,009	4,075	18,084
<b>Net cash provided by operating activities</b>	<b>71,551</b>	<b>7,322</b>	<b>78,873</b>	<b>89,259</b>	<b>6,656</b>	<b>95,915</b>
<b>Cash flows from noncapital financing activities</b>						
Contributions and operating grants	1,306	-	1,306	1,805	-	1,805
Payments (to) from component unit	955	(955)	-	390	(390)	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>2,261</b>	<b>(955)</b>	<b>1,306</b>	<b>2,195</b>	<b>(390)</b>	<b>1,805</b>
<b>Cash flows from capital and related financing activities</b>						
Acquisition of capital assets	(46,771)	(3,503)	(50,274)	(56,093)	(2,236)	(58,329)
Proceeds from disposed assets	2,581	-	2,581	118	-	118
Acquisition of physician and other practices	(2,008)	-	(2,008)	(288)	-	(288)
Capital contributions	183	27	210	626	82	708
Principal payments on capital lease obligations	-	(59)	(59)	-	(82)	(82)
Principal payments on revenue bonds and other outstanding debt	(104,639)	(119)	(104,758)	(6,520)	(120)	(6,640)
Interest paid on capital financing	(13,949)	(252)	(14,201)	(12,782)	(170)	(12,952)
Proceeds from bonds/notes	96,616	3,400	100,016	-	-	-
Payment of bond issuance costs	(1,296)	-	(1,296)	-	-	-
Transfers (to) from component unit	(1,411)	1,411	-	(1,227)	1,227	-
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(70,694)</b>	<b>905</b>	<b>(69,789)</b>	<b>(76,166)</b>	<b>(1,299)</b>	<b>(77,465)</b>
<b>Cash flows from investing activities</b>						
Purchases of investments, net of maturities	(16,872)	(6,867)	(23,739)	(4,332)	(1,904)	(6,236)
Interest earned on investments	6,077	(307)	5,770	6,088	242	6,330
Contributions to partnerships	(5,376)	-	(5,376)	(223)	-	(223)
Distributions from partnerships	7,267	-	7,267	3,343	-	3,343
Other interest earned	242	7	249	333	12	345
<b>Net cash provided by (used in) investing activities</b>	<b>(8,662)</b>	<b>(7,167)</b>	<b>(15,829)</b>	<b>5,209</b>	<b>(1,650)</b>	<b>3,559</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,544)</b>	<b>105</b>	<b>(5,439)</b>	<b>20,497</b>	<b>3,317</b>	<b>23,814</b>
Cash and cash equivalents at beginning of year	101,780	9,125	110,905	81,283	5,808	87,091
Cash and cash equivalents at end of year	\$ 96,236	\$ 9,230	\$ 105,466	\$ 101,780	\$ 9,125	\$ 110,905

(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, 2011			Year Ended September 30, 2010		
	Combined		Total	Combined		Total
	NHRMC	Units	(Memorandum Only)	NHRMC	Units	(Memorandum Only)
<b>Reconciliation of cash and cash equivalents to the balance sheet</b>						
Unrestricted cash and cash equivalents	\$ 24,112	\$ 7,147	\$ 31,259	\$ 24,126	\$ 4,922	\$ 29,048
Cash and cash equivalents in noncurrent cash and investments						
Designated by Board for operating and PDO reserve	-	1,925	1,925	-	4,071	4,071
Held by bond paying agent	7,998	-	7,998	7,940	-	7,940
Reserved for debt service-not held by bond paying agent	4,085	-	4,085	3,963	-	3,963
Designated by Board for claims liabilities	225	-	225	1,237	-	1,237
Designated by Board for capital improvements	55,816	89	55,905	60,514	63	60,577
Restricted under indenture agreement held by trustee	-	-	-	-	-	-
Restricted under loan agreement	-	34	34	-	23	23
Restricted under letter of credit	4,000	-	4,000	4,000	-	4,000
By donor restrictions	-	35	35	-	46	46
Cash and cash equivalents, including noncurrent cash and investments at end of year	<u>\$ 96,236</u>	<u>\$ 9,230</u>	<u>\$ 105,466</u>	<u>\$ 101,780</u>	<u>\$ 9,125</u>	<u>\$ 110,905</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>						
<b>Cash flows from operating activities</b>						
Operating income	\$ 32,423	\$ 5,343	\$ 37,766	\$ 35,184	\$ 5,402	\$ 40,586
Employee services included in nonoperating income	(647)	-	(647)	-	-	-
Operating grants in other revenue	(1,306)	-	(1,306)	(1,755)	-	(1,755)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	43,457	1,543	45,000	42,652	1,589	44,241
Discount amortization included in operating expenses	-	-	-	4	-	4
Undistributed income from operating partnership	-	-	-	504	-	504
Changes in:						
Patient receivables and programs	(3,264)	352	(2,912)	2,308	(1,410)	898
Inventories	977	(50)	927	731	(18)	713
Prepaid expenses and other current assets	(2,741)	(440)	(3,181)	(796)	306	(490)
Accounts payable and other liabilities	699	331	1,030	10,081	539	10,620
Accrued salaries and wages	1,816	325	2,141	306	(124)	182
Pension asset	95	-	95	5	-	5
Net pension obligation	-	-	-	-	(1)	(1)
Other long term assets	42	(82)	(40)	35	373	408
Net cash provided by operating activities	<u>\$ 71,551</u>	<u>\$ 7,322</u>	<u>\$ 78,873</u>	<u>\$ 89,259</u>	<u>\$ 6,656</u>	<u>\$ 95,915</u>
<b>Non-cash capital and related financing activities</b>						
Capital assets acquired under capital lease	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrealized (loss) gain	\$ 3,479	\$ -	\$ 3,479	\$ 5,795	\$ -	\$ 5,795
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, 2010 and 2009**  
**(Dollars in Thousands)**

<b>ASSETS</b>	<b>The Pension Plan of New Hanover Regional Medical Center</b>	
	<b>2010</b>	<b>2009</b>
Investments (Note 3)	\$ 163,448	\$ 149,255
Receivable:		
Accrued income	225	196
Total Assets	<u>163,673</u>	<u>149,451</u>
<b>Net assets held in trust for pension benefits</b>	<u><u>\$ 163,673</u></u>	<u><u>\$ 149,451</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, 2010 and 2009**  
**(Dollars in Thousands)**

	<b>The Pension Plan of New Hanover Regional Medical Center</b>	
	<b>2010</b>	<b>2009</b>
<b>Additions</b>		
Employer's contributions	<b>\$ 9,781</b>	\$ 8,960
Investment income:		
Net appreciation in fair value of investments	<b>11,476</b>	22,605
Dividends and interest	<b>3,268</b>	4,012
	<b>14,744</b>	26,617
<b>Total additions</b>	<b>24,525</b>	35,577
<b>Deductions</b>		
Distributions to participants	<b>9,795</b>	11,374
Administrative expenses	<b>508</b>	546
<b>Total deductions</b>	<b>10,303</b>	11,920
<b>Net increase in net assets</b>	<b>14,222</b>	23,657
Transfers out of plan (Note 10)	-	(4,455)
Net assets held in trust for pension benefits:		
Beginning of year	<b>149,451</b>	130,249
End of year	<b>\$ 163,673</b>	\$ 149,451

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)**

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**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**

New Hanover Regional Medical Center Foundation, Inc. (“Foundation”) and Carolina Healthcare Associates, Inc. (“CHA”) are included in NHRMC’s financial statements as blended component units. The balances and transactions of these entities are blended with those of New Hanover Regional Medical Center in the accompanying financial statements, and referred to as “NHRMC” due to their insignificance. Intercompany balances and transactions are eliminated in the process. The Foundation is a 501(c)(3) nonprofit organization, which was founded by NHRMC in 1991 to serve NHRMC solely as a fundraising entity. CHA began operations effective January 1, 1998. CHA is a 501(c)(3) nonprofit entity which provides physician services and other professional medical services (see Note 14). CHA’s board of trustees is essentially the same as the board of NHRMC.

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, 2010 and 2009.

**Combined Component Units**

The combined component units consist of the discretely presented component units: 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.

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. LCFH is included in the reporting entity as a discretely presented component unit. During the years ended September 30, 2011 and 2010, NHRMC granted and paid LCFH approximately \$298 and \$291, respectively, in support of LCFH’s Palliative Care Program.

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, 2011 and 2010, NHRMC recorded an operating expense and PMH recorded other operating revenue in the amount of approximately \$1,384 and \$765 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 2011 and 2010, NHRMC infused approximately \$1,411 and \$1,227, respectively, of capital into PMH.

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

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

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

Complete 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 all 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.

**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.

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

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

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

**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, 2011 and 2010, NHRMC had funds restricted under a letter of credit in conjunction with the issuance of bonds during the year ended September 30, 2009 (See Note 6) and amounts restricted by donors. 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 of NHRMC and component units 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.

**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 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 \$868 and \$1,132 were incurred and capitalized during fiscal years ended September 30, 2011 and 2010, respectively, in the construction of long-term assets and will be amortized over the related assets' estimated useful lives.

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

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

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

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 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, 2011 and 2010 have been made (See Note 9).

**Unamortized Deferral on Refunding**

Bonds payable is recorded net of unamortized deferred losses on bond refundings. These amounts 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 (See Note 6).

**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, 2011 and 2010, 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.

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

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

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

**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 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 income 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 \$47,035 and \$42,332 for the years ended September 30, 2011 and 2010, respectively. Charity care provided by component units is not considered significant.

**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, 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.

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

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

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

**Pension Plan**

NHRMC maintains a defined benefit pension plan covering substantially all of its employees. PMH also maintains a separate defined benefit pension plan covering substantially all of its employees. NHRMC, LCFH, 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.

**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 2011 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, 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 follows:

**Medicare**

Services for NHRMC Medicare patients are paid at prospectively determined rates per discharge. The difference between established billing rates and reimbursements are recorded as contractual adjustments in net patient service revenue.

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, 2007.

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, 2007.

**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)**

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,	
	2011	2010	2011	2010
NHRMC	42%	39%	26%	25%
LCFH	91%	92%	75%	79%
PMH	55%	57%	50%	48%

**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, 2008, and PMH's Medicaid cost reports have been audited through September 30, 2008. 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,	
	2011	2010	2011	2010
NHRMC	13%	13%	14%	14%
LCFH	4%	3%	17%	15%
PMH	21%	17%	15%	18%

During fiscal years ended September 30, 2011 and 2010, NHRMC received approximately \$29,053 and \$26,152, respectively, from the State of North Carolina under the Medicaid Reimbursement Initiative (MRI).

PMH received approximately \$123 and \$104 in supplemental payments during the fiscal years ended September 30, 2011 and 2010, 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.

**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)**

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 are not at risk.

Adjustments to estimated third party payor settlements from prior years occurring in 2011 and 2010 increased NHRMC's change in net assets by approximately \$7,318 and increased NHRMC's change in net assets by approximately \$1,179, respectively.

Adjustments to estimated third party payor settlements from prior years occurring in 2011 and 2010 increased PMH's change in net assets by approximately \$381 and increased PMH's change in net assets by approximately \$284, respectively.

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 State must have its Medicaid Plan Amendment related to this legislation approved by CMS before the GAP Assessment Program can proceed. To date, that approval is still pending. As of September 30, 2011, the Medical Center has not recorded any liability for assessments that may be levied, nor any receivable for payments that may be received, if the GAP Assessment Program is approved.

**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 will be implementing a similar program January 2012 for Medicaid payments. During the years ended September 30, 2011 and 2010, the number of NHRMC claims requested by RAC for review totaled 900 and 350, respectively. Net overpayments processed to date for fiscal year 2011 and 2010, respectively, are \$142 and \$109. NHRMC recorded an estimated reserve for estimated assessments under future RAC audits. Management does not believe such assessments will be material to the financial statements.

**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,	
	2011	2010
NHRMC	\$ 66,138	\$ 64,780
LCFH	202	146
PMH	2,975	2,835
	<b>\$ 69,315</b>	<b>\$ 67,761</b>

**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)**

**Provisions for Bad Debts**

For the years ended September 30, 2011 and 2010, net patient service revenue is reported net of a provision for bad debts of:

	<u>2011</u>	<u>2010</u>
NHRMC	\$ 82,775	\$ 87,694
LCFH	618	540
PMH	5,114	4,149
	<u>\$ 88,507</u>	<u>\$ 92,383</u>

**Note 3. Cash and Cash Equivalents and Investments**

**Deposits**

As of September 30, 2011 and 2010, the carrying values and bank balances of deposits were as follows (in thousands):

	<u>2011</u>		<u>2010</u>	
	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Carrying Value</u>	<u>Bank Balance</u>
NHRMC	\$ 45,195	\$ 59,681	\$ 46,052	\$ 59,090
LCFH	7,198	4,598	8,006	8,517
PMH	824	1,094	636	903

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.

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

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

As of September 30, 2011, 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. As of September 30, 2010, FDIC limits were \$250 per financial institution. Substantially all deposits of the Foundation and CHA (included in NHRMC, above) 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.

LCFH is not subject to the above described statutes. LCFH has 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.

**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.

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 with the North Carolina State Treasurer. 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.

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.

**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)**

As of September 30, 2011 and 2010, NHRMC had the following investments, concentrations and maturities, excluding fiduciary investments:

<b>Investment Type</b>	<b>Weighted Average Maturity in Years</b>	<b>Fair Value 2011</b>	<b>Weighted Average Maturity in Years</b>	<b>Fair Value 2010</b>
<b>Municipal Bonds:</b>				
University NC Charlotte Rev Taxable Gen Ser A	-	\$ -	6.5	\$ 194
Brunswick Cnty NC Enterprise Sys Rev Build America Bonds	6.5	1,968	7.5	1,835
US Government Treasury Notes	5.5	16,380	2.1	7,268
US Government Treasury Bonds	7.6	37,862	7.4	31,325
US Treasury Inflation Bond	29.4	3,960	-	-
<b>US Government Agencies:</b>				
Federal Farm Credit Bank	2.0	1,087	1.5	2,382
Federal Home Loan Bank	0.5	9,671	1.6	8,637
Federal Home Loan Mortgage Corp	4.4	19,936	5.5	16,704
Federal Nat'l Mortgage Association	5.1	12,385	3.5	21,066
<b>Mortgage Backed Securities:</b>				
Federal Home Loan Mtg Corp Pool	19.4	26,652	17.9	19,956
Federal Nat'l Mortgage Assoc Pool	21.6	33,452	22.4	36,260
Gov't Nat'l Mortgage Assoc Pool	17.3	15,810	14.3	15,153
<b>Asset Backed CMO's:</b>				
Gov't Nat'l Mortgage Assoc	18.1	1,579	19.1	1,921
Vendee Mortgage Trust Ser 1992-1 CL 2Z	10.6	1,026	11.6	1,164
Vendee Mortgage Trust Ser 1994-3B CL 2F	11.0	731	12.0	852
Vendee Mortgage Trus Ser 1995-1 CL 3ZB	13.4	876	14.4	966
Vendee Mortgage Trus Ser 1997-1 CL 2Z	15.4	498	-	-
Vendee Mortgage Trus Ser 1996-1 CL 1Z	14.4	1,096	-	-
NC Capital Management Trust - Cash Portfolio	N/A	51,017	N/A	55,714
<b>Department of State Treasurer Trust Funds</b>				
Investment Program - Equity Investment Fund	N/A	48,340	N/A	49,076
<b>Department of State Treasurer Short Term</b>				
Investment Fund (STIF)	N/A	68	N/A	67
<b>Mutual Funds</b>				
	N/A	5,033	N/A	5,019
		<u>\$ 289,427</u>		<u>\$ 275,559</u>

N/A = Not applicable.

**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)**

As of September 30, 2011 and 2010, LCFH had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	
	<b>2011</b>	<b>2010</b>
Bond Funds	\$ 2,526	\$ 4,497
Mutual Funds	9,815	677
	<b>\$ 12,341</b>	<b>\$ 5,174</b>

**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 of a debt security will not fulfill its obligation to the holder of the investment. 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, 2011.

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

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**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, 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.** 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, 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. As of September 30, 2010, securities issued/backed by Fannie Mae, Freddie Mac, and Ginnie Mae represent 20.8%, 13.3%, and 6.2% of the Hospital's investment portfolio, respectively.

**Foreign Currency Risk.** 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, 2011 and 2010, NHRMC had approximately \$10,444 and \$13,376, respectively, exposed to foreign currency risk, of which 17% and 19%, respectively, represent investments denominated in the Euro; 17% and 14%, respectively, represent investments denominated in the British Pound; and 19% and 14%, 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, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents		
Cash on hand	\$ 24	\$ 14
Deposits	17,036	18,063
Short-term mutual fund (1)	7,052	6,049
	<u>\$ 24,112</u>	<u>\$ 24,126</u>
Assets limited as to use:		
Held by bond paying agent		
Short-term mutual fund (1)	\$ 7,998	\$ 7,940
By Board for debt service		
Deposits	4,085	3,963
By Board for claims liabilities		
U.S. Treasury securities	5,975	7,268
U.S. Agency securities	13,428	8,464
Short-term mutual fund (1)	225	1,237
	<u>\$ 31,711</u>	<u>\$ 28,872</u>
Designated by Board for capital improvements		
U.S. Treasury securities	\$ 48,267	\$ 31,325
U.S. Agency securities	29,651	40,325
U.S. Government Inflation Bond	3,960	-
Municipal bonds	1,968	2,029
Other securities backed by		
U.S. Government/Gov't Agencies	81,720	76,272
Dept. of State Treasurer Trust Funds		
Investment Program -		
Equity Investment Fund	48,340	49,076
Dept. of State Treasurer Short Term		
Investment Fund (STIF)	68	67
Deposits	20,074	20,026
Short-term mutual fund (1)	35,742	40,488
	<u>\$ 269,790</u>	<u>\$ 259,608</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	\$ 1,456	\$ 1,333
	<u>\$ 1,456</u>	<u>\$ 1,333</u>
Restricted for Specific Purposes		
Mutual funds	\$ 1,908	\$ 2,032
	<u>\$ 1,908</u>	<u>\$ 2,032</u>
Restricted for Endowments		
Mutual funds	\$ 1,669	\$ 1,654
	<u>\$ 1,669</u>	<u>\$ 1,654</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 and investments of LCFH as of September 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents		
Cash on hand	\$ 3	\$ 3
Deposits	5,115	3,803
	<u>\$ 5,118</u>	<u>\$ 3,806</u>
Investments		
Bond and mutual funds	\$ 3,171	\$ 1,671
	<u>\$ 3,171</u>	<u>\$ 1,671</u>
By Board for operating and PDO reserve		
Deposits	\$ 1,925	\$ 4,071
Bond and mutual funds	7,747	2,019
	<u>\$ 9,672</u>	<u>\$ 6,090</u>
By Board for capital improvements		
Bond and mutual funds	\$ 338	\$ 370
Deposits	89	63
	<u>\$ 427</u>	<u>\$ 433</u>
Under agreement		
Deposits	\$ 34	\$ 23
	<u>\$ 34</u>	<u>\$ 23</u>
Endowments		
Deposits	\$ 35	\$ 46
Bond and mutual funds	1,085	1,114
	<u>\$ 1,120</u>	<u>\$ 1,160</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, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents		
Cash on hand	\$ 1	\$ 1
Deposits	824	636
Short-term mutual fund (1)	1,204	479
	<u>\$ 2,029</u>	<u>\$ 1,116</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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Real Estate:		
28.77 Acres of land and buildings in Wilmington, NC	\$ 4,356	\$ 4,356
Money market fund:		
Federated Government Obligations Fund	1,174	815
Mutual funds:		
Pimco Total Return Institutional Fund	63,879	60,513
Euro Pac Growth Fund	16,625	15,100
Royce Fund	9,270	7,916
Davis New York Venture Fund	35,030	30,893
Common stocks	33,114	29,662
	<u>\$ 163,448</u>	<u>\$ 149,255</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 6.5 years. The average maturity of the Federated Government Obligations Fund is approximately 45 days.

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

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**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 and the quality ratings for the PIMCO Total Return Institutional Fund is A.

**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 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. 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  
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**Note 4. Capital Asset Activity**

Capital asset activity was as follows:

NHRMC - Year Ended September 30, 2011

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
NHRMC Activity:				
Capital assets, not being depreciated:				
Land	\$ 11,966	\$ -	\$ (344)	\$ 11,622
Construction in progress	15,005	47,872	(35,704)	27,173
<b>Total capital assets, not being depreciated</b>	<b>26,971</b>	<b>47,872</b>	<b>(36,048)</b>	<b>38,795</b>
Capital assets, being depreciated/amortized				
Intangible assets	67,444	6,969	(2,981)	71,432
Buildings and leasehold improvements	473,568	18,934	(1,529)	490,973
Equipment	253,198	26,112	(8,344)	270,966
<b>Total capital assets being depreciated/amortized</b>	<b>794,210</b>	<b>52,015</b>	<b>(12,854)</b>	<b>833,371</b>
Less accumulated depreciation/amortization for:				
Intangible assets	(20,066)	(2,804)	1,674	(21,196)
Buildings, leasehold improvements, and equipment	(335,259)	(40,653)	7,912	(368,000)
<b>Total accumulated depreciation/amortization</b>	<b>(355,325)</b>	<b>(43,457)</b>	<b>9,586</b>	<b>(389,196)</b>
<b>Total capital assets being depreciated/ amortized, net</b>	<b>438,885</b>	<b>8,558</b>	<b>(3,268)</b>	<b>444,175</b>
NHRMC activities, capital assets, net	<b>\$ 465,856</b>	<b>\$ 56,430</b>	<b>\$ (39,316)</b>	<b>\$ 482,970</b>

**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, 2010

	Beginning Balance	Additions	Retirements	Ending Balance
NHRMC Activity:				
Capital assets, not being depreciated:				
Land	\$ 11,966	\$ -	\$ -	\$ 11,966
Construction in progress	16,052	43,170	(44,217)	15,005
<b>Total capital assets, not being depreciated</b>	<b>28,018</b>	<b>43,170</b>	<b>(44,217)</b>	<b>26,971</b>
Capital assets, being depreciated/amortized				
Intangible assets	67,156	288	-	67,444
Buildings and leasehold improvements	452,517	27,415	(6,364)	473,568
Equipment	250,168	26,013	(22,983)	253,198
<b>Total capital assets being depreciated/amortized</b>	<b>769,841</b>	<b>53,716</b>	<b>(29,347)</b>	<b>794,210</b>
Less accumulated depreciation/amortization for:				
Intangible assets	(17,841)	(2,225)	-	(20,066)
Buildings, leasehold improvements, and equipment	(323,958)	(40,459)	29,158	(335,259)
<b>Total accumulated depreciation/amortization</b>	<b>(341,799)</b>	<b>(42,684)</b>	<b>29,158</b>	<b>(355,325)</b>
<b>Total capital assets being depreciated/ amortized, net</b>	<b>428,042</b>	<b>11,032</b>	<b>(189)</b>	<b>438,885</b>
NHRMC activities, capital assets, net	<u>\$ 456,060</u>	<u>\$ 54,202</u>	<u>\$ (44,406)</u>	<u>\$ 465,856</u>

New Hanover Regional Medical Center  
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Notes to Financial Statements  
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Note 4. Capital Asset Activity (Continued)

LCFH - Year Ended September 30, 2011

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

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 4. Capital Asset Activity (Continued)**

LCFH - Year Ended September 30, 2010

	Beginning Balance	Additions	Retirements	Ending Balance
Lower Cape Fear Hospice Activity:				
Capital assets, not being depreciated:				
Land	\$ 2,450	\$ 396	\$ -	\$ 2,846
Construction in progress	46	43	-	89
<b>Total capital assets, not being depreciated</b>	<u>2,496</u>	<u>439</u>	<u>-</u>	<u>2,935</u>
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	10,309	24	-	10,333
Equipment	2,141	316	-	2,457
<b>Total capital assets being depreciated/amortized</b>	<u>12,450</u>	<u>340</u>	<u>-</u>	<u>12,790</u>
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements, and equipment	(2,188)	(829)	-	(3,017)
<b>Total accumulated depreciation/amortization</b>	<u>(2,188)</u>	<u>(829)</u>	<u>-</u>	<u>(3,017)</u>
<b>Total capital assets being depreciated/ amortized, net</b>	<u>10,262</u>	<u>(489)</u>	<u>-</u>	<u>9,773</u>
<b>Lower Cape Fear Hospice activities, capital assets, net</b>	<u>\$ 12,758</u>	<u>\$ (50)</u>	<u>\$ -</u>	<u>\$ 12,708</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, 2011

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

**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, 2010

	Beginning Balance	Additions	Retirements	Ending Balance
Pender Memorial Hospital Activity:				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	19	1,154	(1,094)	79
<b>Total capital assets, not being depreciated</b>	<b>61</b>	<b>1,154</b>	<b>(1,094)</b>	<b>121</b>
Capital assets, being depreciated/amortized				
Intangibles	191	-	-	191
Buildings and leasehold improvements	9,843	404	-	10,247
Equipment	6,575	874	(27)	7,422
<b>Total capital assets being depreciated/amortized</b>	<b>16,609</b>	<b>1,278</b>	<b>(27)</b>	<b>17,860</b>
Less accumulated depreciation/amortization for:				
Intangibles	(136)	(10)	-	(146)
Buildings, leasehold improvements, and equipment	(10,344)	(750)	27	(11,067)
<b>Total accumulated depreciation/amortization</b>	<b>(10,480)</b>	<b>(760)</b>	<b>27</b>	<b>(11,213)</b>
<b>Total capital assets being depreciated/amortized, net</b>	<b>6,129</b>	<b>518</b>	<b>-</b>	<b>6,647</b>
<b>Pender Memorial Hospital activities, capital assets, net</b>	<b>\$ 6,190</b>	<b>\$ 1,672</b>	<b>\$ (1,094)</b>	<b>\$ 6,768</b>

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, 2011 and 2010. As of September 30, 2011, NHRMC has remaining commitments of approximately \$6,181 on projects.

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

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**Note 5. Lease Obligations and Other Long-Term Debt**

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
2012	\$ 6,966
2013	6,505
2014	6,153
2015	5,007
2016	5,106
2017 - 2020	13,789
Total minimum payments	<u>\$ 43,526</u>

Rent expense on operating leases for NHRMC totaled approximately \$10,078 and \$7,125 in 2011 and 2010, 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 \$52 and \$51 in 2011 and 2010, respectively.

LCFH had one operating line of credit totaling \$2,500 with a bank. Interest is at the LIBOR rate plus 1.5%. There was no balance outstanding at September 30, 2009 and the line was closed prior to September 30, 2010.

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.

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**Note 5. Lease Obligations and Other Long-Term Debt (Continued)**

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 2012 and 2014. Scheduled payments on PMH's operating lease commitments are as follows:

Year Ending September 30,	Amount
2012	\$ 405
2013	341
2014	9
Total minimum payments	\$ 755

Rent expense on operating leases for PMH totaled approximately \$426 and \$429 in 2011 and 2010, respectively.

PMH also leases various capital assets under noncancelable capital leases. As of September 30, 2011 and 2010, the leased assets had been recorded at \$109 and \$583, respectively, and had accumulated amortization of \$109 and \$583, respectively. A summary of capital lease obligations of PMH is as follows at September 30, 2011 and 2010:

	2011	2010
Capital lease obligations, at varying interest rates from 3.96% to 8.9% collateralized by leased equipment	\$ 7	\$ 66
Less current portion	(4)	(59)
Capital lease obligations, less current portion	\$ 3	\$ 7

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

Year Ending September 30,	Amount
2012	\$ 4
2013	4
Total minimum payments	8
Less amount representing interest	(1)
Present value of net minimum payments	\$ 7

**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, 2011 and 2010, was as follows:

NHRMC - Year Ended September 30, 2011

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
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)	-
<b>Total bonds payable</b>	<b>321,476</b>	<b>94,887</b>	<b>(100,954)</b>	<b>315,409</b>	<b>6,830</b>
Supplemental retirement plans	1,333	401	(278)	1,456	-
Notes payable	-	9,597	(2,754)	6,843	1,859
<b>Long-term obligations</b>	<b>\$ 322,809</b>	<b>\$104,885</b>	<b>\$(103,986)</b>	<b>\$ 323,708</b>	<b>\$ 8,689</b>

NHRMC - Year Ended September 30, 2010

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Bonds payable:					
Revenue bonds	\$ 334,770	\$ -	\$ (6,270)	\$ 328,500	\$ 6,565
Less deferred amounts:					
Deferrals on refundings and mode changes	7,215	-	(497)	6,718	-
Issuance discounts (net of premiums)	318	-	(12)	306	-
<b>Total bonds payable</b>	<b>327,237</b>	<b>-</b>	<b>(5,761)</b>	<b>321,476</b>	<b>6,565</b>
Supplemental retirement plans	1,105	415	(187)	1,333	-
Notes payable	246	-	(246)	-	-
<b>Long-term obligations</b>	<b>\$ 328,588</b>	<b>\$ 415</b>	<b>\$(6,194)</b>	<b>\$ 322,809</b>	<b>\$ 6,565</b>

**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)**

Lower Cape Fear Hospice - Year Ended September 30, 2011

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

Lower Cape Fear Hospice - Year Ended September 30, 2010

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 4,000	\$ -	\$ (100)	\$ 3,900	\$ 100
Note payable	2,126	-	(75)	2,051	18
	<u>\$ 6,126</u>	<u>\$ -</u>	<u>\$ (175)</u>	<u>\$ 5,951</u>	<u>\$ 118</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 (Continued)**

Pender Memorial Hospital - Year Ended September 30, 2011

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

Pender Memorial Hospital - Year Ended September 30, 2010

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Capital leases (Note 5)	\$ 148	\$ -	\$ (82)	\$ 66	\$ 59
Net pension obligation	232	-	(1)	231	-
	<b>\$ 380</b>	<b>\$ -</b>	<b>\$ (83)</b>	<b>\$ 297</b>	<b>\$ 59</b>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**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, 2011 and 2010, are as follows:

<b>Revenue Bonds</b>	<b>Principal Amount</b>	
	<b>2011</b>	<b>2010</b>
Series 1999 Revenue Bonds		
Serial revenue bonds with interest rates ranging from 3.1% to 5.25%, maturing annually through 2014 (1)	<b>\$ 2,785</b>	\$ 18,115
Term revenue bonds maturing in 2019, with stated interest rate of 5.0%	-	19,730
Term revenue bonds maturing in 2028, with stated interest rate of 5.0%	-	62,930
Series 2005A Variable Rate Hospital Revenue Refunding Bonds, demand obligations with mandatory redemptions annually through 2023	<b>17,850</b>	18,895
Series 2005B Variable Rate Hospital Revenue Refunding Bonds, demand obligations with mandatory redemptions annually through 2026	<b>47,390</b>	49,500
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	<b>60,000</b>	60,000
Series 2006B Hospital Revenue Bonds		
Term revenue bonds maturing in 2027, with stated interest rate of 5.0%	<b>26,440</b>	26,440
Term revenue bonds maturing in 2031, with stated interest rate of 5.162%	<b>33,560</b>	33,560
Series 2008A Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	<b>19,295</b>	19,665
Series 2008B Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	<b>19,295</b>	19,665
Series 2011 Revenue Bonds		
Serial revenue bonds with interest rates ranging from 3.0% to 5.0%, maturing annually (beginning October 2012) through 2025	<b>61,075</b>	-
Term revenue bonds maturing in October 2026, with stated interest rates of 4.625% and 5.0%	<b>7,535</b>	-
Term revenue bonds maturing in October 2027, with stated interest rates of 4.625% and 5.0%	<b>12,375</b>	-
Term revenue bonds maturing in October 2028, with stated interest rates of 4.625% and 5.0%	<b>12,980</b>	-
Revenue bonds payable	<b>320,580</b>	328,500
Unamortized premiums (discounts), net	<b>2,778</b>	(306)
Deferred loss amount on refundings	<b>(7,949)</b>	(6,718)
Current portion	<b>(6,830)</b>	(6,565)
<b>Total revenue bonds payable, long-term</b>	<b>\$ 308,579</b>	<b>\$ 314,911</b>

(1) - These bonds were originally issued with annual maturities through 2014. 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  
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**Notes to Financial Statements  
(Dollars in Thousands)**

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**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.

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 using the effective interest method over the life the 2011 Bonds.

**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, 2011 and 2010, the rates on these bonds were 0.21% and 0.30%, 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.

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**Notes to Financial Statements  
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**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, 2011, 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. During fiscal year 2010, the commitment fee rate was 0.34% per annum times the amount of the outstanding principal and interest commitment, times the applicable number of days in the commitment period, divided by 360. The rate increased to 0.60% on September 1, 2010. 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 \$408 and \$239 to the bank during fiscal years ended September 30, 2011 and 2010, 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.

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**Notes to Financial Statements  
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**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, 2011 and 2010, the rates on these bonds were 0.21% and 0.27%, 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, 2011. 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) is 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 is 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, 2011 and 2010, calculated excluding the Foundation:

<b>Long-term debt service coverage ratio</b>	<b>Years Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Change in net assets	\$ 26,449	\$ 35,585
Plus:		
Depreciation and amortization	43,457	42,651
Interest expense	13,590	13,039
Income available for debt service	<u>83,496</u>	91,275
Maximum annual debt service	26,366	25,741
Maximum annual debt service coverage ratio	3.17	3.55

The Series 1999, 2005, 2006, 2008 and 2011 Revenue Bonds are secured by and payable from the net revenue of NHRMC, 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 revenues are security for the revenue bonds.

Total funds held by the trustee (including amounts as bond paying agent) at September 30, 2011 and 2010, were approximately \$7,998 and \$7,940, respectively.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**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, 2011; 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
2012	\$ 6,830	\$ 10,635	\$ 17,465
2013	11,320	9,849	21,169
2014	11,720	9,592	21,312
2015	12,170	9,319	21,489
2016	12,615	9,025	21,640
2017 - 2021	70,890	40,089	110,979
2022 - 2026	87,075	29,285	116,360
2027 - 2031	83,290	12,113	95,403
2032 - 2036	18,210	571	18,781
2037 - 2040	6,460	14	6,474
	\$ 320,580	\$ 130,492	\$ 451,072

Interest paid related to these bonds was approximately \$13,701 and \$12,760 during fiscal years ended September 30, 2011 and 2010, 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 \$17,000 has been expended as of September 30, 2011.

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, 2011, payments of principal and interest totaling approximately \$3,047 have been made. The net present value of the remaining payments under the agreement using a 4.5% discount rate is approximately \$6,843. Of this amount, \$1,859 is reflected in notes and bonds payable, current portion and \$4,984 in long term notes payable. If volumes dictate an increase in cost, this increase will be invoiced over the remaining payments due. Management estimates the annual cost of maintenance agreements and subscription fees related to EPIC for the partial year ended September 30, 2012 to be \$1,400, with subsequent years averaging \$3,000 - \$4,000.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 6. Bonds Payable and Other Long-Term Liabilities (Continued)**

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

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 2,154
2013	1,834
2014	1,834
2015	<u>1,657</u>
Total minimum payments	7,479
Less: amount representing interest	<u>(636)</u>
Present value of net minimum payments	<u>\$ 6,843</u>

**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. The bonds bear interest at a variable rate of LIBOR plus 1.9%, determined weekly. 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 bond, 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.

**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 April 2033. Under the terms of the bond, LCFH is required to maintain a minimum Long-Term Debt Service Coverage Ratio of 1.2. As of September 30, 2011, LCFH was in compliance with this covenant.

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**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 be higher than 3.7% for a period of seven years ending 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, 2011):

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2012	\$ 100	\$ 144	\$ 244
2013	245	143	388
2014	313	140	453
2015	320	134	454
2016 - 2020	1,674	593	2,267
2021 - 2025	2,231	433	2,664
2026 - 2028	1,716	236	1,952
2031 - 2034	601	33	634
	\$ 7,200	\$ 1,856	\$ 9,056

**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, 2011 at approximately \$2,032. The Whiteville Care Center serves as collateral. The principal repayment is scheduled as follows:

Fiscal Year	Amount
2012	\$ 21
2013	23
2014	26
2015	28
2016	30
Thereafter	1,904
	2,032
Less current portion	(21)
	\$ 2,011

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**Note 7. Derivative Investments**

NHRMC has the following interest rate swap agreements:

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>	

As of September 30, 2010							
Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/10	Change in Fair Value for the year ended 9/30/10
Series 2005A-1	\$ 9,445	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (1,270)	\$ (360)
Series 2005A-2	9,445	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(1,266)	(359)
Series 2005B-1	24,745	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(3,716)	(1,127)
Series 2005B-2	24,745	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(3,713)	(1,126)
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd		
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index	avg LIBOR	(1,875)	(179)
						<u>\$ (11,840)</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, 2011 and 2010 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, 2011 and 2010, 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.

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**Notes to Financial Statements  
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**Note 7. Derivative Investments (Continued)**

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2011. 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, 2011, 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		
2012	\$ 3,275	\$ 130	\$ 2,140	\$ 5,545	
2013	3,405	124	2,023	5,552	
2014	3,535	116	1,901	5,552	
2015	3,670	108	1,775	5,553	
2016	3,810	101	1,644	5,555	
2017 - 2021	21,400	372	6,072	27,844	
2022 - 2026	22,265	131	2,120	24,516	
2027	3,880	1	-	3,881	
	<u>\$ 65,240</u>	<u>\$ 1,083</u>	<u>\$ 17,675</u>	<u>\$ 83,998</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 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, 2011 and 2010, the basis swap has an estimated negative fair value of approximately \$1,786 and \$1,875, 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 \$89 and \$(179) for the years ended September 30, 2011 and 2010 have been recorded as a component of net increase in fair value of investments in the statement of revenues, expenses and changes in net assets.

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**Notes to Financial Statements  
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**Note 7. Derivative Investments (Continued)**

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2011. 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, 2011 and 2010, the \$1,900 and \$1,950 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 \$308 and \$271 as of September 30, 2011 and 2010, 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, 2011. 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 LIBOR 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		
2012	\$ 100	\$ 6	\$ 157	\$	263
2013	200	6	148		354
2014	200	6	139		345
2015	200	5	130		335
2016 - 2020	1,000	26	516		1,542
2021 - 2025	1,400	17	302		1,719
2026 - 2028	700	6	70		776
	<u>\$ 3,800</u>	<u>\$ 72</u>	<u>\$ 1,462</u>	<u>\$</u>	<u>5,334</u>

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**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, 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 2011 and \$500,000 for 2010 with a deductible of \$100 for all perils except named windstorm. For 2011 and 2010, the minimum deductible for named storm is \$5,000 per location, with a maximum deductible of \$25,000 per location. For 2011 and 2010, 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 2011 and 2010, NHRMC was self-insured for professional liability and general liability claims up to \$5,000 with no annual aggregate. In both 2011 and 2010, 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  
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**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.

	<b>Years Ended September 30,</b>		
	<b>2011</b>	2010	2009
Beginning liability	<b>\$ 24,951</b>	\$ 24,016	\$ 23,252
Provisions for claims	<b>50,680</b>	45,065	45,185
Payments for claims	<b>(43,821)</b>	(42,251)	(42,632)
Administrative fees	<b>(2,031)</b>	(1,879)	(1,789)
Ending liability	<b>\$ 29,779</b>	\$ 24,951	\$ 24,016

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 and 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").

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**Notes to Financial Statements  
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**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, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Annual required contribution	<b>\$ 9,781</b>	\$ 8,960
Interest on net pension asset	<b>(353)</b>	(354)
Adjustment to annual required contribution	<b>363</b>	364
Annual pension cost	<b>9,791</b>	8,970
Contributions made	<b>9,781</b>	8,960
Other	<b>(85)</b>	5
(Increase) decrease in net pension asset	<b>95</b>	5
Net pension asset, beginning of year	<b>(4,491)</b>	(4,496)
Net pension asset, end of year	<b>\$ (4,396)</b>	\$ (4,491)

**New Hanover Regional Medical Center  
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**Notes to Financial Statements  
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**Note 10. Pension and Supplemental Retirement Plan Obligations (Continued)**

The annual required contribution for the basic plan for the 2011 year was determined as part of the January 1, 2010 actuarial valuation. The actuarial assumptions included (a) 8.0% 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. This actuarial valuation reflected the \$4,455 transfer of assets and liabilities for SEAHEC to its successor plan which occurred during 2009. The actuarial funding method is currently the Projected Unit Credit Method. The 28% 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, 2011 and 2010 were approximately \$9,781 and \$8,960, 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
9/30/2009	\$ 8,492	99%	\$ 4,496
9/30/2010	8,970	100%	4,491
9/30/2011	9,791	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)
1/1/2009	\$ 166,373	\$ 177,016	\$ (10,643)	94%	\$ 201,438	-5.28%
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%

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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, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Annual required contribution	<b>\$ 317</b>	\$ 268
Interest on net pension obligation	<b>18</b>	18
Adjustment to annual required contribution	<b>(19)</b>	(19)
Annual pension cost	<b>316</b>	267
Contributions made	<b>316</b>	268
Decrease in net pension obligation	<b>-</b>	(1)
Net pension obligation beginning of year	<b>231</b>	232
Net pension obligation end of year	<b>\$ 231</b>	\$ 231

The annual required contribution for the basic plan for the 2011 year was determined as part of the January 1, 2010 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 28% 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, 2011 and 2010 were approximately \$316 and \$268, 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
9/30/2009	\$ 244	101%	\$ 232
9/30/2010	267	100%	231
9/30/2011	316	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)
1/1/2009	\$ 3,268	\$ 3,938	\$ (670)	83%	\$ 6,412	-10.45%
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%

**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 \$1,221 and \$1,096 as of September 30, 2011 and 2010, 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 for all blended component units except Carolina Healthcare Associates. 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)**

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**Note 11. Defined Contribution Retirement Plans (Continued)**

NHRMC employer required and actual matching contributions totaled approximately \$146 and \$1,342, and employee optional contributions totaled approximately \$8,478 and \$8,611, for the years ended September 30, 2011 and 2010, respectively. Employer matching contribution percentages were 0.06% and 0.62%, and employee contribution percentages were 3.64% and 3.95% of total payroll for the years ended September 30, 2011 and 2010, 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 is 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, 2011 and 2010 were \$265 and \$116, 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**

On October 1, 1997, NHRMC contributed \$3,143 for 40% ownership in New Hanover/Mariner Health, LLC ("Mariner"), a skilled nursing facility located in Wilmington, North Carolina. On June 10, 2009, NHRMC and its joint venture partner executed a settlement agreement for the dissolution of New Hanover/Mariner Health, LLC. As part of the settlement, NHRMC received \$2,400, resulting in a loss on sale of assets of \$1,287 recorded for year ended September 30, 2009. As part of this agreement, \$200 was received during the year ended September 30, 2009, and the remaining \$2,200 was received during the year ended September 30, 2010.

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.

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.

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.

**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 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, 2011, NHRMC had recorded an intangible asset related to the purchase of the minority interest of \$3,359 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. As of September 30, 2011, NHRMC had recorded approximately \$442 and \$444 of fixed and current assets respectively from the transfer of net assets of the joint venture.

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 and \$6,570 for the years ended September 30, 2011 and 2010, respectively) was considered a reduction in the costs of services provided by CCH, resulting in decreased operating costs. During the years ended September 30, 2011 and 2010, NHRMC recorded per-procedure fees for services provided by CCH, net of NHRMC's earnings from CCH operations, of approximately \$7,861 and \$12,970, respectively, which are included in Purchased services and other in the statement of revenues, expenses and changes in net assets. As of September 30, 2011 and 2010, amounts due to CCH of approximately \$0 and \$4,149, respectively, were included in Due to affiliates in the balance sheet.

A summary of NHRMC's joint venture investment activity as of and for the years ended September 30, 2011 and 2010 is as follows:

	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	-

**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)**

	2010						Cumulative Contributions (net of distributions received)
	Ownership Percentage	Method of Accounting	Net Income (Loss)	Investment as of September 30	2010 Capital Contributions	2010 Distributions Received	
Mariner	40%	Equity	\$ -	\$ -	\$ -	\$ 2,200	\$ 318
SARO	50%	Equity	344	88	-	297	3
Surgicenter	40%	Equity	(200)	-	200	-	1,630
PNI	50%	Equity	709	467	-	846	(1,652)
Dosher/ NHRMC	50%	Equity	(38)	122	23	-	181
CCH	82%	Outsourcing	N/A	5,096	-	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.

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.

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

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

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**Note 14. Carolina Healthcare Associates (CHA)**

CHA (doing business as NHRMC Physicians Group) is a nonprofit corporation that 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 office locations in the NHRMC service area. CHA's operating revenue was \$41,137 in fiscal year 2011 and \$10,482 in fiscal year 2010.

At the end of fiscal year 2010, CHA's physician network consisted of 34 physicians, 7 nurse practitioners and 7 mid-level providers. During fiscal year 2011, CHA expanded primarily through two major practice acquisitions. In November 2010, CHA acquired New Hanover Medical Group, consisting of 23 physicians, two mid-level providers and three office locations in Wilmington, NC. In March 2011, CHA acquired by merger two cardiology practices in Wilmington, NC consisting of 16 physicians and seven mid-level providers. At the end of fiscal year 2011, CHA consisted of 78 physicians, 6 nurse practitioners and 19 mid-level providers.

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 provide 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, 2011 and 2010, CHA paid \$30,120 and \$11,102, 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, 2011 that have effective dates that may impact future financial presentations.

In November 2010, GASB issued GASB Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34." The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012, with earlier application encouraged. Management does not expect the implementation of the Statement to have a significant impact on the financial statements.

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.

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

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

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**Note 15. Pending GASB Statements (Continued)**

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.

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.

## Supplementary Information

**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	Carolina Healthcare Associates, Inc.	Eliminating Entries	NHRMC
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 18,695	\$ 1,786	\$ 3,631	\$ -	\$ 24,112
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	-	4,397	-	78,231
Due from health insurance programs	2,932	-	-	-	2,932
Due from component units	-	-	-	-	-
Other receivables	3,928	1,018	63	(27)	4,982
Inventories	15,734	-	-	-	15,734
Prepaid expenses	10,520	30	1,037	-	11,587
<b>Total current assets</b>	<b>157,354</b>	<b>2,834</b>	<b>9,128</b>	<b>(27)</b>	<b>169,289</b>
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
	<b>275,246</b>	<b>3,577</b>	<b>-</b>	<b>-</b>	<b>278,823</b>
Pledges and grants receivable	-	1,872	-	-	1,872
<b>Total assets limited as to use</b>	<b>275,246</b>	<b>5,449</b>	<b>-</b>	<b>-</b>	<b>280,695</b>
Other assets					
Intangible capital assets, net of amortization	48,856	-	1,380	-	50,236
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
<b>Total other assets</b>	<b>64,893</b>	<b>10</b>	<b>1,380</b>	<b>-</b>	<b>66,283</b>
Capital assets - tangible					
Land	11,622	-	-	-	11,622
Depreciable capital assets, net of accumulated depreciation	390,917	-	3,022	-	393,939
Construction in progress	27,131	-	42	-	27,173
<b>Total capital assets - tangible</b>	<b>429,670</b>	<b>-</b>	<b>3,064</b>	<b>-</b>	<b>432,734</b>
<b>Total assets</b>	<b>\$ 927,163</b>	<b>\$ 8,293</b>	<b>\$ 13,572</b>	<b>\$ (27)</b>	<b>\$ 949,001</b>

**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	Carolina Healthcare Associates, Inc.	Eliminating Entries	NHRMC
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities					
Accounts payable and other liabilities	\$ 22,283	\$ 117	\$ 1,591	\$ (27)	\$ 23,964
Professional liability claims	19,417	-	-	-	19,417
Accrued salaries and wages	25,801	-	1,039	-	26,840
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
<b>Total current liabilities</b>	<b>107,749</b>	<b>117</b>	<b>2,630</b>	<b>(27)</b>	<b>110,469</b>
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
<b>Total long-term obligations</b>	<b>327,471</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>327,471</b>
<b>Total liabilities</b>	<b>435,220</b>	<b>117</b>	<b>2,630</b>	<b>(27)</b>	<b>437,940</b>
Net assets					
Invested in capital assets, net of related debt	156,274	-	4,444	-	160,718
Unrestricted	331,669	878	6,498	-	339,045
Restricted	4,000	7,298	-	-	11,298
<b>Total net assets</b>	<b>491,943</b>	<b>8,176</b>	<b>10,942</b>	<b>-</b>	<b>511,061</b>
<b>Total liabilities and net assets</b>	<b>\$ 927,163</b>	<b>\$ 8,293</b>	<b>\$ 13,572</b>	<b>\$ (27)</b>	<b>\$ 949,001</b>

**New Hanover Regional Medical Center**  
**Combining Balance Sheet**  
**September 30, 2010**  
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	Eliminating Entries	NHRMC
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 21,813	\$ 1,635	\$ 678	\$ -	\$ 24,126
Assets limited as to use:					
Cash equivalents held by bond paying agent	7,940	-	-	-	7,940
Cash for debt service-not held by bond paying agent	3,963	-	-	-	3,963
Cash equivalents and investments for the future payment of claims liabilities	16,969	-	-	-	16,969
Receivables:					
Patient accounts, less allowance for bad debts	65,191	-	819	-	66,010
Due from health insurance programs	2,114	-	-	-	2,114
Due from component units	297	-	-	-	297
Other receivables	8,942	1,203	320	(85)	10,380
Inventories	16,490	-	-	-	16,490
Prepaid expenses	8,504	-	152	-	8,656
Total current assets	<u>152,223</u>	<u>2,838</u>	<u>1,969</u>	<u>(85)</u>	<u>156,945</u>
Noncurrent cash and investments					
Investments:					
Designated by Board for capital improvements	259,608	-	-	-	259,608
Restricted under letter of credit	4,000	-	-	-	4,000
Designated by Board for supplemental retirement plans	1,333	-	-	-	1,333
Restricted by donors for specific purpose	-	2,032	-	-	2,032
Restricted by donors for endowments	-	1,654	-	-	1,654
	<u>264,941</u>	<u>3,686</u>	<u>-</u>	<u>-</u>	<u>268,627</u>
Pledges and grants receivable	-	2,250	-	-	2,250
Total assets limited as to use	<u>264,941</u>	<u>5,936</u>	<u>-</u>	<u>-</u>	<u>270,877</u>
Other assets					
Intangible capital assets, net of amortization	46,899	-	479	-	47,378
Investment in affiliates	5,773	-	-	-	5,773
Pension asset	4,491	-	-	-	4,491
Other long term assets	456	10	-	-	466
Deferred outflow of resources	9,965	-	-	-	9,965
Total other assets	<u>67,584</u>	<u>10</u>	<u>479</u>	<u>-</u>	<u>68,073</u>
Capital assets - tangible					
Land	11,966	-	-	-	11,966
Depreciable capital assets, net of accumulated depreciation	390,766	-	741	-	391,507
Construction in progress	15,005	-	-	-	15,005
Total capital assets - tangible	<u>417,737</u>	<u>-</u>	<u>741</u>	<u>-</u>	<u>418,478</u>
Total assets	<u>\$ 902,485</u>	<u>\$ 8,784</u>	<u>\$ 3,189</u>	<u>\$ (85)</u>	<u>\$ 914,373</u>

**New Hanover Regional Medical Center**  
**Combining Balance Sheet**  
**September 30, 2010**  
**(Dollars in Thousands)**

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	Eliminating Entries	NHRMC
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities					
Accounts payable and other liabilities	\$ 15,667	\$ 208	\$ 205	\$ (85)	\$ 15,995
Professional liability claims	14,777	-	-	-	14,777
Accrued salaries and wages	24,477	-	256	-	24,733
Estimated third-party payor settlements	18,563	-	-	-	18,563
Due to component units	787	-	-	-	787
Due to affiliates	4,149	-	-	-	4,149
Accrued interest payable	5,534	-	-	-	5,534
Other self-insured liabilities	10,174	-	-	-	10,174
Bonds payable, current portion	6,565	-	-	-	6,565
Total current liabilities	100,693	208	461	(85)	101,277
Long-term obligations					
Supplemental retirement plans	1,333	-	-	-	1,333
Bonds payable, less current portion	314,911	-	-	-	314,911
Interest rate swap agreements	11,840	-	-	-	11,840
Total long-term obligations	328,084	-	-	-	328,084
Total liabilities	428,777	208	461	(85)	429,361
Net assets					
Invested in capital assets, net of related debt	143,160	-	1,220	-	144,380
Unrestricted	326,548	880	1,508	-	328,936
Restricted	4,000	7,696	-	-	11,696
Total net assets	473,708	8,576	2,728	-	485,012
Total liabilities and net assets	\$ 902,485	\$ 8,784	\$ 3,189	\$ (85)	\$ 914,373

**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	Carolina Healthcare Associates, Inc.	NHRMC
Operating revenues:				
Net patient service revenue	\$ 615,078	\$ -	\$ 40,612	\$ 655,690
Other revenue	16,807	1,306	525	18,638
<b>Total operating revenue</b>	<b>631,885</b>	<b>1,306</b>	<b>41,137</b>	<b>674,328</b>
Operating expenses:				
Salaries, wages and benefits	292,916	573	11,768	305,257
Medical supplies	137,964	-	-	137,964
Professional fees	15,367	26	25,574	40,967
Insurance	12,372	-	915	13,287
Purchased services and other	86,257	391	14,325	100,973
Depreciation and amortization	42,746	-	711	43,457
<b>Total operating expenses</b>	<b>587,622</b>	<b>990</b>	<b>53,293</b>	<b>641,905</b>
<b>Operating income (loss)</b>	<b>44,263</b>	<b>316</b>	<b>(12,156)</b>	<b>32,423</b>
Nonoperating revenues (expenses):				
Interest expense	(13,590)	-	-	(13,590)
Other nonoperating income, net	(423)	51	4	(368)
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)	-	1	(64)
Equity in net income (loss) of joint ventures	1,006	-	-	1,006
Nonoperating revenues (expenses), net	(5,142)	(9)	5	(5,146)
<b>Income (loss) before capital contributions and operating transfers</b>	<b>39,121</b>	<b>307</b>	<b>(12,151)</b>	<b>27,277</b>
Capital contributions, special items and operating transfers:				
Capital and permanent endowment contributions	183	-	-	183
Transfers (to) from component units	(21,069)	(707)	20,365	(1,411)
<b>Total capital contributions and operating transfers</b>	<b>(20,886)</b>	<b>(707)</b>	<b>20,365</b>	<b>(1,228)</b>
<b>Change in net assets</b>	<b>18,235</b>	<b>(400)</b>	<b>8,214</b>	<b>26,049</b>
<b>Total net assets, beginning</b>	<b>473,708</b>	<b>8,576</b>	<b>2,728</b>	<b>485,012</b>
<b>Total net assets, ending</b>	<b>\$ 491,943</b>	<b>\$ 8,176</b>	<b>\$ 10,942</b>	<b>\$ 511,061</b>

**New Hanover Regional Medical Center**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Year Ended September 30, 2010**  
**(Dollars in Thousands)**

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	NHRMC
Operating revenues:				
Net patient service revenue	\$ 588,866	\$ -	\$ 10,152	\$ 599,018
Other revenue	15,457	1,755	330	17,542
<b>Total operating revenue</b>	<b>604,323</b>	<b>1,755</b>	<b>10,482</b>	<b>616,560</b>
Operating expenses:				
Salaries, wages and benefits	283,314	558	3,231	287,103
Medical supplies	130,269	-	-	130,269
Professional fees	13,003	15	9,485	22,503
Insurance	10,434	-	469	10,903
Purchased services and other	83,740	435	3,771	87,946
Depreciation and amortization	42,415	1	236	42,652
<b>Total operating expenses</b>	<b>563,175</b>	<b>1,009</b>	<b>17,192</b>	<b>581,376</b>
<b>Operating income (loss)</b>	<b>41,148</b>	<b>746</b>	<b>(6,710)</b>	<b>35,184</b>
Nonoperating revenues (expenses):				
Interest expense	(13,039)	-	-	(13,039)
Other nonoperating income, net	193	62	1	256
Interest earned on investments	6,127	48	-	6,175
Net increase (decrease) in fair value of investments	7,183	367	-	7,550
Gain (loss) on sale of assets	(54)	-	-	(54)
Equity in net income (loss) of joint ventures	828	-	-	828
Nonoperating revenues (expenses), net	1,238	477	1	1,716
<b>Income (loss) before capital contributions and operating transfers</b>	<b>42,386</b>	<b>1,223</b>	<b>(6,709)</b>	<b>36,900</b>
Capital contributions, special items and operating transfers:				
Capital and permanent endowment contributions	626	50	-	676
Transfers (to) from component units	(8,625)	(509)	7,907	(1,227)
<b>Total capital contributions and operating transfers</b>	<b>(7,999)</b>	<b>(459)</b>	<b>7,907</b>	<b>(551)</b>
<b>Change in net assets</b>	<b>34,387</b>	<b>764</b>	<b>1,198</b>	<b>36,349</b>
<b>Total net assets, beginning</b>	<b>439,321</b>	<b>7,812</b>	<b>1,530</b>	<b>448,663</b>
<b>Total net assets, ending</b>	<b>\$ 473,708</b>	<b>\$ 8,576</b>	<b>\$ 2,728</b>	<b>\$ 485,012</b>

**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	Carolina Healthcare Associates, Inc.	NHRMC
<b>Cash Flows From Operating Activities</b>				
Cash received from and on behalf of patients	\$ 604,492	\$ -	\$ 37,291	\$ 641,783
Cash payments to suppliers for goods and services	(248,614)	(538)	(40,123)	(289,275)
Cash payments to employees for services	(292,312)	(573)	(10,985)	(303,870)
Other operating cash receipts (payments)	21,763	625	525	22,913
<b>Net cash provided by (used in) operating activities</b>	<b>85,329</b>	<b>(486)</b>	<b>(13,292)</b>	<b>71,551</b>
<b>Cash Flows From Noncapital Financing Activities</b>				
Contributions and operating grants	-	1,306	-	1,306
Operating transfers between component units	955	-	-	955
Advances between affiliates	(19,658)	(707)	20,365	-
<b>Net cash (used in) provided by noncapital financing activities</b>	<b>(18,703)</b>	<b>599</b>	<b>20,365</b>	<b>2,261</b>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Acquisition and construction of property and equipment	(43,775)	-	(2,996)	(46,771)
Proceeds from disposed assets	2,497	-	84	2,581
Acquisition of physician and other practices	(796)	-	(1,212)	(2,008)
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	(1,411)	-	-	(1,411)
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(66,570)</b>	<b>-</b>	<b>(4,124)</b>	<b>(70,694)</b>
<b>Cash Flows From Investing Activities</b>				
Purchases 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	-	4	242
<b>Net cash provided by (used in) investing activities</b>	<b>(8,704)</b>	<b>38</b>	<b>4</b>	<b>(8,662)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(8,648)</b>	<b>151</b>	<b>2,953</b>	<b>(5,544)</b>
Cash and cash equivalents at beginning of year	99,467	1,635	678	101,780
Cash and cash equivalents at end of year	<b>\$ 90,819</b>	<b>\$ 1,786</b>	<b>\$ 3,631</b>	<b>\$ 96,236</b>

(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	Carolina Healthcare Associates, Inc.	NHRMC
<b>Reconciliation of cash and cash equivalents to the balance sheet</b>				
Unrestricted cash and cash equivalents	\$ 18,695	\$ 1,786	\$ 3,631	\$ 24,112
Cash and cash equivalents in noncurrent cash and investments				
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	<u>\$ 90,819</u>	<u>\$ 1,786</u>	<u>\$ 3,631</u>	<u>\$ 96,236</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Cash flows from operating activities				
Operating income (loss)	\$ 44,263	\$ 316	\$ (12,156)	\$ 32,423
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	-	711	43,457
Changes in:				
Receivables	(568)	625	(3,321)	(3,264)
Inventories	977	-	-	977
Prepaid expenses	(2,016)	(30)	(695)	(2,741)
Accounts payable and other liabilities	(596)	(91)	1,386	699
Accrued salaries and wages	1,033	-	783	1,816
Pension asset	95	-	-	95
Other long term assets	42	-	-	42
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 85,329</u>	<u>\$ (486)</u>	<u>\$ (13,292)</u>	<u>\$ 71,551</u>
<b>Non-cash capital and related financing activities</b>				
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 Statement of Cash Flows**  
**Year Ended September 30, 2010**  
**(Dollars in Thousands)**

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	NHRMC
<b>Cash Flows From Operating Activities</b>				
Cash received from and on behalf of patients	\$ 601,274	\$ -	\$ 9,976	\$ 611,250
Cash payments to suppliers for goods and services	(235,508)	(223)	(13,705)	(249,436)
Cash payments to employees for services	(282,723)	(558)	(3,283)	(286,564)
Other operating cash receipts (payments)	13,679	-	330	14,009
<b>Net cash provided by (used in) operating activities</b>	<b>96,722</b>	<b>(781)</b>	<b>(6,682)</b>	<b>89,259</b>
<b>Cash Flows From Noncapital Financing Activities</b>				
Contributions and operating grants	-	1,805	-	1,805
Net payments on obligations to component units	390	-	-	390
Advances between affiliates	(7,398)	(509)	7,907	-
<b>Net cash (used in) provided by noncapital financing activities</b>	<b>(7,008)</b>	<b>1,296</b>	<b>7,907</b>	<b>2,195</b>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Acquisition of capital assets	(55,832)	-	(261)	(56,093)
Proceeds from disposed assets	118	-	-	118
Acquisition of goodwill and other intangible assets	-	-	(288)	(288)
Capital contributions	626	-	-	626
Principal payments on revenue bonds	(6,270)	-	(250)	(6,520)
Interest paid on capital financing	(12,782)	-	-	(12,782)
Transfers (to) from component unit	(1,227)	-	-	(1,227)
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(75,367)</b>	<b>-</b>	<b>(799)</b>	<b>(76,166)</b>
<b>Cash Flows From Investing Activities</b>				
Sale (purchase) of investments, net of maturities	(4,332)	-	-	(4,332)
Interest earned on investments	6,127	(39)	-	6,088
Contributions to partnerships	(223)	-	-	(223)
Distributions from partnerships	3,343	-	-	3,343
Other interest earned	332	-	1	333
<b>Net cash provided by investing activities</b>	<b>5,247</b>	<b>(39)</b>	<b>1</b>	<b>5,209</b>
<b>Net increase in cash and cash equivalents</b>	<b>19,594</b>	<b>476</b>	<b>427</b>	<b>20,497</b>
Cash and cash equivalents at beginning of year	79,873	1,159	251	81,283
Cash and cash equivalents at end of year	<b>\$ 99,467</b>	<b>\$ 1,635</b>	<b>\$ 678</b>	<b>\$ 101,780</b>

(Continued)

**New Hanover Regional Medical Center**  
**Combining Statement of Cash Flows (Continued)**  
**Year Ended September 30, 2010**  
**(Dollars in Thousands)**

	<b>New Hanover Regional Medical Center</b>	<b>New Hanover Regional Medical Center Foundation</b>	<b>Carolina Healthcare Associates, Inc.</b>	<b>NHRMC</b>
<b>Reconciliation of cash and cash equivalents to the balance sheet</b>				
Unrestricted cash and cash equivalents	\$ 21,813	\$ 1,635	\$ 678	\$ 24,126
Cash and cash equivalents in noncurrent cash and investments				
Held by bond paying agent	7,940	-	-	7,940
Reserved for debt service-not held by bond paying agent	3,963	-	-	3,963
Designated by Board for payment of claims liabilities	1,237	-	-	1,237
Designated by Board for capital improvements	60,514	-	-	60,514
Restricted under letter of credit	4,000	-	-	4,000
Cash and cash equivalents, including noncurrent cash and investments at end of year	<u>\$ 99,467</u>	<u>\$ 1,635</u>	<u>\$ 678</u>	<u>\$ 101,780</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Cash flows from operating activities				
Operating income (loss)	\$ 41,148	\$ 746	\$ (6,710)	\$ 35,184
Operating grants and contributions	-	(1,755)	-	(1,755)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	42,415	1	236	42,652
Discount amortization included in operating expenses	-	-	4	4
Undistributed income from operating partnership	504	-	-	504
Changes in:				
Receivables	2,285	199	(176)	2,308
Inventories	731	-	-	731
Prepaid expenses	(769)	-	(27)	(796)
Accounts payable and other liabilities	10,010	28	43	10,081
Accrued salaries and wages	358	-	(52)	306
Pension asset	5	-	-	5
Other long term assets	35	-	-	35
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 96,722</u>	<u>\$ (781)</u>	<u>\$ (6,682)</u>	<u>\$ 89,259</u>
<b>Noncash capital and related financing activities</b>				
Unrealized gain (loss)	\$ 5,487	\$ 308	\$ -	\$ 5,795

**New Hanover Regional Medical Center**

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

	September 30, 2011			September 30, 2010		
	LCFH	PMH	Total Combined Units	LCFH	PMH	Total Combined Units
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 5,118	\$ 2,029	\$ 7,147	\$ 3,806	\$ 1,116	\$ 4,922
Patient accounts, less allowance for bad debts	3,274	3,357	6,631	3,052	3,202	6,254
Due from health insurance programs	-	194	194	-	778	778
Due from primary government	15	1,423	1,438	-	765	765
Other receivables	196	161	357	368	126	494
Investments	3,171	-	3,171	1,671	-	1,671
Inventories	-	474	474	-	424	424
Prepaid expenses	611	197	808	330	167	497
<b>Total current assets</b>	<b>12,385</b>	<b>7,835</b>	<b>20,220</b>	<b>9,227</b>	<b>6,578</b>	<b>15,805</b>
Noncurrent cash, investments, and donor receivables						
Noncurrent Cash and Investments:						
Designated by Board for operating and PDO reserve	9,672	-	9,672	6,090	-	6,090
Designated by Board for capital improvements	427	-	427	433	-	433
Restricted by agreement for USDA loan reserve	34	-	34	23	-	23
Restricted by donors for endowments	1,120	-	1,120	1,160	-	1,160
	<b>11,253</b>	<b>-</b>	<b>11,253</b>	<b>7,706</b>	<b>-</b>	<b>7,706</b>
Pledges and grants receivable	495	-	495	312	-	312
<b>Total noncurrent cash, investments, and donor receivables</b>	<b>11,748</b>	<b>-</b>	<b>11,748</b>	<b>8,018</b>	<b>-</b>	<b>8,018</b>
Other assets						
Intangible capital assets, net of amortization	-	36	36	-	45	45
Other long term assets	191	104	295	165	231	396
Deferred outflow of resources	308	-	308	271	-	271
<b>Total other assets</b>	<b>499</b>	<b>140</b>	<b>639</b>	<b>436</b>	<b>276</b>	<b>712</b>
Capital assets - tangible						
Land	3,359	42	3,401	2,846	42	2,888
Depreciable capital assets, net of accumulated depreciation	9,694	7,056	16,750	9,773	6,602	16,375
Construction in progress	1,100	152	1,252	89	79	168
<b>Total capital assets - tangible</b>	<b>14,153</b>	<b>7,250</b>	<b>21,403</b>	<b>12,708</b>	<b>6,723</b>	<b>19,431</b>
<b>Total assets</b>	<b>\$ 38,785</b>	<b>\$ 15,225</b>	<b>\$ 54,010</b>	<b>\$ 30,389</b>	<b>\$ 13,577</b>	<b>\$ 43,966</b>

	September 30, 2011			September 30, 2010		
	LCFH	PMH	Total Combined Units	LCFH	PMH	Total Combined Units
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities						
Accounts payable and other liabilities	\$ 1,240	\$ 1,684	\$ 2,924	\$ 1,139	\$ 1,454	\$ 2,593
Accrued salaries and wages	1,571	859	2,430	1,397	709	2,106
Estimated third-party payor settlements	-	412	412	-	232	232
Due to primary government	-	-	-	-	297	297
Note payable, current portion	21	-	21	18	-	18
Accrued interest payable	55	-	55	55	-	55
Capital lease obligations and bonds payable, current portion	100	4	104	100	59	159
<b>Total current liabilities</b>	<b>2,987</b>	<b>2,959</b>	<b>5,946</b>	<b>2,709</b>	<b>2,751</b>	<b>5,460</b>
Long-term obligations						
Capital lease obligations less current portion	-	3	3	-	7	7
Note payable, less current portion	2,011	-	2,011	2,033	-	2,033
Net pension obligation	-	231	231	-	231	231
Bonds payable, less current portion	7,100	-	7,100	3,800	-	3,800
Interest rate swap agreements	308	-	308	271	-	271
<b>Total long-term obligations</b>	<b>9,419</b>	<b>234</b>	<b>9,653</b>	<b>6,104</b>	<b>238</b>	<b>6,342</b>
<b>Total liabilities</b>	<b>12,406</b>	<b>3,193</b>	<b>15,599</b>	<b>8,813</b>	<b>2,989</b>	<b>11,802</b>
Commitments and contingencies						
Net assets						
Invested in capital assets, net of related debt	4,921	7,279	12,200	6,702	6,702	13,404
Unrestricted	17,963	4,753	22,716	12,476	3,886	16,362
Restricted	3,495	-	3,495	2,398	-	2,398
<b>Total net assets</b>	<b>26,379</b>	<b>12,032</b>	<b>38,411</b>	<b>21,576</b>	<b>10,588</b>	<b>32,164</b>
<b>Total liabilities and net assets</b>	<b>\$ 38,785</b>	<b>\$ 15,225</b>	<b>\$ 54,010</b>	<b>\$ 30,389</b>	<b>\$ 13,577</b>	<b>\$ 43,966</b>

**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, 2011			Year Ended September 30, 2010		
	LCFH	PMH	Total	LCFH	PMH	Total
			Combined Units			Combined Units
Operating revenues:						
Net patient service revenue	\$ 26,024	\$ 21,509	\$ 47,533	\$ 22,582	\$ 18,741	\$ 41,323
Other revenue	3,283	1,809	5,092	3,483	1,029	4,512
<b>Total operating revenue</b>	<b>29,307</b>	<b>23,318</b>	<b>52,625</b>	<b>26,065</b>	<b>19,770</b>	<b>45,835</b>
Operating expenses:						
Salaries, wages and benefits	16,920	14,894	31,814	14,430	12,588	27,018
Medical supplies	3,723	2,186	5,909	3,216	1,760	4,976
Professional fees	195	678	873	67	781	848
Insurance	157	319	476	150	328	478
Purchased services and other	2,314	4,353	6,667	1,987	3,537	5,524
Depreciation and amortization	675	868	1,543	829	760	1,589
<b>Total operating expenses</b>	<b>23,984</b>	<b>23,298</b>	<b>47,282</b>	<b>20,679</b>	<b>19,754</b>	<b>40,433</b>
Operating income	<b>5,323</b>	<b>20</b>	<b>5,343</b>	<b>5,386</b>	<b>16</b>	<b>5,402</b>
Nonoperating revenues (expenses):						
Interest expense	(213)	(21)	(234)	(204)	(19)	(223)
Other nonoperating income	(7)	7	-	242	12	254
Net decrease in fair value of investments	(300)	-	(300)	123	-	123
Nonoperating revenues (expenses), net	<b>(520)</b>	<b>(14)</b>	<b>(534)</b>	<b>161</b>	<b>(7)</b>	<b>154</b>
<b>Excess of revenues over expenses before capital contributions</b>	<b>4,803</b>	<b>6</b>	<b>4,809</b>	<b>5,547</b>	<b>9</b>	<b>5,556</b>
Capital and permanent endowment contributions and transfers to/from component units	-	1,438	1,438	-	1,309	1,309
<b>Increase in net assets</b>	<b>4,803</b>	<b>1,444</b>	<b>6,247</b>	<b>5,547</b>	<b>1,318</b>	<b>6,865</b>
<b>Net assets</b>						
Beginning	21,576	10,588	32,164	16,029	9,270	25,299
Ending	<b>\$ 26,379</b>	<b>\$ 12,032</b>	<b>\$ 38,411</b>	<b>\$ 21,576</b>	<b>\$ 10,588</b>	<b>\$ 32,164</b>

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**New Hanover Regional Medical Center**

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

	<u>Year Ended September 30, 2011</u>			<u>Year Ended September 30, 2010</u>		
	<b>Total</b>			<b>Total</b>		
	<b>LCFH</b>	<b>PMH</b>	<b>Units</b>	<b>LCFH</b>	<b>PMH</b>	<b>Units</b>
<b>Cash flows from operating activities</b>						
Cash received from and on behalf of patients	\$ 25,802	\$ 22,083	\$ 47,885	\$ 22,437	\$ 17,476	\$ 39,913
Cash payments to suppliers for services and goods	(5,964)	(6,094)	(12,058)	(5,398)	(4,974)	(10,372)
Cash payments to employees for services	(16,526)	(14,744)	(31,270)	(14,077)	(12,883)	(26,960)
Other operating cash receipts	2,121	644	2,765	3,812	263	4,075
Net cash provided by (used in) operating activities	<u>5,433</u>	<u>1,889</u>	<u>7,322</u>	<u>6,774</u>	<u>(118)</u>	<u>6,656</u>
<b>Cash flows from noncapital financing activities</b>						
Payments (to) from component unit	-	(955)	(955)	-	(390)	(390)
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>(955)</u>	<u>(955)</u>	<u>-</u>	<u>(390)</u>	<u>(390)</u>
<b>Cash flows from capital and related financing activities</b>						
Acquisition of capital assets	(2,117)	(1,386)	(3,503)	(898)	(1,338)	(2,236)
Capital contributions	-	27	27	-	82	82
Principal payments on capital lease obligations	-	(59)	(59)	-	(82)	(82)
Interest paid on capital financing	(231)	(21)	(252)	(151)	(19)	(170)
Proceeds from bonds	3,400	-	3,400	-	-	-
Payments on notes payable	(119)	-	(119)	(120)	-	(120)
Transfers (to) from component unit	-	1,411	1,411	-	1,227	1,227
Net cash used in capital and related financing activities	<u>933</u>	<u>(28)</u>	<u>905</u>	<u>(1,169)</u>	<u>(130)</u>	<u>(1,299)</u>
<b>Cash flows from investing activities</b>						
Sales (purchases) of investments, net of maturities	(6,867)	-	(6,867)	(1,904)	-	(1,904)
Interest earned on investments	(307)	-	(307)	242	-	242
Other interest earned	-	7	7	-	12	12
Net cash provided by (used in) investing activities	<u>(7,174)</u>	<u>7</u>	<u>(7,167)</u>	<u>(1,662)</u>	<u>12</u>	<u>(1,650)</u>
Net increase (decrease) in cash and cash equivalents	<u>(808)</u>	<u>913</u>	<u>105</u>	<u>3,943</u>	<u>(626)</u>	<u>3,317</u>
Cash and cash equivalents at beginning of year	<u>8,009</u>	<u>1,116</u>	<u>9,125</u>	<u>4,066</u>	<u>1,742</u>	<u>5,808</u>
Cash and cash equivalents at end of year	<u>\$ 7,201</u>	<u>\$ 2,029</u>	<u>\$ 9,230</u>	<u>\$ 8,009</u>	<u>\$ 1,116</u>	<u>\$ 9,125</u>

(Continued)

**New Hanover Regional Medical Center**

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

	<u>Year Ended September 30, 2011</u>			<u>Year Ended September 30, 2010</u>		
	<b>Total</b>			<b>Total</b>		
	<b>LCFH</b>	<b>PMH</b>	<b>Units</b>	<b>LCFH</b>	<b>PMH</b>	<b>Units</b>
<b>Reconciliation of cash and cash equivalents to the balance sheet</b>						
Unrestricted cash and cash equivalents	\$ 5,118	\$ 2,029	\$ 7,147	\$ 3,806	\$ 1,116	\$ 4,922
Cash and cash equivalents in noncurrent cash and investments						
Designated by Board for operating reserve	1,925	-	1,925	4,071	-	4,071
Designated by Board for capital improvements	89	-	89	63	-	63
Restricted under agreement	34	-	34	23	-	23
By donor restrictions	35	-	35	46	-	46
Cash and cash equivalents, including noncurrent cash and investments at end of year	<u>\$ 7,201</u>	<u>\$ 2,029</u>	<u>\$ 9,230</u>	<u>\$ 8,009</u>	<u>\$ 1,116</u>	<u>\$ 9,125</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>						
<b>Cash flows from operating activities</b>						
Operating income	\$ 5,323	\$ 20	\$ 5,343	\$ 5,386	\$ 16	\$ 5,402
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	675	868	1,543	829	760	1,589
Changes in:						
Patient receivables and programs	(222)	574	352	(145)	(1,265)	(1,410)
Inventories	-	(50)	(50)	-	(18)	(18)
Prepaid expenses and other current assets	(410)	(30)	(440)	329	(23)	306
Accounts payable and other liabilities	101	230	331	204	335	539
Accrued salaries and wages	175	150	325	171	(295)	(124)
Net pension obligation	-	-	-	-	(1)	(1)
Other long term assets	(209)	127	(82)	-	373	373
Net cash provided by operating activities	<u>\$ 5,433</u>	<u>\$ 1,889</u>	<u>\$ 7,322</u>	<u>\$ 6,774</u>	<u>\$ (118)</u>	<u>\$ 6,656</u>

**New Hanover Regional Medical Center**  
**(A Component Unit of New Hanover County, North Carolina)**  
**Balance Sheet Totals**  
**(Dollars in Thousands)**

	September 30, 2011	Percentage of Total	September 30, 2010	Percentage of Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 31,259	3%	\$ 29,048	3%
Assets limited as to use:				
Cash equivalents held by bond paying agent	7,998	1%	7,940	1%
Cash for debt service-not held by bond paying agent	4,085	1%	3,963	0%
Cash equivalents and investments for the future payment of claims liabilities	19,628	2%	16,969	2%
Receivables:				
Patient accounts, less allowance for bad debts	84,862	8%	72,264	8%
Due from health insurance programs	3,126	0%	2,892	0%
Due from primary government	1,438	0%	765	0%
Due from component units	-	0%	297	0%
Other receivables	5,339	1%	10,874	1%
Investments	3,171	0%	1,671	0%
Inventories	16,208	2%	16,914	2%
Prepaid expenses	12,395	1%	9,153	1%
<b>Total current assets</b>	<b>189,509</b>	<b>19%</b>	<b>172,750</b>	<b>18%</b>
Noncurrent cash, investments, and donor receivables				
Noncurrent Cash and Investments:				
Designated by Board for operating and PDO reserve	9,672	1%	6,090	1%
Designated by Board for capital improvements	270,217	27%	260,041	27%
Restricted under loan agreement	34	0%	23	0%
Restricted under letter of credit	4,000	1%	4,000	1%
Designated by Board for supplemental retirement plans	1,456	0%	1,333	0%
Restricted by donors for specific purpose	1,908	0%	2,032	0%
Restricted by donors for endowments	2,789	0%	2,814	0%
	<b>290,076</b>	<b>29%</b>	<b>276,333</b>	<b>29%</b>
Pledges and grants receivable	2,367	0%	2,562	0%
<b>Total noncurrent cash, investments, and donor receivables</b>	<b>292,443</b>	<b>29%</b>	<b>278,895</b>	<b>29%</b>
Other assets				
Intangible capital assets, net of amortization	50,272	5%	47,423	5%
Investment in affiliates	561	0%	5,773	1%
Pension asset	4,396	0%	4,491	0%
Other long term assets	719	0%	862	0%
Deferred outflow of resources	10,974	1%	10,236	1%
<b>Total other assets</b>	<b>66,922</b>	<b>6%</b>	<b>68,785</b>	<b>7%</b>
Capital assets - tangible				
Land	15,023	2%	14,854	1%
Depreciable capital assets, net of accumulated depreciation	410,689	41%	407,882	43%
Construction in progress	28,425	3%	15,173	2%
<b>Total capital assets - tangible</b>	<b>454,137</b>	<b>46%</b>	<b>437,909</b>	<b>46%</b>
 <b>Total assets</b>	 <b>\$ 1,003,011</b>	 <b>100%</b>	 <b>\$ 958,339</b>	 <b>100%</b>

	September 30, 2011	Percentage of Total	September 30, 2010	Percentage of Total
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable and other liabilities	\$ 26,888	3%	\$ 18,588	2%
Professional claims liability	19,417	2%	14,777	2%
Accrued salaries and wages	29,270	3%	26,839	3%
Estimated third-party payor settlements	14,731	1%	18,795	2%
Due to primary government	-	0%	297	0%
Due to component units	1,438	0%	787	0%
Due to affiliates	-	0%	4,149	0%
Note payable, current portion	21	0%	18	0%
Accrued interest payable	5,495	1%	5,589	0%
Other self-insured liabilities	10,362	1%	10,174	1%
Capital lease obligations, notes and bonds payable, current portion	8,793	1%	6,724	1%
Total current liabilities	116,415	12%	106,737	11%
Long-term obligations				
Capital lease obligations, less current portion	3	0%	7	0%
Net pension obligation	231	0%	231	0%
Supplemental retirement plans	1,456	0%	1,333	0%
Notes payable	6,995	1%	2,033	0%
Bonds payable, less current portion	315,679	32%	318,711	33%
Interest rate swap agreement	12,760	1%	12,111	2%
Total long-term obligations	337,124	34%	334,426	35%
<b>Total liabilities</b>	<b>453,539</b>	<b>46%</b>	<b>441,163</b>	<b>46%</b>
Commitments and contingencies				
Net assets				
Invested in capital assets, net of related debt	172,918	17%	157,784	16%
Unrestricted	361,761	36%	345,298	36%
Restricted	14,793	1%	14,094	2%
<b>Total net assets</b>	<b>549,472</b>	<b>54%</b>	<b>517,176</b>	<b>54%</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,003,011</b>	<b>100%</b>	<b>\$ 958,339</b>	<b>100%</b>

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

	Year Ended September 30, 2011	Percentage of Total	Year Ended September 30, 2010	Percentage of Total
Operating revenues:				
Net patient service revenue	\$ 703,223	97%	\$ 640,341	97%
Other revenue	23,730	3%	22,054	3%
<b>Total operating revenue</b>	<b>726,953</b>	<b>100%</b>	<b>662,395</b>	<b>100%</b>
Operating expenses:				
Salaries, wages and benefits	337,071	46%	314,121	47%
Medical supplies	143,873	20%	135,245	20%
Professional fees	41,840	6%	23,351	4%
Insurance	13,763	2%	11,381	2%
Purchased services and other	107,640	15%	93,470	14%
Depreciation and amortization	45,000	6%	44,241	7%
<b>Total operating expenses</b>	<b>689,187</b>	<b>95%</b>	<b>621,809</b>	<b>94%</b>
Operating income	37,766	5%	40,586	6%
Nonoperating revenues (expenses):				
Interest expense	(13,824)	-2%	(13,262)	-2%
Other nonoperating income	(368)	0%	510	0%
Interest earned on investments	6,198	1%	6,175	1%
Net (decrease) increase in fair value of investments	1,372	0%	7,673	1%
Loss on sale of assets	(64)	0%	(54)	0%
Equity in net income of joint ventures	1,006	0%	828	0%
Nonoperating revenues (expenses), net	(5,680)	-1%	1,870	0%
<b>Excess of revenues over expenses before capital contributions</b>	<b>32,086</b>	<b>4%</b>	<b>42,456</b>	<b>6%</b>
Capital and permanent endowment contributions and capital transfers to/from component units	210		758	
<b>Increase in net assets</b>	<b>32,296</b>		<b>43,214</b>	
Total net assets, beginning	517,176		473,962	
Total net assets, ending	<b>\$ 549,472</b>		<b>\$ 517,176</b>	