

Annual Financial Report

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

Years Ended September 30, 2013 and 2012

With Report of Independent Auditor

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the NHRMC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 59% and 56% of the assets, 59% and 56% of the net position, and 19% and 23% of the revenues of the aggregate discretely presented component units as of and for the years ended September 30, 2013 and 2012, respectively. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lower Cape Fear Hospice, Incorporated, is based solely on the report of the other auditor. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditor, 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, 2013 and 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, NHRMC adopted GASB 63 and 65 in the current year which resulted in a restatement of net position as of October 1, 2011. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

McGladrey LLP

Wilmington, North Carolina
December 5, 2013

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**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, 2013 and 2012**

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, 2013 and 2012. Except as otherwise noted, the financial highlights in this analysis refer exclusively to New Hanover Regional Medical Center and its blended component unit (NHRMC).

FINANCIAL HIGHLIGHTS

For the year ended September 30, 2013

NHRMC's net position increased over the prior year by \$50.5M (9.6%).

NHRMC reported operating income of \$58.9M or \$29.5M more than prior year.

Total non-operating activity resulted in net expense of \$5.6M, representing a net revenue decrease of \$17.3M over the prior year's net non-operating gain of \$11.6M.

For the year ended September 30, 2012

NHRMC's net position increased over the prior year by \$37.1M (7.5%).

NHRMC reported operating income of \$29.4M or \$1.3M more than prior year.

Total non-operating activity resulted in net revenue of \$11.6M, representing a net revenue increase of \$16.6M over the prior year's net non-operating loss of \$4.9M.

SUMMARY OF NEW HANOVER REGIONAL MEDICAL CENTER

The reporting entity includes New Hanover Regional Medical Center, as well as New Hanover Regional Medical Center Foundation, Inc., blended component unit (collectively NHRMC), Carolina Healthcare Associates, Inc. (CHA), The Pension Plan of New Hanover Regional Medical Center, Pender Memorial Hospital, Incorporated (PMH) and Lower Cape Fear Hospice, Incorporated (LCFH). CHA, PMH and LCFH are discretely presented component units. During 2013, Physician Quality Partners, LLC (PQP) was formed to actively develop clinical initiatives that will improve the quality of health care services and control costs. PQP is a discretely presented component unit and has no activity to report for the fiscal year ended September 30, 2013. 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 statement of net position; a statement of revenues, expenses and changes in net position; a statement of cash flows; fiduciary fund information; and notes to the financial statements. The statement of net position presents the financial position of NHRMC on a full accrual, historical cost basis. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

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

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

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

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

NHRMC'S OPERATING RESULTS AND CHANGES IN NET POSITION:

	Years Ended		
	September 30, 2013	September 30, 2012	September 30, 2011
	(In Thousands)		
Net patient service revenue	\$ 687,658	\$ 645,780	\$ 615,078
Other revenue	30,816	21,080	18,113
Total operating revenue	718,474	666,860	633,191
Expenses:			
Health care services			
Salaries, wages and benefits	336,734	322,016	293,489
Medical supplies	144,723	139,614	137,964
Professional fees	19,730	22,591	15,393
Purchased services	67,150	64,086	66,060
Depreciation and amortization	43,466	42,795	42,495
Other	47,728	46,329	49,647
Total operating expenses	659,531	637,431	605,048
Operating income	58,943	29,429	28,143
Nonoperating revenues (expenses), net	(5,647)	11,649	(4,932)
	53,296	41,078	23,211
Capital and permanent endowment contributions and transfers to component units	(2,766)	(3,979)	(4,906)
Increase in net position	50,530	37,099	18,305
Net position, beginning	528,616	491,517	473,212
Net position, ending	\$ 579,146	\$ 528,616	\$ 491,517

Discussion:

For the year ended September 30, 2013

Total operating revenue increased \$51.6M (7.7%). The increase in operating revenue is largely due to increased utilization of both inpatient and outpatient services from the previous year. In April 2012, NHRMC obtained sole community hospital status and updated reimbursement from the State of North Carolina's Medicaid Reimbursement Initiative (see Note 2). Net patient service revenue continues to be impacted by an increase in unreimbursed services as health insurers shift more reimbursement responsibility to individuals through increased deductibles and co-pays along with an increase in those individuals who have little or no health insurance or other means of payment. These trends are consistent in the healthcare industry. Other operating revenue consists primarily of cafeteria sales, outpatient pharmacy sales, grants, contributions and rental income from NHRMC owned facilities.

Total operating expenses increased \$22.1M. The increased utilization of services as described above contributed to the increase in operating expense. Costs for purchased services rose above the rate of increase in revenues; costs for personnel, professional fees, medical supplies, depreciation and other expenses rose at a rate below revenue growth. Increased costs for purchased services are directly attributable to increased IT maintenance expenses related to the EPIC information system (see Note 6). Through supply cost initiatives, the impact of increased costs for medical supplies due to the inflationary market was minimized.

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

Operating income reflects income earned from operations before consideration of any interest income from investments, interest expense or other non-operating income. Operating income increased approximately \$29.5M as a result of increased net revenue from operations as a percentage of net expenses.

Income before capital contributions and transfers increased \$12.2M 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 increase in operating income, accounted for the change from the prior year.

For the year ended September 30, 2012

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

Total operating expenses increased \$32.4M. The increased utilization of services as described above as well as the implementation of the EPIC information system (see Note 6) contributed to the increase in operating expense. Costs for personnel, professional fees, and purchased services rose above the rate of increase in revenues; costs for medical supplies, insurance and depreciation rose at a rate below revenue growth. Increased costs for personnel and professional fees are directly attributable to the implementation of the EPIC information system (see Note 6). Through supply cost initiatives, the impact of increased costs for medical supplies due to the inflationary market was minimized.

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

Operating income reflects income earned from operations before consideration of any interest income from investments, interest expense or other non-operating income. Operating income increased approximately \$1.3M as a result of increased net revenue from operations as a percentage of net expenses.

Income before capital contributions and transfers increased \$17.9M 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. This activity, when added to the increase in operating income, accounted for the change from the prior year.

SUMMARY OF NHRMC NET POSITION

	September 30, 2013	September 30, 2012	September 30, 2011
	(In Thousands)		
Assets			
Current assets	\$ 231,586	\$ 176,911	\$ 160,161
Capital assets - tangible, net	424,353	433,768	429,670
Other noncurrent assets	354,089	343,890	330,527
Total assets	1,010,028	954,569	920,358
Deferred outflows of resources	5,024	14,444	13,443
Total assets and deferred outflows of resources	\$ 1,015,052	\$ 969,013	\$ 933,801
Liabilities			
Current liabilities	\$ 130,469	\$ 118,667	\$ 107,839
Long-term obligations	305,437	321,730	334,445
Total liabilities	435,906	440,397	442,284
Net position			
Net investment in capital assets	157,143	157,626	147,672
Unrestricted	413,994	358,878	332,547
Restricted	8,009	12,112	11,298
Total net position	579,146	528,616	491,517
Total liabilities and net position	\$ 1,015,052	\$ 969,013	\$ 933,801

Discussion:

For the year ended September 30, 2013

Total assets and deferred outflows of resources have increased by \$46.0M over the past fiscal year end. The increase in current assets is primarily due to an increase in patient accounts receivable. The increase in accounts receivable is attributable to increased utilization of services. The decrease in capital assets reflects a reduction in capital spending as a result of the conclusion of the implementation of the majority of the Epic information system (see Note 6). Increases in noncurrent assets are the result of interest earnings and unrealized gains / losses in the market value of NHRMC investments.

Total liabilities and deferred inflows of resources have decreased by \$4.5M over the past fiscal year end. An increase in current liabilities resulted primarily from an increase in wages payable, self insured liability, and 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 position increased \$50.5M during the past year reflecting the overall performance during the past fiscal year.

For the year ended September 30, 2012

Total assets and deferred outflows of resources have increased by \$35.2M over the past fiscal year end. The increase in current assets is primarily due to an increase in patient accounts receivable. The increase in accounts receivable is attributable to increased utilization of services along with a smaller impact from the implementation of the EPIC information system. The increase in capital assets reflects increases in investments in capital improvements of NHRMC in property, plant and equipment during the past year. Increases in noncurrent assets are the result of interest earnings and unrealized gains / losses in the market value of NHRMC investments.

Total liabilities have decreased by \$1.9M 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 position increased \$37.1M during the past year reflecting the overall performance during the past fiscal year.

LONG-TERM DEBT DISCUSSION

For the year ended September 30, 2013

Long-term debt (noncurrent portion) is approximately \$305.4M as of September 30, 2013 and includes Hospital Revenue Bonds issued in 2006, 2008, 2011, and 2013 as well as approximately \$6M in interest rate swaps related to the 2008 series Revenue bonds (see Note 7) and \$1.6M 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, 2012

Long-term debt (noncurrent portion) is approximately \$321.7M as of September 30, 2012 and includes Hospital Revenue Bonds issued in 2005, 2006, 2008 and 2011 as well as approximately \$11.8M in interest rate swaps related to the 2005 series Revenue bonds (see Note 7) and \$3.3M for a financing agreement with Epic Software (see Note 6).

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

CAPITAL ASSETS DISCUSSION

For the year ended September 30, 2013

NHRMC began construction of a new cardiology/medical office building and a new freestanding emergency room. The cardiology building will enable NHRMC to consolidate cardiac practice service in a single location and in the future will aid in the relocation of outpatient clinics. The new freestanding emergency room will be located in northern New Hanover County, and will allow NHRMC to better serve patient needs in Northern New Hanover, Pender, and Southern Onslow Counties.

For the year ended September 30, 2012

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

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. NHRMC anticipates federal and state reimbursement and expense impact totaling more than \$20.0M in the upcoming fiscal year.

For the fiscal year beginning October 1, 2014, the Board of Trustees has approved a budget to include increases of \$14.9M in salaries and benefits for employees, \$145.3M in uncompensated care, and \$59.2M in capital investments and debt service.

To offset increases in operating costs, the budget reflects an increase in volumes in both inpatient and outpatient services along with anticipated cost savings in supplies, labor costs and improved focus on the hospital's revenue cycle. A price increase of 5% 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. The recent implementation of the Accountable Care Act (ACA) at a national level and the State of North Carolina's election to not expand medical access is expected to have an overall negative impact on operations.

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)
Statements of Net Position - Proprietary Fund
(Dollars in Thousands)

	September 30, 2013			September 30, 2012		
	Combined	Total		Combined	Total	
	NHRMC	Component Units	(Memorandum Only)	NHRMC	Component Units	(Memorandum Only)
ASSETS						
Current assets						
Cash and cash equivalents (Note 3)	\$ 47,436	\$ 9,276	\$ 56,712	\$ 15,637	\$ 7,163	\$ 22,800
Assets limited as to use (Note 3):						
Cash equivalents held by bond paying agent	16,011	-	16,011	11,922	-	11,922
Cash for debt service-not held by bond paying agent	910	-	910	4,411	-	4,411
Cash equivalents and investments for the future payment of claims liabilities	21,671	-	21,671	15,228	-	15,228
Receivables:						
Patient accounts, less allowance for bad debts (Note 2)	99,871	16,934	116,805	87,792	17,325	105,117
Estimated third-party payor settlements (Note 2)	8,932	1,085	10,017	6,102	327	6,429
Due from primary government	-	4,173	4,173	-	2,045	2,045
Due from component units	1,077	-	1,077	388	-	388
Other receivables	9,348	752	10,100	8,487	890	9,377
Investments (Note 3)	-	2,866	2,866	-	2,672	2,672
Inventories	15,821	483	16,304	16,581	473	17,054
Prepaid expenses	10,509	2,320	12,829	10,363	2,389	12,752
Total current assets	231,586	37,889	269,475	176,911	33,284	210,195
Noncurrent cash, investments, and donor receivables						
Noncurrent Cash and Investments (Note 3):						
Designated by Board for operating and PDO reserve	-	11,674	11,674	-	11,073	11,073
Designated by Board for capital improvements	301,150	5,009	306,159	285,240	4,015	289,255
Designated by Board for ESC reserve	-	55	55	-	55	55
Restricted under loan agreement	-	-	-	-	45	45
Restricted under letter of credit	-	-	-	4,000	-	4,000
Designated by Board for supplemental retirement plans (Note 10)	1,753	-	1,753	1,672	-	1,672
Restricted by donors for specific purpose	2,560	-	2,560	2,432	-	2,432
Restricted by donors for endowments	2,006	1,393	3,399	1,777	1,308	3,085
	307,469	18,131	325,600	295,121	16,496	311,617
Pledges and grants receivable	1,664	543	2,207	1,748	232	1,980
Total noncurrent cash, investments, and donor receivables	309,133	18,674	327,807	296,869	16,728	313,597
Other assets						
Intangible capital assets, net of amortization (Note 4)	39,357	677	40,034	41,821	1,010	42,831
Investment in affiliates (Note 12)	670	-	670	423	-	423
Pension asset (Note 10)	4,380	-	4,380	4,396	-	4,396
Other long term assets	549	689	1,238	381	686	1,067
Total other assets	44,956	1,366	46,322	47,021	1,696	48,717
Capital assets - tangible (Note 4)						
Land	11,314	4,702	16,016	11,622	4,702	16,324
Depreciable capital assets, net of accumulated depreciation	407,803	27,890	435,693	421,655	25,444	447,099
Construction in progress	5,236	1,008	6,244	491	1,180	1,671
Total capital assets - tangible	424,353	33,600	457,953	433,768	31,326	465,094
Total assets	1,010,028	91,529	1,101,557	954,569	83,034	1,037,603
DEFERRED OUTFLOWS OF RESOURCES (Notes 6 and 7)						
Deferred charges on bond refundings	5,024	-	5,024	3,424	-	3,424
Interest rate swap agreements	-	221	221	11,020	356	11,376
Total deferred outflows of resources	5,024	221	5,245	14,444	356	14,800
Total assets and deferred outflows of resources	\$ 1,015,052	\$ 91,750	\$ 1,106,802	\$ 969,013	\$ 83,390	\$ 1,052,403

See Notes to Financial Statements.

	September 30, 2013			September 30, 2012		
	NHRMC	Combined	Total	NHRMC	Combined	Total
		Component	(Memorandum		Component	(Memorandum
	Units	Only)	Units	Only)		
LIABILITIES						
Current liabilities						
Accounts payable and other liabilities (Note 6)	\$ 29,722	\$ 8,317	\$ 38,039	\$ 30,332	\$ 8,280	\$ 38,612
Professional liability claims (Note 9)	17,052	-	17,052	17,298	-	17,298
Accrued salaries and wages	33,567	4,599	38,166	30,005	4,091	34,096
Estimated third-party payor settlements (Note 2)	15,562	395	15,957	10,048	114	10,162
Due to primary government	-	1,077	1,077	-	-	-
Due to component units	4,173	-	4,173	2,037	-	2,037
Accrued interest payable	5,388	-	5,388	5,191	53	5,244
Other self-funded liabilities (Note 9)	11,047	-	11,047	10,659	-	10,659
Capital lease obligations, notes and bonds payable, current portion (Notes 5 and 6)	13,958	451	14,409	13,097	330	13,427
Total current liabilities	130,469	14,839	145,308	118,667	12,868	131,535
Long-term obligations						
Capital lease obligations less current portion (Notes 5 and 6)	237	-	237	-	-	-
Net pension obligation (Notes 6 and 10)	-	229	229	-	231	231
Supplemental retirement plans (Notes 6 and 10)	1,753	-	1,753	1,672	-	1,672
Interest rate swap agreements	6,051	221	6,272	11,768	356	12,124
Notes and bonds payable, less current portion (Note 6)	297,396	9,129	306,525	308,290	8,997	317,287
Total long-term obligations	305,437	9,579	315,016	321,730	9,584	331,314
Total liabilities	435,906	24,418	460,324	440,397	22,452	462,849
Commitments and contingencies (Notes 2, 4, 5, 6, 7, 9, 10, 11, 12, 13 and 14)						
NET POSITION						
Net investment in capital assets	157,143	25,055	182,198	157,626	23,015	180,641
Unrestricted	413,994	39,593	453,587	358,878	36,367	395,245
Restricted	8,009	2,684	10,693	12,112	1,556	13,668
Total net position	579,146	67,332	646,478	528,616	60,938	589,554
Total liabilities and net position	\$ 1,015,052	\$ 91,750	\$ 1,106,802	\$ 969,013	\$ 83,390	\$ 1,052,403

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

	Year Ended September 30, 2013			Year Ended September 30, 2012		
	Combined	Total	Total Component (Memorandum Only)	Combined	Total	Total Component (Memorandum Only)
	NHRMC	Units		NHRMC	Units	
Operating revenues:						
Net patient service revenue (Notes 2 and 6)	\$ 687,658	\$ 152,287	\$ 839,945	\$ 645,780	\$ 116,335	\$ 762,115
Other revenue	30,816	24,306	55,122	21,080	24,288	45,368
Total operating revenue	718,474	176,593	895,067	666,860	140,623	807,483
Operating expenses:						
Salaries, wages and benefits	336,734	59,332	396,066	322,016	51,531	373,547
Medical supplies	144,723	31,949	176,672	139,614	16,725	156,339
Professional fees	19,730	49,822	69,552	22,591	39,305	61,896
Purchased services	67,150	16,287	83,437	64,086	11,930	76,016
Depreciation and amortization	43,466	3,536	47,002	42,795	3,148	45,943
Other	47,728	13,666	61,394	46,329	11,819	58,148
Total operating expenses	659,531	174,592	834,123	637,431	134,458	771,889
Operating income	58,943	2,001	60,944	29,429	6,165	35,594
Nonoperating revenues (expenses):						
Interest expense	(12,817)	(304)	(13,121)	(12,120)	(257)	(12,377)
Other nonoperating income	35	110	145	116	193	309
Interest earned and net realized gain (loss) on investments	3,747	-	3,747	5,289	-	5,289
Net increase in fair value of investments	2,327	1,293	3,620	17,985	1,380	19,365
Gain (loss) on sale of capital assets	(101)	(16)	(117)	44	-	44
Equity in net income of joint ventures	1,162	-	1,162	335	-	335
Nonoperating revenues (expenses), net	(5,647)	1,083	(4,564)	11,649	1,316	12,965
Excess of revenues over expenses before capital contributions	53,296	3,084	56,380	41,078	7,481	48,559
Capital and permanent endowment contributions and capital transfers to/from component units	(2,766)	3,310	544	(3,979)	4,104	125
Increase in net position	50,530	6,394	56,924	37,099	11,585	48,684
Net position, beginning (Note 16)	528,616	60,938	589,554	491,517	49,353	540,870
Net position, ending	\$ 579,146	\$ 67,332	\$ 646,478	\$ 528,616	\$ 60,938	\$ 589,554

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, 2013			Year Ended September 30, 2012		
	Combined		Total	Combined		Total
	NHRMC	Component Units	(Memorandum Only)	NHRMC	Component Units	(Memorandum Only)
Cash Flows From Operating Activities						
Cash received from and on behalf of patients	\$ 678,006	\$ 156,902	\$ 834,908	\$ 625,032	\$ 110,701	\$ 735,733
Cash payments to suppliers for services and goods	(278,945)	(115,098)	(394,043)	(267,992)	(76,419)	(344,411)
Cash payments to employees for services	(333,156)	(59,199)	(392,355)	(317,623)	(50,910)	(368,533)
Other operating cash receipts	28,444	23,774	52,218	16,044	23,812	39,856
Net cash provided by operating activities	94,349	6,379	100,728	55,461	7,184	62,645
Cash flows from noncapital financing activities						
Contributions and operating grants	1,595	-	1,595	1,592	-	1,592
Payments (to) from component unit	1,447	(1,048)	399	211	(591)	(380)
Net cash provided by (used in) noncapital financing activities	3,042	(1,048)	1,994	1,803	(591)	1,212
Cash flows from capital and related financing activities						
Acquisition of capital assets	(30,206)	(5,678)	(35,884)	(43,651)	(10,220)	(53,871)
Proceeds from disposed assets	877	(4)	873	405	2	407
Acquisition of intangible assets	(1,000)	-	(1,000)	-	-	-
Capital contributions	310	234	544	112	12	124
Principal payments on capital lease obligations	(468)	(3)	(471)	-	(4)	(4)
Principal payments on revenue bonds and other outstanding debt	(12,958)	(2,331)	(15,289)	(8,474)	(1,135)	(9,609)
Interest paid on capital financing	(12,913)	(304)	(13,217)	(13,113)	(297)	(13,410)
Proceeds from bonds/notes	61,375	2,584	63,959	-	1,230	1,230
Refunding of revenue bonds	(58,560)	-	(58,560)	-	-	-
Transfers (to) from component unit	(3,076)	3,076	-	(4,092)	4,092	-
Net cash (used in) provided by capital and related financing activities	(56,619)	(2,426)	(59,045)	(68,813)	(6,320)	(75,133)
Cash flows from investing activities						
(Purchases) sales of investments, net of maturities	(19,261)	(1,268)	(20,529)	17,871	(5,152)	12,719
Interest earned on investments	3,682	111	3,793	5,204	161	5,365
Contributions to partnerships	(161)	-	(161)	(767)	-	(767)
Distributions from partnerships	1,073	-	1,073	1,256	-	1,256
Other interest earned	15	(2)	13	105	42	147
Net cash provided by (used in) investing activities	(14,652)	(1,159)	(15,811)	23,669	(4,949)	18,720
Net increase (decrease) in cash and cash equivalents	26,120	1,746	27,866	12,120	(4,676)	7,444
Cash and cash equivalents at beginning of year	104,725	8,185	112,910	92,605	12,861	105,466
Cash and cash equivalents at end of year	\$ 130,845	\$ 9,931	\$ 140,776	\$ 104,725	\$ 8,185	\$ 112,910

(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, 2013			Year Ended September 30, 2012		
		Combined	Total		Combined	Total
	NHRMC	Component Units	(Memorandum Only)	NHRMC	Component Units	(Memorandum Only)
Reconciliation of cash and cash equivalents to the statement of net position						
Unrestricted cash and cash equivalents	\$ 47,436	\$ 9,276	\$ 56,712	\$ 15,637	\$ 7,163	\$ 22,800
Cash and cash equivalents in noncurrent cash and investments						
Designated by Board for operating and PDO reserve	-	576	576	-	718	718
Designated by Board for ESC reserve	-	55	55	-	55	55
Reserved for debt service-held by bond paying agent	16,011	-	16,011	11,922	-	11,922
Reserved for debt service-not held by bond paying agent	910	-	910	4,411	-	4,411
Designated by Board for claims liabilities	69	-	69	289	-	289
Designated by Board for capital improvements	66,419	-	66,419	68,466	-	68,466
Restricted under loan agreement	-	-	-	-	45	45
Restricted under letter of credit	-	-	-	4,000	-	4,000
By donor restrictions	-	24	24	-	204	204
Cash and cash equivalents, including noncurrent cash and cash equivalents at end of year	\$ 130,845	\$ 9,931	\$ 140,776	\$ 104,725	\$ 8,185	\$ 112,910
Reconciliation of operating income to net cash provided by operating activities						
Cash flows from operating activities						
Operating income	\$ 58,943	\$ 2,001	\$ 60,944	\$ 29,429	\$ 6,165	\$ 35,594
Employee services included in nonoperating income	-	-	-	(27)	-	(27)
Operating grants in other revenue	(1,595)	-	(1,595)	(1,592)	-	(1,592)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	43,466	3,536	47,002	42,795	3,148	45,943
Changes in:						
Patient receivables and programs	(13,113)	877	(12,236)	(16,751)	(6,410)	(23,161)
Inventories	760	(9)	751	(847)	-	(847)
Prepaid expenses and other current assets	(146)	(521)	(667)	187	99	286
Accounts payable and other liabilities	2,624	(13)	2,611	(1,980)	3,403	1,423
Accrued salaries and wages	3,562	509	4,071	4,204	622	4,826
Pension asset	16	-	16	-	-	-
Net pension obligation	-	(1)	(1)	-	(1)	(1)
Other long term assets	(168)	-	(168)	43	158	201
Net cash provided by operating activities	\$ 94,349	\$ 6,379	\$ 100,728	\$ 55,461	\$ 7,184	\$ 62,645
Non-cash capital and related financing activities						
Unrealized (loss) gain	\$ 2,327	\$ 1,293	\$ 3,620	\$ 17,985	\$ 1,380	\$ 19,365
Capital assets acquired through lease agreement	\$ 1,189	\$ -	\$ 1,189	\$ -	\$ -	\$ -
Partial swap termination costs paid with proceeds of refunded bonds	\$ 1,976	\$ -	\$ -	\$ -	\$ -	\$ -
Bond issuance costs paid with proceeds of refunded bonds	\$ 1,000	\$ -	\$ 1,000	\$ -	\$ -	\$ -

See Notes to Financial Statements.

New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)
Statements of Fiduciary Net Position - Fiduciary Fund
December 31, 2012 and 2011
(Dollars in Thousands)

ASSETS	The Pension Plan of New Hanover Regional Medical Center	
	2012	2011
Investments (Note 3):		
Real estate	\$ 4,356	\$ 4,356
Money market funds	2,596	1,498
Mutual funds	139,846	125,440
Common stocks	34,732	32,894
	<u>181,530</u>	<u>164,188</u>
Receivable:		
Accrued income	241	81
	<u>241</u>	<u>81</u>
Total assets	<u>181,771</u>	<u>164,269</u>
Net position: restricted for pension benefits	<u>\$ 181,771</u>	<u>\$ 164,269</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 Position - Fiduciary Fund
Years Ended December 31, 2012 and 2011
(Dollars in Thousands)

	The Pension Plan of New Hanover Regional Medical Center	
	2012	2011
Additions		
Employer's contributions	\$ 8,842	\$ 10,600
Investment income:		
Net appreciation (depreciation) in fair value of investments	13,436	(4,200)
Dividends and interest	5,309	3,984
	18,745	(216)
Less investment expense	410	391
Net investment income (loss)	18,335	(607)
Total additions	27,177	9,993
Deductions		
Distributions to participants	9,422	9,220
Administrative expenses	253	177
Total deductions	9,675	9,397
Net increase in net position	17,502	596
Net position - restricted for pension benefits:		
Beginning of year	164,269	163,673
End of year	\$ 181,771	\$ 164,269

See Notes to Financial Statements.

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

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

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

Reporting Entity

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

NHRMC

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

The Pension Plan of New Hanover Regional Medical Center comprises the fiduciary fund information. The Plan's fiscal year ends included herein are December 31, 2012 and 2011.

Combined Component Units

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

CHA (doing business as NHRMC Physicians Group) is a 501(c)(3) nonprofit corporation governed by NHRMC. The Executive Committee of the NHRMC Board of Trustees, which includes 8 of the 17 voting members of NHRMC's full Board of Trustees, serves as the CHA Board, thereby constituting 100% of CHA's Board members. CHA provides an integrated primary and specialty care physician practice network to NHRMC in the form of physician and nurse practitioner services within NHRMC clinical areas and independent office locations in the NHRMC service area. Through contractual agreement, Carolinas Physician Network (CPN) operates and manages each of the medical practices owned by CHA and provides certain professional medical services for each of those practices. At the end of fiscal year 2013, CHA consisted of 104 physicians, 7 nurse practitioners, and 36 mid-level providers. CHA's operating revenue was \$114,479 in fiscal year 2013 and \$83,294 in fiscal year 2012. During the years ended September 30, 2013 and 2012, NHRMC recorded an operating expense and CHA recorded other operating revenue in the amount of approximately \$12,707 and \$16,027, respectively, to fund CHA's fiscal year operating deficits. Additionally, during 2013 and 2012, NHRMC funded capital acquisitions, net of returns of capital assets, for CHA of approximately (\$115) and \$2,853, respectively.

On May 24, 2013, Articles of Organization were filed with the NC Department of the Secretary of State for Physician Quality Partners, LLC (PQP). PQP is a Clinically Integrated Network (CIN)/Accountable Care Organization (ACO) formed to actively develop clinical initiatives that will improve the quality of health care services and control costs. PQP is included in NHRMC's financial statements as a discretely presented component unit. As of September 30, 2013, PQP has not been funded and there is no activity to report for the fiscal year ending September 30, 2013.

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

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

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

LCFH is an affiliated organization of NHRMC. The Trustees of NHRMC appoint 80% of the board of directors of LCFH, a nonprofit organization that provides professional care to the terminally ill and support and education to the family and community. The organization currently serves 12 counties in southeastern North Carolina. During the years ended September 30, 2013 and 2012, NHRMC granted and paid LCFH approximately \$564 and \$342, respectively, in support of LCFH's Palliative Care Program.

PMH consists of Pender Memorial Hospital, a nonprofit acute care hospital, and NHRMC Homecare, formed in 2008 as 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, 2013 and 2012, NHRMC recorded an operating expense and PMH recorded other operating revenue in the amount of approximately \$5,766 and \$2,006 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 2013 and 2012, NHRMC funded capital acquisitions of approximately \$3,191 and \$1,239, respectively, of capital into PMH.

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

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

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

Basis of Presentation

The statements of net position (presented in a balance sheet format), statements of revenues, expenses and changes in net position, 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 position and statements of changes in fiduciary net position present information about The Pension Plan of New Hanover Regional Medical Center (NHRMC Pension Plan) (see Note 10).

Basis of Accounting

NHRMC uses enterprise fund accounting. Revenues and expenses of enterprise funds are recognized on the economic resources measurement focus and the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. NHRMC has adopted Governmental Accounting Standards Board (GASB) Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. There was no significant impact on the financial statements as a result of this adoption.

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Inventories

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

Designated Assets and Restricted Assets

Designated assets are set aside by the Board of Trustees for future capital or other long-term needs and the Board may, at its discretion, subsequently use them for other purposes. Additionally, as of September 30, 2012, NHRMC had funds restricted under a letter of credit in conjunction with the issuance of Series 2008 bonds during the year ended September 30, 2009 (See Note 6). This restriction was removed through amendment to the letter of credit on January 31, 2013. As of September 30, 2013 and 2012, NHRMC also had funds 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 liability 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 position as capital contributions.

Investments

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

Intangible Capital Assets

Intangible capital assets consist of 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.

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

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

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

Tangible Capital Assets

Purchased or constructed tangible capital assets are recorded at cost. Donated capital assets are recorded at estimated fair value at the date received. NHRMC's, CHA's, and PMH's policies are to generally capitalize assets with a cost of one thousand dollars or greater and a useful life of at least one year.

Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets as recommended by the American Hospital Association. During fiscal year 2011, NHRMC revised its depreciation policy so that Core Information Technology Software is depreciated over 10 years, and Other Information Technology Software is depreciated over 5 years, which may be different than the AHA's recommendation. This policy is 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 \$124 and \$986 were incurred and capitalized during fiscal years ended September 30, 2013 and 2012, respectively, in the construction of long-term assets and will be amortized over the related assets' estimated useful lives. LCFH calculates depreciation using accelerated methods using lives of 3 to 10 years for furniture and equipment and lives of 20 to 45 years for buildings.

Legal title to NHRMC's capital assets is in the name of either New Hanover County or New Hanover Regional Medical Center. Substantially all facilities, equipment, and future improvements are leased from New Hanover County (See Note 5). Legal title to CHA's capital assets is in CHA's name. Legal title to LCFH's capital assets is in LCFH's name. PQP has no capital assets. 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, 2013 and 2012 have been made.

CHA employees are covered under the NHRMC medical and professional liability plans. CHA is self-insured for unemployment benefits. Provisions for estimated unpaid claims outstanding at September 30, 2013 and 2012 have been made.

Unamortized Premiums

Bonds payable are recorded net of unamortized premiums (discounts) on bonds. Premiums and discounts are amortized over the life of the related debt using the effective interest method (See Note 6).

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflow of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the statement of net position can report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

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

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

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

Interest Rate Swap Agreements

NHRMC and LCFH have entered into interest rate swap agreements to modify interest rates on certain outstanding debt. Net interest expenditures resulting from these agreements and the resulting accrued receivable or payable under the swap agreements are reflected in the financial statements as assets or liabilities at fair value. 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 position as a component of the net increase (decrease) in fair value of investments. For all hedged swap instruments determined to be effective, any change in fair value is deferred and recorded on the statement of net position as a deferred outflow of resources.

Unamortized Deferral on Refundings

Losses on bond refundings are deferred and 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. The deferrals are included in deferred outflows of resources.

Net Position

Net position classifications are defined as follows:

- *Net investment in capital assets* 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* 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, 2013 and 2012, restricted consist of: expendable net position restricted under letter of credit agreements of approximately \$0 and \$4,000, respectively; nonexpendable endowments of approximately \$2,000 and \$2,000, respectively; and other expendable net position resulting from specific purpose donations and grants.
- *Unrestricted* consist of net position that have no third party restrictions on use and are not invested in capital assets.

Operating Income

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

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

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

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

Charity Care

NHRMC has estimated its direct and indirect costs of providing charity care under its charity care policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the per-diem rate from the most recently filed cost report to the System's gross bill rate. The cost to charge ratio is applied to the charity care charges foregone to calculate the estimated direct and indirect cost of providing charity care.

Using the methodology noted above, NHRMC has estimated the costs of providing patient services classified as charity care to be \$15,864 and \$13,788 for the years ended September 30, 2013 and 2012, respectively. NHRMC did not receive any funds to subsidize the costs of providing charity care under its charity care policy for the years ended September 30, 2013 and 2012.

Charity care provided by component units is not considered significant to the financial statements.

Net Patient Service Revenue and Net Patient Receivables

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

Sales and Income Taxes

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

Pension Plan

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

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.

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

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

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

Reclassification

Certain amounts presented in the prior year's data have been reclassified, as necessary, to be consistent with the 2013 presentation. Reclassifications had no effect on net position or changes in net position.

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

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

Medicare

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

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

Other Medicare payments are based on interim rates with final settlement determined after submission of annual cost reports and audits of these reports by the Medicare fiscal intermediary. NHRMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2010.

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, 2009.

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,	
	2013	2012	2013	2012
NHRMC	40%	40%	20%	33%
CHA	62%	59%	39%	52%
LCFH	90%	90%	74%	75%
PMH	65%	56%	50%	60%

**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)

Medicaid

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

Medicaid services represent:

	Percentage of Net Patient Services Revenue for the Year Ended September 30,		Percentage of Net Patient Accounts Receivable as of September 30,	
	2013	2012	2013	2012
NHRMC	13%	14%	12%	8%
CHA	3%	4%	12%	3%
LCFH	5%	4%	22%	18%
PMH	22%	21%	14%	19%

During 2011, the State of North Carolina enacted legislation (the GAP Assessment Program) intended to implement a program in which hospitals pay an assessment designed to increase funds used to match Federal support such that the State can supplement existing Medicaid Disproportionate Share payments. The 2011 and 2012 GAP Assessment Programs were approved during 2012. During fiscal year ended September 30, 2013, NHRMC received approximately \$36,118 from the State of North Carolina under the Medicaid Reimbursement Initiative (MRI), of which \$5,281 was for the 2013 GAP Assessment Program. During fiscal year ended September 30, 2012, NHRMC received approximately \$40,209 from the State of North Carolina under the Medicaid Reimbursement Initiative (MRI), of which \$4,469 was for 2011 GAP Assessment Program which was not finalized and accruable in 2011, and \$6,284 was for the 2012 GAP Assessment Program. The GAP Assessment Program balances are recorded net of assessments in net patient service revenue.

PMH received approximately \$55, of which \$19 was for the 2013 GAP Assessment Program.

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

The MRI was audited and settled through September 30, 2003. Amounts of supplemental payments received by NHRMC for years 2004 through 2010 are not subject to settlement. Fiscal Year 2011 is the first year since 2003 where Medicare Upper Payment Limit Program audits can potentially have a financial impact and NHRMC has determined that payments received in 2013, 2012 and 2011 are not at risk.

**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)
Changes in Estimates Related to Third Party Payors**

Adjustments to estimated third party payor settlements from prior years occurring in 2013 and 2012 decreased NHRMC's change in net position by approximately \$1,143 and increased NHRMC's change in net position by approximately \$355, respectively.

Adjustments to estimated third party payor settlements from prior years occurring in 2013 and 2012 decreased PMH's change in net position by approximately \$49 and \$74, respectively.

Recovery Audit Contractor Audits

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

During the years ended September 30, 2013 and 2012, the number of NHRMC claims chosen by RAC for review totaled 573 and 1,462, respectively. Net overpayments processed to date for fiscal year 2013 and 2012, respectively, are \$135 and \$935. NHRMC has recorded a reserve for estimated assessments under future RAC audits in the estimated third-party payor settlements on the statement of net position.

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

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for incentive payments under both the Medicare and Medicaid programs to eligible health care providers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years for eligible hospitals and up to five years for eligible professionals and are based on statutory formulas. Under the NC Medicaid Electronic Health Record Incentive Program, eligible hospitals may receive payments over three years while eligible professionals receive payments for up to five years. Payments under both programs are subject to audits of the financial records and statistics used to determine payment and of the IT resources used to demonstrate meaningful use. Payments for any fiscal year may be subject to audit for up to six years and recouped by CMS if there are audit findings of noncompliance. Amounts due under this program are recognized in the period that all requirements for the receipt of funds have been met.

NHRMC received meaningful use payments totaling \$5,967, of which \$3,269 was from Medicare and \$2,698 was from Medicaid, during the year ended September 30, 2013. The meaningful use payments are recorded in other revenue on the statement of revenues, expenses and changes in net position. No EHR incentives payments were received by NHRMC in fiscal year ended September 30, 2012. There have been no CMS audits of NHRMC meaningful use incentives received.

CHA received meaningful use payments totaling \$523 and \$396 during the year ended September 30, 2013 and 2012, respectively, which are recorded in other revenue on the statement of revenues, expenses and changes in net position. Medicare payments were \$438 for the year ended September 30, 2013 and \$396 for September 30, 2012. Medicaid payments were \$85 for the year ended September 30, 2013. Audits of meaningful use incentives made to two CHA eligible professionals had no findings.

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

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

Allowances for Bad Debts

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

	September 30,	
	2013	2012
NHRMC	\$ 77,515	\$ 63,020
CHA	3,820	5,328
LCFH	675	440
PMH	3,150	4,088
	<u>\$ 85,160</u>	<u>\$ 72,876</u>

For the years ended September 30, 2013 and 2012, net patient service revenue is reported net of a provision for bad debts of:

	Year ended September 30,	
	2013	2012
NHRMC	\$ 89,062	\$ 79,069
CHA	6,082	6,649
LCFH	976	811
PMH	4,262	4,519
	<u>\$ 100,382</u>	<u>\$ 91,048</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

Deposits

As of September 30, 2013 and 2012, the carrying values and bank balances of deposits were as follows (in thousands):

	2013		2012	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
NHRMC	\$ 61,483	\$ 68,324	\$ 33,437	\$ 37,711
CHA	1,326	1,335	1,903	1,919
LCFH	7,287	7,612	4,166	4,533
PMH	1,255	1,482	1,352	2,094

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

Under the Pooling Method, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with NHRMC or PMH. Because of the inability to measure the exact amount of collateral pledged for NHRMC and PMH under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each Pooling Method depository.

As of September 30, 2013, financial institutions are each insured by the Federal Deposit Insurance Corporation (FDIC) for deposits up to \$250. Substantially all deposits of the Foundation were covered by federal depository insurance. NHRMC and PMH have cash balances in financial institutions that exceed federal depository limits, but the excess is collateralized under the Pooling Method described above.

CHA and LCFH are not subject to the above described statutes. CHA and LCFH have cash balances in a financial institution that from time to time have exceeded federal depository insurance limits. Bank balances in excess of federal depository insurance limits are uninsured and uncollateralized and amounted to \$832 and \$1,418 for CHA and \$7,112 and \$4,033 for LCFH, as of September 30, 2013 and 2012, respectively.

**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)

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 and CHA.

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

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

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

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

**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, 2013 and 2012, NHRMC had the following investments, concentrations and maturities, excluding fiduciary investments:

Investment Type	Weighted Average Maturity in Years	Fair Value 2013	Weighted Average Maturity in Years	Fair Value 2012
Municipal Bonds:				
Brunswick Cnty NC Enterprise Sys Rev Build America Bonds	-	\$ -	5.5	\$ 2,036
US Government Treasury Notes	2.7	41,373	5.6	13,637
US Government Treasury Bonds	10.2	19,881	7.2	32,161
US Government Agencies:				
Federal Farm Credit Bank	< 1 year	1,019	1.0	1,056
Federal Home Loan Bank	3.3	9,764	3.6	8,136
Federal Home Loan Mortgage Corp	4.1	20,683	3.4	19,814
Federal Nat'l Mortgage Association	5.6	15,624	1.7	11,997
Mortgage Backed Securities:				
Federal Home Loan Mtg Corp Pool	19.0	22,725	19.6	26,940
Federal Nat'l Mortgage Assoc Pool	17.7	29,393	21.2	34,989
Gov't Nat'l Mortgage Assoc Pool	19.3	9,356	16.7	13,126
Asset Backed CMO's:				
Gov't Nat'l Mortgage Assoc	22.2	6,570	17.1	1,338
Vendee Mortgage Trust Series 1993-1	9.4	780	-	-
Vendee Mortgage Trust Ser 1992-1 CL 2Z	8.6	763	9.6	878
Vendee Mortgage Trust Ser 1994-3B CL 2F	9.0	543	10.0	638
Vendee Mortgage Trust Ser 1995-1 CL 3ZB	11.4	653	12.4	768
Vendee Mortgage Trust Ser 1997-1 CL 2Z	13.4	373	14.4	449
Vendee Mortgage Trust Ser 1996-1 CL 1Z	12.4	825	13.4	982
NC Capital Management Trust - Cash Portfolio	N/A	69,342	N/A	71,269
Department of State Treasurer Trust Funds				
Investment Program - Equity Investment Fund	N/A	75,940	N/A	62,700
Department of State Treasurer Short-Term				
Investment Fund (STIF)	N/A	68	N/A	68
Mutual Funds	N/A	6,319	N/A	5,881
		<u>\$ 331,994</u>		<u>\$ 308,863</u>

N/A = Not applicable.

**New Hanover Regional Medical Center
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**Notes to Financial Statements
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Note 3. Cash and Cash Equivalents and Investments (Continued)

As of September 30, 2013 and 2012, LCFH had the following investments:

Investment Type	Fair Value	
	2013	2012
Bond Funds	\$ 3,130	\$ 7,379
Mutual Funds	17,212	10,767
	<u>\$ 20,342</u>	<u>\$ 18,146</u>

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

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

Credit Risk. Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State Statutes limit NHRMC's investments to obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of specific U.S. government agencies; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; certain high quality issues of commercial paper and bankers' acceptances; investment in a commingled investment pool established and administered by the North Carolina State Treasurer; certain repurchase agreements with respect to direct obligations of the United States or obligations which are guaranteed by the United States as to principal and interest; and the North Carolina Capital Management Trust (NCCMT). NHRMC's investments in the NCCMT Cash Portfolio carried a rating of AAAM by Standard & Poor's as of September 30, 2013.

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**Notes to Financial Statements
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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, 2013 and 2012. With respect to NHRMC's investments in mortgage backed securities, NHRMC's investment portfolio consists of both traditional mortgage backed securities (MBS's) and asset backed collateralized mortgage obligations (CMO's). An MBS is an asset backed security whose cash flows are backed by the principal and interest payments of a pool of mortgage loans. Payments are typically made monthly over the lifetime of the underlying loans. CMO's, a type of mortgage backed security, are bonds that represent claims to specific cash flows from large pools of mortgages. The streams of principal and interest payments on the mortgages are distributed to the different classes of CMO interests. Credit risk associated with MBS's and CMO's is affected by homeowners or borrowers defaulting on their loans. NHRMC's investments in CMO's are explicitly guaranteed by the U.S. Government (Government National Mortgage Association and Vendee Mortgage Trust securities).

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

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of government's investment in a single issuer. NHRMC's investment policy requires a balance between short/intermediate fixed income securities, broad duration fixed income securities, and investment in a commingled investment pool established and administered by the North Carolina State Treasurer as allowable under State Statute; however it places no limit on the amount NHRMC may invest in any one issuer. As of September 30, 2013, securities issued/backed by Fannie Mae, Freddie Mac, and Ginnie Mae represent 13.6%, 13.1%, and 4.8% of the Hospital's investment portfolio, respectively. As of September 30, 2012, securities issued/backed by Fannie Mae, Freddie Mac, and Ginnie Mae represent 15.3%, 15.2%, and 4.7% of the Hospital's investment portfolio, respectively.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. NHRMC's investment in the State Treasurer's Trust Funds Investment Program-Equity Investment Fund exposes NHRMC to foreign currency risk as a result of its positions in foreign currency-denominated equity securities. NHRMC does not have an investment policy that limits its exposure to foreign currency risk, however NHRMC's investment policy provides for the maintenance of a balance between three investment strategies, one of which is the State Treasurer's Trust Funds Investment Program-Equity Investment Fund. At September 30, 2013 and 2012, NHRMC had approximately \$15,317 and \$12,494, respectively, exposed to foreign currency risk, of which 19% and 21%, respectively, represent investments denominated in the Euro; 17% and 16%, respectively, represent investments denominated in the British Pound; and 17% and 16%, 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 statement of net position.

**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, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		
Cash on hand	\$ 19	\$ 19
Deposits	36,414	4,904
Short-term mutual fund (1)	11,003	10,714
	<u>\$ 47,436</u>	<u>\$ 15,637</u>
Assets limited as to use		
Held by bond paying agent		
Short-term mutual fund (1)	\$ 16,011	\$ 11,922
By Board for debt service		
Deposits	910	4,411
By Board for claims liabilities		
Cash	1	-
U.S. Treasury securities	6,764	3,026
U.S. Agency securities	14,838	11,913
Short-term mutual fund (1)	68	289
	<u>\$ 38,592</u>	<u>\$ 31,561</u>
Designated by Board for capital improvements		
U.S. Treasury securities	\$ 54,491	\$ 42,772
U.S. Agency securities	32,251	29,090
Municipal bonds	-	2,036
Other securities backed by		
U.S. Government/Gov't Agencies	71,981	80,108
Dept. of State Treasurer Trust Funds		
Investment Program -		
Equity Investment Fund	75,940	62,700
Dept. of State Treasurer Short Term		
Investment Fund (STIF)	68	68
Deposits	24,159	20,122
Short-term mutual fund (1)	42,260	48,344
	<u>\$ 301,150</u>	<u>\$ 285,240</u>
Restricted under LOC for 2008 bonds		
Deposits	\$ -	\$ 4,000
	<u>\$ -</u>	<u>\$ 4,000</u>
Designated by Board for employee benefit plans		
Mutual funds	\$ 1,753	\$ 1,672
	<u>\$ 1,753</u>	<u>\$ 1,672</u>
Restricted for Specific Purposes		
Mutual funds	\$ 2,560	\$ 2,432
	<u>\$ 2,560</u>	<u>\$ 2,432</u>
Restricted for Endowments		
Mutual funds	\$ 2,006	\$ 1,777
	<u>\$ 2,006</u>	<u>\$ 1,777</u>

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

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

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

Deposits of CHA as of September 30, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		
Cash on hand	\$ 5	\$ 6
Deposits	1,326	1,903
	<u>\$ 1,331</u>	<u>\$ 1,909</u>

Deposits and investments of LCFH as of September 30, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		
Cash on hand	\$ 3	\$ 3
Deposits	6,632	3,144
	<u>\$ 6,635</u>	<u>\$ 3,147</u>
Investments		
Bond and mutual funds	\$ 2,866	\$ 2,672
	<u>\$ 2,866</u>	<u>\$ 2,672</u>
By Board for operating and PDO reserve		
Deposits	\$ 576	\$ 718
Bond and mutual funds	11,098	10,355
	<u>\$ 11,674</u>	<u>\$ 11,073</u>
By Board for ESC reserve		
Deposits	\$ 55	\$ 55
	<u>\$ 55</u>	<u>\$ 55</u>
By Board for capital improvements		
Bond and mutual funds	\$ 5,009	\$ 4,015
	<u>\$ 5,009</u>	<u>\$ 4,015</u>
Under agreement		
Deposits	\$ -	\$ 45
	<u>\$ -</u>	<u>\$ 45</u>
Endowments		
Deposits	\$ 24	\$ 204
Bond and mutual funds	1,369	1,104
	<u>\$ 1,393</u>	<u>\$ 1,308</u>

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**Notes to Financial Statements
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Note 3. Cash and Cash Equivalents and Investments (Continued)

Deposits and investments of PMH as of September 30, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		
Cash on hand	\$ -	\$ 1
Deposits	1,255	1,352
Short-term mutual fund (1)	55	754
	<u>\$ 1,310</u>	<u>\$ 2,107</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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Real Estate:		
28.77 Acres of land and buildings in Wilmington, NC	\$ 4,356	\$ 4,356
Money market funds:		
Federated Government Obligations Fund	1,222	924
Federated U.S. Treasury Cash Reserves Fund	1,375	574
Mutual funds:		
Pimco Total Return Institutional Fund	73,835	67,095
Euro Pac Growth Fund	18,467	16,361
Royce Fund	9,188	8,799
Davis New York Venture Fund	38,355	33,185
Common stocks	34,732	32,894
	<u>\$ 181,530</u>	<u>\$ 164,188</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 6.09 years. The average maturity of the Federated Government Obligations Fund and the Federated U.S. Treasury Cash Reserves fund is approximately 45 days and 56 days, respectively.

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**Notes to Financial Statements
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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-mf, and the PIMCO Total Return Institutional Fund is not rated by credit agencies.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments and other assets that are in possession of an outside third party. The Plan's common stock are registered in the name of and held by the First Citizens Bank & Trust Company, trustee, and identified in First Citizens Bank & Trust Company's records as belonging to the Plan. Mutual funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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

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

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

Note 4. Capital Asset Activity

Capital asset activity was as follows:

NHRMC - Year Ended September 30, 2013

	Beginning Balance	Additions	Retirements	Ending Balance
NHRMC Activity:				
Capital assets, not being depreciated:				
Land	\$ 11,622	\$ -	\$ (308)	\$ 11,314
Construction in progress	491	17,158	(12,413)	5,236
Total capital assets, not being depreciated	12,113	17,158	(12,721)	16,550
Capital assets, being depreciated/amortized				
Intangible assets	64,255	1,000	-	65,255
Buildings and leasehold improvements	494,900	12,563	(1,271)	506,192
Equipment	317,514	14,309	(17,582)	314,241
Total capital assets being depreciated/amortized	876,669	27,872	(18,853)	885,688
Less accumulated depreciation/amortization for:				
Intangible assets	(22,434)	(3,464)	-	(25,898)
Buildings, leasehold improvements, and equipment	(390,759)	(40,002)	18,131	(412,630)
Total accumulated depreciation/amortization	(413,193)	(43,466)	18,131	(438,528)
Total capital assets being depreciated/ amortized, net	463,476	(15,594)	(722)	447,160
NHRMC activities, capital assets, net	\$ 475,589	\$ 1,564	\$ (13,443)	\$ 463,710

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

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

Note 4. Capital Asset Activity (Continued)

NHRMC - Year Ended September 30, 2012

	Beginning Balance (As Restated)	Additions	Retirements	Ending Balance
NHRMC Activity:				
Capital assets, not being depreciated:				
Land	\$ 11,622	\$ -	\$ -	\$ 11,622
Construction in progress	27,131	37,626	(64,266)	491
Total capital assets, not being depreciated	38,753	37,626	(64,266)	12,113
Capital assets, being depreciated/amortized				
Intangible assets	64,255	-	-	64,255
Buildings and leasehold improvements	490,662	4,960	(722)	494,900
Equipment	267,764	66,345	(16,595)	317,514
Total capital assets being depreciated/amortized	822,681	71,305	(17,317)	876,669
Less accumulated depreciation/amortization for:				
Intangible assets	(19,804)	(2,630)	-	(22,434)
Buildings, leasehold improvements, and equipment	(367,509)	(40,165)	16,915	(390,759)
Total accumulated depreciation/amortization	(387,313)	(42,795)	16,915	(413,193)
Total capital assets being depreciated/ amortized, net	435,368	28,510	(402)	463,476
NHRMC activities, capital assets, net	\$ 474,121	\$ 66,136	\$ (64,668)	\$ 475,589

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

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

Note 4. Capital Asset Activity (Continued)

CHA - Year Ended September 30, 2013

	Beginning			Ending
	Balance	Additions	Retirements	Balance
CHA Activity:				
Capital assets, not being depreciated:				
Construction in progress	\$ 68	\$ 693	\$ (473)	\$ 288
Total capital assets, not being depreciated	68	693	(473)	288
Capital assets, being depreciated/amortized				
Intangible assets	1,976	-	-	1,976
Buildings and leasehold improvements	457	60	-	517
Equipment	5,594	348	(48)	5,894
Total capital assets being depreciated/amortized	8,027	408	(48)	8,387
Less accumulated depreciation/amortization for:				
Intangible assets	(992)	(324)	-	(1,316)
Buildings, leasehold improvements, and equipment	(1,628)	(1,111)	16	(2,723)
Total accumulated depreciation/amortization	(2,620)	(1,435)	16	(4,039)
Total capital assets being depreciated/amortized, net	5,407	(1,027)	(32)	4,348
CHA activities, capital assets, net	\$ 5,475	\$ (334)	\$ (505)	\$ 4,636

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

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

Note 4. Capital Asset Activity (Continued)

CHA - Year Ended September 30, 2012

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

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

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

Note 4. Capital Asset Activity (Continued)

LCFH - Year Ended September 30, 2013

	Beginning Balance	Additions	Retirements	Ending Balance
LCFH Activity:				
Capital assets, not being depreciated:				
Land	\$ 4,660	\$ -	\$ -	\$ 4,660
Construction in progress	631	490	(525)	596
Total capital assets, not being depreciated	5,291	490	(525)	5,256
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	14,894	311	-	15,205
Equipment	3,083	954	-	4,037
Total capital assets being depreciated/amortized	17,977	1,265	-	19,242
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements, and equipment	(4,031)	(813)	-	(4,844)
Total accumulated depreciation/amortization	(4,031)	(813)	-	(4,844)
Total capital assets being depreciated/ amortized, net	13,946	452	-	14,398
LCFH activities, capital assets, net	\$ 19,237	\$ 942	\$ (525)	\$ 19,654

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

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

Note 4. Capital Asset Activity (Continued)

LCFH - Year Ended September 30, 2012

	Beginning Balance	Additions	Retirements	Ending Balance
LCFH Activity:				
Capital assets, not being depreciated:				
Land	\$ 3,359	\$ 1,301	\$ -	\$ 4,660
Construction in progress	1,100	592	(1,061)	631
Total capital assets, not being depreciated	<u>4,459</u>	<u>1,893</u>	<u>(1,061)</u>	<u>5,291</u>
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	10,388	4,506	-	14,894
Equipment	2,864	404	(185)	3,083
Total capital assets being depreciated/amortized	<u>13,252</u>	<u>4,910</u>	<u>(185)</u>	<u>17,977</u>
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements, and equipment	(3,558)	(654)	181	(4,031)
Total accumulated depreciation/amortization	<u>(3,558)</u>	<u>(654)</u>	<u>181</u>	<u>(4,031)</u>
Total capital assets being depreciated/ amortized, net	<u>9,694</u>	<u>4,256</u>	<u>(4)</u>	<u>13,946</u>
LCFH activities, capital assets, net	<u>\$ 14,153</u>	<u>\$ 6,149</u>	<u>\$ (1,065)</u>	<u>\$ 19,237</u>

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

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

Note 4. Capital Asset Activity (Continued)

PMH - Year Ended September 30, 2013

	Beginning Balance	Additions	Retirements	Ending Balance
PMH Activity:				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	481	2,802	(3,159)	124
Total capital assets, not being depreciated	523	2,802	(3,159)	166
Capital assets, being depreciated/amortized				
Intangible assets	191	-	-	191
Buildings and leasehold improvements	10,964	2,082	(46)	13,000
Equipment	8,709	1,945	(2,174)	8,480
Total capital assets being depreciated/amortized	19,864	4,027	(2,220)	21,671
Less accumulated depreciation/amortization for:				
Intangible assets	(165)	(9)	-	(174)
Buildings, leasehold improvements, and equipment	(12,598)	(1,279)	2,201	(11,676)
Total accumulated depreciation/amortization	(12,763)	(1,288)	2,201	(11,850)
Total capital assets being depreciated/amortized, net	7,101	2,739	(19)	9,821
PMH activities, capital assets, net	\$ 7,624	\$ 5,541	\$ (3,178)	\$ 9,987

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

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

Note 4. Capital Asset Activity (Continued)

PMH - Year Ended September 30, 2012

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

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, 2013 and 2012. As of September 30, 2013, NHRMC has remaining commitments of approximately \$11,063 on projects. PMH has an active project for leasehold improvements with a total contract amount of approximately \$61.

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

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

Note 5. Lease Obligations and Commitments

Under a lease agreement dated October 1, 1993 and most recently amended July 1, 2013, 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 statements of net position. Covenants under the lease agreement correspond to those in the Series 2006, 2008, 2011, and 2013 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:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 6,329
2015	5,207
2016	5,062
2017	4,452
2018	2,451
2019 - 2023	5,583
Total minimum payments	<u>\$ 29,084</u>

Rent expense on operating leases for NHRMC totaled approximately \$8,754 and \$6,845 in 2013 and 2012, respectively.

Under a facility and services agreement signed on October 1, 2012 between NHRMC and Atlantic Surgicenter, LLC, NHRMC leases an ambulatory surgical facility through October 1, 2017. The lease may be terminated by NHRMC in 2015; see note 12 for additional details. A portion of this lease has been determined to be a capital lease for various pieces of medical and computer equipment. As of September 30, 2013, the leased assets were recorded at \$1,189 and had accumulated amortization of \$519. Scheduled principal payments on this capital lease are \$484 and \$237 for the fiscal years ending September 30, 2014 and 2015, respectively.

Scheduled payments on this lease commitment, including the capital lease portion, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 2,429
2015	1,120
Total minimum payments	<u>\$ 3,549</u>

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

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

Note 5. Lease Obligations and Commitments (Continued)

CHA leases office space and equipment under various noncancelable operating lease agreements that expires between 2014 and 2022. Scheduled payments on CHA's operating lease commitments are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 3,168
2015	3,008
2016	2,905
2017	2,663
2018	2,710
2019-2022	5,515
Total minimum payments	<u>\$ 19,969</u>

Rent expense on operating leases for CHA totaled approximately \$4,228 and \$3,528 in 2013 and 2012, 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 \$42 and \$61 in 2013 and 2012, respectively.

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

PMH leases additional space under a noncancelable operating lease, which expires in fiscal year 2028. In addition, PMH leases certain medical equipment under operating leases that expires between 2014 and 2018. Scheduled payments on PMH's operating lease commitments are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 355
2015	347
2016	347
2017	344
2018	230
2019-2028	1,882
Total minimum payments	<u>\$ 3,505</u>

Rent expense on operating leases for PMH totaled approximately \$439 and \$395 in 2013 and 2012, respectively.

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

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

Note 6. Bonds Payable and Other Long-Term Liabilities

Changes in long-term liabilities:

Long-term obligation activity for the year ended September 30, 2013 and 2012, was as follows:

NHRMC - Year Ended September 30, 2013

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 313,750	\$ 56,745	\$ (69,880)	\$ 300,615	\$ 11,615
Less deferred amounts:					
Issuance discounts, (premiums), net	(2,520)	(4,630)	374	(6,776)	-
Total bonds payable	316,270	61,375	(70,254)	307,391	11,615
Capital leases (Note 5)	-	1,189	(468)	721	484
Supplemental retirement plans	1,672	81	-	1,753	-
Notes payable	5,117	-	(1,638)	3,479	1,859
Long-term obligations	\$ 323,059	\$ 62,645	\$ (72,360)	\$ 313,344	\$ 13,958

NHRMC - Year Ended September 30, 2012

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 320,580	\$ -	\$ (6,830)	\$ 313,750	\$ 11,320
Less deferred amounts:					
Issuance discounts, (premiums), net	(2,777)	-	257	(2,520)	-
Total bonds payable	323,357	-	(7,087)	316,270	11,320
Supplemental retirement plans	1,456	216	-	1,672	-
Notes payable	6,843	-	(1,726)	5,117	1,777
Long-term obligations	\$ 331,656	\$ 216	\$ (8,813)	\$ 323,059	\$ 13,097

**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)

LCFH - Year Ended September 30, 2013

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 6,100	\$ -	\$ (254)	\$ 5,846	\$ 313
Notes payable	3,227	2,584	(2,077)	3,734	138
	<u>\$ 9,327</u>	<u>\$ 2,584</u>	<u>\$ (2,331)</u>	<u>\$ 9,580</u>	<u>\$ 451</u>

LCFH - Year Ended September 30, 2012

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

**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)

NHRMC Bonds Payable

Series 2005, 2006, 2008, 2011, and 2013 bonds outstanding at September 30, 2013 and 2012, are as follows:

Revenue Bonds	Principal Amount	
	2013	2012
Series 2005A Variable Rate Hospital Revenue Refunding Bonds, demand obligations with mandatory redemptions annually through 2023	\$ -	\$ 16,765
Series 2005B Variable Rate Hospital Revenue Refunding Bonds, demand obligations with mandatory redemptions annually through 2026	-	45,200
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	56,015	60,000
Series 2006B Hospital Revenue Bonds Term revenue bonds maturing in 2027, with stated interest rate of 5.0%	26,440	26,440
Term revenue bonds maturing in 2031, with stated interest rate of 5.162%	33,560	33,560
Series 2008A Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	18,510	18,910
Series 2008B Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	18,510	18,910
Series 2011 Revenue Bonds Serial revenue bonds with interest rates ranging from 3.0% to 5.0%, maturing annually (beginning October 2012) through 2025	57,945	61,075
Term revenue bonds maturing in October 2026, with stated interest rates of 4.625% and 5.0%	7,535	7,535
Term revenue bonds maturing in October 2027, with stated interest rates of 4.625% and 5.0%	12,375	12,375
Term revenue bonds maturing in October 2028, with stated interest rates of 4.625% and 5.0%	12,980	12,980
Series 2013 Revenue Bonds Serial revenue bonds with interest rates ranging from 2.0% to 5.0%, maturing annually (beginning October 2013) through 2026	56,745	-
Revenue bonds payable	300,615	313,750
Unamortized premiums, net	6,776	2,520
Current portion	(11,615)	(11,320)
Total revenue bonds payable, long-term	\$ 295,776	\$ 304,950

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

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

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

Series 2005 Variable Rate Revenue Hospital Refunding Bonds and 2013 Hospital Revenue Bonds (Fixed Rates)

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.

On July 18, 2013 NHRMC issued \$56,745 of Series 2013 Fixed Rate Hospital Revenue Refunding Bonds through New Hanover County. The net proceeds (net of issuance costs) from the sale of the 2013 Series Bonds were used to redeem Series 2005 Bonds totaling \$58,560 and partially terminate swaps held in connection with the Series 2005 Bonds. With the issuance of the 2013 Bonds and resulting redemption of the Series 2005 Bonds, the Standby Bond Purchase Agreement, under which the bank agreed to purchase any 2005 bonds that were tendered for purchase to the extent that remarketing proceeds were not sufficient or available, was also terminated.

Interest on the Series 2013 bonds is paid at fixed rates, established at the time of bond issuance. As a result of the immediate refunding on the 2005 Bonds, NHRMC estimated at the time of issuance that it will experience a reduction in future cash flows of approximately \$1,600. The Series 2013 bonds were originally issued at a premium of \$4,630, which is being amortized under the effective interest method over the life of the bonds. Additionally, NHRMC recorded a deferred outflow of resources of \$1,976 related to the refunding.

Series 2006 Hospital Revenue Bonds (Fixed Rates)

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

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

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

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

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

Series 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, 2013 and 2012, the rates on these bonds were 0.08% and 0.17%, 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, 2013 or 2012. The agreement carries a variable interest rate based on the bank's prime rate or a maximum of 18%. The agreement also carries a Letter of Credit fee, payable quarterly, and required \$4,000 of NHRMC cash to be set aside for the life of the Letter of Credit. The Reimbursement agreement was amended on January 31, 2013 to remove the \$4,000 cash restriction.

Series 2011 Hospital Revenue Bonds (Fixed Rates)

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.

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.

**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, the Obligated Unit (New Hanover Regional Medical Center and CHA) is required to make semiannual debt service payments on unpaid fixed rate debt (2006, 2011, and 2013 bonds), monthly debt service payments on variable rate demand bonds (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, 2013 and 2012, calculated for the Obligated Unit:

Long-term debt service coverage ratio	Years Ended September 30,	
	2013	2012
Income before capital contributions and operating transfers	\$ 49,662	\$ 39,841
Plus:		
Depreciation and amortization	44,901	44,337
Interest expense	12,817	12,120
Less:		
Unrealized Gains on Investments	2,058	17,461
Income available for debt service	<u>\$ 105,322</u>	<u>\$ 78,837</u>
Maximum annual debt service	\$ 26,707	\$ 26,707
Maximum annual debt service coverage ratio	3.94	2.95
Cushion ratio	September 30,	
	2013	2012
Cash	\$ 46,548	\$ 15,281
Designated by Board	301,150	285,240
Total unrestricted cash and investments	<u>\$ 347,698</u>	<u>\$ 300,521</u>
Maximum annual debt service	\$ 26,707	\$ 26,707
Cushion ratio	13.02	11.25

The Series 2006, 2008, 2011, and 2013 Revenue Bonds are secured by and payable from the net revenue of the Obligated Unit, 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 the Obligated Unit's revenues, which were \$818,651 and \$732,535 for the years ended September 30, 2013 and 2012, respectively, are security for the revenue bonds.

Total funds held by the trustee (including amounts as bond paying agent) at September 30, 2013 and 2012, were approximately \$16,011 and \$11,922, respectively.

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

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

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

Scheduled payments of principal and interest on bonded debt are as follows. (Interest on any variable rate bonds is included at the rates in effect as of September 30, 2013; payments are shown assuming the letter of credit for the 2008 Bonds are renewed throughout the life of the bonds.)

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2014	\$ 11,615	\$ 9,929	\$ 21,544
2015	11,965	11,564	23,529
2016	12,605	11,176	23,781
2017	13,065	10,718	23,783
2018	13,625	10,232	23,857
2019 - 2023	75,930	42,940	118,870
2024 - 2028	94,930	24,996	119,926
2029 - 2033	54,690	5,098	59,788
2034 - 2038	9,950	26	9,976
2039	2,240	-	2,240
	<u>\$ 300,615</u>	<u>\$ 126,679</u>	<u>\$ 427,294</u>

Interest paid related to these bonds was approximately \$12,297 and \$13,032 during fiscal years ended September 30, 2013 and 2012, respectively.

Other NHRMC Long-Term Liabilities

NHRMC implemented the EPIC information system product suite to replace most core clinical and revenue systems. Implementation was phased in over several years, with the majority of core systems functional and the electronic medical record in place during fourth quarter fiscal year 2012. With the EPIC product, NHRMC meets the requirements necessary to qualify for Meaningful Use stimulus incentives available through the federal government. See Note 2 for additional discussion on Meaningful Use Stimulus funds.

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.

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

Long-term financial commitments include a financing agreement with EPIC System Corporation related to implementation of the product, and annual maintenance agreements and subscription fees required for continued use of the product suite. NHRMC management plans to continue use of the EPIC system for no less than 10 years. The financing agreement requires 59 monthly installment payments to be made between November 2010 and September 2015. The net present value of the remaining payments under the agreement using a 4.5% discount rate is approximately \$3,479 at September 30, 2013. Of this amount, \$1,859 is reflected in notes and bonds payable, current portion and \$1,620 in long-term notes payable. If volumes dictate an increase in cost, this increase will be invoiced over the remaining payments due.

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

Fiscal Year	Amount
2014	\$ 1,987
2015	1,657
Total minimum payments	3,644
Less: amount representing interest	(165)
Present value of net minimum payments, including current portion, \$1,859	<u>\$ 3,479</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 Position 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 Position must be more than \$9 million. As of September 30, 2013, LCFH was in compliance with those covenants.

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, 2013, LCFH was in compliance with those covenants.

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

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

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

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, 2013):

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2014	\$ 313	\$ 94	\$ 407
2015	320	89	409
2016	325	84	409
2017	332	79	411
2018	334	74	408
2019 - 2023	1,961	280	2,241
2024 - 2028	2,239	107	2,346
2029 - 2033	22	-	22
	<u>\$ 5,846</u>	<u>\$ 807</u>	<u>\$ 6,653</u>

Lower Cape Fear Hospice Notes 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. This loan was refinanced in July 2013. The original amount was \$2,000. The loan has a fixed interest rate of 3.45% and matures in August 2028. The loan is carried on the financial statements as of September 30, 2013 at approximately \$1,997. The Whiteville Care Center serves as collateral.

During the year ended September 30, 2012, LCFH borrowed \$1,230 from First Citizens Bank to purchase land adjacent to its other facilities. The loan has a fixed interest rate of 3.35% and a repayment of 15 years. The loan is carried on the financial statements as of September 30, 2013 at approximately \$1,153. The land serves as collateral.

During the year ended September 30, 2013, LCFH obtained a construction loan from First Citizens Bank with a maximum draw of \$4,000 for the expansion and renovation of the Wilmington inpatient facility and for site parking and service road additions on the Wilmington campus. The construction began in 2013, resulting in a draw down balance at September 30, 2013 of \$584. This loan is interest only for the first 12 months. The loan has a fixed interest rate of 3.45% and a maturity date of August 2028.

Scheduled principal repayment on these notes payables are as follows:

Fiscal Year	Amount
2014	\$ 138
2015	405
2016	419
2017	203
2018	158
Thereafter	<u>2,411</u>
	3,734
Less current portion	<u>(138)</u>
	<u>\$ 3,596</u>

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Note 7. Derivative Investments

NHRMC has the following interest rate swap agreements:

As of September 30, 2013							
Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/13	Change in Fair Value for the year ended 9/30/13
Series 2008A-1	\$ 7,825	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (893)	\$ 430
Series 2008A-2	7,730	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(893)	427
Series 2008B-1	21,465	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(2,761)	1,428
Series 2008B-2	-	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(857)	3,331
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd		
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index	avg LIBOR	(647)	101
						<u>\$ (6,051)</u>	

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

Swaps associated with 2005 and 2008 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.

With the issuance of the 2013 Bonds to redeem the Series 2005 Bonds, NHRMC partially terminated swaps held in connection with the Series 2005 Bonds. The remaining swaps totaling \$37,000 were restructured to hedge the Series 2008 Bonds until 2026.

The terms, fair values, and underlying bond issues of the outstanding swaps as of September 30, 2013 and 2012 are shown in the table above (in thousands). The notional amounts of the swaps approximate the principal amounts of the associated debt.

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

As of September 30, 2012, the swaps were determined to be effective cash flow hedging derivative instruments for the associated Series 2005 Bonds 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 statement of net position, and the change in fair value impacts only these statement of net position amounts.

With the swap restructuring resulting for the issuance of the 2013 Bonds, the remaining swaps held to hedge the Series 2008 Bonds were determined to be ineffective hedging derivative instruments under the provisions of GASB 53. Therefore, the entire fair value of the newly ineffective swaps in the amount of \$5,404 as of September 30, 2013 has been recorded as a component (a decrease) of net increase in fair value of investments in the statement of revenues, expenses, and changes in net position.

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2013. 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.

Basis Swap

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

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

As of September 30, 2013 and 2012, the basis swap has an estimated negative fair value of approximately \$647 and \$748, respectively, which is recorded as a liability for interest rate swap agreements in the statement of net position. Under the provisions of GASB 53, the basis swap qualifies as an investment derivative instrument and therefore, changes in fair value of \$101 and \$1,038 for the years ended September 30, 2013 and 2012, respectively, have been recorded as a component of net (decrease) increase in fair value of investments in the statement of revenues, expenses and changes in net position.

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2013. 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.

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Note 7. Derivative Investments (Continued)

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, 2013 and 2012, the \$1,750 and \$1,850 notional amounts, respectively, are hedged at an interest rate of 3.885%. Based on market tax exempt interest rates of about .062% and .2780%, the present value of cash payment under the swap arrangement is a negative position of approximately \$221 and \$356 as of September 30, 2013 and 2012, 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, 2013. The term of the LCFH 2007 Bonds and the swap are essentially the same, 20 years.

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

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

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

Fiscal Year	Series 2007 Variable Rate Bonds		Interest Rate		Total
	Principal	Interest	Swaps, Net		
2014	\$ 200	\$ 2	\$ 139	\$	341
2015	200	2	130		332
2016	200	2	103		305
2017	200	2	104		306
2018	200	2	86		288
2019 - 2023	1,000	6	395		1,401
2024 - 2028	1,500	2	151		1,653
	<u>\$ 3,500</u>	<u>\$ 18</u>	<u>\$ 1,108</u>	<u>\$</u>	<u>4,626</u>

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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), which is affiliated with NHRMC and the University of North Carolina. SEAHEC leases space from NHRMC for its operations and reimburses NHRMC for a portion of its medical resident salaries. NHRMC pays SEAHEC for educational services provided to its employees and subsidizes the SEAHEC medical education program and family practice program. NHRMC also pays SEAHEC for various contracted medical services not related to medical education programs, such as physician trauma coverage, neonatal and pediatric specialty services.

Note 9. Risk Management

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

NHRMC purchases commercial insurance coverage against risk of loss due to errors and omissions, fiduciary liability, property damage and theft, pollution liability and various other insurable risks. NHRMC carries property insurance in the amount of \$750,000 for 2013 and \$600,000 for 2012 with a deductible of \$100 for all perils except named windstorm. For 2013 and 2012, the minimum deductible for named storm is \$5,000 per location, with a maximum deductible of \$25,000 per location. For 2013 and 2012, 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 2013 and 2012, NHRMC was also self-insured for professional liability and general liability claims up to \$5,000. There was no annual aggregate in 2012; there is a \$20,000 annual aggregate in 2013. In both 2013 and 2012, 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.

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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-funded liabilities.

	Years Ended September 30,		
	2013	2012	2011
Beginning liability	\$ 27,957	\$ 29,779	\$ 24,951
Provisions for claims	55,116	52,956	50,680
Payments for claims	(52,848)	(52,791)	(43,821)
Administrative fees	(2,126)	(1,987)	(2,031)
Ending liability	<u>\$ 28,099</u>	<u>\$ 27,957</u>	<u>\$ 29,779</u>

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

Note 10. Pension and Supplemental Retirement Plan Obligations

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

NHRMC Plan Description: NHRMC sponsors and has fiduciary responsibility for The Pension Plan of New Hanover Regional Medical Center (the NHRMC Plan). The Plan was originally effective June 14, 1967, and was most recently amended in December 2012 to comply with the Heroes Earnings Assistance and Relief Tax Act of 2008. The Plan is a single employer plan, covering all employees of NHRMC (including Foundation) and certain employees of CHA who meet eligibility requirements.

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.

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

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 8,842	\$ 10,600
Interest on net pension asset	(330)	(352)
Adjustment to annual required contribution	346	362
Annual pension cost	<u>8,858</u>	10,610
Contributions made	8,842	10,600
Other	-	10
(Increase) decrease in net pension asset	16	-
Net pension asset, beginning of year	<u>(4,396)</u>	(4,396)
Net pension asset, end of year	<u>\$ (4,380)</u>	<u>\$ (4,396)</u>

The annual required contribution for the basic plan for the 2013 year was determined as part of the January 1, 2012 actuarial valuation. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4% per year. Both (a) and (b) included an inflation component of 3%. The assumptions did not include post retirement benefit increases. The actuarial value of assets is valued at a market-related value that spreads gains and losses over five years. The actuarial funding method is currently the Projected Unit Credit Method. The 24% 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, 2013 and 2012 were approximately \$8,842 and \$10,600, 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.

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

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

The Three-Year Trend Information is as follows:

Employer Contributions:

Fiscal Year Ending	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Asset
9/30/2011	\$ 9,791	100%	\$ 4,396
9/30/2012	10,610	100%	4,396
9/30/2013	8,858	100%	4,380

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)	Deficit as a Percentage of Covered Payroll ((a - b) / c)
1/1/2011	\$ 170,571	\$ 194,762	\$ (24,191)	88%	\$ 205,914	-11.75%
1/1/2012	177,056	201,062	(24,006)	88%	214,146	-11.21%
1/1/2013	181,308	201,987	(20,679)	90%	234,391	-8.82%

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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. The Plan was originally effective January 1, 1970, and was most recently amended and restated effective January 1, 2009. 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 hired prior to January 1, 1992 who retire under the above conditions are entitled to annual retirement benefits equal to 1% of their 1991 annual benefit compensation as defined by the Plan times the years of service prior to January 1, 1992 and .5% of their 1991 annual benefit compensation in excess of \$9 times the years of service after January 1, 1992. Personnel employed on or after January 1, 1992, 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 compensation in excess of the applicable covered compensation for Social Security purposes for each year of credited service after December 31, 1991. Credited service for the .5% and .65% portions is limited to a maximum of 35 years. 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: The contribution requirements of the contributing employer to the Plan are established by the Plan document and determined annually by PMH based on actuarial recommendations. 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, 2013 and 2012:

	2013	2012
Annual required contribution	\$ 349	\$ 359
Interest on net pension obligation	17	18
Adjustment to annual required contribution	(18)	(19)
Annual pension cost	348	358
Contributions made	349	358
Other	1	-
Decrease in net pension obligation	(2)	-
Net pension obligation beginning of year	231	231
Net pension obligation end of year	\$ 229	\$ 231

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

The annual required contribution for the basic plan for the 2013 year was determined as part of the January 1, 2012 actuarial valuation. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4% 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 22% corridor limit for asset smoothing will be reduced by 2% per year until 20% in 2014, and the amortization period is 30 years. The annual contributions for PMH for the years ended September 30, 2013 and 2012 were approximately \$349 and \$359, respectively.

The Three-Year Trend Information is as follows:

Employer Contributions:

Fiscal Year Ending	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
9/30/2011	\$ 316	100%	\$ 231
9/30/2012	358	100%	231
9/30/2013	348	100%	229

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)	Deficit as a Percentage of Covered Payroll ((a - b) / c)
1/1/2011	\$ 3,552	\$ 4,689	\$ (1,137)	76%	\$ 7,231	-15.72%
1/1/2012	3,739	5,068	(1,329)	74%	8,372	-15.87%
1/1/2013	3,921	5,386	(1,465)	73%	8,736	-16.77%

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 \$1,518 and \$1,437 as of September 30, 2013 and 2012, 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 statement of net position date. There are no additional deferrals being made to the plan and no active employees participating.

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

Note 11. Defined Contribution Retirement Plans

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

Employee optional contributions totaled approximately \$8,454 and \$8,335, for the years ended September 30, 2013 and 2012, respectively. Employee contribution percentages were 3.33% and 3.33% of total payroll for the years ended September 30, 2013 and 2012, respectively. There were no employer matching contributions by NHRMC for the years ended September 30, 2013 and 2012.

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

CHA employer required and actual matching contributions totaled approximately \$325 and \$232, and employee optional contributions totaled approximately \$605 and \$464, for the years ended September 30, 2013 and 2012, respectively. Employer matching contribution percentages were 1.98% and 1.72%, and employee contribution percentages were 3.68% and 3.45% of total payroll for the years ended September 30, 2013 and 2012, respectively.

As of January 1, 2009, LCFH adopted a defined contribution plan under IRS code section 403(b) and an elective deferral plan. The plans cover qualified employees of LCFH, which are generally all employees. LCFH can match contributions to the 403(b) plan, but is not required to do so. Employer contributions vest after three complete years of service. Employer contributions to these plans for the years ended September 30, 2013 and 2012 were \$691 and \$696, respectively.

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

Note 12. Joint Ventures

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

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

**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)

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

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

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

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

A summary of NHRMC's joint venture investment activity as of and for the years ended September 30, 2013 and 2012 is as follows:

	2013						
	Ownership Percentage	Method of Accounting	Net	Investment	2013	2013	Cumulative
			Income (Loss)	as of September 30	Capital Contributions	Distributions Received	Contributions (net of distributions received)
SARO	50%	Equity	\$ 491	\$ 123	\$ -	\$ 478	\$ (1,540)
Surgicenter	46%	Equity	89	138	161	-	2,744
PNI	50%	Equity	592	307	-	595	(3,736)
Doshier/							
NHRMC	50%	Equity	(6)	91	-	-	181
AAQHNC	10%	Equity	(4)	11	-	-	18

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

All investments noted above are included in the Investment in affiliates in the statements of net position. 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 changes in net position.

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

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

Note 13. Contingencies

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

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

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

Note 14. Physician Practice Management Commitments

CHA has engaged Carolinas Physician Network (CPN), a physician practice network within the nonprofit corporation of Carolinas HealthCare Systems, through contractual agreements, to operate and manage each of the medical practices owned by CHA and provide certain professional medical services for each of those practices. CPN provides physicians and mid-level providers to operate each of the medical practices owned by CHA and provides certain professional medical services for each of those practices. In exchange, CHA pays a flat annual fee adjusted annually to equal the estimated compensation of the Practice Providers. In its role as manager, CPN provides management and billing services, practice acquisition services, provider recruiting, and access to its practice management system. Fees under the management agreement are based on the number and specialties of the practices. The Management Services and Professional Services Agreements expire in 2014 and may be renewed for successive one year terms. During the years ended September 30, 2013 and 2012, CHA paid \$58,902 and \$42,025, respectively, to CPN under these agreements.

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

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

Note 15. Pending GASB Statements

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2013 that have effective dates that may impact future financial presentations.

In March 2012, GASB issued GASB Statement 66, *Technical Corrections – 2012, An Amendment of GASB Statements 10 and 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from issuance of two pronouncements: Statements 54, *Fund Balance Reporting and Governmental Fund Type Definitions* regarding fund type classification; and 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* regarding accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. The implementation of this Statement will not have a material impact on NHRMC.

In June 2012, GASB issued GASB Statement 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement 25*. The objective of this Statement is to improve financial reporting by state and local pension plans. This Statement and Statement 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013, with earlier application encouraged. NHRMC has not completed the process of evaluating the impact GASB 67 will have on its financial statements.

In June 2012, GASB issued GASB Statement 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement 27*. The objectives of this Statement include improving the accounting and financial reporting by state and local governments for pensions, and improving information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, with earlier application encouraged. NHRMC has not completed the process of evaluating the impact GASB 68 will have on its financial statements.

In January 2013, GASB issued GASB Statement 69, *Government Combinations and Disposals of Government Operations*. This standard provides detailed requirement for the accounting and disclosures required for various types of government combinations, such as mergers, acquisitions and transfers of operations. The provisions of this Statement are effective for financial statements beginning after December 15, 2013. Management does not expect the implementation of the Statement to have a significant impact on the financial statements.

In April 2013, GASB issued GASB Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The standard addresses the accounting and disclosures required when a government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). Management does not expect GASB 70 to have any significant impact on its financial statements.

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

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

Note 16. Change in Accounting Principles/Restatement

During the year ended September 30, 2013, NHRMC adopted GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously Reported as Assets and Liabilities*. In accordance with GASB Statement 63, the Statement of Net Assets/Balance Sheet has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires, among other things, that deferred costs from the refunding of debt, which were previously presented with long term obligations, be presented as deferred outflows of resources, and bond issuance costs, which were previously deferred and amortized, must be included in current expenses.

As a result of the adoption of GASB Statement 65, the debt issuance costs that were previously being reported as intangible assets, (partially) and as a part of deferred charges on refunding (partially), were recognized as outflows of resources (i.e. expenses) in the period in which they were incurred. This change only impacted NHMRC and it was made retroactive to October 1, 2011 in accordance with the provisions of Statement 65 as follows:

	<u>NHRMC</u>
Net Position, October 1, 2011, as previously stated	\$ 500,119
Effect of accounting change	<u>(8,602)</u>
Net Position, October 1, 2011, as restated	<u>\$ 491,517</u>

The restatement also resulted in a reduction of depreciation and amortization expense and interest expense of \$371 and \$320, respectively, for a total increase of \$691 in the change in net position on the statement of revenues, expenses, and changes in net position for the year ended September 30, 2012, from amounts previously reported.

Supplementary Information

New Hanover Regional Medical Center
Combining Statements of Net Position
(Dollars in Thousands)

	September 30, 2013				September 30, 2012			
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
ASSETS								
Current assets								
Cash and cash equivalents	\$ 45,217	\$ 2,219	\$ -	\$ 47,436	\$ 13,372	\$ 2,265	\$ -	\$ 15,637
Assets limited as to use:								
Cash equivalents held by bond paying agent	16,011	-	-	16,011	11,922	-	-	11,922
Cash for debt service-not held by bond paying agent	910	-	-	910	4,411	-	-	4,411
Cash equivalents and investments for the future payment of claims liabilities	21,671	-	-	21,671	15,228	-	-	15,228
Receivables:								
Patient accounts, less allowance for bad debts	99,871	-	-	99,871	87,792	-	-	87,792
Estimated third-party payor settlements	8,932	-	-	8,932	6,102	-	-	6,102
Due from component units	1,077	-	-	1,077	388	-	-	388
Other receivables	8,763	923	(338)	9,348	7,721	847	(81)	8,487
Inventories	15,821	-	-	15,821	16,581	-	-	16,581
Prepaid expenses	10,474	35	-	10,509	10,345	18	-	10,363
Total current assets	228,747	3,177	(338)	231,586	173,862	3,130	(81)	176,911
Noncurrent cash and investments								
Investments:								
Designated by Board for capital improvements	301,150	-	-	301,150	285,240	-	-	285,240
Restricted under letter of credit	-	-	-	-	4,000	-	-	4,000
Designated by Board for supplemental retirement plans	1,753	-	-	1,753	1,672	-	-	1,672
Restricted by donors for specific purpose	-	2,560	-	2,560	-	2,432	-	2,432
Restricted by donors for endowments	-	2,006	-	2,006	-	1,777	-	1,777
	302,903	4,566	-	307,469	290,912	4,209	-	295,121
Pledges and grants receivable	-	1,664	-	1,664	-	1,748	-	1,748
Total assets limited as to use	302,903	6,230	-	309,133	290,912	5,957	-	296,869
Other assets								
Intangible capital assets, net of amortization	39,357	-	-	39,357	41,821	-	-	41,821
Investment in affiliates	670	-	-	670	423	-	-	423
Pension asset	4,380	-	-	4,380	4,396	-	-	4,396
Other long term assets	539	10	-	549	371	10	-	381
Total other assets	44,946	10	-	44,956	47,011	10	-	47,021
Capital assets - tangible								
Land	11,314	-	-	11,314	11,622	-	-	11,622
Depreciable capital assets, net of accumulated depreciation	407,803	-	-	407,803	421,655	-	-	421,655
Construction in progress	5,236	-	-	5,236	491	-	-	491
Total capital assets - tangible	424,353	-	-	424,353	433,768	-	-	433,768
Total assets	1,000,949	9,417	(338)	1,010,028	945,553	9,097	(81)	954,569
DEFERRED OUTFLOWS OF RESOURCES								
Deferred charges on bond refundings	5,024	-	-	5,024	3,424	-	-	3,424
Interest rate swap agreements	-	-	-	-	11,020	-	-	11,020
Total deferred outflows of resources	5,024	-	-	5,024	14,444	-	-	14,444
Total assets and deferred outflows of resources	\$ 1,005,973	\$ 9,417	\$ (338)	\$ 1,015,052	\$ 959,997	\$ 9,097	\$ (81)	\$ 969,013

**New Hanover Regional Medical Center
Combining Statements of Net Position
(Dollars in Thousands)**

	September 30, 2013				September 30, 2012			
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
LIABILITIES								
Current liabilities								
Accounts payable and other liabilities	\$ 29,613	\$ 447	\$ (338)	\$ 29,722	\$ 30,270	\$ 143	\$ (81)	\$ 30,332
Professional liability claims	17,052	-	-	17,052	17,298	-	-	17,298
Accrued salaries and wages	33,567	-	-	33,567	30,005	-	-	30,005
Estimated third-party payor settlements	15,562	-	-	15,562	10,048	-	-	10,048
Due to component units	4,173	-	-	4,173	2,037	-	-	2,037
Accrued interest payable	5,388	-	-	5,388	5,191	-	-	5,191
Other self-funded liabilities	11,047	-	-	11,047	10,659	-	-	10,659
Capital lease obligations, notes and bonds payable, current portion	13,958	-	-	13,958	13,097	-	-	13,097
Total current liabilities	130,360	447	(338)	130,469	118,605	143	(81)	118,667
Long-term obligations								
Capital lease obligations less current portion	237	-	-	237	-	-	-	-
Supplemental retirement plans	1,753	-	-	1,753	1,672	-	-	1,672
Interest rate swap agreements	6,051	-	-	6,051	11,768	-	-	11,768
Notes and bonds payable, less current portion	297,396	-	-	297,396	308,290	-	-	308,290
Total long-term obligations	305,437	-	-	305,437	321,730	-	-	321,730
Total liabilities	435,797	447	(338)	435,906	440,335	143	(81)	440,397
NET POSITION								
Net investment in capital assets	157,143	-	-	157,143	157,626	-	-	157,626
Unrestricted	413,033	961	-	413,994	358,036	842	-	358,878
Restricted	-	8,009	-	8,009	4,000	8,112	-	12,112
Total net position	570,176	8,970	-	579,146	519,662	8,954	-	528,616
Total liabilities and net position	\$ 1,005,973	\$ 9,417	\$ (338)	\$ 1,015,052	\$ 959,997	\$ 9,097	\$ (81)	\$ 969,013

New Hanover Regional Medical Center
Combining Statements of Revenues, Expenses, and Changes in Net Position
(Dollars in Thousands)

	Year Ended September 30, 2013			Year Ended September 30, 2012		
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Operating revenues:						
Net patient service revenue	\$ 687,658	\$ -	\$ 687,658	\$ 645,780	\$ -	\$ 645,780
Other revenue	29,221	1,595	30,816	19,488	1,592	21,080
Total operating revenue	716,879	1,595	718,474	665,268	1,592	666,860
Operating expenses:						
Salaries, wages and benefits	336,111	623	336,734	321,417	599	322,016
Medical supplies	144,723	-	144,723	139,614	-	139,614
Professional fees	19,708	22	19,730	22,571	20	22,591
Purchased services	67,150	-	67,150	64,086	-	64,086
Depreciation and amortization	43,466	-	43,466	42,795	-	42,795
Other	47,146	582	47,728	45,865	464	46,329
Total operating expenses	658,304	1,227	659,531	636,348	1,083	637,431
Operating income	58,575	368	58,943	28,920	509	29,429
Nonoperating revenues (expenses):						
Interest expense	(12,817)	-	(12,817)	(12,120)	-	(12,120)
Other nonoperating income, net	12	23	35	93	23	116
Interest earned and net realized gain (loss) on investments	3,592	155	3,747	5,128	161	5,289
Net increase in fair value of investments	2,058	269	2,327	17,461	524	17,985
Gain (loss) on sale of capital assets	(101)	-	(101)	44	-	44
Equity in net income of joint ventures	1,162	-	1,162	335	-	335
Nonoperating revenues (expenses), net	(6,094)	447	(5,647)	10,941	708	11,649
Income before capital contributions and capital transfers	52,481	815	53,296	39,861	1,217	41,078
Capital contributions and transfers:						
Capital and permanent endowment contributions	98	212	310	37	75	112
Capital transfers to component units	(2,065)	(1,011)	(3,076)	(3,577)	(514)	(4,091)
Total capital contributions and capital transfers	(1,967)	(799)	(2,766)	(3,540)	(439)	(3,979)
Change in net position	50,514	16	50,530	36,321	778	37,099
Net position, beginning	519,662	8,954	528,616	483,341	8,176	491,517
Net position, ending	\$ 570,176	\$ 8,970	\$ 579,146	\$ 519,662	\$ 8,954	\$ 528,616

**New Hanover Regional Medical Center
Combining Statement of Cash Flows
(Dollars in Thousands)**

	Year Ended September 30, 2013			Year Ended September 30, 2012		
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Cash Flows From Operating Activities						
Cash received from and on behalf of patients	\$ 678,006	\$ -	\$ 678,006	\$ 625,032	\$ -	\$ 625,032
Cash payments to suppliers for goods and services	(278,628)	(317)	(278,945)	(267,546)	(446)	(267,992)
Cash payments to employees for services	(332,533)	(623)	(333,156)	(317,024)	(599)	(317,623)
Other operating cash receipts	28,436	8	28,444	15,749	295	16,044
Net cash provided by (used in) operating activities	95,281	(932)	94,349	56,211	(750)	55,461
Cash Flows From Noncapital Financing Activities						
Contributions and operating grants	-	1,595	1,595	-	1,592	1,592
Payments (to) from component unit	1,447	-	1,447	211	-	211
Advances between affiliates	848	(848)	-	514	(514)	-
Net cash provided by noncapital financing activities	2,295	747	3,042	725	1,078	1,803
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of property and equipment	(30,206)	-	(30,206)	(43,651)	-	(43,651)
Proceeds from disposed assets	877	-	877	405	-	405
Acquisition of intangible assets	(1,000)	-	(1,000)	-	-	-
Capital contributions	98	212	310	37	75	112
Principal payments on capital lease obligations	(468)	-	(468)	-	-	-
Principal payments on revenue bonds and other outstanding debt	(12,958)	-	(12,958)	(8,474)	-	(8,474)
Interest paid on capital financing	(12,913)	-	(12,913)	(13,113)	-	(13,113)
Proceeds from revenue bonds	61,375	-	61,375	-	-	-
Refunding of revenue bonds	(58,560)	-	(58,560)	-	-	-
Transfers (to) from component unit	(2,913)	(163)	(3,076)	(4,092)	-	(4,092)
Net cash (used in) provided by capital and related financing activities	(56,668)	49	(56,619)	(68,888)	75	(68,813)
Cash Flows From Investing Activities						
(Purchases) sales of investments, net of maturities	(19,261)	-	(19,261)	17,871	-	17,871
Interest earned on investments	3,592	90	3,682	5,128	76	5,204
Contributions to partnerships	(161)	-	(161)	(767)	-	(767)
Distributions from partnerships	1,073	-	1,073	1,256	-	1,256
Other interest earned	15	-	15	105	-	105
Net cash provided by (used in) investing activities	(14,742)	90	(14,652)	23,593	76	23,669
Net increase (decrease) in cash and cash equivalents	26,166	(46)	26,120	11,641	479	12,120
Cash and cash equivalents at beginning of year	102,460	2,265	104,725	90,819	1,786	92,605
Cash and cash equivalents at end of year	\$ 128,626	\$ 2,219	\$ 130,845	\$ 102,460	\$ 2,265	\$ 104,725

(Continued)

New Hanover Regional Medical Center
Combining Statement of Cash Flows (Continued)
(Dollars in Thousands)

	Year Ended September 30, 2013			Year Ended September 30, 2012		
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Reconciliation of cash and cash equivalents to the statement of net position						
Unrestricted cash and cash equivalents	\$ 45,217	\$ 2,219	\$ 47,436	\$ 13,372	\$ 2,265	\$ 15,637
Cash and cash equivalents in noncurrent cash and investments						
Reserved for debt service-held by bond paying agent	16,011	-	16,011	11,922	-	11,922
Reserved for debt service-not held by bond paying agent	910	-	910	4,411	-	4,411
Designated by Board for payment of claims liabilities	69	-	69	289	-	289
Designated by Board for capital improvements	66,419	-	66,419	68,466	-	68,466
Restricted under letter of credit	-	-	-	4,000	-	4,000
Cash and cash equivalents, including noncurrent cash and cash equivalents at end of year	\$ 128,626	\$ 2,219	\$ 130,845	\$ 102,460	\$ 2,265	\$ 104,725
Reconciliation of operating income to net cash provided by (used in) operating activities						
Cash flows from operating activities						
Operating income	\$ 58,575	\$ 368	\$ 58,943	\$ 28,920	\$ 509	\$ 29,429
Employee services included in nonoperating income	-	-	-	(27)	-	(27)
Operating grants and contributions	-	(1,595)	(1,595)	-	(1,592)	(1,592)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	43,466	-	43,466	42,795	-	42,795
Changes in:						
Receivables	(13,121)	8	(13,113)	(17,046)	295	(16,751)
Inventories	760	-	760	(847)	-	(847)
Prepaid expenses	(129)	(17)	(146)	175	12	187
Accounts payable and other liabilities	2,320	304	2,624	(2,006)	26	(1,980)
Accrued salaries and wages	3,562	-	3,562	4,204	-	4,204
Pension asset	16	-	16	-	-	-
Other long term assets	(168)	-	(168)	43	-	43
Net cash provided by (used in) operating activities	\$ 95,281	\$ (932)	\$ 94,349	\$ 56,211	\$ (750)	\$ 55,461
Non-cash capital and related financing activities						
Unrealized gain (loss)	\$ 2,058	\$ 269	\$ 2,327	\$ 17,461	\$ 524	\$ 17,985
Capital assets acquired through lease agreement	\$ 1,189	\$ -	\$ 1,189	\$ -	\$ -	\$ -
Partial swap termination costs paid with proceeds of refunded bonds	\$ 1,976	\$ -	\$ 1,976	\$ -	\$ -	\$ -
Bond issuance costs paid with proceeds of refunded bonds	\$ 1,000	\$ -	\$ 1,000	\$ -	\$ -	\$ -

New Hanover Regional Medical Center
Combining Statements of Net Position - Discretely Presented Component Units
(Dollars in Thousands)

	September 30, 2013				September 30, 2012			
	CHA	LCFH	PMH	Total Combined Units	CHA	LCFH	PMH	Total Combined Units
ASSETS								
Current assets								
Cash and cash equivalents	\$ 1,331	\$ 6,635	\$ 1,310	\$ 9,276	\$ 1,909	\$ 3,147	\$ 2,107	\$ 7,163
Patient accounts, less allowance for bad debts	8,901	4,457	3,576	16,934	10,287	3,238	3,800	17,325
Due from health insurance programs	-	-	1,085	1,085	-	-	327	327
Due from primary government	-	34	4,139	4,173	-	31	2,014	2,045
Other receivables	77	468	207	752	25	621	244	890
Investments	-	2,866	-	2,866	-	2,672	-	2,672
Inventories	-	-	483	483	-	-	473	473
Prepaid expenses	1,684	425	211	2,320	1,907	364	118	2,389
Total current assets	11,993	14,885	11,011	37,889	14,128	10,073	9,083	33,284
Noncurrent cash, investments, and donor receivables								
Noncurrent Cash and Investments:								
Designated by Board for operating and PDO reserve	-	11,674	-	11,674	-	11,073	-	11,073
Designated by Board for capital improvements	-	5,009	-	5,009	-	4,015	-	4,015
Designated by Board for ESC reserve	-	55	-	55	-	55	-	55
Restricted by agreement for USDA loan reserve	-	-	-	-	-	45	-	45
Restricted by donors for endowments	-	1,393	-	1,393	-	1,308	-	1,308
	-	18,131	-	18,131	-	16,496	-	16,496
Pledges and grants receivable	-	543	-	543	-	232	-	232
Total noncurrent cash, investments, and donor receivables	-	18,674	-	18,674	-	16,728	-	16,728
Other assets								
Intangible capital assets, net of amortization	660	-	17	677	984	-	26	1,010
Other long term assets	-	689	-	689	-	686	-	686
Total other assets	660	689	17	1,366	984	686	26	1,696
Capital assets - tangible								
Land	-	4,660	42	4,702	-	4,660	42	4,702
Depreciable capital assets, net of accumulated depreciation	3,688	14,398	9,804	27,890	4,423	13,946	7,075	25,444
Construction in progress	288	596	124	1,008	68	631	481	1,180
Total capital assets - tangible	3,976	19,654	9,970	33,600	4,491	19,237	7,598	31,326
Total assets	16,629	53,902	20,998	91,529	19,603	46,724	16,707	83,034
DEFERRED OUTFLOWS OF RESOURCES								
Interest rate swap agreements	-	221	-	221	-	356	-	356
Total assets and deferred outflows of resources	\$ 16,629	\$ 54,123	\$ 20,998	\$ 91,750	\$ 19,603	\$ 47,080	\$ 16,707	\$ 83,390

New Hanover Regional Medical Center
Combining Statements of Net Position - Discretely Presented Component Units
(Dollars in Thousands)

	September 30, 2013				September 30, 2012			
	CHA	LCFH	PMH	Total Combined Units	CHA	LCFH	PMH	Total Combined Units
LIABILITIES								
Current liabilities								
Accounts payable and other liabilities	\$ 4,360	\$ 2,475	\$ 1,482	\$ 8,317	\$ 4,542	\$ 1,683	\$ 2,055	\$ 8,280
Accrued salaries and wages	1,428	2,103	1,068	4,599	1,286	1,818	987	4,091
Estimated third-party payor settlements	-	-	395	395	-	-	114	114
Due to primary government	-	-	1,077	1,077	-	-	-	-
Accrued interest payable	-	-	-	-	-	53	-	53
Capital lease obligations, notes and bonds payable, current portion	-	451	-	451	-	330	-	330
Total current liabilities	5,788	5,029	4,022	14,839	5,828	3,884	3,156	12,868
Long-term obligations								
Net pension obligation	-	-	229	229	-	-	231	231
Interest rate swap agreements	-	221	-	221	-	356	-	356
Notes and bonds payable, less current portion	-	9,129	-	9,129	-	8,997	-	8,997
Total long-term obligations	-	9,350	229	9,579	-	9,353	231	9,584
Total liabilities	5,788	14,379	4,251	24,418	5,828	13,237	3,387	22,452
Commitments and contingencies								
NET POSITION								
Net investment in capital assets	4,636	10,074	10,345	25,055	5,475	9,910	7,630	23,015
Unrestricted	6,205	26,986	6,402	39,593	8,300	22,377	5,690	36,367
Restricted	-	2,684	-	2,684	-	1,556	-	1,556
Total net position	10,841	39,744	16,747	67,332	13,775	33,843	13,320	60,938
Total liabilities and net position	\$ 16,629	\$ 54,123	\$ 20,998	\$ 91,750	\$ 19,603	\$ 47,080	\$ 16,707	\$ 83,390

New Hanover Regional Medical Center
Combining Statements of Revenues, Expenses, and Changes in Net Position - Discretely Presented Component Units
(Dollars in Thousands)

	Year Ended September 30, 2013				Year Ended September 30, 2012			
	CHA	LCFH	PMH	Total Combined Units	CHA	LCFH	PMH	Total Combined Units
Operating revenues:								
Net patient service revenue	\$ 100,366	\$ 29,886	\$ 22,035	\$ 152,287	\$ 66,007	\$ 27,961	\$ 22,367	\$ 116,335
Other revenue	14,113	3,827	6,366	24,306	17,287	4,451	2,550	24,288
Total operating revenue	114,479	33,713	28,401	176,593	83,294	32,412	24,917	140,623
Operating expenses:								
Salaries, wages and benefits	20,832	20,796	17,704	59,332	16,454	18,838	16,239	51,531
Medical supplies	25,928	4,204	1,817	31,949	10,777	4,023	1,925	16,725
Professional fees	48,987	118	717	49,822	38,535	95	675	39,305
Purchased services	12,075	505	3,707	16,287	9,240	414	2,276	11,930
Depreciation and amortization	1,435	813	1,288	3,536	1,542	654	952	3,148
Other	8,025	2,476	3,165	13,666	6,762	2,227	2,830	11,819
Total operating expenses	117,282	28,912	28,398	174,592	83,310	26,251	24,897	134,458
Operating income (loss)	(2,803)	4,801	3	2,001	(16)	6,161	20	6,165
Nonoperating revenues (expenses):								
Interest expense	-	(304)	-	(304)	-	(238)	(19)	(257)
Other nonoperating income	-	111	(1)	110	(4)	161	36	193
Net increase in fair value of investments	-	1,293	-	1,293	-	1,380	-	1,380
Gain (loss) on sale of capital assets	(16)	-	-	(16)	-	-	-	-
Nonoperating revenues (expenses), net	(16)	1,100	(1)	1,083	(4)	1,303	17	1,316
Income (loss) before capital contributions and capital transfers	(2,819)	5,901	2	3,084	(20)	7,464	37	7,481
Capital and permanent endowment contributions and capital transfers to (from) component units	(115)	-	3,425	3,310	2,853	-	1,251	4,104
Change in net position	(2,934)	5,901	3,427	6,394	2,833	7,464	1,288	11,585
Net position, beginning	13,775	33,843	13,320	60,938	10,942	26,379	12,032	49,353
Net position, ending	\$ 10,841	\$ 39,744	\$ 16,747	\$ 67,332	\$ 13,775	\$ 33,843	\$ 13,320	\$ 60,938

New Hanover Regional Medical Center
Combining Statements of Cash Flows - Discretely Presented Component Units
(Dollars in Thousands)

	Year Ended September 30, 2013				Year Ended September 30, 2012			
	CHA	LCFH	PMH	Total Combined	CHA	LCFH	PMH	Total Combined
				Units				Units
Cash flows from operating activities								
Cash received from and on behalf of patients	\$ 101,700	\$ 33,382	\$ 21,820	\$ 156,902	\$ 60,518	\$ 28,773	\$ 21,410	\$ 110,701
Cash payments to suppliers for services and goods	(95,004)	(10,015)	(10,079)	(115,098)	(62,952)	(6,316)	(7,151)	(76,419)
Cash payments to employees for services	(20,658)	(20,918)	(17,623)	(59,199)	(16,207)	(18,592)	(16,111)	(50,910)
Other operating cash receipts	14,113	3,296	6,365	23,774	17,287	3,976	2,549	23,812
Net cash provided by (used in) operating activities	151	5,745	483	6,379	(1,354)	7,841	697	7,184
Cash flows from noncapital financing activities								
Payments to component unit	-	-	(1,048)	(1,048)	-	-	(591)	(591)
Net cash used in noncapital financing activities	-	-	(1,048)	(1,048)	-	-	(591)	(591)
Cash flows from capital and related financing activities								
Acquisition of capital assets	(627)	(1,416)	(3,635)	(5,678)	(3,217)	(5,699)	(1,304)	(10,220)
Proceeds from disposed assets	13	-	(17)	(4)	(5)	-	7	2
Capital contributions	-	-	234	234	-	-	12	12
Principal payments on capital lease obligations	-	-	(3)	(3)	-	-	(4)	(4)
Interest paid on capital financing	-	(304)	-	(304)	-	(278)	(19)	(297)
Proceeds from bonds	-	2,584	-	2,584	-	1,230	-	1,230
Payments on notes payable	-	(2,331)	-	(2,331)	-	(1,135)	-	(1,135)
Transfers (to) from component unit	(115)	-	3,191	3,076	2,853	-	1,239	4,092
Net cash provided by (used in) capital and related financing activities	(729)	(1,467)	(230)	(2,426)	(369)	(5,882)	(69)	(6,320)
Cash flows from investing activities								
Purchases of investments, net of maturities	-	(1,268)	-	(1,268)	-	(5,152)	-	(5,152)
Interest earned on investments	-	111	-	111	-	161	-	161
Other interest earned (loss)	-	-	(2)	(2)	1	-	41	42
Net cash provided by (used in) investing activities	-	(1,157)	(2)	(1,159)	1	(4,991)	41	(4,949)
Net increase (decrease) in cash and cash equivalents	(578)	3,121	(797)	1,746	(1,722)	(3,032)	78	(4,676)
Cash and cash equivalents at beginning of year	1,909	4,169	2,107	8,185	3,631	7,201	2,029	12,861
Cash and cash equivalents at end of year	\$ 1,331	\$ 7,290	\$ 1,310	\$ 9,931	\$ 1,909	\$ 4,169	\$ 2,107	\$ 8,185

(Continued)

New Hanover Regional Medical Center
Combining Statements of Cash Flows - Discretely Presented Component Units (Continued)
(Dollars in Thousands)

	Year Ended September 30, 2013				Year Ended September 30, 2012			
	CHA	LCFH	PMH	Total Combined Units	CHA	LCFH	PMH	Total Combined Units
Reconciliation of cash and cash equivalents to the statement of net position								
Unrestricted cash and cash equivalents	\$ 1,331	\$ 6,635	\$ 1,310	\$ 9,276	\$ 1,909	\$ 3,147	\$ 2,107	\$ 7,163
Cash and cash equivalents in noncurrent cash and investments								
Designated by Board for operating reserve	-	576	-	576	-	718	-	718
Designated by Board for ESC reserve	-	55	-	55	-	55	-	55
Restricted under agreement	-	-	-	-	-	45	-	45
By donor restrictions	-	24	-	24	-	204	-	204
Cash and cash equivalents, including noncurrent cash and cash equivalents at end of year	\$ 1,331	\$ 7,290	\$ 1,310	\$ 9,931	\$ 1,909	\$ 4,169	\$ 2,107	\$ 8,185
Reconciliation of operating income to net cash provided by operating activities								
Cash flows from operating activities								
Operating income (loss)	\$ (2,803)	\$ 4,801	\$ 3	\$ 2,001	\$ (16)	\$ 6,161	\$ 20	\$ 6,165
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	1,435	813	1,288	3,536	1,542	654	952	3,148
Changes in:								
Patient receivables and programs	1,335	(243)	(215)	877	(5,489)	36	(957)	(6,410)
Inventories	-	-	(9)	(9)	-	-	-	-
Prepaid expenses and other current assets	223	(651)	(93)	(521)	(226)	246	79	99
Accounts payable and other liabilities	(213)	771	(571)	(13)	2,588	443	372	3,403
Accrued salaries and wages	174	254	81	509	247	247	128	622
Net pension obligation	-	-	(1)	(1)	-	-	(1)	(1)
Other long term assets	-	-	-	-	-	54	104	158
Net cash provided by (used in) operating activities	\$ 151	\$ 5,745	\$ 483	\$ 6,379	\$ (1,354)	\$ 7,841	\$ 697	\$ 7,184
Non-cash capital and related financing activities								
Unrealized gain	\$ -	\$ 1,293	\$ -	\$ 1,293	\$ -	\$ 1,380	\$ -	\$ 1,380

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

	September 30, 2013			September 30, 2012		
	New Hanover Regional Medical Center			New Hanover Regional Medical Center		
	Center	CHA	Combined	Center	CHA	Combined
ASSETS						
Current assets						
Cash and cash equivalents	\$ 45,217	\$ 1,331	\$ 46,548	\$ 13,372	\$ 1,909	\$ 15,281
Assets limited as to use:						
Cash equivalents held by bond paying agent	16,011	-	16,011	11,922	-	11,922
Cash for debt service-not held by bond paying agent	910	-	910	4,411	-	4,411
Cash equivalents and investments for the future payment of claims liabilities	21,671	-	21,671	15,228	-	15,228
Receivables:						
Patient accounts, less allowance for bad debts	99,871	8,901	108,772	87,792	10,287	98,079
Estimated third-party payor settlements	8,932	-	8,932	6,102	-	6,102
Due from component units	1,077	-	1,077	388	-	388
Other receivables	8,763	77	8,840	7,721	25	7,746
Inventories	15,821	-	15,821	16,581	-	16,581
Prepaid expenses	10,474	1,684	12,158	10,345	1,907	12,252
Total current assets	228,747	11,993	240,740	173,862	14,128	187,990
Noncurrent cash and investments						
Investments:						
Designated by Board for capital improvements	301,150	-	301,150	285,240	-	285,240
Restricted under letter of credit	-	-	-	4,000	-	4,000
Designated by Board for supplemental retirement plans	1,753	-	1,753	1,672	-	1,672
Total assets limited as to use	302,903	-	302,903	290,912	-	290,912
Other assets						
Intangible capital assets, net of amortization	39,357	660	40,017	41,821	984	42,805
Investment in affiliates	670	-	670	423	-	423
Pension asset	4,380	-	4,380	4,396	-	4,396
Other long term assets	539	-	539	371	-	371
Total other assets	44,946	660	45,606	47,011	984	47,995
Capital assets - tangible						
Land	11,314	-	11,314	11,622	-	11,622
Depreciable capital assets, net of accumulated depreciation	407,803	3,688	411,491	421,655	4,423	426,078
Construction in progress	5,236	288	5,524	491	68	559
Total capital assets - tangible	424,353	3,976	428,329	433,768	4,491	438,259
Total assets	1,000,949	16,629	1,017,578	945,553	19,603	965,156
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charges on bond refundings	5,024	-	5,024	3,424	-	3,424
Interest rate swap agreements	-	-	-	11,020	-	11,020
Total deferred outflows of resources	5,024	-	5,024	14,444	-	14,444
Total assets and deferred outflows of resources	\$ 1,005,973	\$ 16,629	\$ 1,022,602	\$ 959,997	\$ 19,603	\$ 979,600

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

	September 30, 2013			September 30, 2012		
	New Hanover			New Hanover		
	Regional Medical Center	CHA	Combined	Regional Medical Center	CHA	Combined
LIABILITIES						
Current liabilities						
Accounts payable and other liabilities	\$ 29,613	\$ 4,360	\$ 33,973	\$ 30,270	\$ 4,542	\$ 34,812
Professional liability claims	17,052	-	17,052	17,298	-	17,298
Accrued salaries and wages	33,567	1,428	34,995	30,005	1,286	31,291
Estimated third-party payor settlements	15,562	-	15,562	10,048	-	10,048
Due to component units	4,173	-	4,173	2,037	-	2,037
Accrued interest payable	5,388	-	5,388	5,191	-	5,191
Other self-funded liabilities	11,047	-	11,047	10,659	-	10,659
Capital lease obligations, notes and bonds payable, current portion	13,958	-	13,958	13,097	-	13,097
Total current liabilities	130,360	5,788	136,148	118,605	5,828	124,433
Long-term obligations						
Capital lease obligations less current portion	237	-	237	-	-	-
Supplemental retirement plans	1,753	-	1,753	1,672	-	1,672
Interest rate swap agreements	6,051	-	6,051	11,768	-	11,768
Notes and bonds payable, less current portion	297,396	-	297,396	308,290	-	308,290
Total long-term obligations	305,437	-	305,437	321,730	-	321,730
Total liabilities	435,797	5,788	441,585	440,335	5,828	446,163
NET POSITION						
Net Investment in capital assets	157,143	4,636	161,779	157,626	5,475	163,101
Unrestricted	413,033	6,205	419,238	358,036	8,300	366,336
Restricted	-	-	-	4,000	-	4,000
Total net position	570,176	10,841	581,017	519,662	13,775	533,437
Total liabilities and net position	\$ 1,005,973	\$ 16,629	\$ 1,022,602	\$ 959,997	\$ 19,603	\$ 979,600

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

	Year Ended September 30, 2013				Year Ended September 30, 2012			
	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined
Operating revenues:								
Net patient service revenue	\$ 687,658	\$ 100,366	\$ -	\$ 788,024	\$ 645,780	\$ 66,007	\$ -	\$ 711,787
Other revenue	29,221	14,113	(12,707)	30,627	19,488	17,287	(16,027)	20,748
Total operating revenue	716,879	114,479	(12,707)	818,651	665,268	83,294	(16,027)	732,535
Operating expenses:								
Salaries, wages and benefits	336,111	20,832	-	356,943	321,417	16,454	-	337,871
Medical supplies	144,723	25,928	-	170,651	139,614	10,777	-	150,391
Professional fees	19,708	48,987	-	68,695	22,571	38,535	-	61,106
Purchased services	67,150	12,075	(12,707)	66,518	64,086	9,240	(16,027)	57,299
Depreciation and amortization	43,466	1,435	-	44,901	42,795	1,542	-	44,337
Other	47,146	8,025	-	55,171	45,865	6,762	-	52,627
Total operating expenses	658,304	117,282	(12,707)	762,879	636,348	83,310	(16,027)	703,631
Operating income (loss)	58,575	(2,803)	-	55,772	28,920	(16)	-	28,904
Nonoperating revenues (expenses):								
Interest expense	(12,817)	-	-	(12,817)	(12,120)	-	-	(12,120)
Other nonoperating income, net	12	-	-	12	93	(4)	-	89
Interest earned and net realized gain (loss) on investments	3,592	-	-	3,592	5,128	-	-	5,128
Net increase in fair value of investments	2,058	-	-	2,058	17,461	-	-	17,461
Gain (loss) on sale of capital assets	(101)	(16)	-	(117)	44	-	-	44
Equity in net income of joint ventures	1,162	-	-	1,162	335	-	-	335
Nonoperating revenues (expenses), net	(6,094)	(16)	-	(6,110)	10,941	(4)	-	10,937
Income (loss) before capital contributions and capital transfers	52,481	(2,819)	-	49,662	39,861	(20)	-	39,841
Capital contributions and transfers:								
Capital and permanent endowment contributions	98	-	-	98	37	-	-	37
Capital transfers (to) from component units	(2,065)	(115)	-	(2,180)	(3,577)	2,853	-	(724)
Total capital contributions and capital transfers	(1,967)	(115)	-	(2,082)	(3,540)	2,853	-	(687)
Change in net position	50,514	(2,934)	-	47,580	36,321	2,833	-	39,154
Net position, beginning	519,662	13,775	-	533,437	483,341	10,942	-	494,283
Net position, ending	\$ 570,176	\$ 10,841	\$ -	\$ 581,017	\$ 519,662	\$ 13,775	\$ -	\$ 533,437

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

	Year Ended September 30, 2013				Year Ended September 30, 2012			
	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined
Cash Flows From Operating Activities								
Cash received from and on behalf of patients	\$ 678,006	\$ 101,700	\$ -	\$ 779,706	\$ 625,032	\$ 60,518	\$ -	\$ 685,550
Cash payments to suppliers for goods and services	(278,628)	(95,004)	12,707	(360,925)	(267,546)	(62,952)	16,027	(314,471)
Cash payments to employees for services	(332,533)	(20,658)	-	(353,191)	(317,024)	(16,207)	-	(333,231)
Other operating cash receipts (payments)	28,436	14,113	(12,707)	29,842	15,749	17,287	(16,027)	17,009
Net cash provided by (used in) operating activities	95,281	151	-	95,432	56,211	(1,354)	-	54,857
Cash Flows From Noncapital Financing Activities								
Payments from component unit	1,447	-	-	1,447	211	-	-	211
Advances between affiliates	848	-	-	848	514	-	-	514
Net cash provided by noncapital financing activities	2,295	-	-	2,295	725	-	-	725
Cash Flows From Capital and Related Financing Activities								
Acquisition and construction of property and equipment	(30,206)	(627)	-	(30,833)	(43,651)	(3,217)	-	(46,868)
Proceeds from disposed assets	877	13	-	890	405	(5)	-	400
Acquisition of intangible assets	(1,000)	-	-	(1,000)	-	-	-	-
Capital contributions	98	-	-	98	37	-	-	37
Principal payments on capital lease obligations	(468)	-	-	(468)	-	-	-	-
Principal payments on revenue bonds and other outstanding debt	(12,958)	-	-	(12,958)	(8,474)	-	-	(8,474)
Interest paid on capital financing	(12,913)	-	-	(12,913)	(13,113)	-	-	(13,113)
Proceeds from revenue bonds	61,375	-	-	61,375	-	-	-	-
Refunding of revenue bonds	(58,560)	-	-	(58,560)	-	-	-	-
Transfers (to) from component unit	(2,913)	(115)	-	(3,028)	(4,092)	2,853	-	(1,239)
Net cash used in capital and related financing activities	(56,668)	(729)	-	(57,397)	(68,888)	(369)	-	(69,257)
Cash Flows From Investing Activities								
(Purchases) sales of investments, net of maturities	(19,261)	-	-	(19,261)	17,871	-	-	17,871
Interest earned on investments	3,592	-	-	3,592	5,128	-	-	5,128
Contributions to partnerships	(161)	-	-	(161)	(767)	-	-	(767)
Distributions from partnerships	1,073	-	-	1,073	1,256	-	-	1,256
Other interest earned	15	-	-	15	105	1	-	106
Net cash provided by (used in) investing activities	(14,742)	-	-	(14,742)	23,593	1	-	23,594
Net increase (decrease) in cash and cash equivalents	26,166	(578)	-	25,588	11,641	(1,722)	-	9,919
Cash and cash equivalents at beginning of year	102,460	1,909	-	104,369	90,819	3,631	-	94,450
Cash and cash equivalents at end of year	\$ 128,626	\$ 1,331	\$ -	\$ 129,957	\$ 102,460	\$ 1,909	\$ -	\$ 104,369

(Continued)

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

	Year Ended September 30, 2013				Year Ended September 30, 2012			
	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	Eliminating Entries	Combined
Reconciliation of cash and cash equivalents to the statement of net position								
Unrestricted cash and cash equivalents	\$ 45,217	\$ 1,331	\$ -	\$ 46,548	\$ 13,372	\$ 1,909	\$ -	\$ 15,281
Cash and cash equivalents in noncurrent cash and investments								
Reserved for debt service-held by bond paying agent	16,011	-	-	16,011	11,922	-	-	11,922
Reserved for debt service-not held by bond paying agent	910	-	-	910	4,411	-	-	4,411
Designated by Board for payment of claims liabilities	69	-	-	69	289	-	-	289
Designated by Board for capital improvements	66,419	-	-	66,419	68,466	-	-	68,466
Restricted under letter of credit	-	-	-	-	4,000	-	-	4,000
Cash and cash equivalents, including noncurrent cash and cash equivalents at end of year	\$ 128,626	\$ 1,331	\$ -	\$ 129,957	\$ 102,460	\$ 1,909	\$ -	\$ 104,369
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities								
Cash flows from operating activities								
Operating income (loss)	\$ 58,575	\$ (2,803)	\$ -	\$ 55,772	\$ 28,920	\$ (16)	\$ -	\$ 28,904
Employee services included in nonoperating income	-	-	-	-	(27)	-	-	(27)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	43,466	1,435	-	44,901	42,795	1,542	-	44,337
Changes in:								
Receivables	(13,121)	1,335	-	(11,786)	(17,046)	(5,489)	-	(22,535)
Inventories	760	-	-	760	(847)	-	-	(847)
Prepaid expenses and other current assets	(129)	223	-	94	175	(226)	-	(51)
Accounts payable and other liabilities	2,320	(213)	-	2,107	(2,006)	2,588	-	582
Accrued salaries and wages	3,562	174	-	3,736	4,204	247	-	4,451
Pension asset	16	-	-	16	-	-	-	-
Other long term assets	(168)	-	-	(168)	43	-	-	43
Net cash provided by (used in) operating activities	\$ 95,281	\$ 151	\$ -	\$ 95,432	\$ 56,211	\$ (1,354)	\$ -	\$ 54,857
Non-cash capital and related financing activities								
Unrealized gain	\$ 2,058	\$ -	\$ -	\$ 2,058	\$ 17,461	\$ -	\$ -	\$ 17,461
Capital assets acquired through lease agreement	\$ 1,189	\$ -	\$ -	\$ 1,189	\$ -	\$ -	\$ -	\$ -
Partial swap termination costs paid with proceeds of refunded bonds	\$ 1,976	\$ -	\$ -	\$ 1,976	\$ -	\$ -	\$ -	\$ -
Bond issuance costs paid with proceeds of refunded bonds	\$ 1,000	\$ -	\$ -	\$ 1,000	\$ -	\$ -	\$ -	\$ -