

Annual Financial Report

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

Years Ended September 30, 2010 and 2009

With Report of Independent Auditor



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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units and the fiduciary fund information of New Hanover Regional Medical Center ("NHRMC"), a component unit of New Hanover County, North Carolina, as of and for the years ended September 30, 2010 and 2009, which collectively comprise NHRMC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of NHRMC's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Lower Cape Fear Hospice, Incorporated, which is a discretely presented component unit, which comprises 69% and 67% of the assets and 57% and 55% of the revenues of the aggregate discretely presented component units as of and for the years ended September 30, 2010 and 2009, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lower Cape Fear Hospice, Incorporated, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The fiduciary fund information, the financial statements of Pender Memorial Hospital, Incorporated and Lower Cape Fear Hospice, Incorporated, discretely presented component units, and New Hanover Regional Medical Center Foundation, Inc., a blended component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NHRMC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the fiduciary fund information of New Hanover Regional Medical Center as of September 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17 to the financial statements, NHRMC adopted new methods of accounting and financial reporting for intangible assets and derivative instruments during the year ended September 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 3, 2010 and December 3, 2009 on our consideration of NHRMC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

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

McGladrey & Pullen, LLP

Wilmington, North Carolina
December 3, 2010

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

**Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2010**

Management's discussion and analysis of New Hanover Regional Medical Center's ("NHRMC") financial performance provides an overview of the medical center's activities for the fiscal years ending September 30, 2010 and 2009. Except as otherwise noted, the financial highlights in this analysis refer exclusively to New Hanover Regional Medical Center and its blended component units (NHRMC).

FINANCIAL HIGHLIGHTS

For the year ended September 30, 2010

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

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

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

For the year ended September 30, 2009 As Restated (see Note 17)

NHRMC's net assets increased over the prior year by \$33.6M (8.1%).

NHRMC reported operating income of \$36.3M or \$7.4M over the prior year.

Total nonoperating activity resulted in net expense of \$3.4M, representing a net revenue increase of \$6.5M over the prior year's net nonoperating loss of \$9.9M.

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

USING THIS ANNUAL REPORT

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

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

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

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

Effective for financial statements beginning after June 15, 2009, GASB 53: *Accounting and Financial Reporting for Derivative Instruments* establishes accounting and financial reporting standards for derivative instrument information reported by state and local governments. The NHRMC financial statements for the year ended September 30, 2009 have been restated to conform to the provisions of GASB 53. Please refer to Notes 7 and 17 for more details regarding the nature of the restatement and its effect.

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

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

NHRMC'S OPERATING RESULTS AND CHANGES IN NET ASSETS:

	Years Ended		
	September 30, 2010	September 30, 2009	September 30, 2008
(In Thousands)			
Net patient service revenue	\$ 599,018	\$ 591,466	\$ 542,715
Other revenue	17,542	16,529	18,611
Total operating revenue	<u>616,560</u>	<u>607,995</u>	<u>561,326</u>
Expenses:			
Health care services			
Salaries, wages and benefits	287,103	285,590	275,376
Medical supplies	130,269	127,130	118,360
Professional fees	22,503	22,507	17,661
Insurance	10,903	7,692	3,794
Purchased services and other	87,946	88,327	84,346
Depreciation and amortization	42,652	40,407	32,852
Total operating expenses	<u>581,376</u>	<u>571,653</u>	<u>532,389</u>
Operating income	35,184	36,342	28,937
Nonoperating revenues (expenses), net	1,716	(3,358)	(9,868)
	<u>36,900</u>	<u>32,984</u>	<u>19,069</u>
Capital and permanent endowment contributions and transfers to/from component units	(551)	610	544
Change in net assets	36,349	33,594	19,613
Total net assets, beginning, as previously reported	448,663	415,069	395,258
Change in accounting principle (Note 17)	-	-	198
Total net assets, beginning, as restated	<u>448,663</u>	<u>415,069</u>	<u>395,456</u>
Total net assets, ending	<u>\$ 485,012</u>	<u>\$ 448,663</u>	<u>\$ 415,069</u>

Discussion:

For the year ended September 30, 2010

Total operating revenue increased \$8.6M (1.4%). The increase in net patient revenue resulting from increased utilization of outpatient services contributed to the increase in revenue from the previous year. Net patient service revenue continues to be impacted by an increase in unreimbursed services as health insurers shift more reimbursement responsibility to individuals through increased deductibles and co-pays along with an increase in those individuals who have little or no health insurance or other means of payment. These trends are consistent in the healthcare industry. Other operating revenue consists primarily of cafeteria sales, outpatient pharmacy sales, grants, contributions and rental income from NHRMC owned facilities.

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

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

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

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

For the year ended September 30, 2009

Total operating revenue increased \$46.7M (8.3%). Increases in demand for both inpatient and outpatient services contributed to the increase in revenue from the previous year. Net patient service revenue continues to be impacted by an increase in unreimbursed services as health insurers shift more reimbursement responsibility to individuals through increased deductibles and co-pays along with an increase in those individuals who have little or no health insurance or other means of payment. These trends are consistent in the healthcare industry. Other operating revenue consists primarily of cafeteria sales, outpatient pharmacy sales, grants, contributions and rental income from NHRMC owned facilities.

Total operating expenses increased \$39.3M. Increases in volumes and intensity of services as described above contributed to the increase in operating expense. Costs for insurance and professional fees rose above the rate of increase in revenues while personnel costs, medical supplies and purchased services rose at levels below revenue growth. Professional fees increased for consulting services incurred under an engagement to enhance net revenue realization and reduce resource utilization throughout the organization.

Wage and benefit costs in the current market remain competitive for healthcare employers in an industry shortage. Redesign of the self-insured benefit plan for the group health insurance and a focus on managing productivity through staffing targets helped to manage these personnel costs over the past year. In addition, during fiscal year 2009 NHRMC continued an extensive supply chain cost reduction initiative by which specific supply cost items were budgeted and tracked to ensure savings objectives were met.

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 \$7.4M as a result of reducing net expenses as a percentage of net revenue from operations.

Income before capital contributions and transfers increased \$13.9M 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. A significant increase on earnings from investments along with an offsetting increase in interest expense costs contributed to the overall increase in non-operating income. This activity, when added to the increase in operating income, accounted for the change from the prior year.

SUMMARY OF NHRMC NET ASSETS

	September 30, 2010	September 30, 2009	September 30, 2008
(In Thousands)			
ASSETS			
Current assets	\$ 156,945	\$ 143,583	\$ 155,315
Capital assets, tangible net	418,478	406,745	381,739
Other noncurrent assets	338,950	322,726	284,172
Total Assets	914,373	873,054	821,226
LIABILITIES			
Bonds payable,			
less current portion	328,084	326,486	285,461
Other	101,277	97,905	120,696
Total Liabilities	429,361	424,391	406,157
NET ASSETS			
Invested in capital assets, net of related debt	144,380	128,577	136,408
Unrestricted net assets	330,130	308,589	242,662
Restricted net assets	10,502	11,497	35,999
Total Net Assets	\$ 485,012	\$ 448,663	\$ 415,069

Discussion:

For the year ended September 30, 2010

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

Total liabilities have increased by \$5.0M over the past fiscal year end. An increase in other liabilities resulted primarily from an increase in estimated third-party payor settlements, salaries and wages payable and self insured liability offset slightly by a decrease in trade payables. Estimated third-party payor settlements reflect potential settlements with Medicare and Medicaid upon final audit of cost reports. The reader may refer to Note 2 of the basic financial statements for additional information.

Net assets increased \$36.3M during the past year reflecting the overall performance during the past fiscal year.

For the year ended September 30, 2009

Total assets have increased by \$51.8M over the past fiscal year end. The increase in capital assets and other noncurrent assets contributed to the overall increase in assets. These increases are a result of investments in property, plant & equipment and investments held for future capital improvements. The improved operating margin over fiscal year 2008 coupled with increased earnings on invested monies, contributed to NHRMC's ability to fund operations and planned capital initiatives. The increase in capital assets is a result of investments in property, plant and equipment during the past year. Construction costs associated with the Master Facility Plan have contributed to most of this change. The increase in other noncurrent assets reflects the proceeds from the issuance of 2008 series revenue bonds held under indenture agreement, the increase in fair value of the 2005 bond interest rate swaps, and other invested monies to fund capital improvements of NHRMC in property, plant and equipment during the past year.

Total liabilities have increased by \$18.2M over the past fiscal year end. The issuance of \$40M in 2008 hospital revenue bonds and the liability associated with the increased fair value of the 2005 bond interest rate swaps offset by the regularly scheduled payments of bond debt services resulted in the increase in Bonds Payable from the prior year. A decrease in other liabilities resulted primarily from a decrease in trade payables and estimated third-party payor settlements offset slightly by an increase in accrued salaries and wages and self insured liability. Estimated third-party payor settlements reflect potential settlements with Medicare and Medicaid upon final audit of cost reports. The reader may refer to Note 2 of the basic financial statements for additional information.

Net assets increased \$33.6M during the past year reflecting the overall performance during the past fiscal year.

LONG TERM DEBT DISCUSSION

For the year ended September 30, 2010

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

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

For the year ended September 30, 2009

Long-term debt (noncurrent portion) is approximately \$326.5M as of September 30, 2009 and includes Hospital Revenue Bonds issued in 1999, 2005, 2006 and 2008.

On November 6, 2008, NHRMC issued Variable rate Hospital Revenue Bonds (demand bonds) through New Hanover County, Series 2008A and 2008B (collectively, the "2008 Bonds"), in the amounts of \$20M each. The 2008 Bonds mature in 2038 and bear interest at a variable rate, determined weekly.

On June 4, 2009, NHRMC converted the \$60M County of New Hanover, North Carolina Variable Rate Hospital Revenue Series 2006A Bonds and the \$60M County of New Hanover, North Carolina Variable Rate Hospital Revenue Series 2006B Bonds from an auction rate to a fixed rate mode. The Bonds were originally issued on September 13, 2006.

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, 2010

NHRMC is nearly complete with the Tower Renovation project, which will improve the infrastructure systems, create private rooms and more efficient support spaces for the staff. Construction on the Tower Renovation project began during the 4th Quarter of 2008 and is scheduled to continue through the 4th Quarter of 2010. At the Cape Fear campus, the Endoscopy to Operating Room construction is underway and scheduled for completion in FY 2011.

NHRMC continues to be a leader in the use of information technology to improve clinical outcomes, clinical operations, and business performance. In FY2011, NHRMC will begin implementation of the Epic product suite, replacing 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. To support our future of automation, we continue to invest in building a powerful and continuously available infrastructure with state-of-the-art servers, desktops, networks, and data centers.

For the year ended September 30, 2009

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

NHRMC continues to be a leader in the use of information technology to improve clinical outcomes, clinical operations, and business performance. In FY 2010 we launched the first phase of Computerized Physician Order Entry (CPOE), a project which moves us closer to our goal of paperless clinical care processes. We also continue to implement systems and applications to support our revenue and financial management processes.

NEXT YEAR'S BUDGET AND RATES

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

For the upcoming fiscal year beginning October 1, 2010, the Board of Trustees has approved a budget to include increases of \$10.1M in salaries and benefits for employees, \$133.9M in uncompensated care, and \$45.8M in capital investments (exclusive of the Tower Renovation project referenced in the Capital Assets section previously) and debt service.

To offset increases in operating costs, the budget reflects an increase in volumes in both inpatient and outpatient services along with anticipated cost savings in supplies, labor costs and improved focus on the hospital's revenue cycle. A price increase of 4.0% was approved for NHRMC to also offset additional operating costs.

OTHER ECONOMIC FACTORS

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

The national, state and local economies have started to slow down resulting in increased unemployment. 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, continues 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.

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

	September 30, 2010			September 30, 2009 (Note 17)		
	Combined		Total	Combined		Total
	NHRMC	Units	(Memorandum Only)	NHRMC	Units	(Memorandum Only)
ASSETS						
Current assets						
Cash and cash equivalents (Note 3)	\$ 24,126	\$ 4,922	\$ 29,048	\$ 13,288	\$ 3,824	\$ 17,112
Assets limited as to use (Note 3):						
Cash equivalents held by bond paying agent	7,940	-	7,940	5,131	-	5,131
Cash for debt service-not held by bond paying agent	3,963	-	3,963	5,590	-	5,590
Cash equivalents and investments for the future payment of claims liabilities	16,969	-	16,969	16,624	-	16,624
Receivables:						
Patient accounts, less allowance for bad debts (Note 2)	66,330	6,254	72,584	68,071	5,648	73,719
Due from health insurance programs	2,114	778	2,892	1,689	-	1,689
Due from primary government	-	765	765	-	78	78
Due from component units	297	-	297	-	-	-
Other receivables	10,060	494	10,554	8,076	603	8,679
Investments (Note 3)	-	1,671	1,671	-	1,017	1,017
Inventories	16,490	424	16,914	17,221	406	17,627
Prepaid expenses	8,656	497	9,153	7,893	611	8,504
Total current assets	156,945	15,805	172,750	143,583	12,187	155,770
Noncurrent cash, investments, and donor receivables						
Noncurrent Cash and Investments (Note 3):						
Designated by Board for operating and PDO reserve	-	6,090	6,090	-	2,655	2,655
Designated by Board for capital improvements	259,608	433	260,041	236,159	480	236,639
Restricted under indenture agreement held by trustee	-	-	-	112	-	112
Restricted under loan agreement	-	23	23	-	6	6
Restricted under letter of credit	4,000	-	4,000	4,007	-	4,007
Designated by Board for life safety contingency	-	-	-	3,732	-	3,732
Designated by Board for supplemental retirement plans	1,333	-	1,333	1,105	-	1,105
Restricted by donors for specific purpose	2,035	-	2,035	1,643	34	1,677
Restricted by donors for endowments	1,651	1,160	2,811	1,589	1,076	2,665
	268,627	7,706	276,333	248,347	4,251	252,598
Pledges and grants receivable	2,250	312	2,562	2,593	180	2,773
Total noncurrent cash, investments, and donor receivables	270,877	8,018	278,895	250,940	4,431	255,371
Other assets						
Intangible capital assets, net of amortization (Note 4)	47,378	45	47,423	49,315	55	49,370
Investment in affiliates (Note 12)	5,773	-	5,773	10,482	-	10,482
Pension asset (Note 10)	4,491	-	4,491	4,496	-	4,496
Other long term assets	466	396	862	500	643	1,143
Deferred outflow of resources (Note 7)	9,965	271	10,236	6,993	175	7,168
Total other assets	68,073	712	68,785	71,786	873	72,659
Capital assets - tangible (Note 4)						
Land	11,966	2,888	14,854	11,966	2,492	14,458
Depreciable capital assets, net of accumulated depreciation	391,507	16,375	407,882	378,727	16,336	395,063
Construction in progress	15,005	168	15,173	16,052	65	16,117
Total capital assets - tangible	418,478	19,431	437,909	406,745	18,893	425,638
Total assets	\$ 914,373	\$ 43,966	\$ 958,339	\$ 873,054	\$ 36,384	\$ 909,438

See Notes to Financial Statements.

	September 30, 2010			September 30, 2009 (Note 17)		
	Combined		Total	Combined		Total
	NHRMC	Units	Component (Memorandum Only)	NHRMC	Units	Component (Memorandum Only)
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable and other liabilities (Note 9)	\$ 31,725	\$ 2,593	\$ 34,318	\$ 34,193	\$ 1,999	\$ 36,192
Professional liability claims (Note 9)	14,777	-	14,777	14,218	-	14,218
Accrued salaries and wages	24,733	2,106	26,839	24,427	2,230	26,657
Estimated third-party payor settlements (Note 2)	18,563	232	18,795	9,793	175	9,968
Due to primary government	-	297	297	-	-	-
Due to component units	765	-	765	78	-	78
Due to affiliates (Note 12)	4,149	-	4,149	4,405	-	4,405
Note payable, current portion (Note 6)	-	18	18	246	8	254
Capital lease obligations and bonds payable, current portion (Notes 5 and 6)	6,565	159	6,724	10,545	182	10,727
Total current liabilities	101,277	5,405	106,682	97,905	4,594	102,499
Long-term obligations						
Capital lease obligations less current portion (Notes 5 and 6)	-	7	7	-	66	66
Net pension obligation (Notes 6 and 10)	-	231	231	-	232	232
Supplemental retirement plans (Notes 6 and 10)	1,333	-	1,333	1,105	-	1,105
Notes payable (Note 6)	-	2,088	2,088	-	2,118	2,118
Bonds payable, less current portion (Note 6)	314,911	3,800	318,711	316,692	3,900	320,592
Interest rate swap agreements (Note 7)	11,840	271	12,111	8,689	175	8,864
Total long-term obligations	328,084	6,397	334,481	326,486	6,491	332,977
Total liabilities	429,361	11,802	441,163	424,391	11,085	435,476
Commitments and contingencies (Notes 2, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14 and 16)						
Net assets						
Invested in capital assets, net of related debt	144,380	13,404	157,784	128,577	12,674	141,251
Unrestricted	330,130	16,362	346,492	308,589	11,495	320,084
Restricted	10,502	2,398	12,900	11,497	1,130	12,627
Total net assets	485,012	32,164	517,176	448,663	25,299	473,962
Total liabilities and net assets	\$ 914,373	\$ 43,966	\$ 958,339	\$ 873,054	\$ 36,384	\$ 909,438

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

	Year Ended September 30, 2010			Year Ended September 30, 2009 (Note 17)		
	Combined		Total	Combined		Total
	NHRMC	Units	(Memorandum Only)	NHRMC	Units	(Memorandum Only)
Operating revenues:						
Net patient service revenue (Notes 2 and 6)	\$ 599,018	\$ 41,323	\$ 640,341	\$ 591,466	\$ 37,410	\$ 628,876
Other revenue	17,542	4,512	22,054	16,529	3,427	19,956
Total operating revenue	616,560	45,835	662,395	607,995	40,837	648,832
Operating expenses:						
Salaries, wages and benefits	287,103	27,018	314,121	285,590	26,312	311,902
Medical supplies	130,269	4,976	135,245	127,130	4,874	132,004
Professional fees	22,503	848	23,351	22,507	731	23,238
Insurance	10,903	478	11,381	7,692	440	8,132
Purchased services and other	87,946	5,524	93,470	88,327	5,386	93,713
Depreciation and amortization	42,652	1,589	44,241	40,407	1,432	41,839
Total operating expenses	581,376	40,433	621,809	571,653	39,175	610,828
Operating income	35,184	5,402	40,586	36,342	1,662	38,004
Nonoperating revenues (expenses):						
Interest expense	(13,039)	(223)	(13,262)	(14,475)	(170)	(14,645)
Other nonoperating income	256	254	510	312	120	432
Interest earned on investments	6,175	-	6,175	8,163	-	8,163
Net (decrease) increase in fair value of investments	7,550	123	7,673	3,374	(88)	3,286
Loss on sale of assets	(54)	-	(54)	(1,762)	-	(1,762)
Equity in net income of joint ventures	828	-	828	1,030	-	1,030
Nonoperating revenues (expenses), net	1,716	154	1,870	(3,358)	(138)	(3,496)
Excess of revenues over expenses before capital contributions	36,900	5,556	42,456	32,984	1,524	34,508
Capital and permanent endowment contributions and transfers to/from component units	(551)	1,309	758	610	296	906
Increase in net assets	36,349	6,865	43,214	33,594	1,820	35,414
Net assets						
Beginning, as previously reported	448,663	25,299	473,962	416,828	23,479	440,307
Change in accounting principle (Note 17)	-	-	-	(1,759)	-	(1,759)
Beginning, as restated	448,663	25,299	473,962	415,069	23,479	438,548
Ending	\$ 485,012	\$ 32,164	\$ 517,176	\$ 448,663	\$ 25,299	\$ 473,962

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, 2010			Year Ended September 30, 2009		
	Combined		Total	Combined		Total
	NHRMC	Units	(Memorandum Only)	NHRMC	Units	(Memorandum Only)
Cash flows from operating activities						
Cash received from and on behalf of patients	\$ 611,250	\$ 39,913	\$ 651,163	\$ 589,241	\$ 37,110	\$ 626,351
Cash payments to suppliers for services and goods	(249,436)	(10,372)	(259,808)	(262,097)	(13,058)	(275,155)
Cash payments to employees for services	(286,564)	(26,960)	(313,524)	(284,315)	(26,023)	(310,338)
Other operating cash receipts	14,009	4,075	18,084	15,106	4,056	19,162
Net cash provided by operating activities	<u>89,259</u>	<u>6,656</u>	<u>95,915</u>	<u>57,935</u>	<u>2,085</u>	<u>60,020</u>
Cash flows from noncapital financing activities						
Contributions and operating grants	1,805	-	1,805	3,671	-	3,671
Payments (to) from component unit	390	(390)	-	(231)	231	-
Net cash provided by (used in) noncapital financing activities	<u>2,195</u>	<u>(390)</u>	<u>1,805</u>	<u>3,440</u>	<u>231</u>	<u>3,671</u>
Cash flows from capital and related financing activities						
Acquisition of capital assets	(56,093)	(2,236)	(58,329)	(62,366)	(2,871)	(65,237)
Proceeds from disposed assets	118	-	118	4	-	4
Acquisition of goodwill	(288)	-	(288)	(1,219)	-	(1,219)
Capital contributions	626	82	708	10	99	109
Principal payments on capital lease obligations	-	(82)	(82)	-	(361)	(361)
Principal payments on revenue bonds and other outstanding debt	(6,520)	-	(6,520)	(5,385)	-	(5,385)
Interest paid on capital financing	(12,782)	(170)	(12,952)	(13,911)	(251)	(14,162)
Proceeds from bonds/notes	-	-	-	40,000	2,141	42,141
Payment of bond issuance costs	-	-	-	(2,914)	-	(2,914)
Transfers (to) from component unit	(1,227)	1,227	-	(197)	197	-
Payments on line of credit	-	(120)	(120)	-	(989)	(989)
Net cash used in capital and related financing activities	<u>(76,166)</u>	<u>(1,299)</u>	<u>(77,465)</u>	<u>(45,978)</u>	<u>(2,035)</u>	<u>(48,013)</u>
Cash flows from investing activities						
Sales (purchases) of investments, net of maturities	(4,332)	(1,904)	(6,236)	(3,022)	448	(2,574)
Interest earned on investments	6,088	242	6,330	8,102	124	8,226
Contributions to partnerships	(223)	-	(223)	(328)	-	(328)
Distributions from partnerships	3,343	-	3,343	792	-	792
Other interest earned	333	12	345	756	(5)	751
Net cash provided by (used in) investing activities	<u>5,209</u>	<u>(1,650)</u>	<u>3,559</u>	<u>6,300</u>	<u>567</u>	<u>6,867</u>
Net increase in cash and cash equivalents	<u>20,497</u>	<u>3,317</u>	<u>23,814</u>	<u>21,697</u>	<u>848</u>	<u>22,545</u>
Cash and cash equivalents at beginning of year	<u>81,283</u>	<u>5,808</u>	<u>87,091</u>	<u>59,586</u>	<u>4,960</u>	<u>64,546</u>
Cash and cash equivalents at end of year	<u>\$ 101,780</u>	<u>\$ 9,125</u>	<u>\$ 110,905</u>	<u>\$ 81,283</u>	<u>\$ 5,808</u>	<u>\$ 87,091</u>

(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, 2010			Year Ended September 30, 2009		
	Combined		Total	Combined		Total
	NHRMC	Units	(Memorandum Only)	NHRMC	Units	(Memorandum Only)
Reconciliation of cash and cash equivalents to the balance sheet						
Unrestricted cash and cash equivalents	\$ 24,126	\$ 4,922	\$ 29,048	\$ 13,288	\$ 3,824	\$ 17,112
Cash and cash equivalents in noncurrent cash and investments						
Designated by Board for operating and PDO reserve	-	4,071	4,071	-	1,674	1,674
Held by bond paying agent	7,940	-	7,940	5,131	-	5,131
Reserved for debt service-not held by bond paying agent	3,963	-	3,963	5,590	-	5,590
Designated by Board for claims liabilities	1,237	-	1,237	1,351	-	1,351
Designated by Board for capital improvements	60,514	63	60,577	51,804	219	52,023
Restricted under indenture agreement held by trustee	-	-	-	112	-	112
Restricted under loan agreement	-	23	23	-	6	6
Restricted under letter of credit	4,000	-	4,000	4,007	-	4,007
By donor restrictions	-	46	46	-	85	85
Cash and cash equivalents, including noncurrent cash and investments at end of year	<u>\$ 101,780</u>	<u>\$ 9,125</u>	<u>\$ 110,905</u>	<u>\$ 81,283</u>	<u>\$ 5,808</u>	<u>\$ 87,091</u>
Reconciliation of operating income to net cash provided by operating activities						
Cash flows from operating activities						
Operating income	\$ 35,184	\$ 5,402	\$ 40,586	\$ 36,342	\$ 1,662	\$ 38,004
Operating grants in other revenue	(1,755)	-	(1,755)	(3,671)	-	(3,671)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	42,652	1,589	44,241	40,407	1,500	41,907
Discount amortization included in operating expenses	4	-	4	11	-	11
Undistributed income from operating partnership	504	-	504	(452)	-	(452)
Changes in:						
Patient receivables and programs	2,308	(1,410)	898	6,950	(350)	6,600
Inventories	731	(18)	713	(2,473)	7	(2,466)
Prepaid expenses and other current assets	(796)	306	(490)	(1,077)	(539)	(1,616)
Accounts payable and other liabilities	10,081	539	10,620	(18,889)	(205)	(19,094)
Accrued salaries and wages	306	(124)	182	1,281	53	1,334
Pension asset	5	-	5	(6)	-	(6)
Net pension obligation	-	(1)	(1)	-	(3)	(3)
Other long term assets	35	373	408	(488)	(40)	(528)
Net cash provided by operating activities	<u>\$ 89,259</u>	<u>\$ 6,656</u>	<u>\$ 95,915</u>	<u>\$ 57,935</u>	<u>\$ 2,085</u>	<u>\$ 60,020</u>
Noncash capital and related financing activities						
Unrealized (loss) gain	\$ 5,795	\$ -	\$ 5,795	\$ 3,421	\$ -	\$ 3,421
Capital assets acquired with accounts payable	\$ -	\$ -	\$ -	\$ 6,326	\$ -	\$ 6,326

See Notes to Financial Statements.

New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)
Statements of Fiduciary Net Assets - Fiduciary Fund
December 31, 2009 and 2008
(Dollars in Thousands)

ASSETS	The Pension Plan of New Hanover Regional Medical Center	
	2009	2008
Investments (Note 3)	\$ 149,255	\$ 129,982
Receivable:		
Accrued income	196	267
Total Assets	<u>149,451</u>	<u>130,249</u>
Net Assets Held in Trust for Pension Benefits	<u><u>\$ 149,451</u></u>	<u><u>\$ 130,249</u></u>

See Notes to Financial Statements.

New Hanover Regional Medical Center
(A Component Unit of New Hanover County, North Carolina)
Statements of Changes in Fiduciary Net Assets - Fiduciary Fund
Years Ended December 31, 2009 and 2008
(Dollars in Thousands)

	The Pension Plan of New Hanover Regional Medical Center	
	2009	2008
Additions		
Employer's contributions	\$ 8,960	\$ 8,428
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	22,605	(37,992)
Dividends and interest	4,012	4,636
	26,617	(33,356)
	35,577	(24,928)
Deductions		
Distributions to participants	11,374	9,460
Administrative expenses	546	572
Total deductions	11,920	10,032
Net increase (decrease) in net assets	23,657	(34,960)
Transfers out of plan (Note 10)	(4,455)	-
Net assets held in trust for pension benefits:		
Beginning of year	130,249	165,209
End of year	\$ 149,451	\$ 130,249

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

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

The Pension Plan of New Hanover Regional Medical Center comprises the fiduciary fund information. The Plan’s fiscal year ends included herein are December 31, 2009 and 2008.

Combined Component Units

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

LCFH is an affiliated organization of NHRMC. The Trustees of NHRMC appoint 80% of the board of directors of LCFH, a nonprofit organization that provides professional care to the terminally ill and support and education to the family and community. The organization currently serves 12 counties in southeastern North Carolina. LCFH is included in the reporting entity as a discretely presented component unit. During the years ended September 30, 2010 and 2009, NHRMC granted and paid LCFH approximately \$291 and \$235, respectively, in support of LCFH’s Palliative Care Program.

PMH is a nonprofit acute care hospital providing inpatient, outpatient and emergency care services to the residents of Pender County and vicinity and 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, 2010 and 2009, NHRMC recorded an operating expense and PMH recorded other operating revenue in the amount of approximately \$765 and \$17 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 2010 and 2009, NHRMC infused approximately \$1,227 and \$197, respectively, of capital into PMH.

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

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

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

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

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

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

Basis of Presentation

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

Basis of Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

Inventories

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

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

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

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

Designated Assets and Restricted Assets

Designated assets are set aside by the Board of Trustees for future capital or other long-term needs and the Board may, at its discretion, subsequently use them for other purposes. Restricted assets include unspent proceeds from the Series 1999, Series 2005, Series 2006, and Series 2008 issued Hospital Revenue Bonds, which are externally restricted in their use by the covenants related to the bond indenture; amounts restricted by other agreements; and amounts restricted by donors.

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

Restricted funds of NHRMC are for specific NHRMC programs, none of which is individually significant. As of September 30, 2008, NHRMC had \$28,500 of funds restricted for the Master Facility Plan under the lease agreement (See Note 5). These funds were released from restriction during 2009 when spent for their restricted purpose. Additionally, as of September 30, 2010 and 2009, NHRMC had approximately \$4,000 of funds restricted under a letter of credit in conjunction with the issuance of bonds during the year ended September 30, 2009 (See Note 6). Restricted funds of LCFH are for LCFH programs.

Investments

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

Intangible Capital Assets

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

Tangible Capital Assets

Purchased or constructed tangible capital assets are recorded at cost. Donated capital assets are recorded at estimated fair value at the date received. NHRMC's and PMH's policies are to generally capitalize assets with a cost of one thousand dollars or greater and a useful life of at least one year. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets as recommended by the American Hospital Association. Amounts in construction-in-progress are not yet subject to depreciation. NHRMC's net interest costs of approximately \$1,132 and \$1,396 were incurred and capitalized during fiscal years ended September 30, 2010 and 2009, respectively, for the construction of long-term assets and will be amortized over the related assets' estimated useful lives.

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

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

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

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

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

Self-Funded Liabilities

NHRMC is self-insured for employee medical claims and contracts with a third party to administer the program. NHRMC's losses are limited under the contract by specific and aggregate stop-loss insurance coverage for claims above specified amounts. NHRMC is also self-insured for a portion of professional liabilities, workers' compensation and unemployment benefits. Provisions for estimated unpaid claims outstanding at September 30, 2010 and 2009 have been made (See Note 8).

Unamortized Deferral on Refunding

Bonds payable is recorded net of unamortized deferred losses on bond refundings. These amounts are amortized over the shorter of the lives of the refunded debt or the refunding debt using the straight-line method and recorded net of accumulated amortization (See Note 9).

Net Assets

Net asset classifications are defined as follows:

- *Net assets invested in capital assets, net of related debt* consists of capital asset, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* at NHRMC consist of those net assets generated from revenues that have constraints on their use imposed by third parties, creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of September 30, 2010 and 2009, restricted net assets consist of: expendable net assets restricted under letter of credit agreements of approximately \$4,000 and \$4,000, respectively; nonexpendable endowments of approximately \$2,000 and \$2,000, respectively; and other expendable net assets resulting from specific purpose donations and grants.
- *Unrestricted net assets* consist of net assets that have no third party restrictions on use and are not invested in capital assets.

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

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

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

Operating Income

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

Interest Rate Swap Agreements

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

Charity Care

NHRMC provides care without charge or at amounts less than its established rates to patients who meet certain criteria for charity care, which are based on federal poverty guidelines and consideration of the level of incurred charges in relation to income and net worth. Because NHRMC does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care rendered by NHRMC at established charges totaled approximately \$42,332 and \$35,299 for the years ended September 30, 2010 and 2009, respectively. Charity care provided by component units is not considered significant.

Net Patient Service Revenue and Net Patient Receivables

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

Sales and Income Taxes

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

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

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

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

Pension Plan

NHRMC maintains a defined benefit pension plan covering substantially all of its employees. As discussed in Note 10, the plan also covered employees of LCFH until January 1, 2009. PMH also maintains a separate defined benefit pension plan covering substantially all of its employees. NHRMC, LCFH, and PMH recognize pension expense under a systematic approach whereby the measurement of the pension expense for an accounting period is similar to the employer's calculated required contributions for that period, in accordance with an established and actuarially sound funding policy.

Total (Memorandum Only) Columns

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

Reclassification

Certain amounts presented in the prior year's data have been reclassified, as necessary, to be consistent with the 2010 presentation. Reclassifications had no effect on net assets or changes in net assets.

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

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

Medicare

Services for most NHRMC Medicare patients are paid at prospectively determined rates per discharge. Other services are reimbursed under cost based or other formulas. NHRMC is reimbursed at tentative interim rates with final settlement determined after submission of annual cost reports and audits of these reports by the Medicare fiscal intermediary. The difference between established billing rates and reimbursements are recorded as contractual adjustments in net patient service revenue. NHRMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2005.

PMH is a "critical access hospital." This enables PMH to receive cost based reimbursement from Medicare for its hospital based services. PMH's skilled nursing and home health services are reimbursed at prospectively determined rates. PMH's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2007.

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

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

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

Medicare services represent:

	% of Net Patient Services Revenue for the Year Ended September 30,		% of Net Patient Accounts Receivable as of September 30,	
	2010	2009	2010	2009
NHRMC	39%	39%	25%	26%
LCFH	92%	86%	79%	70%
PMH	57%	56%	48%	46%

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. Skilled Nursing and Home Health services continue to be reimbursed on prospective rates. NHRMC and PMH are reimbursed for Medicaid cost reimbursement based services at 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, 2005 and PMH's Medicaid cost reports have been audited through September 30, 2006.

Medicaid services represent:

	% of Net Patient Services Revenue for the Year Ended September 30,		% of Net Patient Accounts Receivable as of September 30,	
	2010	2009	2010	2009
NHRMC	13%	13%	14%	15%
LCFH	3%	5%	15%	18%
PMH	17%	15%	18%	15%

During fiscal years ended September 30, 2010 and 2009, NHRMC received approximately \$26,152 and \$26,351, respectively, from the State of North Carolina under the Medicaid Reimbursement Initiative (MRI).

PMH received approximately \$104 and \$95 in supplemental payments during the fiscal years ended September 30, 2010 and 2009, respectively.

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

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

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

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

The MRI has been audited and settled through September 30, 2003. Amounts of supplemental payments received by NHRMC for years 2004 through 2010 remain open to settlement by the State of North Carolina. It is possible that amounts of actual future settlements could be significantly different than NHRMC's current estimates.

Recovery Audit Contractor Audits

In 2005, the Centers for Medicare and Medicaid Services (CMS) announced a new demonstration project using recovery audit contractors (RACs) as a part of CMS' further efforts to assure accurate payments. The project uses the RACs to 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 five-state pilot project concluded in March 2008 with a nationwide rollout in phases that began in 2009. NHRMC has limited experience with the RAC auditors who have made 6 requests for a total of 436 records, resulting in the identification of approximately \$359 of overpayments identified. NHRMC expects an increase in volume of claims reviewed as well a shift to areas of higher potential exposure. NHRMC recorded an estimated reserve for estimated assessments under future RAC audits. Management does not believe such assessments will be material to the financial statements.

Allowances for Bad Debts

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

	September 30,	
	2010	2009
NHRMC	\$ 64,780	\$ 62,986
LCFH	146	107
PMH	2,835	2,553
	<u>\$ 67,761</u>	<u>\$ 65,646</u>

Provisions for Bad Debts

For the years ended September 30, 2010 and 2009, net patient service revenue is reported net of a provision for bad debts of:

	2010	2009
NHRMC	\$ 87,694	\$ 83,305
LCFH	540	478
PMH	4,149	4,415
	<u>\$ 92,383</u>	<u>\$ 88,198</u>

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

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

Note 3. Cash and Cash Equivalents and Investments

Deposits

As of September 30, 2010 and 2009, the carrying values and bank balances of deposits were as follows (in thousands):

	2010		2009	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
NHRMC	\$ 46,052	\$ 59,090	\$ 15,339	\$ 24,058
LCFH	\$ 8,006	\$ 13,690	\$ 4,066	\$ 7,642
PMH	\$ 636	\$ 903	\$ 1,213	\$ 1,468

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, 2010 and 2009, federal depository insurance limits were \$250 per financial institution. Substantially all deposits of the Foundation and CHA (included in NHRMC, above) were covered by federal depository insurance. NHRMC and PMH have cash balances in financial institutions that exceed federal depository limits, but the remainder of which is covered under the Pooling Method described above.

LCFH is not subject to the above described statutes. LCFH has cash balances in a financial institution that from time to time have exceeded federal depository insurance limits. Bank balances in excess of federal depository insurance limits are uninsured and uncollateralized.

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

**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.

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

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

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

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

As of September 30, 2010 and 2009, NHRMC had the following investments, concentrations and maturities, excluding fiduciary investments:

Investment Type	Effective Duration in Years	Fair Value 2010	Effective Duration in Years	Fair Value 2009
Municipal Bonds:				
University NC Charlotte Rev Taxable Gen Ser A	6.5	\$ 194	7.5	\$ 186
Brunswick Cnty NC Enterprise Sys Rev Build America Bonds	7.5	1,835	-	-
US Government Treasury Notes	2.1	7,268	1.3	7,341
US Government Treasury Bonds	7.4	31,325	8.3	29,943
US Government Agencies:				
Federal Farm Credit Bank	1.5	2,382	3	2,388
Federal Home Loan Bank	1.6	8,637	1.6	9,217
Federal Home Loan Mortgage Corp	5.5	16,704	6.1	17,078
Federal Nat'l Mortgage Association	3.5	21,066	3.1	17,230
Mortgage Backed Securities:				
Federal Home Loan Mtg Corp Pool	17.9	19,956	17.8	21,268
Federal Nat'l Mortgage Assoc Pool	22.4	36,260	21.5	28,789
Gov't Nat'l Mortgage Assoc Pool	14.3	15,153	15.3	19,036
Asset Backed CMO's:				
Gov't Nat'l Mortgage Assoc	19.1	1,921	20.1	2,121
Vendee Mortgage Trust Ser 1992-1 CL 2Z	11.6	1,164	12.6	1,227
Vendee Mortgage Trust Ser 1994-3B CL 2F	12	852	13	865
Vendee Mortgage Trus Ser 1995-1 CL 3ZB	14.4	966	15.4	992
NC Capital Management Trust - Cash Portfolio	N/A	55,714	N/A	65,931
Department of State Treasurer Trust Funds				
Investment Program - Equity Investment Fund	N/A	49,076	N/A	45,613
Department of State Treasurer Short Term				
Investment Fund (STIF)	N/A	67	N/A	66
Mutual Funds				
	N/A	5,019	N/A	4,337
		<u>\$ 275,559</u>		<u>\$ 273,628</u>

N/A = Not applicable.

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

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

As of September 30, 2010 and 2009, LCFH had the following investments, concentrations and maturities:

Investment Type	Fair Value	
	2010	2009
Bond Funds	\$ 4,060	\$ 2,259
Mutual Funds	1,114	1,025
	<u>\$ 5,174</u>	<u>\$ 3,284</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 of a debt security will not fulfill its obligation to the holder of the investment. State Statutes limit NHRMC's investments to obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of specific U.S. government agencies; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; certain high quality issues of commercial paper and bankers' acceptances; investment in a commingled investment pool established and administered by the North Carolina State Treasurer; certain repurchase agreements with respect to direct obligations of the United States or obligations which are guaranteed by the United States as to principal and interest; and the North Carolina Capital Management Trust (NCCMT). NHRMC's investments in the NCCMT Cash Portfolio carried a rating of AAAM by Standard & Poor's as of September 30, 2010.

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

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

NHRMC's investment portfolio includes debentures and mortgage backed securities 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 as of September 30, 2010. 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). A MBS is an asset backed security whose cash flows are backed by the principal and interest payments of a pool of mortgage loans. Payments are typically made monthly over the lifetime of the underlying loans. CMO's, a type of mortgage backed security, are bonds that represent claims to specific cash flows from large pools of mortgages. The streams of principal and interest payments on the mortgages are distributed to the different classes of CMO interests. Credit risk associated with MBS's and CMO's is affected by homeowners or borrowers defaulting on their loans. NHRMC's investments in CMO's are explicitly guaranteed by the U.S. Government (Government National Mortgage Association and Vendee Mortgage Trust securities).

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

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

Concentration of Credit Risk. NHRMC's investment policy requires a balance between short/intermediate fixed income securities, broad duration fixed income securities, and investment in a commingled investment pool established and administered by the North Carolina State Treasurer as allowable under State Statute; however it places no limit on the amount NHRMC may invest in any one issuer. As of September 30, 2010, securities issued/backed by Fannie Mae, Freddie Mac, and Ginnie Mae represent 20.8%, 13.3%, and 6.2% of the Hospital's investment portfolio, respectively. As of September 30, 2009, securities issued/backed by Fannie Mae, Freddie Mac, and Ginnie Mae represent 16.8%, 14.0%, and 7.7% of the Hospital's investment portfolio, respectively.

Foreign Currency Risk. NHRMC's investment in the State Treasurer's Trust Funds Investment Program-Equity Investment Fund exposes NHRMC to foreign currency risk as a result of its positions in foreign currency-denominated equity securities. NHRMC does not have an investment policy that limits its exposure to foreign currency risk, however NHRMC's investment policy provides for the maintenance of a balance between three investment strategies, one of which is the State Treasurer's Trust Funds Investment Program-Equity Investment Fund. At September 30, 2010 and 2009, NHRMC had approximately \$13,376 and \$12,389, respectively, exposed to foreign currency risk, of which 19% and 24%, respectively, represent investments denominated in the Euro; 14% and 15%, respectively, represent investments denominated in the British Pound; and 14% and 15%, respectively, represent investments denominated in the Japanese Yen.

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

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

**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, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents		
Cash on hand	\$ 14	\$ 13
Deposits	18,063	5,725
Short-term mutual fund (1)	6,049	7,550
	<u>\$ 24,126</u>	<u>\$ 13,288</u>
Assets limited as to use:		
Held by bond paying agent		
Short-term mutual fund (1)	\$ 7,940	\$ 5,131
By Board for debt service		
Deposits	3,963	5,590
By Board for claims liabilities		
U.S. Treasury securities	7,268	7,341
U.S. Agency securities	8,464	7,932
Short-term mutual fund (1)	1,237	1,351
	<u>\$ 28,872</u>	<u>\$ 27,345</u>
By Board for capital improvements		
U.S. Treasury securities	\$ 31,325	\$ 26,211
U.S. Agency securities	40,325	37,981
Municipal bonds	2,029	186
Other securities backed by		
U.S. Government/Gov't Agencies	76,272	74,298
Dept. of State Treasurer Trust Funds		
Investment Program -		
Equity Investment Fund	49,076	45,613
Dept. of State Treasurer Short Term		
Investment Fund (STIF)	67	66
Deposits	20,026	-
Short-term mutual fund (1)	40,488	51,804
	<u>\$ 259,608</u>	<u>\$ 236,159</u>
Under indenture agreement held by trustee		
Deposits	\$ -	\$ 17
Short-term mutual fund (1)	-	95
	<u>\$ -</u>	<u>\$ 112</u>
Under LOC for 2008 bonds		
Deposits	\$ 4,000	\$ 4,007
	<u>\$ 4,000</u>	<u>\$ 4,007</u>
By Board for life safety contingency		
U.S. Treasury securities	\$ -	\$ 3,732
	<u>\$ -</u>	<u>\$ 3,732</u>
By Board for employee benefit plans		
Mutual funds	\$ 1,333	\$ 1,105
	<u>\$ 1,333</u>	<u>\$ 1,105</u>
Endowments		
Mutual funds	\$ 2,035	\$ 1,589
	<u>\$ 2,035</u>	<u>\$ 1,589</u>
Specific Purposes		
Mutual funds	\$ 1,651	\$ 1,643
	<u>\$ 1,651</u>	<u>\$ 1,643</u>

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

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

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

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

Deposits and investments of LCFH as of September 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>	2009
Cash and cash equivalents		
Cash on hand	\$ 3	\$ 2
Deposits	<u>3,803</u>	2,080
	<u>\$ 3,806</u>	<u>\$ 2,082</u>
Investments		
Bond funds	<u>\$ 1,671</u>	\$ 1,017
	<u>\$ 1,671</u>	<u>\$ 1,017</u>
By Board for operating and PDO reserve		
Deposits	\$ 4,071	\$ 1,674
Bond funds	<u>2,019</u>	981
	<u>\$ 6,090</u>	<u>\$ 2,655</u>
By Board for capital improvements		
Bond funds	\$ 370	\$ 261
Deposits	<u>63</u>	219
	<u>\$ 433</u>	<u>\$ 480</u>
Under agreement		
Deposits	\$ 23	\$ 6
	<u>\$ 23</u>	<u>\$ 6</u>
Specific Purpose		
Deposits	\$ -	\$ 34
	<u>\$ -</u>	<u>\$ 34</u>
Endowments		
Deposits	\$ 46	\$ 51
Mutual funds	<u>1,114</u>	1,025
	<u>\$ 1,160</u>	<u>\$ 1,076</u>

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

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

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

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

Deposits and investments of PMH as of September 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents		
Cash on hand	\$ 1	\$ 1
Deposits	636	1,213
Short-term mutual fund (1)	479	528
	<u>\$ 1,116</u>	<u>\$ 1,742</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 man rule.

The following table presents investments as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Real Estate:		
28.77 Acres of land and buildings in Wilmington, NC	\$ 4,356	\$ 5,950
Money market fund:		
Federated Government Obligations Fund	815	1,936
Mutual funds:		
Pimco Total Return Institutional Fund	60,513	49,413
Euro Pac Growth Fund	15,100	13,853
Royce Fund	7,916	7,529
Davis New York Venture Fund	30,893	26,753
Common stocks	29,662	24,548
	<u>\$ 149,255</u>	<u>\$ 129,982</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 years. The average maturity of the Federated Government Obligations Fund is 40 days.

**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)

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

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

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

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

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

Note 4. Capital Asset Activity

Capital asset activity was as follows:

NHRMC - Year Ended September 30, 2010

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

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

Note 4. Capital Asset Activity (Continued)

NHRMC - Year Ended September 30, 2009

	Beginning Balance	Additions	Retirements	Ending Balance
NHRMC Activity:				
Capital assets, not being depreciated:				
Land	\$ 11,374	\$ 592	\$ -	\$ 11,966
Construction in progress	25,491	55,343	(64,782)	16,052
Total capital assets, not being depreciated	<u>36,865</u>	<u>55,935</u>	<u>(64,782)</u>	<u>28,018</u>
Capital assets, being depreciated/amortized				
Intangible assets	66,330	4,323	(3,497)	67,156
Buildings and leasehold improvements	406,069	46,598	(150)	452,517
Equipment	230,372	26,054	(6,258)	250,168
Total capital assets being depreciated/amortized	<u>702,771</u>	<u>76,975</u>	<u>(9,905)</u>	<u>769,841</u>
Less accumulated depreciation/amortization for:				
Intangible assets	(16,125)	(1,982)	266	(17,841)
Buildings, leasehold improvements, and equipment	(291,567)	(38,351)	5,960	(323,958)
Total accumulated depreciation/amortization	<u>(307,692)</u>	<u>(40,333)</u>	<u>6,226</u>	<u>(341,799)</u>
Total capital assets being depreciated/amortized, net	<u>395,079</u>	<u>36,642</u>	<u>(3,679)</u>	<u>428,042</u>
NHRMC activities, capital assets, net	<u>\$ 431,944</u>	<u>\$ 92,577</u>	<u>\$ (68,461)</u>	<u>\$ 456,060</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)

LCFH - Year Ended September 30, 2010

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

LCFH - Year Ended September 30, 2009

	Beginning Balance	Additions	Retirements	Ending Balance
Lower Cape Fear Hospice Activity:				
Capital assets, not being depreciated:				
Land	\$ 2,450	\$ -	\$ -	\$ 2,450
Construction in progress	3,305	16	(3,275)	46
Total capital assets, not being depreciated	<u>5,755</u>	<u>16</u>	<u>(3,275)</u>	<u>2,496</u>
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	5,483	4,851	(25)	10,309
Equipment	1,195	960	(14)	2,141
Total capital assets being depreciated/amortized	<u>6,678</u>	<u>5,811</u>	<u>(39)</u>	<u>12,450</u>
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements, and equipment	(1,465)	(723)	-	(2,188)
Total accumulated depreciation/amortization	<u>(1,465)</u>	<u>(723)</u>	<u>-</u>	<u>(2,188)</u>
Total capital assets being depreciated/amortized, net	<u>5,213</u>	<u>5,088</u>	<u>(39)</u>	<u>10,262</u>
Lower Cape Fear Hospice activities, capital assets, net	<u>\$ 10,968</u>	<u>\$ 5,104</u>	<u>\$ (3,314)</u>	<u>\$ 12,758</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, 2010

	Beginning Balance	Additions	Retirements	Ending Balance
Pender Memorial Hospital Activity:				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	19	1,154	(1,094)	79
Total capital assets, not being depreciated	<u>61</u>	<u>1,154</u>	<u>(1,094)</u>	<u>121</u>
Capital assets, being depreciated/amortized				
Intangibles	191	-	-	191
Buildings and leasehold improvements	9,843	404	-	10,247
Equipment	6,575	874	(27)	7,422
Total capital assets being depreciated/amortized	<u>16,609</u>	<u>1,278</u>	<u>(27)</u>	<u>17,860</u>
Less accumulated depreciation/amortization for:				
Intangibles	(136)	(10)	-	(146)
Buildings, leasehold improvements, and equipment	(10,344)	(750)	27	(11,067)
Total accumulated depreciation/amortization	<u>(10,480)</u>	<u>(760)</u>	<u>27</u>	<u>(11,213)</u>
Total capital assets being depreciated/amortized, net	<u>6,129</u>	<u>518</u>	<u>-</u>	<u>6,647</u>
Pender Memorial Hospital activities, capital assets, net	<u>\$ 6,190</u>	<u>\$ 1,672</u>	<u>\$ (1,094)</u>	<u>\$ 6,768</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, 2009

	Beginning Balance	Additions	Retirements	Ending Balance
Pender Memorial Hospital Activity:				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	-	24	(5)	19
Total capital assets, not being depreciated	42	24	(5)	61
Capital assets, being depreciated/amortized				
Intangibles	191	-	-	191
Buildings and leasehold improvements	9,571	272	-	9,843
Equipment	6,474	108	(7)	6,575
Total capital assets being depreciated/amortized	16,236	380	(7)	16,609
Less accumulated depreciation/amortization for:				
Intangibles	(127)	(9)	-	(136)
Buildings, leasehold improvements, and equipment	(9,583)	(768)	7	(10,344)
Total accumulated depreciation/amortization	(9,710)	(777)	7	(10,480)
Total capital assets being depreciated/amortized, net	6,526	(397)	-	6,129
Pender Memorial Hospital activities, capital assets, net	\$ 6,568	\$ (373)	\$ (5)	\$ 6,190

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, 2010 and 2009. As of September 30, 2010, NHRMC has remaining commitments of approximately \$4,248 on projects.

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

Note 5. Lease Obligations and Other Long-Term Debt

Under a lease agreement dated October 1, 1993 and most recently amended June 4, 2009, NHRMC leases its existing facilities and equipment and all future improvements from New Hanover County through October 2038. Covenants under the lease agreement correspond to those in the Series 1999, 2005, 2006, and 2008 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. NHRMC was in compliance with these covenants as of September 30, 2010 and 2009. The lease agreement was amended in connection with the 2006 bond issuance to include a provision whereby NHRMC restricted \$28,500 of funds for the Master Facility Plan construction. These funds were released from restriction during the year ended September 30, 2009 by meeting the lease requirements.

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:

Years Ending September 30,	
2011	\$ 4,965
2012	4,235
2013	4,225
2014	4,042
2015	3,011
2016 - 2020	9,137
Total minimum payments	<u>\$ 29,615</u>

Rent expense on operating leases for NHRMC totaled approximately \$7,125 and \$7,030 in 2010 and 2009, 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 \$51 and \$153 in 2010 and 2009, respectively.

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

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

**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 Other Long-Term Debt (Continued)

PMH leases additional space under a noncancelable operating lease, which expires in fiscal year 2013. In addition, PMH leases certain medical equipment under operating leases that expires between 2012 and 2014.

Years Ending September 30,	
2011	\$ 469
2012	405
2013	317
2014	9
Total minimum payments	<u>\$ 1,200</u>

Rent expense on operating leases for PMH totaled approximately \$429 and \$326 in 2010 and 2009, respectively.

PMH also leases various capital assets under noncancelable capital leases. As of September 30, 2010 and 2009, the leased assets had been recorded at \$583 and \$730, respectively, and had accumulated amortization of \$583 and \$730, respectively. A summary of capital lease obligations of PMH is as follows at September 30, 2010:

	<u>2010</u>	<u>2009</u>
Capital lease obligations, at varying interest rates from 3.96% to 8.9% collateralized by leased equipment	\$ 66	\$ 148
Less current portion	<u>(59)</u>	<u>(82)</u>
Capital lease obligations, less current portion	<u>\$ 7</u>	<u>\$ 66</u>

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

Years Ending September 30,	
2011	\$ 60
2012	5
2013	4
Total minimum payments	69
Less amount representing interest	<u>(3)</u>
Present value of net minimum payments	<u>\$ 66</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

Changes in long-term liabilities:

Long-term obligation activity for the year ended September 30, 2010 and 2009, was as follows:

NHRMC - Year Ended September 30, 2010

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

NHRMC - Year Ended September 30, 2009

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$300,155	\$ 40,000	\$ (5,385)	\$ 334,770	\$ 10,545
Less deferred amounts:					
Deferrals on refundings	4,314	3,231	(330)	7,215	-
Issuance discounts	540	180	(402)	318	-
Total bonds payable	295,301	36,589	(4,653)	327,237	10,545
Supplemental retirement plans	737	381	(13)	1,105	-
Notes payable	235	11	-	246	246
Long-term obligations	<u>\$296,273</u>	<u>\$ 36,981</u>	<u>\$ (4,666)</u>	<u>\$ 328,588</u>	<u>\$ 10,791</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)

Lower Cape Fear Hospice - Year Ended September 30, 2010

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 4,000	\$ -	\$ 100	\$ 3,900	\$ 100
Note payable	2,126		20	2,106	18
	<u>\$ 6,126</u>	<u>\$ -</u>	<u>\$ 120</u>	<u>\$ 6,006</u>	<u>\$ 118</u>

Lower Cape Fear Hospice - Year Ended September 30, 2009

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 4,000	\$ -	\$ -	\$ 4,000	\$ 100
Note payable	-	2,126	-	2,126	8
	<u>\$ 4,000</u>	<u>\$ 2,126</u>	<u>\$ -</u>	<u>\$ 6,126</u>	<u>\$ 108</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)

Pender Memorial Hospital - Year Ended September 30, 2010

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

Pender Memorial Hospital - Year Ended September 30, 2009

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases (Note 5)	\$ 509	\$ -	\$ 361	\$ 148	\$ 82
Net pension obligation	235	-	3	232	-
	<u>\$ 744</u>	<u>\$ -</u>	<u>\$ 364</u>	<u>\$ 380</u>	<u>\$ 82</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 1999, 2005, 2006, and 2008 bonds outstanding at September 30, 2010 and 2009, are as follows:

Revenue Bonds	Principal Amount	
	2010	2009
Series 1999 Revenue Bonds		
Serial revenue bonds with interest rates ranging from 3.1% to 5.25%, maturing annually through 2014	\$ 18,115	\$ 17,275
Term revenue bonds maturing in 2019, with stated interest rate of 5.0%	19,730	18,790
Term revenue bonds maturing in 2028, with stated interest rate of 5.0%	62,930	67,270
Series 2005A Variable Rate Hospital Revenue Refunding Bonds, demand obligations with mandatory redemptions annually through 2023	18,895	19,900
Series 2005B Variable Rate Hospital Revenue Refunding Bonds, demand obligations with mandatory redemptions annually through 2026	49,500	51,535
Series 2006A Hospital Revenue Bonds		
Serial revenue bonds with interest rates ranging from 3.0% to 4.79%, maturing annually beginning October 2012 through 2024	60,000	60,000
Series 2006B Hospital Revenue Bonds		
Term revenue bonds maturing in 2027, with stated interest rate of 5.0%	26,440	26,440
Term revenue bonds maturing in 2031, with stated interest rate of 5.162%	33,560	33,560
Series 2008A Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	19,665	20,000
Series 2008B Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	19,665	20,000
Unamortized discounts, net of premiums	(306)	(318)
Revenue bonds payable	328,194	334,452
Deferred loss amount on refundings	(6,718)	(7,215)
Current portion	(6,565)	(10,545)
Total revenue bonds payable, long-term	\$ 314,911	\$ 316,692

Series 1999 Hospital Revenue Bonds

On February 15, 1999, NHRMC issued \$122,395 of Series 1999 Hospital Revenue Bonds at fixed rates of interest through New Hanover County for use by NHRMC. Interest on the Series 1999 bonds is paid at fixed rates established at the time of bond issuance. These bonds were issued for the purpose of purchasing certain net assets of Cape Fear Hospital and to make certain renovations and improvements. The 1999 bonds were originally issued at a discount of approximately \$963, 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)

Series 2005 Variable Rate Hospital Revenue Refunding Bonds

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

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

NHRMC and the County entered into a Standby Bond Purchase Agreement with a bank under which the bank agreed to purchase any 2005 bonds that are tendered for purchase, to the extent that remarketing proceeds are not sufficient or available. The agreement was terminated on September 1, 2010, when a new agreement (discussed below) was entered into. The agreement carried a variable interest rate equal to the greater of the bond interest rate and a variable rate of interest equal to the bank's prime rate (3.25% as of September 30, 2009) during the first six months of the holding period, and then to the bank's prime rate plus 1% per annum thereafter, not to exceed the maximum rate of 25% per annum.

On September 1, 2010, NHRMC and the County entered into a new Standby Bond Purchase Agreement with a bank under which the bank agreed to purchase any 2005 bonds that are tendered for purchase, to the extent that remarketing proceeds are not sufficient or available. The agreement carries a variable interest rate equal to the "base rate" and the "base rate" plus 0.50% per annum for the first 90 days of the holding period and the remainder of the holding period, respectively. The "base rate" is the greater of the bank's prime lending rate plus 1.50% per annum, the Federal Funds Effective Rate in effect plus 3.00% per annum, and the bond interest rate, not to exceed the lesser of 25% per annum or the maximum legal rate.

If the remarketing agent is unable to resell any bonds that are "put" within 367 days of the "put" date, the Standby Bond Purchase Agreement noted above contains provisions whereby the bank has agreed to convert the bonds to an installment loan payable over a four-year period in eight equal semi-annual installments, payable on April 1 and October 1, immediately following conversion (take out agreement), bearing a variable interest rate equal to the "base rate" plus 1.00%. The take out agreement expires on September 24, 2013.

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

**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)

At September 30, 2009, in addition to the normally scheduled payments, \$4,275 of the 2005 bonds outstanding has been included in the current portion of bonds payable, due to the potential timing of payments that would be due should the original take out agreement be exercised. It was not exercised and the new take out agreement included in the Standby Purchase Agreement dated September 1, 2010, as discussed above, revised the terms of the take out provisions such that no additional amounts are included in the current portion of bonds payable beyond the normally scheduled payments.

During the term of the Standby Bond Purchase Agreement, NHRMC is required to pay to the bank a quarterly commitment fee which can vary based on the long-term ratings of the Series 2005 Bonds as determined by Moody's and Standard & Poor's. During fiscal year 2009, the commitment fee rate was 0.19% per annum times the amount of the outstanding principal and interest commitment, times the applicable number of days in the commitment period, divided by 360. Due to a change in rating on the 2005 Bonds, the rate increased to 0.34% on December 1, 2008. Under the new Standby Bond Purchase Agreement, the rate increased to 0.60% on September 1, 2010. The interest commitment is determined by computing the outstanding principal amount of the Series 2005 Bonds for a period of 34 days out of a 365-day year at the rate of 12% per annum. NHRMC has paid a commitment fee of approximately \$239 and \$210 to the bank during fiscal years ended September 30, 2010 and 2009, respectively. In addition, the remarketing agent receives an annual fee of .07% of the outstanding principal amount of the bonds, payable quarterly.

Series 2006 Hospital Revenue Bonds

On September 13, 2006, NHRMC issued \$60,000,000 of Series 2006A Variable Rate Hospital Revenue Bonds, and \$60,000,000 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.

Due to high volatility in the auction rate securities market in 2008 and 2009, NHRMC experienced higher than expected interest costs on its 2006 Bonds. Between December 2008 and June 2009, NHRMC obtained and used a short-term line of credit of up to \$60,000 (of which \$48,000 was used) to purchase and temporarily hold a portion of the 2006 Bonds to mitigate the increased interest costs until the 2006 Bonds were converted to Fixed Rate Mode on June 4, 2009. Upon conversion, the Series 2006A Bonds were converted 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.

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. 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.

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

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

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, 2011. All unpaid drawings become due and payable upon expiration of the letter of credit in 2011. There were no unpaid drawings at September 30, 2010. The agreement carries a variable interest rate based on the bank's prime rate or a maximum of 18%. The agreement also carries a Letter of Credit fee, payable quarterly, and requires \$4,000 of NHRMC cash to be set aside for the life of the Letter of Credit.

Debt Service

Under the terms of the Bond indentures, NHRMC (excluding the Foundation component unit) is required to make semiannual debt service payments on unpaid fixed rate debt (1999 and 2006 bonds), monthly debt service payments on variable rate demand bonds (2005 and 2008 bonds) and is also required to comply with certain restrictive covenants, including limitations on incurrence of additional debt, limitations on transfer of assets, and maintenance of certain measures of financial performance, including a minimum long-term debt service ratio, for as long as the bonds are outstanding. NHRMC was in compliance with all debt covenants as of September 30, 2010 and 2009.

The Series 1999, 2005, 2006, and 2008 Revenue Bonds are secured by and payable from the net revenue of NHRMC, the money and securities held by the trustee pursuant to the bonds, as well as the income from the temporary investment of these trustee-held funds. Substantially all of NHRMC revenues are security for the revenue bonds.

Total funds held by the trustee (including amounts as bond paying agent) at September 30, 2010 and 2009, were approximately \$7,940 and \$5,243, 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 are as follows. (Interest on any variable rate bonds is included at the rates in effect as of September 30, 2010; payments are shown assuming the Standby Bond Purchase Agreement for the 2005 Bonds and letter of credit for the 2008 Bonds are renewed throughout the life of the bonds.)

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2011	\$ 6,565	\$ 10,837	\$ 17,402
2012	6,830	10,715	17,545
2013	11,120	10,556	21,676
2014	11,550	10,270	21,820
2015	12,030	9,961	21,991
2016 - 2020	67,965	44,508	112,473
2021 - 2025	84,135	33,388	117,523
2026 - 2030	93,415	16,383	109,798
2031 - 2035	26,440	1,529	27,969
2036 - 2040	8,450	35	8,485
	<u>\$ 328,500</u>	<u>\$ 148,182</u>	<u>\$ 476,682</u>

Interest paid related to these bonds was approximately \$12,760 and \$12,900 during fiscal years ended September 30, 2010 and 2009, respectively.

Interest received on trustee held funds during fiscal years ended September 30, 2010 and 2009, amounted to approximately \$0 and \$173, respectively.

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

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

Lower Cape Fear Hospice 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 maximum Debt to Net Assets ratio of 0.75 to 1.0; LCFH is required to maintain a Cash Flow Coverage Ratio of 1.25 to 1.0; and LCFH's Total Net Assets must be more than \$9 million. As of September 30, 2010 and 2009, LCFH was in compliance with all of these covenants.

Scheduled payments of principal and interest on the LCFH 2007 Bonds are as follows. (Interest on any variable rate bonds is included at the rates in effect as of September 30, 2010):

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2011	\$ 100	\$ 11	\$ 111
2012	100	11	111
2013	200	10	210
2014	200	10	210
2015 - 2019	1,000	46	1,046
2020 - 2024	1,100	32	1,132
2025 - 2028	1,200	17	1,217
	<u>\$ 3,900</u>	<u>\$ 137</u>	<u>\$ 4,037</u>

During the year ended September 30, 2009, LCFH converted short-term debt into a long term loan with financing provided by USDA Rural Development. The funds were used to construct an inpatient facility in Whiteville, NC. The total amount of the loan was approximately \$2,071. The loan has a fixed interest rate of 4.5% and a repayment of 40 years. The loan is carried on the financial statements as of September 30, 2010 at approximately \$2,106, which includes \$55 of accrued interest. The Whiteville Care Center serves as collateral.

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

Note 7. Derivative Investments

NHRMC has the following interest rate swap agreements:

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

As of September 30, 2009							
Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/09	Change in Fair Value for the year ended 9/30/10
Series 2005A-1	\$ 9,950	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (909)	\$ (516)
Series 2005A-2	9,950	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(908)	(523)
Series 2005B-1	25,765	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(2,589)	(1,476)
Series 2005B-2	25,765	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(2,587)	(1,499)
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd		
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index	avg LIBOR	(1,696)	(63)
						<u>\$ (8,689)</u>	

Swaps associated with 2005 bonds

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

The terms, fair values, and underlying bond issues of the outstanding swaps as of September 30, 2010 and 2009 were as follows (in thousands). The notional amounts of the swaps approximate the principal amounts of the associated debt.

As of September 30, 2010 and 2009, the swaps were determined to be effective cash flow hedging derivative instruments in accordance with GASB Statement 53 (see Note 17). Accordingly, the fair value of these swaps is recorded as a liability for interest rate swap agreements and a deferred outflow of resources in the balance sheet, and the change in fair value impacts only these balance sheet amounts.

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Note 7. Derivative Investments (Continued)

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2010. However, should interest rates change and the fair value of the swap become positive, NHRMC would be exposed to credit risk in the amount of the swap's fair value.

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

Using rates as of September 30, 2010, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Series 2005 Variable Rate Bonds		Interest Rate		Total
	Principal	Interest	Swaps, Net		
2011	\$ 3,155	\$ 194	\$ 2,245	\$ 5,594	
2012	3,275	187	2,133	5,595	
2013	3,405	177	2,016	5,598	
2014	3,535	166	1,895	5,596	
2015	3,670	155	1,770	5,595	
2016 - 2020	20,600	595	6,786	27,981	
2021 - 2025	23,140	254	2,882	26,276	
2026 - 2030	7,615	14	140	7,769	
	<u>\$ 68,395</u>	<u>\$ 1,742</u>	<u>\$ 19,867</u>	<u>\$ 90,004</u>	

Basis Swap

During fiscal year 2003, NHRMC entered into a nineteen year interest rate swap (basis swap) agreement, with a notional amount of \$50 million related to its Series 1999 Hospital Revenue Bonds. NHRMC's objective was to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. Because NHRMC anticipated that interest rates might decline, NHRMC decided to synthetically create variable-rate debt by entering into a derivative. Terms of the rate swap agreement is described below.

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

As of September 30, 2010 and 2009, the basis swap has an estimated negative fair value of approximately \$1,875 and \$1,696, respectively, which is recorded as a liability for interest rate swap agreements in the balance sheet. Under the provisions of GASB 53, the basis swap qualifies as an investment derivative instrument and therefore, changes in fair value of (\$179) and \$63 for the years ended September 30, 2010 and 2009 have been recorded as a component of net increase in fair value of investments in the statement of revenues, expenses and changes in net assets.

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

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2010. However, should interest rates change and the fair value of the swap become positive, NHRMC would be exposed to credit risk in the amount of the swap's fair value. NHRMC's objective for holding the basis swap was to preserve short-term cash resources in a market that was not favorable to the performance of the basis swap. NHRMC or the counter-party may terminate the swap if the other party fails to perform under the terms of the contract. If, at the time of the termination, the swap has a negative fair value, NHRMC would be liable to the counterparty for a payment equal to the swap's fair value.

LCFH 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, 2010 and 2009, the \$1,950 and \$2,000 amounts respectively are hedged at an interest rate of 3.885%. Based on market tax exempt interest rates of about .2780% and .3293%, the present value of cash payment under the swap arrangement is a negative position of approximately \$271 and \$175 as of September 30, 2010 and 2009, 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, 2010. The term of the LCFH 2007 Bonds and the swap are essentially the same, 20 years.

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

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

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

Fiscal Year	Series 2007 Variable Rate Bonds		Interest Rate		Total
	Principal	Interest	Swaps, Net		
2011	\$ 100	\$ 11	\$ 161	\$ 272	
2012	100	11	152	263	
2013	200	10	144	354	
2014	200	10	135	345	
2015 - 2019	1,000	46	541	1,587	
2020 - 2024	1,100	32	378	1,510	
2025 - 2028	1,200	17	62	1,279	
	<u>\$ 3,900</u>	<u>\$ 137</u>	<u>\$ 1,573</u>	<u>\$ 5,610</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") 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. The employees of SEAHEC who met the eligibility requirements participated in the noncontributory defined benefit pension plan of NHRMC as well as other NHRMC employee group benefit plans up until December 31, 2008. SEAHEC reimbursed NHRMC a comparable percentage of their portion of covered payroll for the cost of their employees' participation in the noncontributory defined benefit plan and an estimated allocable cost for their employees' participation in other group benefit plans. (See Note 10).

Note 9. Risk Management

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

NHRMC purchases commercial insurance coverage against risk of loss due to errors and omissions, fiduciary liability, property damage and theft, pollution liability and various other insurable risks. NHRMC carries property insurance in the amount of \$500,000 with a deductible of \$100 for all perils except named windstorm. For 2009 and 2010, the minimum deductible for named storm is \$5,000 per location, with a maximum deductible of \$25,000 per location. For 2009 and 2010, NHRMC was self-insured for workers' compensation and employer's liability up to \$350 per claim; the minimum aggregate retention is \$4,200. A specific limit of \$25,000 applies to worker's compensation. For 2009 and 2010, NHRMC was self-insured for professional liability and general liability claims up to \$5,000 per claim with no annual aggregate. In both 2009 and 2010, hospital professional liability and general liability stop loss coverage is on a claims made basis; general liability is written on an occurrence basis. Excess commercial insurance is purchased to provide coverage above the self-insured retention levels for hospital professional liability and general liability. NHRMC is fully self-insured for hospital professional liability claims incurred prior to June 25, 2002, but not reported as of that date. No payments have exceeded insurance coverage in the past three fiscal years where insurance coverage applies, subject to the deductibles and retentions noted above. NHRMC is self-insured for employee medical claims up to \$350 per individual, excluding costs associated with domestic claims (claims for services provided at NHRMC).

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

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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 accounts payable and other liabilities and professional liability claims.

	Years Ended September 30,		
	2010	2009	2008
Beginning liability	\$ 24,016	\$ 23,252	\$ 21,614
Provisions for claims	45,065	45,185	43,613
Payments for claims	(42,251)	(42,632)	(39,998)
Administrative fees	(1,879)	(1,789)	(1,977)
Ending liability	\$ 24,951	\$ 24,016	\$ 23,252

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

Note 10. Pension and Supplemental Retirement Plan Obligations

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

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

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

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

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

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

Annual Pension Cost and Net Pension Asset. NHRMC's annual pension cost and net pension asset were as follows for the years ended September 30, 2010 and 2009:

	2010	2009
Annual required contribution	\$ 8,960	\$ 8,428
Interest on net pension asset	(354)	(359)
Adjustment to annual required contribution	364	423
Annual pension cost	8,970	8,492
Contributions made	8,960	8,428
Other	5	70
(Increase) decrease in net pension asset	5	(6)
Net pension asset beginning of year	(4,496)	(4,490)
Net pension asset end of year	\$ (4,491)	\$ (4,496)

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

The annual required contribution for the basic plan for the 2010 year was determined as part of the January 1, 2009 actuarial valuation. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% per year. Both (a) and (b) included an inflation component of 3%. The assumptions did not include post retirement benefit increases. The actuarial value of assets is valued at a market-related value that spreads gains and losses over five years. This actuarial valuation reflects the cessation of participation of SEAHEC, Lower Cape Fear Hospice and other non-related entities. However, this valuation did not reflect the transfer of \$4,455 assets and liabilities for SEAHEC to its successor plan which occurred during 2009. The actuarial funding method is currently the Projected Unit Credit Method. The corridor limit for asset smoothing has been temporarily increased from 20% to 30% and the amortization period has been increased from 20 to 30 years. The annual contributions for NHRMC for the years ended September 30, 2010 and 2009 were approximately \$8,960 and \$8,428, respectively.

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

The Three-Year Trend Information is as follows:

Employer Contributions:

Fiscal Year Ending	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Asset
9/30/2008	\$ 8,328	99%	\$ 4,490
9/30/2009	8,492	99%	4,496
9/30/2010	8,970	100%	4,491

Funded Status and Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Deficit of Assets over AAL (a - b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	((a - b) / c)
1/1/2008	\$ 163,463	\$ 165,667	\$ (2,204)	99%	\$ 202,700	-1.09%
1/1/2009	166,373	177,016	(10,643)	94%	201,438	-5.28%
1/1/2010	163,563	181,718	(18,155)	90%	200,573	-9.05%

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

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

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

Annual Pension Cost and Net Pension Obligation. PMH's annual pension cost and net pension obligation were as follows for the year ended September 30, 2010 and 2009:

	2010	2009
Annual required contribution	\$ 268	\$ 247
Interest on net pension obligation	18	19
Adjustment to annual required contribution	(19)	(22)
Annual pension cost	267	244
Contributions made	268	247
Decrease in net pension obligation	(1)	(3)
Net pension obligation beginning of year	232	235
Net pension obligation end of year	\$ 231	\$ 232

The annual required contribution for the basic plan for the 2010 year was determined as part of the January 1, 2009 actuarial valuation. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% per year. Both (a) and (b) included an inflation component of 3%. The assumptions did not include post retirement benefit increases. The actuarial value of assets was determined using the market value of investments. The actuarial funding method is currently the Projected Unit Credit Method. The 30% corridor limit for asset smoothing will be reduced by 2% per year until 20% and the amortization period has been increased from 20 to 30 years. The annual contributions for PMH for the years ended September 30, 2010 and 2009 were approximately \$268 and \$247, respectively.

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

The Three-Year Trend Information is as follows:

Employer Contributions:

Fiscal Year Ending	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
9/30/2008	\$ 210	101%	\$ 235
9/30/2009	244	101%	232
9/30/2010	267	100%	231

Funded Status and Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Deficit of Assets over AAL (a - b)	Funded Ratio (a/b)	Covered Payroll (c)	Deficit as a Percentage of Covered Payroll ((a - b) / c)
1/1/2008	\$ 3,140	\$ 3,659	\$ (519)	86%	\$ 5,632	-9.22%
1/1/2009	3,268	3,938	(670)	83%	6,412	-10.45%
1/1/2010	3,388	4,266	(878)	79%	6,875	-12.77%

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 \$1,096 and \$867 as of September 30, 2010 and 2009, respectively, in accordance with the provisions of these plans.

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

Note 11. Defined Contribution Retirement Plans

NHRMC offers a defined contribution plan under IRS code section 403(b) which is available to all employees and administered by AIGValic. Under provisions of the Plan document, NHRMC matches employee contributions according to a Plan formula, which is weighted for years of service. This match was suspended in January 2010. Employee contributions vest when made, employer contributions vest after three calendar years of service with 1,000 hours worked in each year. Until January 1, 2009, LCFH employees were eligible to participate in this plan, and contributions were matched by LCFH.

NHRMC employer required and actual matching contributions totaled approximately \$1,342 and \$4,740, and employee optional contributions totaled approximately \$8,611 and \$8,710, for the years ended September 30, 2010 and 2009, respectively. Employer matching contribution percentages were 0.62% and 2.23%, and employee contribution percentages were 3.95% and 4.10% of total payroll for the years ended September 30, 2010 and 2009, respectively. LCFH employer and employee contributions are relatively insignificant to total plan activity.

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**Notes to Financial Statements
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Note 11. Defined Contribution Retirement Plans (Continued)

As of January 1, 2009, LCFH adopted a defined contribution plan under IRS code section 403(b) and an elective deferral plan. The plans cover qualified employees of LCFH, which is generally all employees. LCFH can match contributions to the 403(b) plan, but is not required to do so. Employer contributions vest after three complete years of service. Employer contributions to these plans for the year ended September 30, 2010 were \$116.

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

Note 12. Joint Ventures

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

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

In March 2005, NHRMC invested in Atlantic Surgicenter, LLC ("Surgicenter"), a joint venture formed to operate a freestanding ambulatory surgery center consisting of four general operating rooms and one non-licensed procedure room, located in New Hanover County, North Carolina. Annually, NHRMC invests additional funds as needed to maintain its 40% ownership in the joint venture.

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

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

In July 2007, NHRMC entered into a joint venture agreement to form Coastal Carolina Heart, LLC (CCH). NHRMC's ownership percentage (82%) was based on the fair market value of CCH's access to future revenue streams arising from the existing hospital-based volumes in NHRMC's cardiac catheterization and EP labs. As a result of the joint venture agreement, NHRMC contracted with CCH to manage the existing hospital-based cardiac catheterization and EP labs, and agreed to pay CCH a per procedure fee for services provided by CCH to NHRMC patients. CCH also operates a smaller non-hospital based lab in the community which was preexisting and contributed by the minority members. A mobile unit providing similar services was also operated, but the mobile unit operations ceased in October 2009.

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Note 12. Joint Ventures (Continued)

The agreements related to the services provided by CCH are treated by NHRMC as an outsourcing arrangement. As such, the allocated income from CCH (approximately \$6,570 and \$9,658 for the years ended September 30, 2010 and 2009, respectively) is considered a reduction in the costs of services provided by CCH, resulting in decreased operating costs. During the years ended September 30, 2010 and 2009, NHRMC recorded per-procedure fees for services provided by CCH, net of NHRMC's earnings from CCH operations, of approximately \$12,970 and \$16,379, respectively, which are included in Purchased services and other in the statement of revenues, expenses and changes in net assets. As of September 30, 2010 and 2009, amounts due to CCH of approximately \$4,149 and \$4,405, respectively, were included in Due to affiliates in the balance sheet.

Complete financial statements for CCH can be obtained by contacting NHRMC's administrative offices at P.O. Box 9000, Wilmington, North Carolina 28402. Complete financial statements for all other joint ventures are unavailable.

A summary of NHRMC's joint venture investment activity as of and for the years ended September 30, 2010 and 2009 is as follows:

	2010						Cumulative Contributions (net of distributions received)
	Ownership Percentage	Method of Accounting	Net Income (Loss)	Investment as of September 30	2010 Capital Contributions	2010 Distributions Received	
Mariner	40%	Equity	\$ -	\$ -	\$ -	\$ 2,200	\$ 318
SARO	50%	Equity	344	88	-	297	3
Surgicenter	40%	Equity	(200)	-	200	-	1,630
PNI	50%	Equity	709	467	-	846	(1,652)
Dosher/ NHRMC	50%	Equity	(38)	122	23	-	181
CCH	82%	Outsourcing	N/A	5,093	-	N/A	-

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Note 12. Joint Ventures (Continued)

	2009						
	Ownership Percentage	Method of Accounting	Net Income (Loss)	Investment as of September 30	2009 Capital Contributions	2009 Distributions Received	Cumulative Contributions (net of distributions received)
Mariner	40%	Equity	\$ 338	\$ 2,200	\$ -	\$ 200	\$ 1,882
SARO	50%	Equity	41	41	-	-	300
Surgicenter	40%	Equity	(320)	-	320	-	1,430
PNI	50%	Equity	733	604	-	792	(806)
Dosher/ NHRMC	50%	Equity	(12)	137	9	-	158
CCH	82%	Outsourcing	N/A	5,597	-	N/A	-

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

Note 13. Contingencies

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

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

On August 29, 2008, New Hanover County received a letter from the Internal Revenue Service (the "IRS") informing it that NHRMC's 2005 Bonds had been selected for audit. The letter indicated only that the IRS routinely examines municipal debt issuances, and requested certain information. The County and NHRMC have provided all requested information. Management does not believe there will be any adverse findings.

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

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

Note 14. Agreements with Physicians Network

On November 14, 2008, CHA entered into Management Services and Professional Services Agreements with a physicians network, operated as a nonprofit corporation (the "Physicians Network"). The initial term of both agreements began on March 1, 2009 and ends on February 28, 2014. After the initial term, the agreements may be renewed for successive one year terms upon mutual written consent.

Under the terms of the Professional Services Agreement, the Physicians Network will provide physicians and mid-level providers (the "Practice Providers") to operate each of the medical practices owned by CHA and provide certain professional medical services for each of those practices. In exchange for these services, CHA will pay a flat annual fee to the Physicians Network, to be adjusted annually to an amount that equals the estimated compensation of the Practice Providers, as established in the annual budgets. In addition, CHA will pay a professional liability insurance fee to be determined based on the number of Practice Providers and their associated medical specialties.

Under the terms of the Management Services Agreement, CHA appoints the Physicians Network as the manager of each of the medical practices owned by CHA. In its role as manager, the Physicians Network will provide management and billing services, practice acquisition services, provider recruiting, and access to its practice management system. In exchange for these services, CHA will pay a management services fee determined based on the number and medical specialties of physicians and mid-level providers in the practices. In addition, CHA will pay billing services fees, practice start-up and practice acquisition fees, recruiting costs, and practice management system implementation fees. CHA will remain responsible for all third-party costs and expenses of each of the practices.

During the years ended September 30, 2010 and 2009, CHA paid \$11,102 and \$4,760, respectively, to the Physicians Network under these agreements.

Note 15. Pending GASB Statements

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2010 that have effective dates that may impact future financial presentations.

In June 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of Statement 59 is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The provisions of this Statement are effective for financial statements for reporting periods beginning after June 15, 2010, with earlier application encouraged. Management does not expect the implementation of this Statement to have a significant impact on the financial statements.

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

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

Note 16. Subsequent Events

NHRMC has begun preparing for implementation of the Epic information systems product suite, which will replace most core clinical and revenue systems. The Epic products will provide New Hanover Regional Medical Center and the local healthcare community with a fully integrated system, including easily accessible electronic medical records. The \$56 million project will be fully funded from NHRMC's budget for routine capital expenditures. Implementation will be phased over several years, with the majority of core systems functional and the electronic medical records available by October 2012. The Epic solution will enable the organization to meet criteria necessary to qualify for Meaningful Use Stimulus Incentives, which are anticipated to exceed \$13 million.

Effective October 1, 2010, NHRMC Home Care, was created as a wholly-owned subsidiary of PMH to operate home health services previously provided by PMH.

On October 26, 2010, the Board adopted a resolution to request New Hanover County to issue fixed rate Hospital Revenue Refunding Bonds to refund the outstanding amount of approximately \$100,000 Series 1999 Bonds ("Refunded 1999 Bonds"). The bond issuance request for the Refunded 1999 Bonds is still pending.

On December 1, 2010, NHRMC entered into an asset purchase agreement with a local physician group whereby NHRMC purchased substantially all of the assets of the group for approximately \$1,000. In connection with this acquisition, NHRMC also entered into a fixed term lease agreement with renewal options. Annual lease payments are approximately \$2,000 per year.

Note 17. Changes in Accounting Principles

During the year ended September 30, 2010, NHRMC adopted GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. As a result of adoption, there was no impact on opening net asset balances.

During the year ended September 30, 2010, NHRMC adopted GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. As a result of adoption, NHRMC has recorded a decrease of \$1,759 to opening net assets; an increase in the net increase in fair value of investments of \$63; an increase in deferred outflow of resources of \$6,993; and an increase in liability for interest rate swap agreements of \$8,689 to previously reported balances as of and for the year ended September 30, 2009. Also as a result of adoption, LCFH has recorded an increase in deferred outflow of resources and liability for interest rate swap agreements of \$175 to previously reported balances as of September 30, 2009.

Supplementary Information

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

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	Eliminating Entries	NHRMC
ASSETS					
Current assets					
Cash and cash equivalents	\$ 21,813	\$ 1,635	\$ 678	\$ -	\$ 24,126
Assets limited as to use:					
Cash equivalents held by bond paying agent	7,940	-	-	-	7,940
Cash for debt service-not held by bond paying agent	3,963	-	-	-	3,963
Cash equivalents and investments for the future payment of claims liabilities	16,969	-	-	-	16,969
Receivables:					
Patient accounts, less allowance for bad debts	65,191	-	1,139	-	66,330
Due from health insurance programs	2,114	-	-	-	2,114
Due from component units	297	-	-	-	297
Other receivables	8,942	1,203	-	(85)	10,060
Inventories	16,490	-	-	-	16,490
Prepaid expenses	8,504	-	152	-	8,656
Total current assets	<u>152,223</u>	<u>2,838</u>	<u>1,969</u>	<u>(85)</u>	<u>156,945</u>
Noncurrent cash and investments					
Investments:					
Designated by Board for capital improvements	259,608	-	-	-	259,608
Restricted under letter of credit	4,000	-	-	-	4,000
Designated by Board for supplemental retirement plans	1,333	-	-	-	1,333
Restricted by donors for specific purpose	-	2,035	-	-	2,035
Restricted by donors for endowments	-	1,651	-	-	1,651
	<u>264,941</u>	<u>3,686</u>	<u>-</u>	<u>-</u>	<u>268,627</u>
Pledges and grants receivable	-	2,250	-	-	2,250
Total assets limited as to use	<u>264,941</u>	<u>5,936</u>	<u>-</u>	<u>-</u>	<u>270,877</u>
Other assets					
Intangible capital assets, net of amortization	46,899	-	479	-	47,378
Investment in affiliates	5,773	-	-	-	5,773
Pension asset	4,491	-	-	-	4,491
Other long term assets	456	10	-	-	466
Deferred outflow of resources	9,965	-	-	-	9,965
Total other assets	<u>67,584</u>	<u>10</u>	<u>479</u>	<u>-</u>	<u>68,073</u>
Capital assets - tangible					
Land	11,966	-	-	-	11,966
Depreciable capital assets, net of accumulated depreciation	390,766	-	741	-	391,507
Construction in progress	15,005	-	-	-	15,005
Total capital assets - tangible	<u>417,737</u>	<u>-</u>	<u>741</u>	<u>-</u>	<u>418,478</u>
Total assets	<u>\$ 902,485</u>	<u>\$ 8,784</u>	<u>\$ 3,189</u>	<u>\$ (85)</u>	<u>\$ 914,373</u>

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

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	Eliminating Entries	NHRMC
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and other liabilities	\$ 31,397	\$ 208	\$ 205	\$ (85)	\$ 31,725
Professional liability claims	14,777	-	-	-	14,777
Accrued salaries and wages	24,477	-	256	-	24,733
Estimated third-party payor settlements	18,563	-	-	-	18,563
Due to component units	765	-	-	-	765
Due to affiliates	4,149	-	-	-	4,149
Bonds payable, current portion	6,565	-	-	-	6,565
Total current liabilities	100,693	208	461	(85)	101,277
Long-term obligations					
Supplemental retirement plans	1,333	-	-	-	1,333
Bonds payable, less current portion	314,911	-	-	-	314,911
Interest rate swap agreements	11,840	-	-	-	11,840
Total long-term obligations	328,084	-	-	-	328,084
Total liabilities	428,777	208	461	(85)	429,361
Net assets					
Invested in capital assets, net of related debt	143,160	-	1,220	-	144,380
Unrestricted	326,548	2,074	1,508	-	330,130
Restricted	4,000	6,502	-	-	10,502
Total net assets	473,708	8,576	2,728	-	485,012
Total liabilities and net assets	\$ 902,485	\$ 8,784	\$ 3,189	\$ (85)	\$ 914,373

New Hanover Regional Medical Center
Combining Balance Sheet
September 30, 2009
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	Eliminating Entries	NHRMC
ASSETS					
Current assets					
Cash and cash equivalents	\$ 11,878	\$ 1,159	\$ 251	\$ -	\$ 13,288
Assets limited as to use:					
Cash equivalents held by bond paying agent	5,131	-	-	-	5,131
Cash for debt service-not held by bond paying agent	5,590	-	-	-	5,590
Cash equivalents and investments for the future payment of claims liabilities	16,624	-	-	-	16,624
Receivables:					
Patient accounts, less allowance for bad debts	67,108	-	963	-	68,071
Due from health insurance programs	1,689	-	-	-	1,689
Other receivables	7,129	997	-	(50)	8,076
Inventories	17,221	-	-	-	17,221
Prepaid expenses	7,735	-	158	-	7,893
Total current assets	140,105	2,156	1,372	(50)	143,583
Noncurrent cash and investments					
Investments:					
Designated by Board for capital improvements	236,159	-	-	-	236,159
Restricted under indenture agreement held by trustee	112	-	-	-	112
Restricted under letter of credit	4,007	-	-	-	4,007
Designated by Board for life safety contingency	3,732	-	-	-	3,732
Designated by Board for supplemental retirement plans	1,105	-	-	-	1,105
Restricted by donors for specific purpose	-	1,643	-	-	1,643
Restricted by donors for endowments	-	1,589	-	-	1,589
	245,115	3,232	-	-	248,347
Pledges and grants receivable	-	2,593	-	-	2,593
Total assets limited as to use	245,115	5,825	-	-	250,940
Other assets					
Intangible capital assets, net of amortization	49,005	-	310	-	49,315
Investment in affiliates	10,482	-	-	-	10,482
Pension asset	4,496	-	-	-	4,496
Other long term assets	490	10	-	-	500
Deferred outflow of resources	6,993	-	-	-	6,993
Total other assets	71,466	10	310	-	71,786
Capital assets - tangible					
Land	11,966	-	-	-	11,966
Depreciable capital assets, net of accumulated depreciation	378,162	1	564	-	378,727
Construction in progress	16,052	-	-	-	16,052
Total capital assets - tangible	406,180	1	564	-	406,745
Total assets	\$ 862,866	\$ 7,992	\$ 2,246	\$ (50)	\$ 873,054

New Hanover Regional Medical Center
Combining Balance Sheet
September 30, 2009
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	Eliminating Entries	NHRMC
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and other liabilities	\$ 33,901	\$ 180	\$ 162	\$ (50)	\$ 34,193
Professional liability claims	14,218	-	-	-	14,218
Accrued salaries and wages	24,119	-	308	-	24,427
Estimated third-party payor settlements	9,793	-	-	-	9,793
Due to Pender Memorial Hospital	78	-	-	-	78
Due to affiliates	4,405	-	-	-	4,405
Notes payable, current portion	-	-	246	-	246
Bonds payable, current portion	10,545	-	-	-	10,545
Total current liabilities	97,059	180	716	(50)	97,905
Long-term obligations					
Supplemental retirement plans	1,105	-	-	-	1,105
Bonds payable, less current portion	316,692	-	-	-	316,692
Interest rate swap agreements	8,689	-	-	-	8,689
Total long-term obligations	326,486	-	-	-	326,486
Total liabilities	423,545	180	716	(50)	424,391
Net assets					
Invested in capital assets, net of related debt	127,948	1	628	-	128,577
Unrestricted	307,366	321	902	-	308,589
Restricted	4,007	7,490	-	-	11,497
Total net assets	439,321	7,812	1,530	-	448,663
Total liabilities and net assets	\$ 862,866	\$ 7,992	\$ 2,246	\$ (50)	\$ 873,054

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

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

New Hanover Regional Medical Center
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended September 30, 2009
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	NHRMC
Operating revenues:				
Net patient service revenue	\$ 586,504	\$ -	\$ 4,962	\$ 591,466
Other revenue	15,356	1,077	96	16,529
Total operating revenue	<u>601,860</u>	<u>1,077</u>	<u>5,058</u>	<u>607,995</u>
Operating expenses:				
Salaries, wages and benefits	280,621	541	4,428	285,590
Medical supplies	127,130	-	-	127,130
Professional fees	17,642	22	4,843	22,507
Insurance	7,486	-	206	7,692
Purchased services and other	86,466	468	1,393	88,327
Depreciation and amortization	40,153	9	245	40,407
Total operating expenses	<u>559,498</u>	<u>1,040</u>	<u>11,115</u>	<u>571,653</u>
Operating income (loss)	<u>42,362</u>	<u>37</u>	<u>(6,057)</u>	<u>36,342</u>
Nonoperating revenues (expenses):				
Interest expense	(14,475)	-	-	(14,475)
Other nonoperating income, net	242	68	2	312
Interest earned on investments	8,005	158	-	8,163
Net increase (decrease) in fair value of investments	3,429	(55)	-	3,374
Gain (loss) on sale of assets	(1,742)	(20)	-	(1,762)
Equity in net income (loss) of joint ventures	1,030	-	-	1,030
Nonoperating revenues (expenses), net	<u>(3,511)</u>	<u>151</u>	<u>2</u>	<u>(3,358)</u>
Income (loss) before capital contributions and operating transfers	<u>38,851</u>	<u>188</u>	<u>(6,055)</u>	<u>32,984</u>
Capital contributions, special items and operating transfers:				
Capital and permanent endowment contributions	796	10	-	806
Transfers (to) from component units	(6,863)	(306)	6,973	(196)
Total capital contributions and operating transfers	<u>(6,067)</u>	<u>(296)</u>	<u>6,973</u>	<u>610</u>
Change in net assets	<u>32,784</u>	<u>(108)</u>	<u>918</u>	<u>33,594</u>
Net assets				
Beginning, as previously reported	408,296	7,920	612	416,828
Change in accounting principle	(1,759)	-	-	(1,759)
Beginning, as restated	<u>406,537</u>	<u>7,920</u>	<u>612</u>	<u>415,069</u>
Ending	<u>\$ 439,321</u>	<u>\$ 7,812</u>	<u>\$ 1,530</u>	<u>\$ 448,663</u>

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

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

(Continued)

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

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

**New Hanover Regional Medical Center
Combining Statement of Cash Flows
Year Ended September 30, 2009
(Dollars in Thousands)**

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	NHRMC
Cash flows from operating activities				
Cash received from and on behalf of patients	\$ 584,152	\$ -	\$ 5,089	\$ 589,241
Cash payments to suppliers for goods and services	(255,340)	(15)	(6,742)	(262,097)
Cash payments to employees for services	(279,120)	(541)	(4,654)	(284,315)
Other operating cash receipts (payments)	15,010	-	96	15,106
Net cash provided by (used in) operating activities	<u>64,702</u>	<u>(556)</u>	<u>(6,211)</u>	<u>57,935</u>
Cash flows from noncapital financing activities				
Contributions and operating grants	2,594	1,077	-	3,671
Net payments on obligations to component units	(231)	-	-	(231)
Advances between affiliates	(6,667)	(306)	6,973	-
Net cash (used in) provided by noncapital financing activities	<u>(4,304)</u>	<u>771</u>	<u>6,973</u>	<u>3,440</u>
Cash flows from capital and related financing activities				
Acquisition of capital assets	(61,798)	-	(568)	(62,366)
Proceeds from disposed assets	4	-	-	4
Acquisition of goodwill	(1,219)	-	-	(1,219)
Capital contributions	-	10	-	10
Principal payments on revenue bonds	(5,385)	-	-	(5,385)
Interest paid on capital financing	(13,911)	-	-	(13,911)
Proceeds from revenue bonds	40,000	-	-	40,000
Payment of bond issuance costs	(2,914)	-	-	(2,914)
Transfers (to) from component unit	(197)	-	-	(197)
Net cash (used in) provided by capital and related financing activities	<u>(45,420)</u>	<u>10</u>	<u>(568)</u>	<u>(45,978)</u>
Cash flows from investing activities				
Sale (purchase) of investments, net of maturities	(3,022)	-	-	(3,022)
Interest earned on investments	8,005	97	-	8,102
Contributions to partnerships	(328)	-	-	(328)
Distributions from partnerships	792	-	-	792
Other interest earned	754	-	2	756
Net cash provided by investing activities	<u>6,201</u>	<u>97</u>	<u>2</u>	<u>6,300</u>
Net increase in cash and cash equivalents	21,179	322	196	21,697
Cash and cash equivalents at beginning of year	<u>58,694</u>	<u>837</u>	<u>55</u>	<u>59,586</u>
Cash and cash equivalents at end of year	<u>\$ 79,873</u>	<u>\$ 1,159</u>	<u>\$ 251</u>	<u>\$ 81,283</u>

(Continued)

New Hanover Regional Medical Center
Combining Statement of Cash Flows (Continued)
Year Ended September 30, 2009
(Dollars in Thousands)

	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Carolina Healthcare Associates, Inc.	NHRMC
Reconciliation of cash and cash equivalents to the balance sheet				
Unrestricted cash and cash equivalents	\$ 11,878	\$ 1,159	\$ 251	\$ 13,288
Cash and cash equivalents in noncurrent cash and investments				
Held by bond paying agent	5,131	-	-	5,131
Reserved for debt service-not held by bond paying agent	5,590	-	-	5,590
Designated by Board for payment of claims liabilities	1,351	-	-	1,351
Designated by Board for capital improvements	51,804	-	-	51,804
Restricted under indenture agreement held by trustee	112	-	-	112
Restricted under letter of credit	4,007	-	-	4,007
Cash and cash equivalents, including noncurrent cash and investments at end of year	<u>\$ 79,873</u>	<u>\$ 1,159</u>	<u>\$ 251</u>	<u>\$ 81,283</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Cash flows from operating activities				
Operating income (loss)	\$ 42,362	\$ 37	\$ (6,057)	\$ 36,342
Operating grants and contributions	(2,594)	(1,077)	-	(3,671)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	40,153	9	245	40,407
Discount amortization included in operating expenses	-	-	11	11
Undistributed income from operating partnership	(452)	-	-	(452)
Changes in:				
Receivables	6,393	507	50	6,950
Inventories	(2,473)	-	-	(2,473)
Prepaid expenses	(809)	-	(268)	(1,077)
Accounts payable and other liabilities	(18,889)	(32)	32	(18,889)
Accrued salaries and wages	1,507	-	(226)	1,281
Pension asset	(6)	-	-	(6)
Other long term assets	(490)	-	2	(488)
Net cash provided by (used in) operating activities	<u>\$ 64,702</u>	<u>\$ (556)</u>	<u>\$ (6,211)</u>	<u>\$ 57,935</u>
Noncash capital and related financing activities				
Unrealized gain (loss)	\$ 3,366	\$ 55	\$ -	\$ 3,421
Capital assets acquired with accounts payable	\$ 6,325	\$ -	\$ 1	\$ 6,326

New Hanover Regional Medical Center

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

	September 30, 2010			September 30, 2009		
	LCFH	PMH	Total Combined Units	LCFH	PMH	Total Combined Units
ASSETS						
Current assets						
Cash and cash equivalents	\$ 3,806	\$ 1,116	\$ 4,922	\$ 2,082	\$ 1,742	\$ 3,824
Patient accounts, less allowance for bad debts	3,052	3,202	6,254	2,907	2,741	5,648
Due from health insurance programs	-	778	778	-	-	-
Due from primary government	-	765	765	-	78	78
Other receivables	368	126	494	560	43	603
Investments	1,671	-	1,671	1,017	-	1,017
Inventories	-	424	424	-	406	406
Prepaid expenses	330	167	497	467	144	611
Total current assets	9,227	6,578	15,805	7,033	5,154	12,187
Noncurrent cash, investments, and donor receivables						
Noncurrent Cash and Investments:						
Designated by Board for operating and PDO reserve	6,090	-	6,090	2,655	-	2,655
Designated by Board for capital improvements	433	-	433	480	-	480
Restricted by agreement for USDA loan reserve	23	-	23	6	-	6
Restricted by donors for specific purpose	-	-	-	34	-	34
Restricted by donors for endowments	1,160	-	1,160	1,076	-	1,076
	7,706	-	7,706	4,251	-	4,251
Pledges and grants receivable	312	-	312	180	-	180
Total noncurrent cash, investments, and donor receivables	8,018	-	8,018	4,431	-	4,431
Other assets						
Intangible capital assets, net of amortization	-	45	45	-	55	55
Other long term assets	165	231	396	39	604	643
Deferred outflow of resources	271	-	271	175	-	175
Total other assets	436	276	712	214	659	873
Capital assets - tangible						
Land	2,846	42	2,888	2,450	42	2,492
Depreciable capital assets, net of accumulated depreciation	9,773	6,602	16,375	10,262	6,074	16,336
Construction in progress	89	79	168	46	19	65
Total capital assets - tangible	12,708	6,723	19,431	12,758	6,135	18,893
Total assets	\$ 30,389	\$ 13,577	\$ 43,966	\$ 24,436	\$ 11,948	\$ 36,384

	September 30, 2010			September 30, 2009		
	LCFH	PMH	Total Combined Units	LCFH	PMH	Total Combined Units
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable and other liabilities	\$ 1,139	\$ 1,454	\$ 2,593	\$ 880	\$ 1,119	\$ 1,999
Accrued salaries and wages	1,397	709	2,106	1,226	1,004	2,230
Estimated third-party payor settlements	-	232	232	-	175	175
Due to primary government	-	297	297	-	-	-
Note payable, current portion	18	-	18	8	-	8
Capital lease obligations and bonds payable, current portion	100	59	159	100	82	182
Total current liabilities	2,654	2,751	5,405	2,214	2,380	4,594
Long-term obligations						
Capital lease obligations less current portion	-	7	7	-	66	66
Note payable, less current portion	2,088	-	2,088	2,118	-	2,118
Net pension obligation	-	231	231	-	232	232
Bonds payable, less current portion	3,800	-	3,800	3,900	-	3,900
Interest rate swap agreements	271	-	271	175	-	175
Total long-term obligations	6,159	238	6,397	6,193	298	6,491
Total liabilities	8,813	2,989	11,802	8,407	2,678	11,085
Commitments and contingencies						
Net assets						
Invested in capital assets, net of related debt	6,702	6,702	13,404	6,632	6,042	12,674
Unrestricted	12,476	3,886	16,362	8,267	3,228	11,495
Restricted	2,398	-	2,398	1,130	-	1,130
Total net assets	21,576	10,588	32,164	16,029	9,270	25,299
Total liabilities and net assets	\$ 30,389	\$ 13,577	\$ 43,966	\$ 24,436	\$ 11,948	\$ 36,384

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New Hanover Regional Medical Center

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

	Year Ended September 30, 2010			Year Ended September 30, 2009		
	Total Combined			Total Combined		
	LCFH	PMH	Units	LCFH	PMH	Units
Operating revenues:						
Net patient service revenue	\$ 22,582	\$ 18,741	\$ 41,323	\$ 19,429	\$ 17,981	\$ 37,410
Other revenue	3,483	1,029	4,512	3,001	426	3,427
Total operating revenue	26,065	19,770	45,835	22,430	18,407	40,837
Operating expenses:						
Salaries, wages and benefits	14,430	12,588	27,018	14,599	11,713	26,312
Medical supplies	3,216	1,760	4,976	3,042	1,832	4,874
Professional fees	67	781	848	254	477	731
Insurance	150	328	478	126	314	440
Purchased services and other	1,987	3,537	5,524	2,048	3,338	5,386
Depreciation and amortization	829	760	1,589	723	709	1,432
Total operating expenses	20,679	19,754	40,433	20,792	18,383	39,175
Operating income	5,386	16	5,402	1,638	24	1,662
Nonoperating revenues (expenses):						
Interest expense	(204)	(19)	(223)	(130)	(40)	(170)
Other nonoperating income	242	12	254	125	(5)	120
Net decrease in fair value of investments	123	-	123	(88)	-	(88)
Nonoperating revenues (expenses), net	161	(7)	154	(93)	(45)	(138)
Excess of revenues over expenses before capital contributions	5,547	9	5,556	1,545	(21)	1,524
Capital and permanent endowment contributions and transfers to/from component units	-	1,309	1,309	-	296	296
Increase in net assets	5,547	1,318	6,865	1,545	275	1,820
Net assets						
Beginning	16,029	9,270	25,299	14,484	8,995	23,479
Ending	\$ 21,576	\$ 10,588	\$ 32,164	\$ 16,029	\$ 9,270	\$ 25,299

New Hanover Regional Medical Center

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

	<u>Year Ended September 30, 2010</u>			<u>Year Ended September 30, 2009</u>		
	Total			Total		
	LCFH	PMH	Units	LCFH	PMH	Units
Cash flows from operating activities						
Cash received from and on behalf of patients	\$ 22,437	\$ 17,476	\$ 39,913	\$ 19,438	\$ 17,672	\$ 37,110
Cash payments to suppliers for services and goods	(5,398)	(4,974)	(10,372)	(6,986)	(6,072)	(13,058)
Cash payments to employees for services	(14,077)	(12,883)	(26,960)	(14,363)	(11,660)	(26,023)
Other operating cash receipts	3,812	263	4,075	3,643	413	4,056
Net cash provided by (used in) operating activities	<u>6,774</u>	<u>(118)</u>	<u>6,656</u>	<u>1,732</u>	<u>353</u>	<u>2,085</u>
Cash flows from noncapital financing activities						
Payments (to) from component unit	-	(390)	(390)	(553)	784	231
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>(390)</u>	<u>(390)</u>	<u>(553)</u>	<u>784</u>	<u>231</u>
Cash flows from capital and related financing activities						
Acquisition of capital assets	(898)	(1,338)	(2,236)	(2,472)	(399)	(2,871)
Capital contributions	-	82	82	-	99	99
Principal payments on capital lease obligations	-	(82)	(82)	-	(361)	(361)
Interest paid on capital financing	(151)	(19)	(170)	(211)	(40)	(251)
Proceeds from bonds	-	-	-	2,141	-	2,141
Payments on line of credit	(120)	-	(120)	(989)	-	(989)
Transfers (to) from component unit	-	1,227	1,227	-	197	197
Net cash used in capital and related financing activities	<u>(1,169)</u>	<u>(130)</u>	<u>(1,299)</u>	<u>(1,531)</u>	<u>(504)</u>	<u>(2,035)</u>
Cash flows from investing activities						
Sales (purchases) of investments, net of maturities	(1,904)	-	(1,904)	448	-	448
Interest earned on investments	242	-	242	124	-	124
Other interest earned	-	12	12	-	(5)	(5)
Net cash provided by (used in) investing activities	<u>(1,662)</u>	<u>12</u>	<u>(1,650)</u>	<u>572</u>	<u>(5)</u>	<u>567</u>
Net increase (decrease) in cash and cash equivalents	<u>3,943</u>	<u>(626)</u>	<u>3,317</u>	<u>220</u>	<u>628</u>	<u>848</u>
Cash and cash equivalents at beginning of year	<u>4,066</u>	<u>1,742</u>	<u>5,808</u>	<u>3,846</u>	<u>1,114</u>	<u>4,960</u>
Cash and cash equivalents at end of year	<u>\$ 8,009</u>	<u>\$ 1,116</u>	<u>\$ 9,125</u>	<u>\$ 4,066</u>	<u>\$ 1,742</u>	<u>\$ 5,808</u>

(Continued)

New Hanover Regional Medical Center

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

	<u>Year Ended September 30, 2010</u>			<u>Year Ended September 30, 2009</u>		
	Total			Total		
	LCFH	PMH	Units	LCFH	PMH	Units
Reconciliation of cash and cash equivalents to the balance sheet						
Unrestricted cash and cash equivalents	\$ 3,806	\$ 1,116	\$ 4,922	\$ 2,082	\$ 1,742	\$ 3,824
Cash and cash equivalents in noncurrent cash and investments						
Designated by Board for operating reserve	4,071	-	4,071	1,674	-	1,674
Designated by Board for capital improvements	63	-	63	219	-	219
Restricted under agreement	23	-	23	6	-	6
By donor restrictions	46	-	46	85	-	85
Cash and cash equivalents, including noncurrent cash and investments at end of year	<u>\$ 8,009</u>	<u>\$ 1,116</u>	<u>\$ 9,125</u>	<u>\$ 4,066</u>	<u>\$ 1,742</u>	<u>\$ 5,808</u>
Reconciliation of operating income to net cash provided by operating activities						
Cash flows from operating activities						
Operating income	\$ 5,386	\$ 16	\$ 5,402	\$ 1,638	\$ 24	\$ 1,662
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	829	760	1,589	723	777	1,500
Changes in:						
Patient receivables and programs	(145)	(1,265)	(1,410)	(41)	(309)	(350)
Inventories	-	(18)	(18)	-	7	7
Prepaid expenses and other current assets	329	(23)	306	(509)	(30)	(539)
Accounts payable and other liabilities	204	335	539	(79)	(126)	(205)
Accrued salaries and wages	171	(295)	(124)	-	53	53
Net pension obligation	-	(1)	(1)	-	(3)	(3)
Other long term assets	-	373	373	-	(40)	(40)
Net cash provided by operating activities	<u>\$ 6,774</u>	<u>\$ (118)</u>	<u>\$ 6,656</u>	<u>\$ 1,732</u>	<u>\$ 353</u>	<u>\$ 2,085</u>

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

	September 30, 2010	Percentage of Total	September 30, 2009	Percentage of Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 29,048	3%	\$ 17,112	2%
Assets limited as to use:				
Cash equivalents held by bond paying agent	7,940	1%	5,131	1%
Cash for debt service-not held by bond paying agent	3,963	0%	5,590	1%
Cash equivalents and investments for the future payment of claims liabilities	16,969	2%	16,624	2%
Receivables:				
Patient accounts, less allowance for bad debts	72,584	8%	73,719	8%
Due from health insurance programs	2,892	0%	1,689	0%
Due from primary government	765	0%	78	0%
Due from component units	297	0%	-	0%
Other receivables	10,554	1%	8,679	1%
Investments	1,671	0%	1,017	0%
Inventories	16,914	2%	17,627	2%
Prepaid expenses	9,153	1%	8,504	1%
Total current assets	<u>172,750</u>	<u>18%</u>	<u>155,770</u>	<u>18%</u>
Noncurrent cash, investments, and donor receivables				
Noncurrent Cash and Investments:				
Designated by Board for operating and PDO reserve	6,090	1%	2,655	0%
Designated by Board for capital improvements	260,041	27%	236,639	26%
Restricted under indenture agreement held by trustee	-	0%	112	0%
Restricted under loan agreement	23	0%	6	0%
Restricted under letter of credit	4,000	0%	4,007	1%
Designated by Board for life safety contingency	-	0%	3,732	0%
Designated by Board for supplemental retirement plans	1,333	0%	1,105	0%
Restricted by donors for specific purpose	2,035	0%	1,677	0%
Restricted by donors for endowments	2,811	0%	2,665	0%
	<u>276,333</u>	<u>28%</u>	<u>252,598</u>	<u>27%</u>
Pledges and grants receivable	2,562	0%	2,773	0%
Total noncurrent cash, investments, and donor receivables	<u>278,895</u>	<u>28%</u>	<u>255,371</u>	<u>27%</u>
Other assets				
Intangible capital assets, net of amortization	47,423	5%	49,370	5%
Investment in affiliates	5,773	1%	10,482	1%
Pension asset	4,491	0%	4,496	1%
Other long term assets	862	0%	1,143	0%
Deferred outflow of resources	10,236	1%	7,168	1%
Total other assets	<u>68,785</u>	<u>7%</u>	<u>72,659</u>	<u>8%</u>
Capital assets - tangible				
Land	14,854	2%	14,458	2%
Depreciable capital assets, net of accumulated depreciation	407,882	43%	395,063	43%
Construction in progress	15,173	2%	16,117	2%
Total capital assets - tangible	<u>437,909</u>	<u>47%</u>	<u>425,638</u>	<u>47%</u>
Total assets	<u>\$ 958,339</u>	<u>100%</u>	<u>\$ 909,438</u>	<u>100%</u>

	September 30, 2010	Percentage of Total	September 30, 2009	Percentage of Total
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and other liabilities	\$ 34,318	4%	\$ 36,192	4%
Professional claims liability	14,777	2%	14,218	2%
Accrued salaries and wages	26,839	3%	26,657	3%
Estimated third-party payor settlements	18,795	2%	9,968	1%
Due to primary government	297	0%	-	0%
Due to component units	765	0%	78	0%
Due to affiliates	4,149	0%	4,405	1%
Note payable, current portion	18	0%	254	0%
Capital lease obligations and bonds payable, current portion	6,724	1%	10,727	1%
Total current liabilities	106,682	12%	102,499	12%
Long-term obligations				
Capital lease obligations, less current portion	7	0%	66	0%
Net pension obligation	231	0%	232	0%
Supplemental retirement plans	1,333	0%	1,105	0%
Notes payable	2,088	0%	2,118	0%
Bonds payable, less current portion	318,711	33%	320,592	35%
Interest rate swap agreement	12,111	1%	8,864	1%
Total long-term obligations	334,481	34%	332,977	36%
Total liabilities	441,163	46%	435,476	48%
Commitments and contingencies				
Net assets				
Invested in capital assets, net of related debt	157,784	16%	141,251	16%
Unrestricted	346,492	36%	320,084	35%
Restricted	12,900	2%	12,627	1%
Total net assets	517,176	54%	473,962	52%
Total liabilities and net assets	\$ 958,339	100%	\$ 909,438	100%

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

	Year Ended September 30, 2010	Percentage of Total	Year Ended September 30, 2009	Percentage of Total
Operating revenues:				
Net patient service revenue	\$ 640,341	97%	\$ 628,876	97%
Other revenue	22,054	3%	19,956	3%
Total operating revenue	662,395	100%	648,832	100%
Operating expenses:				
Salaries, wages and benefits	314,121	47%	311,902	48%
Medical supplies	135,245	20%	132,004	20%
Professional fees	23,351	4%	23,238	4%
Insurance	11,381	2%	8,132	1%
Purchased services and other	93,470	14%	93,713	14%
Depreciation and amortization	44,241	7%	41,839	6%
Total operating expenses	621,809	94%	610,828	93%
Operating income	40,586	6%	38,004	7%
Nonoperating revenues (expenses):				
Interest expense	(13,262)	-2%	(14,645)	-2%
Other nonoperating income	510	0%	432	0%
Interest earned on assets limited as to use	6,175	1%	8,163	1%
Net increase (decrease) in fair value of investments	7,673	1%	3,286	0%
Gain (loss) on sale of assets	(54)	0%	(1,762)	0%
Equity in net income of joint ventures	828	0%	1,030	0%
Nonoperating revenues (expenses), net	1,870	0%	(3,496)	-1%
Excess of revenues over expenses before capital contributions	42,456	6%	34,508	6%
Capital and permanent endowment contributions and transfers to/from component units	758		906	
Increase in net assets	43,214		35,414	
Net assets				
Beginning, as previously reported	473,962		440,307	
Change in accounting principle (Note 17)	-		(1,759)	
Beginning, as restated	473,962		438,548	
Ending	\$ 517,176		\$ 473,962	