

**Annual Financial Report**

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

**Years Ended September 30, 2015 and 2014**

**With Report of Independent Auditor**

## Contents

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Independent Auditor's Report	1-3
Management's Discussion and Analysis (MD&A) – Unaudited	5-10
Basic Financial Statements	
Statements of Net Position – Proprietary Fund	12-13
Statements of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	14
Statements of Cash Flows – Proprietary Fund	15-16
Statements of Fiduciary Net Position – Fiduciary Fund	17
Statements of Changes in Fiduciary Net Position – Fiduciary Fund	18
Notes to Financial Statements	19-74
Required Supplementary Information	
Pension Plan of New Hanover Regional Medical Center:	
Changes in the Net Pension Liability and Related Ratios	76
Schedule of Contributions	77
Pension Plan of Pender Memorial Hospital	
Changes in the Net Pension Liability and Related Ratios	78
Schedule of Contributions	79
Supplemental Information	
New Hanover Regional Medical Center:	
Combining Statements of Net Position	81-82
Combining Statements of Revenues, Expenses, and Changes in Net Position	83
Combining Statements of Cash Flows	84-85
Combined Discretely Presented Component Units:	
Combining Statements of Net Position	86-87
Combining Statements of Revenues, Expenses, and Changes in Net Position	88
Combining Statements of Cash Flows	89-90
Obligated Unit:	
Combining Statements of Net Position	91-92
Combining Statements of Revenues, Expenses, and Changes in Net Position	93
Combining Statements of Cash Flows	94-95

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RSM US LLP

## Independent Auditor's Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the fiduciary fund information of New Hanover Regional Medical Center (NHRMC), a component unit of New Hanover County, North Carolina, as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the NHRMC's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Lower Cape Fear Hospice, Incorporated, which is a discretely presented component unit, which comprises 57% and 58% of the assets, 65% and 57% of the net position, and 16% and 18% of the revenues of the aggregate discretely presented component units as of and for the years ended September 30, 2015 and 2014, respectively. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lower Cape Fear Hospice, Incorporated, is based solely on the report of the other auditor. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the fiduciary fund information of New Hanover Regional Medical Center as of September 30, 2015 and 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-10, the Pension Plan of NHRMC's Changes in Net Pension Liability and Related Ratios and Schedule of Contributions on page 76-77, and the Pension Plan of PMH's Changes in Net Pension Liability and Related Ratios and Schedule of Contributions on page 78-79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise NHRMC's basic financial statements. The supplementary information listed in the contents under supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the contents under supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audits, the procedures performed as described above, and the reports of the other auditor, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*McGladrey LLP*

Wilmington, North Carolina  
December 4, 2015

**RSM US LLP, an Iowa limited liability partnership, is doing business as McGladrey LLP in the state of North Carolina and is a CPA firm registered with the North Carolina State Board of Certified Public Accountants under the name McGladrey LLP. Rules permitting the use of RSM US LLP have been published in the North Carolina Register and are pending final approval.**

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

**Management's Discussion and Analysis  
For the Fiscal Years Ended September 30, 2015 and 2014**

Management's discussion and analysis of New Hanover Regional Medical Center's (NHRMC) financial performance provides an overview of the Medical Center's activities for the fiscal years ended September 30, 2015 and 2014. Except as otherwise noted, the financial highlights in this analysis refer exclusively to New Hanover Regional Medical Center and its blended component unit (NHRMC).

**FINANCIAL HIGHLIGHTS**

**For the year ended September 30, 2015**

NHRMC's net position increased over the prior year by \$103.8M (17.2%).

NHRMC reported operating income of \$102.8M or \$39.0M more than prior year.

Total non-operating activity resulted in net expenses of \$9.2M, representing a net expense increase of \$12.0M over the prior year's net non-operating income of \$2.9M.

**For the year ended September 30, 2014**

NHRMC's net position increased over the prior year by \$23.7M (4.1%).

NHRMC reported operating income of \$63.9M or \$5.0M more than prior year.

Total non-operating activity resulted in net revenue of \$2.9M, representing a net revenue increase of \$8.5M over the prior year's net non-operating loss of \$5.6M.

**SUMMARY OF NEW HANOVER REGIONAL MEDICAL CENTER**

The reporting entity includes New Hanover Regional Medical Center, as well as New Hanover Regional Medical Center Foundation, Inc., blended component unit (collectively, NHRMC), Carolina Healthcare Associates, Inc. (CHA), The Pension Plan of New Hanover Regional Medical Center, Pender Memorial Hospital, Incorporated (PMH), Physician Quality Partners, LLC (PQP), and Lower Cape Fear Hospice, Incorporated (LCFH). CHA, PQP, 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 statement of net position; a statement of revenues, expenses and changes in net position; a statement of cash flows; fiduciary fund information; and notes to the financial statements. The statement of net position presents the financial position of NHRMC on a full accrual, historical cost basis. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

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

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

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

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

#### **NHRMC'S OPERATING RESULTS AND CHANGES IN NET POSITION:**

	Years Ended		
	September 30, 2015	September 30, 2014	September 30, 2013
	(In Thousands)		
Net Patient Service Revenue	\$ 800,741	\$ 735,072	\$ 687,658
Other Revenue	20,698	23,260	30,816
<b>Total operating revenue</b>	<b>821,439</b>	<b>758,332</b>	<b>718,474</b>
Expenses:			
Health care services			
Salaries, wages and benefits	369,274	345,958	336,734
Medical supplies	158,170	151,793	144,723
Professional fees	41,370	24,478	19,730
Purchased services	60,669	77,196	67,150
Depreciation and amortization	47,489	45,955	43,466
Other	41,619	49,054	47,728
<b>Total operating expenses</b>	<b>718,591</b>	<b>694,434</b>	<b>659,531</b>
<b>Operating income</b>	<b>102,848</b>	<b>63,898</b>	<b>58,943</b>
Nonoperating Revenues (Expenses), net	(9,168)	2,859	(5,647)
	93,680	66,757	53,296
Capital and Permanent Endowment Contributions and Transfers to Component Units	(3,188)	(2,856)	(2,766)
<b>Increase in net position</b>	<b>90,492</b>	<b>63,901</b>	<b>50,530</b>
Net Position, beginning, previously reported	602,863	579,146	528,616
Restatement	13,331	(40,184)	
Net Position, beginning, restated	616,194	538,962	
Net Position, ending	<b>\$ 706,686</b>	<b>\$ 602,863</b>	<b>\$ 579,146</b>

### **For the year ended September 30, 2015**

Total operating revenue increased \$63.1M (8.3%). The increase in operating revenue is largely due to increased utilization of both inpatient and outpatient services from the previous year. Net patient service revenue continues to be impacted by an increase in unreimbursed services as health insurers shift more reimbursement responsibility to individuals through increased deductibles and co-pays along with an increase in those individuals who have little or no health insurance or other means of payment. These trends are consistent in the healthcare industry. Other operating revenue consists primarily of cafeteria sales, outpatient pharmacy sales, grants, contributions and rental income from NHRMC owned facilities.

Total operating expenses increased \$24.2M (3.5%). The increased utilization of services as described above contributed to the increase in operating expense. Costs for professional fees rose above the rate of increase in revenues; costs for personnel, medical supplies, purchased services, depreciation and other expenses rose at a rate below revenue growth. Professional fees increased primarily from an expansion of our provider network. Through supply cost initiatives, the impact of increased costs for medical supplies due to the inflationary market was minimized.

NHRMC continues to ensure that wage and benefit costs remain competitive while managing productivity through staffing targets along with increased focus on employee health and wellness. These activities continue to ensure personnel costs trend favorable to revenue growth.

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 \$39.0M as a result of increased net revenue from operations as a percentage of net expenses.

Income before capital contributions and transfers increased \$26.9M reflecting income from operations along with any interest earned on investments, increases and decreases in the fair value of investments, interest expense, and other non-operating items. This activity, when added to the increase in operating income, accounted for the change from the prior year.

### **For the year ended September 30, 2014**

Total operating revenue increased \$39.9M (5.5%). The increase in operating revenue is largely due to increased utilization of both inpatient and outpatient services from the previous year. Net patient service revenue continues to be impacted by an increase in unreimbursed services as health insurers shift more reimbursement responsibility to individuals through increased deductibles and co-pays along with an increase in those individuals who have little or no health insurance or other means of payment. These trends are consistent in the healthcare industry. Other operating revenue consists primarily of cafeteria sales, outpatient pharmacy sales, grants, contributions and rental income from NHRMC owned facilities.

Total operating expenses increased \$34.9M. The increased utilization of services as described above contributed to the increase in operating expense. Costs for purchased services, professional fees, and depreciation rose above the rate of increase in revenues; costs for personnel, medical supplies, and other expenses rose at a rate below revenue growth. Increased costs for purchased services are directly attributable to increased funding for CHA. Professional fees increased due to higher consulting and physician fees. Through supply cost initiatives, the impact of increased costs for medical supplies due to the inflationary market was minimized.

NHRMC continues to ensure that wage and benefit costs remain competitive while managing productivity through staffing targets along with increased focus on employee health and wellness. These activities continue to ensure personnel costs trend favorable to revenue growth.

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 \$5.0M as a result of increased net revenue from operations as a percentage of net expenses.

For the year ended September 30, 2014 (Continued)

Income before capital contributions and transfers increased \$13.5M reflecting income from operations along with any interest earned on investments, increases and decreases in the fair value of investments, interest expense, and other non-operating items. This activity, when added to the increase in operating income, accounted for the change from the prior year.

**SUMMARY OF NHRMC NET POSITION**

	September 30, 2015	September 30, 2014	September 30, 2013
	(In Thousands)		
Assets			
Current assets	\$ 327,920	\$ 260,204	\$ 231,586
Capital assets - tangible, net	435,623	426,546	424,353
Other noncurrent assets	377,718	366,037	354,089
<b>Total assets</b>	<b>1,141,261</b>	<b>1,052,787</b>	<b>1,010,028</b>
Deferred outflows of resources	15,934	12,826	5,024
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,157,195</b>	<b>\$ 1,065,613</b>	<b>\$ 1,015,052</b>
Liabilities			
Current liabilities	\$ 126,902	\$ 128,382	\$ 130,469
Long-term obligations	318,382	334,368	305,437
<b>Total liabilities</b>	<b>445,284</b>	<b>462,750</b>	<b>435,906</b>
Deferred inflows of resources	5,225	-	-
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 450,509</b>	<b>\$ 462,750</b>	<b>\$ 435,906</b>
Net Position			
Net investment in capital assets	191,405	170,669	157,143
Unrestricted	498,324	423,607	413,994
Restricted	16,957	8,587	8,009
<b>Total net position</b>	<b>706,686</b>	<b>602,863</b>	<b>579,146</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 1,157,195</b>	<b>\$ 1,065,613</b>	<b>\$ 1,015,052</b>

**September 30, 2015**

Total assets and deferred outflows of resources have increased by \$91.6M over the past fiscal year end. The increase in current assets is primarily due to an increase in cash and cash equivalents. This increase is attributable to maintaining expense growth below the rate of growth in operating revenue. Increases in noncurrent assets are the result of additional excess funds invested from operations along with interest earnings and unrealized gains / losses in the market value of NHRMC investments. As well as \$17.5M of cash, capital assets, and investments obtained through the merger with SEAHEC.

Total liabilities and deferred inflows of resources have decreased by \$12.2M over the past fiscal year end. A decrease in current liabilities resulted primarily from a decrease in estimated third-party payor settlements. Estimated third-party payor settlements reflect potential settlements with Medicare and Medicaid upon final audit of cost reports. The reader may refer to Note 2 of the basic financial statements for additional information.

Net position increased \$103.8M during the past year reflecting the overall performance during the past fiscal year. NHRMC implemented GASB Statement 68 this year. With the new reporting change, NHRMC records the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to the Pension Plan of New Hanover Regional Medical Center. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$40.2M.

### September 30, 2014

Total assets and deferred outflows of resources have increased by \$46.5M over the past fiscal year end. The increase in current assets is primarily due to an increase in cash and cash equivalents and patient accounts receivable. These increases are attributable to increased utilization of services. Increases in noncurrent assets are the result of additional excess funds invested from operations along with interest earnings and unrealized gains / losses in the market value of NHRMC investments.

Total liabilities and deferred inflows of resources have decreased by \$17.4M over the past fiscal year end. A decrease in current liabilities resulted primarily from a decrease in estimated third-party payor settlements. Estimated third-party payor settlements reflect potential settlements with Medicare and Medicaid upon final audit of cost reports. The reader may refer to Note 2 of the basic financial statements for additional information.

Net position increased \$63.9M during the past year reflecting the overall performance during the past fiscal year.

## **LONG-TERM DEBT DISCUSSION**

### **For the year ended September 30, 2015**

Long-term debt (noncurrent portion) is approximately \$275.2M as of September 30, 2015, and includes Hospital Revenue Bonds issued in 2006, 2008, 2011, and 2013 as well as approximately \$5.7M in interest rate swaps related to the 2008 series Revenue bonds (see Note 7).

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, 2014

Long-term debt (noncurrent portion) is approximately \$288.5M as of September 30, 2014, and includes Hospital Revenue Bonds issued in 2006, 2008, 2011, and 2013 as well as approximately \$5.6M in interest rate swaps related to the 2008 series Revenue bonds (see Note 7).

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, 2015**

NHRMC completed construction on a new freestanding emergency room and began construction on the expansion of the emergency department at the 17<sup>th</sup> St campus. The new freestanding emergency room is located in northern New Hanover County, and allows NHRMC to better serve patient needs in northern New Hanover, Pender, and southern Onslow Counties. The expansion of the emergency department at the 17<sup>th</sup> St campus will double the number of treatment rooms and provide specific rooms for pediatrics, low, medium and high acuity and behavioral health.

### For the year ended September 30, 2014

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

## **NEXT YEAR'S FORECAST 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 fiscal year beginning October 1, 2015, the Board of Trustees has approved a forecast to include an increase of \$26M in salaries and benefits for employees, as well as full year bad debt and charity care of \$147M, and capital investments and debt service of \$85.1M.

To offset increases in operating costs, the forecast reflects an increase in volumes in both inpatient and outpatient services along with anticipated cost savings in supplies, labor costs and improved focus on the hospital's revenue cycle. A price increase of 5% was approved for NHRMC to also offset additional operating costs.

## **OTHER ECONOMIC FACTORS**

NHRMC continues to compensate for federal and state reimbursement below the rate of expense growth in the healthcare industry. Excluding the governmental programs, Medicare and Medicaid, there is no other payer that has a significant presence in New Hanover County. NHRMC continues to manage expense growth in an environment of lower reimbursement from governmental payers and an increasing burden on the patient to pay a higher portion of their medical care costs as seen through an increase in individual co-pays, deductibles and uninsured. The recent implementation of the Accountable Care Act (ACA) at a national level and the state of North Carolina's election to not expand medical access is expected to have an overall negative impact on operations.

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

## **CONTACTING THE FINANCIAL MANAGER**

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

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**New Hanover Regional Medical Center**  
**(A Component Unit of New Hanover County, North Carolina)**  
**Statements of Net Position – Proprietary Fund**  
**(Dollars in Thousands)**

	September 30, 2015			September 30, 2014		
	Combined	Total		Combined	Total	
	NHRMC	Component Units	(Memorandum Only)	NHRMC	Component Units	(Memorandum Only)
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents (Note 3)	\$ 126,588	\$ 12,531	\$ 139,119	\$ 57,115	\$ 14,205	\$ 71,320
Assets limited as to use (Note 3):						
Cash equivalents held by bond paying agent	17,279	-	17,279	16,863	-	16,863
Cash for debt service-not held by bond paying agent	950	-	950	948	-	948
Cash equivalents and investments for the future payment of claims liabilities	21,880	-	21,880	21,755	-	21,755
Receivables:						
Patient accounts, less allowance for bad debts (Note 2)	110,207	17,216	127,423	109,434	16,900	126,334
Estimated third-party payor settlements (Note 2)	602	1,581	2,183	10,043	1,759	11,802
Due from primary government	-	3,549	3,549	-	1,517	1,517
Due from component units	802	-	802	311	-	311
Other receivables	13,163	1,740	14,903	12,275	991	13,266
Investments (Note 3)	-	8,258	8,258	-	6,522	6,522
Inventories	19,760	393	20,153	17,570	392	17,962
Prepaid expenses	16,689	2,519	19,208	13,890	2,965	16,855
<b>Total current assets</b>	<b>327,920</b>	<b>47,787</b>	<b>375,707</b>	<b>260,204</b>	<b>45,251</b>	<b>305,455</b>
Noncurrent cash, investments, and donor receivables						
Noncurrent Cash and Investments (Note 3):						
Designated by Board for operating and other	-	11,017	11,017	-	11,526	11,526
Designated by Board for capital improvements	325,620	6,023	331,643	319,272	6,688	325,960
Restricted under loan agreement	-	-	-	-	799	799
Designated by Board for supplemental retirement plans (Note 10)	1,464	-	1,464	1,585	-	1,585
Restricted by donors for specific purpose	9,456	-	9,456	2,914	-	2,914
Restricted by donors for endowments	2,066	1,413	3,479	2,018	1,503	3,521
	<b>338,606</b>	<b>18,453</b>	<b>357,059</b>	<b>325,789</b>	<b>20,516</b>	<b>346,305</b>
Pledges and grants receivable	1,747	186	1,933	1,728	393	2,121
<b>Total noncurrent cash, investments, and donor receivables</b>	<b>340,353</b>	<b>18,639</b>	<b>358,992</b>	<b>327,517</b>	<b>20,909</b>	<b>348,426</b>
Other Assets						
Intangible capital assets, net of amortization (Note 4)	34,120	85	34,205	36,647	367	37,014
Investment in affiliates (Note 12)	3,008	-	3,008	1,586	-	1,586
Other long term assets	237	612	849	287	611	898
<b>Total other assets</b>	<b>37,365</b>	<b>697</b>	<b>38,062</b>	<b>38,520</b>	<b>978</b>	<b>39,498</b>
Capital assets - tangible (Note 4)						
Land	12,305	5,652	17,957	11,314	5,652	16,966
Depreciable capital assets, net of accumulated depreciation	412,057	34,397	446,454	404,826	29,737	434,563
Construction in progress	11,261	632	11,893	10,406	3,512	13,918
<b>Total capital assets – tangible</b>	<b>435,623</b>	<b>40,681</b>	<b>476,304</b>	<b>426,546</b>	<b>38,901</b>	<b>465,447</b>
<b>Total assets</b>	<b>1,141,261</b>	<b>107,804</b>	<b>1,249,065</b>	<b>1,052,787</b>	<b>106,039</b>	<b>1,158,826</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Contributions to pension plan (Note 10)	12,125	545	12,670	8,422	336	8,758
Deferred charges on bond refundings (Note 6)	3,809	-	3,809	4,404	-	4,404
Interest rate swap agreements (Note 7)	-	259	259	-	216	216
<b>Total deferred outflows of resources</b>	<b>15,934</b>	<b>804</b>	<b>16,738</b>	<b>12,826</b>	<b>552</b>	<b>13,378</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,157,195</b>	<b>\$ 108,608</b>	<b>\$ 1,265,803</b>	<b>\$ 1,065,613</b>	<b>\$ 106,591</b>	<b>\$ 1,172,204</b>

See Notes to Financial Statements.

	September 30, 2015			September 30, 2014		
	NHRMC	Combined	Total	NHRMC	Combined	Total
		Component	(Memorandum		Component	(Memorandum
	Units	Only)	Only)	Units	(Memorandum	Only)
<b>LIABILITIES</b>						
Current Liabilities						
Accounts payable and other liabilities	\$ 32,462	\$ 15,688	\$ 48,150	\$ 32,008	\$ 9,507	\$ 41,515
Professional liability claims (Note 9)	14,511	843	15,354	16,575	-	16,575
Accrued salaries and wages	37,502	6,578	44,080	35,053	4,758	39,811
Estimated third-party payor settlements (Note 2)	10,284	-	10,284	11,627	604	12,231
Due to primary government	-	1,008	1,008	-	311	311
Due to component units	3,548	-	3,548	1,517	-	1,517
Accrued interest payable	5,727	-	5,727	5,951	-	5,951
Other self-funded liabilities (Note 9)	10,263	-	10,263	11,683	-	11,683
Capital lease obligations, notes and bonds payable, current portion (Notes 5 and 6)	12,605	694	13,299	13,968	670	14,638
Total current liabilities	126,902	24,811	151,713	128,382	15,850	144,232
Long-Term Obligations						
Net pension liability (Note 10)	40,608	3,086	43,694	44,243	3,114	47,357
Supplemental retirement plans (Notes 6 and 10)	2,547	-	2,547	1,585	-	1,585
Interest rate swap agreements (Note 7)	5,685	259	5,944	5,580	216	5,796
Notes and bonds payable, less current portion (Note 6)	269,542	11,911	281,453	282,960	11,602	294,562
Total long-term obligations	318,382	15,256	333,638	334,368	14,932	349,300
<b>Total liabilities</b>	<b>445,284</b>	<b>40,067</b>	<b>485,351</b>	<b>462,750</b>	<b>30,782</b>	<b>493,532</b>
Commitments and Contingencies (Notes 2, 4, 5, 6, 7, 9, 10, 11, 12, 13 and 14)						
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension deferrals (Note 10)	5,225	141	5,366	-	-	-
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 450,509</b>	<b>\$ 40,208</b>	<b>\$ 490,717</b>	<b>\$ 462,750</b>	<b>\$ 30,782</b>	<b>\$ 493,532</b>
<b>NET POSITION</b>						
Net investment in capital assets	191,405	28,013	219,418	170,669	26,930	197,599
Unrestricted	498,324	38,936	537,260	423,607	45,036	468,643
Restricted	16,957	1,451	18,408	8,587	3,843	12,430
<b>Total net position</b>	<b>706,686</b>	<b>68,400</b>	<b>775,086</b>	<b>602,863</b>	<b>75,809</b>	<b>678,672</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 1,157,195</b>	<b>\$ 108,608</b>	<b>\$ 1,265,803</b>	<b>\$ 1,065,613</b>	<b>\$ 106,591</b>	<b>\$ 1,172,204</b>

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

	Year Ended September 30, 2015			Year Ended September 30, 2014		
	Combined		Total	Combined		Total
	NHRMC	Units	(Memorandum Only)	NHRMC	Units	(Memorandum Only)
Operating Revenues						
Net patient service revenue (Notes 2 and 6)	\$ 800,741	\$ 189,010	\$ 989,751	\$ 735,072	\$ 165,682	\$ 900,754
Other revenue	20,698	33,365	54,063	23,260	33,694	56,954
<b>Total operating revenue</b>	<b>821,439</b>	<b>222,375</b>	<b>1,043,814</b>	<b>758,332</b>	<b>199,376</b>	<b>957,708</b>
Operating Expenses						
Salaries, wages and benefits	369,274	81,328	450,602	345,958	65,169	411,127
Medical supplies	158,170	41,012	199,182	151,793	33,709	185,502
Professional fees	41,370	65,466	106,836	24,478	57,669	82,147
Purchased services	60,669	21,753	82,422	77,196	19,044	96,240
Depreciation and amortization	47,489	4,810	52,299	45,955	3,993	49,948
Other	41,619	17,015	58,634	49,054	15,693	64,747
<b>Total operating expenses</b>	<b>718,591</b>	<b>231,384</b>	<b>949,975</b>	<b>694,434</b>	<b>195,277</b>	<b>889,711</b>
Operating Income	102,848	(9,009)	93,839	63,898	4,099	67,997
Nonoperating Revenues (Expenses)						
Interest expense	(11,834)	(377)	(12,211)	(12,507)	(273)	(12,780)
Other nonoperating income (expense)	351	(70)	281	(1,539)	108	(1,431)
Interest earned and net realized gain on investments	2,354	-	2,354	3,907	-	3,907
Net increase in fair value of investments	(1,407)	(1,271)	(2,678)	12,083	1,979	14,062
Gain (loss) on sale of capital assets	437	(17)	420	158	(163)	(5)
Equity in net income of joint ventures (Note 12)	931	-	931	757	-	757
Nonoperating revenues (expenses), net	(9,168)	(1,735)	(10,903)	2,859	1,651	4,510
<b>Excess of revenues over expenses before capital contributions</b>	<b>93,680</b>	<b>(10,744)</b>	<b>82,936</b>	<b>66,757</b>	<b>5,750</b>	<b>72,507</b>
Capital and Permanent Endowment Contributions and Capital Transfers to/from Component Units	(3,188)	3,335	147	(2,856)	5,277	2,421
<b>Increase (decrease) in net position</b>	<b>90,492</b>	<b>(7,409)</b>	<b>83,083</b>	<b>63,901</b>	<b>11,027</b>	<b>74,928</b>
Net position, beginning, previously reported	602,863	75,809	678,672	579,146	67,332	646,478
Restatement (Notes 8 and 16)	13,331	-	13,331	(40,184)	(2,550)	(42,734)
Net position, beginning, restated	616,194	75,809	692,003	538,962	64,782	603,744
Net position, ending	\$ 706,686	\$ 68,400	\$ 775,086	\$ 602,863	\$ 75,809	\$ 678,672

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, 2015			Year Ended September 30, 2014		
	Combined	Total		Combined	Total	
	Component	(Memorandum		Component	(Memorandum	
NHRMC	Units	Only)	NHRMC	Units	Only)	
<b>Cash Flows From Operating Activities</b>						
Cash received from and on behalf of patients	\$ 808,238	\$ 190,289	\$ 998,527	\$ 720,539	\$ 172,486	\$ 893,025
Cash payments to suppliers for services and goods	(309,309)	(141,533)	(450,842)	(304,191)	(132,933)	(437,124)
Cash payments to employees for services	(368,938)	(79,579)	(448,517)	(346,022)	(65,111)	(411,133)
Other operating cash receipts	17,396	32,878	50,274	17,493	33,430	50,923
<b>Net cash provided by operating activities</b>	<b>147,387</b>	<b>2,055</b>	<b>149,442</b>	<b>87,819</b>	<b>7,872</b>	<b>95,691</b>
<b>Cash Flows From Noncapital Financing Activities</b>						
Contributions and operating grants	2,398	-	2,398	2,775	-	2,775
Payments (to) from component unit	1,539	-	1,539	(1,890)	-	(1,890)
Mercy Care merger cash contribution	-	-	-	-	959	959
<b>Net cash provided by noncapital financing activities</b>	<b>3,937</b>	<b>-</b>	<b>3,937</b>	<b>885</b>	<b>959</b>	<b>1,844</b>
<b>Cash Flows From Capital and Related Financing Activities</b>						
Acquisition of capital assets	(48,352)	(5,776)	(54,128)	(45,741)	(7,175)	(52,916)
Proceeds from disposed assets	742	52	794	527	-	527
Capital contributions	468	-	468	150	-	150
Principal payments on capital lease obligations	(237)	-	(237)	(484)	-	(484)
Principal payments on revenue bonds and other outstanding debt	(14,199)	(653)	(14,852)	(13,817)	(511)	(14,328)
Interest paid on capital financing	(12,374)	(377)	(12,751)	(13,007)	(273)	(13,280)
Proceeds from bonds/notes	-	1,026	1,026	-	2,263	2,263
Transfers (to) from component unit	(3,656)	3,291	(365)	(3,005)	2,088	(917)
<b>Net cash used in capital and related financing activities</b>	<b>(77,608)</b>	<b>(2,437)</b>	<b>(80,045)</b>	<b>(75,377)</b>	<b>(3,608)</b>	<b>(78,985)</b>
<b>Cash Flows From Investing Activities</b>						
Purchases of investments, net of maturities	(5,933)	(1,292)	(7,225)	(18,550)	(949)	(19,499)
Interest earned on investments	3,164	(49)	3,115	3,821	112	3,933
Contributions to partnerships	(1,100)	-	(1,100)	-	-	-
Distributions from partnerships	906	-	906	837	-	837
Other interest earned	(39)	-	(39)	(992)	-	(992)
<b>Net cash used in investing activities</b>	<b>(3,002)</b>	<b>(1,341)</b>	<b>(4,343)</b>	<b>(14,884)</b>	<b>(837)</b>	<b>(15,721)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>70,714</b>	<b>(1,723)</b>	<b>68,991</b>	<b>(1,557)</b>	<b>4,386</b>	<b>2,829</b>
Cash and cash equivalents at beginning of year	129,288	14,317	143,605	130,845	9,931	140,776
Cash and cash equivalents at end of year	\$ 200,002	\$ 12,594	\$ 212,596	\$ 129,288	\$ 14,317	\$ 143,605

(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, 2015			Year Ended September 30, 2014		
	Combined		Total	Combined		Total
	NHRMC	Units	(Memorandum Only)	NHRMC	Units	(Memorandum Only)
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>						
Unrestricted cash and cash equivalents	\$ 126,588	\$ 12,531	\$ 139,119	\$ 57,115	\$ 14,205	\$ 71,320
Cash and cash equivalents in noncurrent cash and investments						
Designated by Board for operating and PDO reserve	-	51	51	-	67	67
Reserved for debt service – held by bond paying agent	17,279	-	17,279	16,863	-	16,863
Reserved for debt service – not held by bond paying agent	950	-	950	948	-	948
Designated by Board for claims liabilities	225	-	225	156	-	156
Designated by Board for capital improvements	54,960	-	54,960	54,206	-	54,206
By donor restrictions	-	12	12	-	45	45
<b>Cash and cash equivalents, including noncurrent cash and cash equivalents at end of year</b>	<b>\$ 200,002</b>	<b>\$ 12,594</b>	<b>\$ 212,596</b>	<b>\$ 129,288</b>	<b>\$ 14,317</b>	<b>\$ 143,605</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>						
<b>Cash Flows From operating activities:</b>						
Operating income	\$ 102,848	\$ (9,009)	\$ 93,839	\$ 63,898	\$ 4,099	\$ 67,997
Employee services included in nonoperating income	-	-	-	(1,567)	-	(1,567)
Operating grants in other revenue	(2,398)	-	(2,398)	(2,775)	-	(2,775)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	47,489	4,810	52,299	45,955	3,993	49,948
Pension expense	10,013	449	10,462	-	-	-
Changes in:						
Patient receivables and programs	(1,505)	(2,865)	(4,370)	(12,480)	2,535	(9,945)
Inventories	(2,190)	(1)	(2,191)	(1,749)	91	(1,658)
Prepaid expenses and other current assets	(2,800)	98	(2,702)	(3,381)	(3,587)	(6,968)
Accounts payable and other liabilities	5,556	7,272	12,828	(1,847)	578	(1,269)
Accrued salaries and wages	2,449	1,846	4,295	1,503	164	1,667
Deferred outflows of resources for pensions	(12,125)	(545)	(12,670)	-	(1)	(1)
Other long term assets	50	-	50	262	-	262
<b>Net cash provided by operating activities</b>	<b>\$ 147,387</b>	<b>\$ 2,055</b>	<b>\$ 149,442</b>	<b>\$ 87,819</b>	<b>\$ 7,872</b>	<b>\$ 95,691</b>
<b>Non-Cash Capital and Related Financing Activities</b>						
Unrealized gain	\$ (1,407)	\$ (1,271)	\$ (2,678)	\$ 12,083	\$ 1,979	\$ 14,062
Capital assets acquired through lease agreement	\$ -	\$ -	\$ -	\$ -	\$ 167	\$ 167
Mercy Care net asset transfer	\$ -	\$ -	\$ -	\$ -	\$ 2,091	\$ 2,091
SEAHEC merger (Note 8)	\$ 13,331	\$ -	\$ 13,331	\$ -	\$ -	\$ -

See Notes to Financial Statements.

**New Hanover Regional Medical Center**  
**(A Component Unit of New Hanover County, North Carolina)**  
**Statements of Fiduciary Net Position – Fiduciary Fund**  
**December 31, 2014 and 2013**  
**(Dollars in Thousands)**

<b>ASSETS</b>	<b>The Pension Plan of New Hanover Regional Medical Center</b>	
	<b>2014</b>	<b>2013</b>
Investments (Note 3):		
Real estate	\$ -	\$ 4,356
Money market funds	2,126	1,276
Mutual funds	204,112	197,595
	<u>206,238</u>	<u>203,227</u>
Receivable:		
Accrued income	153	108
	<u>153</u>	<u>108</u>
Total assets	<u>206,391</u>	<u>203,335</u>
Net position: restricted for pension benefits	<u>\$ 206,391</u>	<u>\$ 203,335</u>

See Notes to Financial Statements.

**New Hanover Regional Medical Center**  
**(A Component Unit of New Hanover County, North Carolina)**  
**Statements of Changes in Fiduciary Net Position – Fiduciary Fund**  
**Years Ended December 31, 2014 and 2013**  
**(Dollars in Thousands)**

	<b>The Pension Plan of New Hanover Regional Medical Center</b>	
	<b>2014</b>	<b>2013</b>
<b>Additions</b>		
Employer's contributions	<b>\$ 8,500</b>	\$ 8,422
Investment income:		
Net appreciation in fair value of investments	<b>3,406</b>	20,297
Dividends and interest	<b>3,929</b>	4,051
	<b>7,335</b>	24,348
Less investment expense	<b>277</b>	429
<b>Net investment income</b>	<b>7,058</b>	23,919
<b>Total additions</b>	<b>15,558</b>	32,341
<b>Deductions</b>		
Distributions to participants	<b>12,263</b>	10,535
Administrative expenses	<b>239</b>	242
<b>Total deductions</b>	<b>12,502</b>	10,777
<b>Net increase in net position</b>	<b>3,056</b>	21,564
Net position – restricted for pension benefits:		
Beginning of year	<b>203,335</b>	181,771
End of year	<b>\$ 206,391</b>	\$ 203,335

See Notes to Financial Statements.

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

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

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

**Reporting Entity**

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

**NHRMC**

The New Hanover Regional Medical Center Foundation, Inc. (Foundation) is a 501(c)(3) nonprofit organization, which was founded by NHRMC in 1991 to serve solely NHRMC as a fundraising entity. As such, the Foundation is included in NHRMC's financial statements as a blended component unit; the balances and transactions of this entity are blended with those of New Hanover Regional Medical Center in the accompanying financial statements, and referred to as NHRMC. Intercompany balances and transactions are eliminated in the process. The Foundation assets and revenues are less than 2% of the NHRMC total activities and the details of the Foundation are not considered material to the financial statements.

The Pension Plan of New Hanover Regional Medical Center comprises the fiduciary fund information. The Plan's fiscal year ends included herein are December 31, 2014 and 2013.

**Combined Component Units**

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

**Carolina Healthcare Associates.** CHA (doing business as NHRMC Physicians Group) is a 501(c)(3) nonprofit corporation governed by NHRMC. The Executive Committee of the NHRMC Board of Trustees, which includes 8 of the 17 voting members of NHRMC's full Board of Trustees, serves as the CHA Board, thereby constituting 100% of CHA's Board members. CHA provides an integrated primary and specialty care physician practice network to NHRMC in the form of physician and nurse practitioner services within NHRMC clinical areas and independent office locations in the NHRMC service area. Through contractual agreement, Carolinas Physician Network (CPN) operates and manages each of the medical practices owned by CHA and provides certain professional medical services for the majority of those practices. At the end of fiscal year 2015, CHA consisted of 156 physicians, 6 nurse practitioners, and 43 mid-level providers. CHA's operating revenue was \$155,497 in fiscal year 2015 and \$136,229 in fiscal year 2014. During the years ended September 30, 2015 and 2014, NHRMC recorded an operating expense and CHA recorded other operating revenue in the amount of approximately \$20,225 and \$22,333, respectively, to fund CHA's fiscal year operating deficits. Additionally, during 2015 and 2014, NHRMC funded capital acquisitions, net of returns of capital assets, for CHA of approximately \$61 and \$929, respectively.

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

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

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

**Physician Quality Partners.** On May 24, 2013, Articles of Organization were filed with the NC Department of the Secretary of State for Physician Quality Partners, LLC (PQP). PQP is a Clinically Integrated Network (CIN)/Accountable Care Organization (ACO) formed to actively develop clinical initiatives that will improve the quality of health care services and control costs. PQP is included in NHRMC's financial statements as a discretely presented component unit. During the years ended September 30, 2015 and 2014, NHRMC transferred \$300 and \$1,000, respectively, to fund PQP's operations. NHRMC carries an equity interest equal to PQP's net position, which is included in investment in affiliates.

**Lower Cape Fear Hospice.** 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 6 counties in southeastern North Carolina and 3 counties in South Carolina. During the years ended September 30, 2015 and 2014, NHRMC granted and paid LCFH approximately \$564 and \$564, respectively, in support of LCFH's Palliative Care Program.

To effect continuity in operations and derive efficiencies, Mercy Care, a Hospice operating in the Myrtle Beach area of South Carolina adjacent to Lower Cape Fear Hospice's Southeast North Carolina service area, merged with Lower Cape Fear Hospice, Inc. effective April 1, 2014.

Mercy Care's operations were absorbed into and continued by Lower Cape Fear Hospice. Accordingly, the net assets were transferred to Lower Cape Fear Hospice, Inc. at a carrying value of \$2,091.

**Pender Memorial Hospital.** PMH consists of Pender Memorial Hospital, a nonprofit acute care hospital, and NHRMC Homecare, formed in 2008 as a nonprofit home health care service. The hospital provides inpatient, outpatient, and emergency care services to the residents of Pender County and vicinity. NHRMC Homecare provides homecare services in Pender and other surrounding counties. PMH is an affiliated organization of NHRMC through a 20-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, 2015 and 2014, NHRMC recorded an operating expense and PMH recorded other operating revenue in the amount of approximately \$4,489 and \$4,984 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 2015 and 2014, NHRMC funded capital acquisitions of approximately \$3,230 and \$1,159, respectively, of capital into PMH.

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

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

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

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

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

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

**Basis of Presentation**

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

**Basis of Accounting**

NHRMC uses enterprise fund accounting. Revenues and expenses of enterprise funds are recognized on the economic resources measurement focus and the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

**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 include highly liquid investments maturing in three months or less from the date of purchase. All investments are carried at fair value.

**Inventories**

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

**Designated Assets and Restricted Assets**

Designated assets are set aside by the Board of Trustees for future capital or other long-term needs and the Board may, at its discretion, subsequently use them for other purposes. As of September 30, 2015 and 2014, NHRMC also had funds restricted by donors. Restricted funds of LCFH are for LCFH programs.

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

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

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

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

**Investments**

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

**Intangible Capital Assets**

Intangible capital assets consist of goodwill and other intangibles and are recorded net of amortization. Goodwill and other intangibles are recorded at historical cost and amortized over the estimated life of the expected economic benefit, using the straight-line method. Estimated lives are between 5 and 40 years.

**Tangible Capital Assets**

Purchased or constructed tangible capital assets are recorded at cost. Donated capital assets are recorded at estimated fair value at the date received. NHRMC's, CHA's, and PMH's policies are to generally capitalize assets with a cost of \$2,500 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. Core Information Technology Software is depreciated over 10 years, and Other Information Technology Software is depreciated over 5 years, which may be different than the AHA's recommendation. Amounts in construction-in-progress are not yet subject to depreciation. NHRMC's net interest costs of approximately \$541 and \$500 were incurred and capitalized during fiscal years ended September 30, 2015 and 2014, respectively, in the construction of long-term assets and will be amortized over the related assets' estimated useful lives. LCFH calculates depreciation using accelerated methods using lives of 3 to 10 years for furniture and equipment and lives of 20 to 45 years for buildings.

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

**Self-Funded Liabilities**

NHRMC is self-insured for employee medical claims and contracts with a third party to administer the program. NHRMC's losses are limited under the contract by specific and aggregate stop-loss insurance coverage for claims above specified amounts. NHRMC is also self-insured for a portion of professional liabilities, workers' compensation, and unemployment benefits. Provisions for estimated unpaid claims outstanding at September 30, 2015 and 2014, have been made.

CHA employees are covered under the NHRMC medical and professional liability plans. CHA is self-insured for unemployment benefits. Provisions for estimated unpaid claims outstanding at September 30, 2015 and 2014, have been made.

**Unamortized Premiums**

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

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

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflow of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. NHRMC has two items that meet this criterion, contributions made to the pension plan in the 2015 fiscal year and unamortized charges on bond refundings. In addition to liabilities, the statement of net position can report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. NHRMC has one item that meets this criterion, deferrals of pension expense that result from the implementation of GASB Statement 68.

**Interest Rate Swap Agreements**

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

**Unamortized Deferral on Refundings**

Losses on bond refundings are deferred and amortized over the shorter of the lives of the refunded debt or the refunding debt using the effective interest method for fixed rate bonds and the straight-line method for variable rate bonds recorded net of accumulated amortization. The deferrals are included in deferred outflows of resources.

**Compensated Absences**

NHRMC's employees earn vacation days at varying rates depending on years of service. The maximum amount of vacation that can carry over from one fiscal year to the next varies based on years of service. Annually, NHRMC buys back excess accrued vacation over 480 hours. The liabilities recorded for compensated absences are included in accrued expenses in the consolidated balance sheets.

**Net Position**

Net position classifications are defined as follows:

- *Net investment in capital assets* consists of capital asset, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

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

- *Restricted* at NHRMC consists of net position 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, 2015 and 2014, restricted net position consists of: nonexpendable endowments of approximately \$2,100 and \$2,000, respectively; and other expendable net position resulting from specific purpose donations and grants.
- *Unrestricted* consists of net position that has no third party restrictions on use and is not invested in capital assets.

**Operating Income**

Transactions resulting from the primary purpose of NHRMC, which is to provide medical services to the region, are reported as operating revenues and expenses. Revenues and expenses not meeting these criteria are reported as non-operating. Transfers from NHRMC to CHA and PMH to fund operating deficits are included in operating income.

**Charity Care**

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

Using the methodology noted above, NHRMC has estimated the costs of providing patient services classified as charity care to be \$11,460 and \$11,355 for the years ended September 30, 2015 and 2014, respectively. NHRMC did not receive any funds to subsidize the costs of providing charity care under its charity care policy for the years ended September 30, 2015 and 2014.

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

**Net Patient Service Revenue and Net Patient Receivables**

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

**Sales and Income Taxes**

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

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

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

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

**Pension Plan**

NHRMC maintains a defined benefit pension plan covering substantially all of its employees in addition to a few CHA employees grandfathered into the plan. PMH also maintains a separate defined benefit pension plan covering substantially all of its employees. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Pension Plan of NHRMC and Pension Plan of PMH and additions to/deductions from each Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the Pension Plans of NHRMC and PMH. For this purpose, plan contributions are recognized in the period in which the contributions are due. Both NHRMC and PMH's employer contributions are recognized when due and NHRMC and PMH have a legal requirement to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Pension Plans of NHRMC and PMH. Investments are reported at fair value.

**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 2015 presentation. Reclassification had no effect on net position or changes in net position.

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

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

**Medicare**

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

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

Other Medicare payments are based on interim rates with final settlement determined after submission of annual cost reports and audits of these reports by the Medicare fiscal intermediary. NHRMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2011.

PMH is a "Critical Access Hospital." This enables PMH to receive 101% cost based reimbursement from Medicare for its hospital based services. PMH's skilled nursing and home health services are reimbursed at prospectively determined rates. PMH's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2011.

**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:

	Percentage of Net Patient Services Revenue for the Year Ended September 30,		Percentage of Net Patient Accounts Receivable as of September 30,	
	2015	2014	2015	2014
NHRMC	38%	39%	24%	19%
CHA	61%	61%	37%	35%
LCFH	92%	91%	82%	85%
PMH	74%	70%	53%	48%

**Medicaid**

Inpatient services rendered to NHRMC Medicaid patients are reimbursed at a prospectively determined rate. Services to outpatients are reimbursed at a percentage of cost as defined in the Medicaid regulations. Effective October 1, 2005, PMH is reimbursed at cost by Medicaid for both inpatient and outpatient critical access hospital services. NHRMC and PMH Medicaid cost reimbursement is based on tentative interim rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. NHRMC's Medicaid cost reports have been audited through September 30, 2012, and PMH's Medicaid cost reports have been audited through September 30, 2012. PMH's skilled nursing and home health services are reimbursed on prospective rates.

Medicaid services represent:

	Percentage of Net Patient Services Revenue for the Year Ended September 30,		Percentage of Net Patient Accounts Receivable as of September 30,	
	2015	2014	2015	2014
NHRMC	11%	12%	9%	11%
CHA	2%	2%	3%	4%
LCFH	4%	4%	13%	11%
PMH	18%	20%	14%	13%

NHRMC qualifies for reimbursement under the Medicaid Reimbursement Initiative (MRI also known as Medicaid Disproportionate Share or DSH). During 2011, the state of North Carolina enacted legislation (the GAP Program) intended to supplement existing Medicaid Disproportionate Share payments with federal matching funds drawn down via provider assessments. During fiscal year ended September 30, 2015, NHRMC received approximately \$38,707 from the state of North Carolina under the MRI program, of which \$3,536 was from the GAP Program. During fiscal year ended September 30, 2014, NHRMC received approximately \$37,048 from the state of North Carolina under the MRI program, of which \$3,223 was from the GAP Program. The MRI Program balances are recorded net of assessments in net patient service revenue.

For the fiscal year ended September 30, 2015, PMH received approximately \$232 of which \$76 was for the GAP program. For the fiscal year ended September 30, 2014, PMH received approximately \$211 of which \$74 was for the GAP program.

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

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

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

Audits of MRI program reports are performed annually. Fiscal year 2011 is the first year since 2003 where MRI audits can potentially have a financial impact and NHRMC has determined that payments received in the years since 2010 are not at risk. For prior years, the MRI was audited and settled through September 30, 2003. Amounts of supplemental payments received by NHRMC for years 2004 through 2010 were not subject to settlement. In the fiscal years since 2011, audits have been completed through September 30, 2012 with no adjustments.

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

Adjustments to estimated third party payor settlements from prior years occurring in 2015 and 2014 decreased NHRMC's change in net position by approximately \$293 and increased NHRMC's change in net position by approximately \$2,031, respectively.

Adjustments to estimated third party payor settlements from prior years occurring in 2015 and 2014 increased PMH's change in net position by approximately \$276 and decreased PMH's change in net position by approximately \$42, respectively.

**Recovery Audit Contractor Audits**

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

During the years ended September 30, 2015 and 2014, the number of NHRMC claims chosen by RAC for review totaled 420 and 144, respectively. Net overpayments processed to date for fiscal year 2015 and 2014, respectively, are \$131 and \$274. NHRMC has recorded a reserve for estimated assessments under future RAC audits in the estimated third-party payor settlements on the statement of net position.

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

**Electronic Health Records Incentive Program**

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

**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)**

During the year ended September 30, 2015, NHRMC recorded revenue related to meaningful use incentives totaling \$1,812, all of which was from Medicare. \$1,602 is recorded as a receivable as of September 30, 2015. The meaningful use payments are recorded in other revenue on the statement of revenues, expenses and changes in net position. During the year ended September 30, 2014, NHRMC recorded revenue related to meaningful use incentives totaling \$2,915 of which \$2,615 was from Medicare and \$300 was from Medicaid. \$2,702 was recorded as a receivable as of September 30, 2014. Audits of meaningful use incentives made to NHRMC during the year ended September 30, 2015, had no findings.

PMH implemented their EHR system, Epic, on May 5, 2015, and they will attest for a 90 day period in fiscal year 2015. During the year ended September 30, 2015, PMH recorded revenue related to meaningful use incentives totaling \$873, all of which is recorded as a receivable as of September 30, 2015. The meaningful use payments are recorded in other revenue on the statement of revenues, expenses, and changes in net position.

CHA recorded meaningful use incentives totaling \$724 and \$827 during the years ended September 30, 2015 and 2014, respectively, which are recorded in other revenue on the statement of revenues, expenses and changes in net position. Medicare payments were \$652 for the year ended September 30, 2015 and \$759 for September 30, 2014. Medicaid payments were \$72 for the year ended September 30, 2015 and \$68 for September 30, 2014. For the year ended September 30, 2015 and 2014, respectively, there were no associated receivables recorded. Pre-payment audits of meaningful use incentives made to two CHA eligible professionals for the 2012 program year had no findings.

**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,	
	2015	2014
NHRMC	\$ 94,860	\$ 103,410
CHA	4,524	5,059
LCFH	887	726
PMH	4,833	3,496
	<u>\$ 105,104</u>	<u>\$ 112,691</u>

For the years ended September 30, 2015 and 2014, net patient service revenue is reported net of a provision for bad debts of:

	Year Ended September 30,	
	2015	2014
NHRMC	\$ 102,827	\$ 98,771
CHA	6,801	6,770
LCFH	466	546
PMH	4,456	5,486
	<u>\$ 114,550</u>	<u>\$ 111,573</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, 2015 and 2014, the carrying values and bank balances of deposits were as follows (in thousands):

	2015		2014	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
NHRMC	\$ 76,277	\$ 87,893	\$ 61,017	\$ 72,164
CHA	3,106	3,556	5,784	5,795
LCFH	5,835	5,839	4,478	4,482
PMH	3,353	3,445	3,369	3,452
PQP	235	235	621	622

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 and PMH have 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, 2015, financial institutions are each insured by the Federal Deposit Insurance Corporation (FDIC) for deposits up to \$250,000. The Foundation 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 and amounted to \$2,717 and \$1,821 for the Foundation as of September 30, 2015 and 2014, respectively. NHRMC and PMH have cash balances in financial institutions that exceed federal depository limits, but the excess is collateralized under the Pooling Method described above.

CHA, PQP, and LCFH are not subject to the above described statutes. CHA, PQP, and LCFH have cash balances in a financial institution that from time to time have exceeded federal depository insurance limits. Bank balances in excess of federal depository insurance limits are uninsured and uncollateralized and amounted to \$3,048 and \$5,291 for CHA, \$0 and \$372 for PQP, and \$5,213 and \$3,640 for LCFH, as of September 30, 2015 and 2014, respectively.

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

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

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

**Investments**

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

NHRMC's investment policy consists of strategies for the short-term and the long-term. The intent of the short-term fund investment strategy is to provide short-term liquidity and working capital for operations and other strategic purposes. Assets invested in the short-term fund are primarily in the NCCMT. The intent of the long-term fund investment strategy is to generate current income and maintain stability of principal. The long-term fund divides investments into three investment strategies: short/intermediate fixed income, broad duration fixed income, and domestic and international equity securities. NHRMC invests in domestic and international equity securities through a commingled investment pool administered by the North Carolina State Treasurer in preferred or common stocks allowable under North Carolina General Statute. NHRMC's participation in the commingled investment pool is voluntary, and generally only 2 withdrawals are allowed within any 12-month period and are only permitted on the first business day of each calendar month.

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

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

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

**New Hanover Regional Medical Center  
(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)**

As of September 30, 2015 and 2014, NHRMC had the following investments, concentrations and maturities, excluding fiduciary investments:

Investment Type	Weighted Average Maturity in Years	Fair Value 2015	Weighted Average Maturity in Years	Fair Value 2014
U.S. Treasury	N/A	\$ -	9.1	\$ 1,281
U.S. Government Treasury Notes	1.8	17,243	2.8	19,036
U.S. Government Treasury Bonds	13.8	7,032	17.3	4,487
U.S. Government Agencies:				
Federal Farm Credit Bank	1.3	2,239	2.3	2,314
Federal Home Loan Bank	0.4	4,506	1.4	4,509
Federal Home Loan Mortgage Corp	2.6	6,520	3.4	6,000
Federal Nat'l Mortgage Association	2.0	8,953	2.2	6,307
Mortgage Backed Securities:				
Federal Home Loan Mtg Corp Pool	17.7	15,917	18.5	20,050
Federal Nat'l Mortgage Assoc Pool	17.0	22,352	16.6	22,679
Gov't Nat'l Mortgage Assoc Pool	15.6	12,088	17.2	9,216
Asset Backed CMO's:				
Gov't Nat'l Mortgage Assoc	23.2	25,229	24.0	19,862
Vendee Mortgage Trust Series 1993-1	7.4	503	8.4	629
Vendee Mortgage Trust Ser 1992-1 CL 2Z	6.6	493	7.6	623
Vendee Mortgage Trust Ser 1994-3B CL 2F	7.0	406	8.0	481
Vendee Mortgage Trust Ser 1995-1 CL 3ZB	9.4	467	10.4	568
Vendee Mortgage Trust Ser 1997-1 CL 2Z	11.4	290	12.4	329
Vendee Mortgage Trust Ser 1996-1 CL 1Z	10.4	641	11.4	721
Vendee Mortgage Trust Series 2001-3 CL Z	15.6	2,516	N/A	-
NC Capital Management Trust – Cash Portfolio	N/A	123,725	N/A	68,246
Department of State Treasurer Trust Funds				
Investment Program – Equity Investment Fund	N/A	164,840	N/A	151,499
Department of State Treasurer Short-Term				
Investment Fund (STIF)	N/A	80	N/A	16,079
Mutual Funds	N/A	12,986	N/A	6,517
		\$ 429,026		\$ 361,433

N/A = Not applicable.

**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)**

As of September 30, 2015 and 2014, LCFH had the following investments:

Investment Type	Fair Value	
	2015	2014
Bond Funds	\$ 5,423	\$ 3,640
Equity Funds	21,225	23,286
	<u>\$ 26,648</u>	<u>\$ 26,926</u>

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

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

**Credit Risk.** Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State Statutes limit NHRMC's investments to obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of specific U.S. government agencies; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; certain high quality issues of commercial paper and bankers' acceptances; investment in a commingled investment pool established and administered by the North Carolina State Treasurer; certain repurchase agreements with respect to direct obligations of the United States or obligations which are guaranteed by the United States as to principal and interest; and the North Carolina Capital Management Trust (NCCMT). NHRMC's investments in the NCCMT Cash Portfolio carried a rating of AAAM by Standard & Poor's as of September 30, 2015.

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

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

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

NHRMC's investment portfolio includes debentures and mortgage backed securities (MBS) issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corp., Vendee Mortgage Trust, and the Government National Mortgage Association; debentures issued by Federal Home Loan Bank and Federal Farm Credit Bank; and certain mutual funds. All are rated Aaa by Moody's Investors Service or backed by the full faith of the U.S. Government, which is rated Aaa, as of September 30, 2015 and 2014. With respect to NHRMC's investments in mortgage backed securities, NHRMC's investment portfolio consists of both traditional mortgage backed securities (MBS's) and asset backed collateralized mortgage obligations (CMO's). An MBS is an asset backed security whose cash flows are backed by the principal and interest payments of a pool of mortgage loans. Payments are typically made monthly over the lifetime of the underlying loans. CMO's, a type of mortgage backed security, are bonds that represent claims to specific cash flows from large pools of mortgages. The streams of principal and interest payments on the mortgages are distributed to the different classes of CMO interests. Credit risk associated with MBS's and CMO's is affected by homeowners or borrowers defaulting on their loans. NHRMC's investments in CMO's are explicitly guaranteed by the U.S. Government (Government National Mortgage Association and Vendee Mortgage Trust securities).

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

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

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of government's investment in a single issuer. NHRMC's investment policy requires a balance between short/intermediate fixed income securities, broad duration fixed income securities, and investment in a commingled investment pool established and administered by the North Carolina State Treasurer as allowable under State Statute; however it places no limit on the amount NHRMC may invest in any one issuer. As of September 30, 2015, securities issued/backed by Fannie Mae, Freddie Mac, and Ginnie Mae represent 7.3%, 5.2%, and 8.7% of the Hospital's investment portfolio, respectively. As of September 30, 2014, securities issued/backed by Fannie Mae, Freddie Mac, and Ginnie Mae represent 8.0%, 7.2%, and 8.0% of the Hospital's investment portfolio, respectively.

**Foreign Currency Risk.** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. NHRMC's investment in the State Treasurer's Trust Funds Investment Program-Equity Investment Fund exposes NHRMC to foreign currency risk as a result of its positions in foreign currency-denominated equity securities. NHRMC does not have an investment policy that limits its exposure to foreign currency risk, however NHRMC's investment policy provides for the maintenance of a balance between three investment strategies, one of which is the State Treasurer's Trust Funds Investment Program-Equity Investment Fund. At September 30, 2015 and 2014, NHRMC had approximately \$37,331 and \$36,435, respectively, exposed to foreign currency risk, of which 17% and 18%, respectively, represent investments denominated in the Euro; 11% and 11%, respectively, represent investments denominated in the British Pound; and 18% and 19%, respectively, represent investments denominated in the Japanese Yen.

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

**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, 2015 and 2014, are summarized as follows:

	2015	2014
Cash and cash equivalents		
Cash on hand	\$ 4	\$ 20
Deposits	75,323	35,892
Short-term mutual fund (1)	51,261	21,203
	<u>\$ 126,588</u>	<u>\$ 57,115</u>
Assets limited as to use		
Held by bond paying agent		
Short-term mutual fund (1)	\$ 17,279	\$ 16,863
By Board for debt service		
Deposits	950	948
By Board for claims liabilities		
U.S. Treasury securities	6,017	7,910
U.S. Agency securities	15,638	13,694
Short-term mutual fund (1)	225	151
	<u>\$ 40,109</u>	<u>\$ 39,566</u>
Designated by Board for capital improvements		
U.S. Treasury securities	\$ 18,259	\$ 16,894
U.S. Agency securities	6,579	5,436
Other securities backed by		
U.S. Government/Gov't Agencies	80,902	75,158
Dept. of State Treasurer Trust Funds		
Investment Program –		
Equity Investment Fund	164,840	151,499
Dept. of State Treasurer Short-Term		
Investment Fund (STIF)	80	16,079
Deposits	-	24,177
Short-term mutual fund (1)	54,960	30,029
	<u>\$ 325,620</u>	<u>\$ 319,272</u>
Designated by Board for employee benefit plans		
Mutual funds	\$ 1,464	\$ 1,585
	<u>\$ 1,464</u>	<u>\$ 1,585</u>
Restricted for Specific Purposes		
Mutual funds	\$ 9,456	\$ 2,914
	<u>\$ 9,456</u>	<u>\$ 2,914</u>
Restricted for Endowments		
Mutual funds	\$ 2,066	\$ 2,018
	<u>\$ 2,066</u>	<u>\$ 2,018</u>

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

Deposits of CHA as of September 30, 2015 and 2014 are summarized as follows:

	2015	2014
Cash and cash equivalents		
Cash on hand	\$ 6	\$ 6
Deposits	3,106	5,784
	<u>\$ 3,112</u>	<u>\$ 5,790</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 (Continued)**

Deposits and investments of LCFH as of September 30, 2015 and 2014, are summarized as follows:

	2015	2014
Cash and cash equivalents		
Cash on hand	\$ 4	\$ 4
Deposits	5,772	4,366
	<u>\$ 5,776</u>	<u>\$ 4,370</u>
Investments		
Bond and mutual funds	\$ 8,258	\$ 6,522
	<u>\$ 8,258</u>	<u>\$ 6,522</u>
By Board for operating and PDO reserve		
Deposits	\$ 51	\$ 67
Bond and mutual funds	10,966	11,459
	<u>\$ 11,017</u>	<u>\$ 11,526</u>
By Board for capital improvements		
Bond and mutual funds	\$ 6,023	\$ 6,688
	<u>\$ 6,023</u>	<u>\$ 6,688</u>
By Board for Mercy Care reserve		
Bond and mutual funds	\$ -	\$ 799
	<u>\$ -</u>	<u>\$ 799</u>
Endowments		
Deposits	\$ 13	\$ 45
Bond and mutual funds	1,400	1,458
	<u>\$ 1,413</u>	<u>\$ 1,503</u>

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

Deposits and investments of PMH as of September 30, 2015 and 2014, are summarized as follows:

	2015	2014
Cash and cash equivalents		
Deposits	\$ 3,353	\$ 3,369
Short-term mutual fund (1)	55	55
	<u>\$ 3,408</u>	<u>\$ 3,424</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)**

**Pension Trust Investments**

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

The following table presents investments as of December 31, 2014 and 2013:

	2014	2013
Real Estate:		
28.77 Acres of land and buildings in Wilmington, NC	\$ -	\$ 4,356
Money market funds:		
Federated Government Obligations Fund	2,126	1,276
Mutual funds:		
AQR Diversified Arbitrage Fund	9,865	9,584
Columbia Acom Fund	5,303	5,070
Harbor Fund	20,853	20,316
Mainstay High Yield Corporate Bond Fund	10,265	9,805
Oppenheimer International Growth Fund Y	5,023	5,016
Oppenheimer Developing Markets Fund	15,803	14,799
Pimco Commodity Real Return Strategy Fund	9,673	9,820
Pimco Emerging Local Bond Fund	10,176	9,724
Pimco Total Return Institutional Fund	34,394	34,064
SEI Institutionally Managed Mid Cap Fund	5,252	5,077
SPDR Gold Trust Fund	4,950	4,725
T. Rowe Price Inst US Str Research Fund	41,321	39,826
Vanguard High Yield Corporate Fund	5,136	4,903
Wisdomtree Large Cap Dividend Fund	20,839	19,979
Wisdomtree Emerging Markets Corporate Bond Fund	5,259	4,887
	<u>\$ 206,238</u>	<u>\$ 203,227</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 40% of the Plan's portfolio. The average maturity of the Federated Government Obligations Fund is approximately 47 days. All of the Plan's bond funds have average effective maturities between 5 and 8 years.

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

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

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

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

***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. Mutual funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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

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

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

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

**Note 4. Capital Asset Activity**

Capital asset activity was as follows:

NHRMC – Year Ended September 30, 2015

	Beginning Balance	SEAHEC Merger	Additions	Retirements	Ending Balance
NHRMC Activity:					
Capital assets, not being depreciated:					
Land	\$ 11,314	\$ 810	\$ 181	\$ -	\$ 12,305
Construction in progress	10,406	-	49,068	(48,213)	11,261
<b>Total capital assets, not being depreciated</b>	<b>21,720</b>	<b>810</b>	<b>49,249</b>	<b>(48,213)</b>	<b>23,566</b>
Capital assets, being depreciated/amortized:					
Intangible assets	64,082	-	-	(1,220)	62,862
Buildings and leasehold improvements	523,456	3,702	20,816	(1,885)	546,089
Equipment	328,158	864	27,398	(14,543)	341,877
<b>Total capital assets being depreciated/amortized</b>	<b>915,696</b>	<b>4,566</b>	<b>48,214</b>	<b>(17,648)</b>	<b>950,828</b>
Less accumulated depreciation/amortization for:					
Intangible assets	(27,435)	-	(2,527)	1,220	(28,742)
Buildings, leasehold improvements, and equipment	(446,788)	-	(44,962)	15,841	(475,909)
<b>Total accumulated depreciation/amortization</b>	<b>(474,223)</b>	<b>-</b>	<b>(47,489)</b>	<b>17,061</b>	<b>(504,651)</b>
<b>Total capital assets being depreciated/ amortized, net</b>	<b>441,473</b>	<b>4,566</b>	<b>725</b>	<b>(587)</b>	<b>446,177</b>
<b>NHRMC activities, capital assets, net</b>	<b>\$ 463,193</b>	<b>\$ 5,376</b>	<b>\$ 49,974</b>	<b>\$ (48,800)</b>	<b>\$ 469,743</b>

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

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

**Note 4. Capital Asset Activity (Continued)**

NHRMC – Year Ended September 30, 2014

	Beginning			Ending
	Balance	Additions	Retirements	Balance
NHRMC Activity:				
Capital assets, not being depreciated:				
Land	\$ 11,314	\$ -	\$ -	\$ 11,314
Construction in progress	5,236	46,592	(41,422)	10,406
<b>Total capital assets, not being depreciated</b>	<b>16,550</b>	<b>46,592</b>	<b>(41,422)</b>	<b>21,720</b>
Capital assets, being depreciated/amortized:				
Intangible assets	65,255	-	(1,173)	64,082
Buildings and leasehold improvements	506,192	17,832	(568)	523,456
Equipment	314,241	23,443	(9,526)	328,158
<b>Total capital assets being depreciated/amortized</b>	<b>885,688</b>	<b>41,275</b>	<b>(11,267)</b>	<b>915,696</b>
Less accumulated depreciation/amortization for:				
Intangible assets	(25,898)	(2,710)	1,173	(27,435)
Buildings, leasehold improvements, and equipment	(412,630)	(43,245)	9,087	(446,788)
<b>Total accumulated depreciation/amortization</b>	<b>(438,528)</b>	<b>(45,955)</b>	<b>10,260</b>	<b>(474,223)</b>
<b>Total capital assets being depreciated/ amortized, net</b>	<b>447,160</b>	<b>(4,680)</b>	<b>(1,007)</b>	<b>441,473</b>
<b>NHRMC activities, capital assets, net</b>	<b>\$ 463,710</b>	<b>\$ 41,912</b>	<b>\$ (42,429)</b>	<b>\$ 463,193</b>

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

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

**Note 4. Capital Asset Activity (Continued)**

CHA – Year Ended September 30, 2015

	Beginning			Ending
	Balance	Additions	Retirements	Balance
CHA Activity:				
Capital assets, not being depreciated:				
Construction in progress	\$ 96	\$ 2,598	\$ (2,208)	\$ 486
<b>Total capital assets, not being depreciated</b>	<b>96</b>	<b>2,598</b>	<b>(2,208)</b>	<b>486</b>
Capital assets, being depreciated/amortized:				
Intangible assets	1,976	-	(476)	1,500
Buildings and leasehold improvements	548	291	-	839
Equipment	8,383	3,776	(1,962)	10,197
<b>Total capital assets being depreciated/amortized</b>	<b>10,907</b>	<b>4,067</b>	<b>(2,438)</b>	<b>12,536</b>
Less accumulated depreciation/amortization for:				
Intangible assets	(1,616)	(276)	477	(1,415)
Buildings, leasehold improvements, and equipment	(3,807)	(1,718)	(361)	(5,886)
<b>Total accumulated depreciation/amortization</b>	<b>(5,423)</b>	<b>(1,994)</b>	<b>116</b>	<b>(7,301)</b>
<b>Total capital assets being depreciated/amortized, net</b>	<b>5,484</b>	<b>2,073</b>	<b>(2,322)</b>	<b>5,235</b>
<b>CHA activities, capital assets, net</b>	<b>\$ 5,580</b>	<b>\$ 4,671</b>	<b>\$ (4,530)</b>	<b>\$ 5,721</b>

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

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

**Note 4. Capital Asset Activity (Continued)**

CHA – Year Ended September 30, 2014

	Beginning Balance	Additions	Retirements	Ending Balance
CHA Activity:				
Capital assets, not being depreciated:				
Construction in progress	\$ 288	\$ 2,958	\$ (3,150)	\$ 96
<b>Total capital assets, not being depreciated</b>	<b>288</b>	<b>2,958</b>	<b>(3,150)</b>	<b>96</b>
Capital assets, being depreciated/amortized:				
Intangible assets	1,976	-	-	1,976
Buildings and leasehold improvements	517	104	(73)	548
Equipment	5,894	2,829	(340)	8,383
<b>Total capital assets being depreciated/amortized</b>	<b>8,387</b>	<b>2,933</b>	<b>(413)</b>	<b>10,907</b>
Less accumulated depreciation/amortization for:				
Intangible assets	(1,316)	(300)	-	(1,616)
Buildings, leasehold improvements, and equipment	(2,723)	(1,355)	271	(3,807)
<b>Total accumulated depreciation/amortization</b>	<b>(4,039)</b>	<b>(1,655)</b>	<b>271</b>	<b>(5,423)</b>
<b>Total capital assets being depreciated/amortized, net</b>	<b>4,348</b>	<b>1,278</b>	<b>(142)</b>	<b>5,484</b>
<b>CHA activities, capital assets, net</b>	<b>\$ 4,636</b>	<b>\$ 4,236</b>	<b>\$ (3,292)</b>	<b>\$ 5,580</b>

**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, 2015

	Beginning			Ending
	Balance	Additions	Retirements	Balance
LCFH Activity:				
Capital assets, not being depreciated:				
Land	\$ 5,610	\$ -	\$ -	\$ 5,610
Construction in progress	3,188	-	(3,180)	8
<b>Total capital assets, not being depreciated</b>	<b>8,798</b>	<b>-</b>	<b>(3,180)</b>	<b>5,618</b>
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	16,133	3,935	-	20,068
Equipment	4,765	359	(621)	4,503
<b>Total capital assets being depreciated/amortized</b>	<b>20,898</b>	<b>4,294</b>	<b>(621)</b>	<b>24,571</b>
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements, and equipment	(5,735)	(1,022)	545	(6,212)
<b>Total accumulated depreciation/amortization</b>	<b>(5,735)</b>	<b>(1,022)</b>	<b>545</b>	<b>(6,212)</b>
<b>Total capital assets being depreciated/ amortized, net</b>	<b>15,163</b>	<b>3,272</b>	<b>(76)</b>	<b>18,359</b>
<b>LCFH activities, capital assets, net</b>	<b>\$ 23,961</b>	<b>\$ 3,272</b>	<b>\$ (3,256)</b>	<b>\$ 23,977</b>

**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, 2014

	Beginning			Ending
	Balance	Additions	Retirements	Balance
LCFH Activity:				
Capital assets, not being depreciated:				
Land	\$ 4,660	\$ 950	\$ -	\$ 5,610
Construction in progress	596	2,592	-	3,188
<b>Total capital assets, not being depreciated</b>	<b>5,256</b>	<b>3,542</b>	<b>-</b>	<b>8,798</b>
Capital assets, being depreciated/amortized:				
Buildings and leasehold improvements	15,205	928	-	16,133
Equipment	4,037	728	-	4,765
<b>Total capital assets being depreciated/amortized</b>	<b>19,242</b>	<b>1,656</b>	<b>-</b>	<b>20,898</b>
Less accumulated depreciation/amortization for:				
Buildings, leasehold improvements, and equipment	(4,844)	(891)	-	(5,735)
<b>Total accumulated depreciation/amortization</b>	<b>(4,844)</b>	<b>(891)</b>	<b>-</b>	<b>(5,735)</b>
<b>Total capital assets being depreciated/ amortized, net</b>	<b>14,398</b>	<b>765</b>	<b>-</b>	<b>15,163</b>
<b>LCFH activities, capital assets, net</b>	<b>\$ 19,654</b>	<b>\$ 4,307</b>	<b>\$ -</b>	<b>\$ 23,961</b>

**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, 2015

	Beginning			Ending
	Balance	Additions	Retirements	Balance
PMH Activity:				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	228	2,383	(2,473)	138
<b>Total capital assets, not being depreciated</b>	<b>270</b>	<b>2,383</b>	<b>(2,473)</b>	<b>180</b>
Capital assets, being depreciated/amortized:				
Intangible assets	191	-	-	191
Buildings and leasehold improvements	13,671	983	(353)	14,301
Equipment	8,438	2,698	(703)	10,433
<b>Total capital assets being depreciated/amortized</b>	<b>22,300</b>	<b>3,681</b>	<b>(1,056)</b>	<b>24,925</b>
Less accumulated depreciation/amortization for:				
Intangible assets	(184)	(7)	-	(191)
Buildings, leasehold improvements, and equipment	(12,659)	(1,787)	600	(13,846)
<b>Total accumulated depreciation/amortization</b>	<b>(12,843)</b>	<b>(1,794)</b>	<b>600</b>	<b>(14,037)</b>
<b>Total capital assets being depreciated/amortized, net</b>	<b>9,457</b>	<b>1,887</b>	<b>(456)</b>	<b>10,888</b>
<b>PMH activities, capital assets, net</b>	<b>\$ 9,727</b>	<b>\$ 4,270</b>	<b>\$ (2,929)</b>	<b>\$ 11,068</b>

**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, 2014

	Beginning			Ending
	Balance	Additions	Retirements	Balance
PMH Activity:				
Capital assets, not being depreciated:				
Land	\$ 42	\$ -	\$ -	\$ 42
Construction in progress	124	975	(871)	228
<b>Total capital assets, not being depreciated</b>	<b>166</b>	<b>975</b>	<b>(871)</b>	<b>270</b>
Capital assets, being depreciated/amortized:				
Intangible assets	191	-	-	191
Buildings and leasehold improvements	13,000	680	(9)	13,671
Equipment	8,480	738	(780)	8,438
<b>Total capital assets being depreciated/amortized</b>	<b>21,671</b>	<b>1,418</b>	<b>(789)</b>	<b>22,300</b>
Less accumulated depreciation/amortization for:				
Intangible assets	(174)	(10)	-	(184)
Buildings, leasehold improvements, and equipment	(11,676)	(1,449)	466	(12,659)
<b>Total accumulated depreciation/amortization</b>	<b>(11,850)</b>	<b>(1,459)</b>	<b>466</b>	<b>(12,843)</b>
<b>Total capital assets being depreciated/amortized, net</b>	<b>9,821</b>	<b>(41)</b>	<b>(323)</b>	<b>9,457</b>
<b>PMH activities, capital assets, net</b>	<b>\$ 9,987</b>	<b>\$ 934</b>	<b>\$ (1,194)</b>	<b>\$ 9,727</b>

All depreciation is directly or indirectly related to the provision of healthcare services. NHRMC has active projects for building construction and leasehold improvements as of September 30, 2015 and 2014. As of September 30, 2015, NHRMC has remaining committed amounts to be paid of approximately \$14,713 on projects.

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

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

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**Note 5. Lease Obligations and Commitments**

Under a lease agreement dated October 1, 1993 and most recently amended July 1, 2013, NHRMC leases its existing facilities and equipment and all future improvements from New Hanover County through October 2038, all of which have been recorded as capital assets in the accompanying statements of net position. Covenants under the lease agreement correspond to those in the Series 2006, 2008, 2011, and 2013 Revenue Bond Indentures. The County maintains a limited right under the bond order to terminate the lease with 90 days notice (after public hearing). In addition, under the lease agreement, NHRMC has agreed to maintain certain debt service coverage and cushion ratios as discussed further in Note 6.

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

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

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 6,663
2017	5,999
2018	3,955
2019	4,268
2020	2,449
2021 – 2025	5,005
Total minimum payments	<u>\$ 28,339</u>

Rent expense on operating leases for NHRMC totaled approximately \$8,774 and \$9,027 in 2015 and 2014, respectively.

Under a facility and services agreement signed on October 1, 2012 between NHRMC and Atlantic Surgicenter, LLC, NHRMC leases an ambulatory surgical facility through October 1, 2017; see Note 12 for additional details. A portion of this lease has been determined to be a capital lease for various pieces of medical and computer equipment. As of September 30, 2015, the leased assets were recorded at \$1,189 and had accumulated amortization of \$1,189. As of September 30, 2015, there were no remaining scheduled principal payments on this capital lease.

Scheduled payments on this lease commitment are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 2,097
2017	2,121
Total minimum payments	<u>\$ 4,218</u>

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

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

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**Note 5. Lease Obligations and Commitments (Continued)**

CHA leases office space and equipment under various noncancelable operating lease agreements that expire between 2015 and 2028. Scheduled payments on CHA's operating lease commitments are as follows:

Year Ending September 30,	Amount
2016	\$ 4,543
2017	4,272
2018	4,339
2019	4,379
2020	2,592
2021 – 2025	2,247
2026 – 2028	134
Total minimum payments	\$ 22,506

Included in these commitments is \$5,625 of minimum payments to NHRMC.

Rent expense on operating leases for CHA totaled approximately \$4,477 and \$4,887 in 2015 and 2014, including payments of \$1,263 and \$655 to NHRMC, respectively.

LCFH leases office space under various noncancelable operating lease agreements, which expire over the next year. Rent expense related to these agreements totaled approximately \$50 and \$46 in 2015 and 2014, respectively.

LCFH also has capital leases for various pieces of equipment and vehicles. As of September 30, 2015, the leased assets had been recorded at \$167 and had accumulated amortization of \$38. A summary of capital lease obligations of LCFH is as follows at September 30, 2015:

LCFH

Capital lease obligations, at an interest rate of 6.9% collateralized by leased equipment	\$ 110
Less current portion	(39)
Capital lease obligations, less current portion	\$ 71

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

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

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**Note 5. Lease Obligations and Commitments (Continued)**

Scheduled payments of LCFH's capital lease obligations are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 46
2017	38
2018	34
2019	6
Total minimum payments	<u>124</u>
Less amount representing interest	<u>(14)</u>
Present value of net minimum payments	<u>\$ 110</u>

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 through 2019, with an option (at NHRMC's direction) to renew for 10 additional years. Pender County and PMH maintain a limited right under the lease agreement to terminate the lease if specified provisions cannot be cured within 180 days, provided that NHRMC shall be permitted to cure any breach on behalf of PMH within established time frames.

PMH leases additional space under a noncancelable operating lease, which expires in fiscal year 2028. In addition, PMH leases certain medical equipment under operating leases that expires between 2017 and 2018. Scheduled payments on PMH's operating lease commitments are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 368
2017	368
2018	292
2019	260
2020	241
2020-2028	1,487
Total minimum payments	<u>\$ 3,016</u>

Rent expense on operating leases for PMH totaled approximately \$326 and \$347 in 2015 and 2014, respectively.

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

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

**Note 6. Bonds Payable and Other Long-Term Liabilities**

**Changes in Long-Term Liabilities**

Long-term obligation activity for the years ended September 30, 2015 and 2014, was as follows:

NHRMC – Year Ended September 30, 2015

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 289,000	\$ -	\$(11,965)	\$ 277,035	\$ 12,605
Less deferred amounts:					
Issuance discounts, (premiums), net	(5,925)	-	813	(5,112)	-
<b>Total bonds payable</b>	<b>294,925</b>	<b>-</b>	<b>(12,778)</b>	<b>282,147</b>	<b>12,605</b>
Capital leases (Note 5)	237	-	(237)	-	-
Supplemental retirement plans	1,585	-	(121)	1,464 [A]	-
Notes payable	1,766	-	(1,766)	-	-
<b>Long-term obligations</b>	<b>\$ 298,513</b>	<b>\$ -</b>	<b>\$(14,902)</b>	<b>\$ 283,611</b>	<b>\$ 12,605</b>

[A] Supplemental retirement plans on the statement of net position also include residual frozen defined benefit plan liabilities associated with the merger of SEAHEC (Note 8) totaling \$1,083 at September 30, 2015.

NHRMC – Year Ended September 30, 2014

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 300,615	\$ -	\$(11,615)	\$ 289,000	\$ 11,965
Less deferred amounts:					
Issuance discounts, (premiums), net	(6,776)	-	851	(5,925)	-
<b>Total bonds payable</b>	<b>307,391</b>	<b>-</b>	<b>(12,466)</b>	<b>294,925</b>	<b>11,965</b>
Capital leases (Note 5)	721	-	(484)	237	237
Supplemental retirement plans	1,753	-	(168)	1,585	-
Notes payable	3,479	-	(1,713)	1,766	1,766
<b>Long-term obligations</b>	<b>\$ 313,344</b>	<b>\$ -</b>	<b>\$(14,831)</b>	<b>\$ 298,513</b>	<b>\$ 13,968</b>

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

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

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

LCFH – Year Ended September 30, 2015

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 5,532	\$ -	\$ (320)	\$ 5,212	\$ 325
Notes payable	6,591	1,026	(334)	7,283	330
Capital leases (Note 5)	149	-	(39)	110	39
	<u>\$ 12,272</u>	<u>\$ 1,026</u>	<u>\$ (693)</u>	<u>\$ 12,605</u>	<u>\$ 694</u>

LCFH – Year Ended September 30, 2014

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 5,846	\$ -	\$ (314)	\$ 5,532	\$ 320
Notes payable	3,734	3,028	(171)	6,591	319
Capital leases (Note 5)	-	167	(18)	149	31
	<u>\$ 9,580</u>	<u>\$ 3,195</u>	<u>\$ (503)</u>	<u>\$ 12,272</u>	<u>\$ 670</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 2006, 2008, 2011, and 2013 bonds outstanding at September 30, 2015 and 2014, are as follows:

Revenue Bonds	Principal Amount	
	2015	2014
Series 2006A Hospital Revenue Bonds		
Serial revenue bonds with interest rates ranging from 3.0% to 4.79%, maturing annually through 2024	\$ 47,670	\$ 51,910
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	17,660	18,095
Series 2008B Variable Rate Hospital Revenue Bonds, demand obligations with mandatory redemptions annually through 2038	17,660	18,095
Series 2011 Revenue Bonds		
Serial revenue bonds with interest rates ranging from 3.0% to 5.0%, maturing annually through 2025	51,305	54,695
Term revenue bonds maturing in October 2026, with stated interest rates of 4.625% and 5.0%	7,535	7,535
Term revenue bonds maturing in October 2027, with stated interest rates of 4.625% and 5.0%	12,375	12,375
Term revenue bonds maturing in October 2028, with stated interest rates of 4.625% and 5.0%	12,980	12,980
Series 2013 Revenue Bonds		
Serial revenue bonds with interest rates ranging from 2.0% to 5.0%, maturing annually through 2026	49,850	53,315
Revenue bonds payable	277,035	289,000
Unamortized premiums, net	5,112	5,925
Current portion	(12,605)	(11,965)
Total revenue bonds payable, long-term	\$ 269,542	\$ 282,960

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

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

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

**Series 2006 Hospital Revenue Bonds (Fixed Rates)**

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

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

**Series 2008 Variable Rate Hospital Revenue Bonds**

On November 6, 2008, NHRMC issued Variable Rate Hospital Revenue Bonds (demand bonds) through New Hanover County, Series 2008A and Series 2008B (collectively, the 2008 Bonds), in the amounts of \$20,000 and \$20,000, respectively, for use by NHRMC. The bonds bear interest at a variable rate, established weekly by the applicable remarketing agents. The bonds were issued to reimburse NHRMC for certain costs associated with construction and equipping of the surgical pavilion, Women's and Children's Center, and certain facilities improvements; acquisition of certain information system equipment; and acquisition of certain operating equipment. As of September 30, 2015 and 2014, the rates on these bonds were 0.01% and 0.03%, respectively.

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

NHRMC and the County have entered into a Reimbursement Agreement and an Irrevocable Letter of Credit with a bank under which NHRMC can draw down the funds to purchase any 2008 bonds that are tendered for purchase, to the extent that remarketing proceeds are not sufficient or available. The letter of credit expires on November 6, 2017. All unpaid drawings become due and payable upon expiration of the letter of credit in 2017. There were no unpaid drawings at September 30, 2015 or 2014. The agreement carries a variable interest rate based on the bank's prime rate or a maximum of 18%.

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

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

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

**Series 2011 Hospital Revenue Bonds (Fixed Rates)**

On September 28, 2011, NHRMC issued \$93,965 of Series 2011 Fixed Rate Hospital Revenue Refunding Bonds through New Hanover County for use by NHRMC. The net proceeds (net of issuance costs) from the sale of the 2011 Series Bonds were used to redeem Series 1999 Bonds maturing on October 1, 2012, and thereafter (\$95,320) outstanding as of October 1, 2011. The net proceeds were held in escrow as of September 30, 2011 and then used to redeem all of the Refunded 1999 Bonds on October 1, 2011.

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

**Series 2013 Hospital Revenue Bonds (Fixed Rates)**

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

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

Interest on the Series 2013 bonds is paid at fixed rates, established at the time of bond issuance. The Series 2013 bonds were originally issued at a premium of \$4,630, which is being amortized under the effective interest method over the life of the bonds. Additionally, NHRMC recorded a deferred outflow of resources of \$1,976 related to the refunding.

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

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

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

**Debt Service and Covenants**

Under the terms of the Bond indentures and related lease agreement with the County, the Obligated Unit (New Hanover Regional Medical Center, CHA, and PQP) is required to make semiannual debt service payments on unpaid fixed rate debt (2006, 2011, and 2013 bonds), monthly debt service payments on variable rate demand bonds (2008 bonds) and is also required to comply with certain restrictive covenants, including limitations on incurrence of additional debt, limitations on transfer of assets, and maintenance of certain measures of financial performance, including a minimum long-term debt service ratio of 1.75 and a cushion ratio of 1.75, for as long as the bonds are outstanding.

The following table sets forth on an historical basis the maximum annual long-term debt service coverage ratio as of September 30, 2015 and 2014, calculated for the Obligated Unit:

Long-term debt service coverage ratio	Years Ended September 30,	
	2015	2014
Income before capital contributions and operating transfers	\$ 82,575	\$ 68,757
Plus:		
Depreciation and amortization	49,483	47,610
Interest expense	11,834	12,507
Less:		
Unrealized Gains on Investments	(758)	11,825
Income available for debt service	<u>\$ 144,650</u>	<u>\$ 117,049</u>
Maximum annual debt service	\$ 25,333	\$ 26,707
Maximum annual debt service coverage ratio	5.71	4.38
Cushion ratio	September 30,	
	2015	2014
Cash	\$ 125,992	\$ 60,794
Designated by Board	325,620	319,272
Total unrestricted cash and investments	<u>\$ 451,612</u>	<u>\$ 380,066</u>
Maximum annual debt service	\$ 25,333	\$ 26,707
Cushion ratio	17.83	14.23

The Series 2006, 2008, 2011, and 2013 Revenue Bonds are secured by and payable from the net revenue of the Obligated Unit, the money and securities held by the trustee pursuant to the bonds, as well as the income from the temporary investment of these trustee-held funds. Substantially all of the Obligated Unit's revenues, which were \$954,466 and \$869,578 for the years ended September 30, 2015 and 2014, respectively, are security for the revenue bonds.

Total funds held by the trustee (including amounts as bond paying agent) at September 30, 2015 and 2014, were approximately \$17,279 and \$16,863, respectively.

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

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

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

Scheduled payments of principal and interest on bonded debt are as follows. (Interest on any variable rate bonds is included at the rates in effect as of September 30, 2015; payments are shown assuming the letter of credit for the 2008 Bonds are renewed throughout the life of the bonds.)

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2016	\$ 12,605	\$ 11,152	\$ 23,757
2017	13,065	10,694	23,759
2018	13,625	10,209	23,834
2019	14,095	9,741	23,836
2020	14,540	9,197	23,737
2021 – 2025	82,505	36,281	118,786
2026 – 2030	91,710	16,203	107,913
2031 – 2035	26,440	1,372	27,812
2036 – 2039	8,450	1	8,451
	\$ 277,035	\$ 104,850	\$ 381,885

Interest paid related to these bonds was approximately \$12,816 and \$12,560 during fiscal years ended September 30, 2015 and 2014, respectively.

**Other NHRMC Long-Term Liabilities**

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

Pricing for product licensing and annual maintenance of the EPIC suite is based on current volume expectations; subscription fees are incurred per user or per usage, depending on the specific system component.

Long-term financial commitments include a financing agreement with EPIC System Corporation related to implementation of the product, and annual maintenance agreements and subscription fees required for continued use of the product suite. NHRMC management plans to continue use of the EPIC system for no less than 10 years. The financing agreement requires 59 monthly installment payments to be made between November 2010 and September 2015. The Epic financing agreement was paid off during the year ended September 30, 2015.

**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 2007 Bonds**

During the year ended September 30, 2008, LCFH issued \$4,000 of Series 2007 Variable Rate Health Care Facility Revenue Bonds (the LCFH 2007 Bonds) through the North Carolina Medical Care Commission for use by LCFH. The bonds bear interest at a variable rate of LIBOR plus 1.9%, determined weekly. The bond funds were used to finance construction on a new administrative building in Wilmington, North Carolina, which was completed during fiscal year 2009. Repayment of principal is due annually through October 2027. The LCFH 2007 Bonds are secured by a letter of credit from a bank. Under the terms of the bond, LCFH is required to maintain a minimum long-term debt service coverage ratio of 1.2, LCFH is required to maintain a maximum debt to net position ratio of 0.75 to 1.0; LCFH is required to maintain a cash flow coverage ratio of 1.25 to 1.0; and LCFH's total net position must be more than \$9 million. As of September 30, 2015, LCFH was in compliance with those covenants.

**Lower Cape Fear Hospice 2011 Bonds**

During the year ended September 30, 2011, LCFH issued \$3,400 of Series 2011 Variable Rate Health Care Facility Revenue Bonds (the LCFH 2011 Bonds) through the North Carolina Medical Care Commission for use by LCFH. The bonds bear interest at a variable rate of 78% of LIBOR plus 1.3%, adjusted monthly. The bond funds were used to finance construction of an inpatient facility in Brunswick County, North Carolina. Repayment of principal is due annually through April 2029. Under the terms of the bond, LCFH is required to maintain a minimum long-term debt service coverage ratio of 1.2. As of September 30, 2015, LCFH was in compliance with those covenants.

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

Scheduled payments of principal and interest on the LCFH 2007 and 2011 Bonds are as follows. (Interest on any variable rate bonds is included at the rates in effect as of September 30, 2015):

Fiscal Year	Principal	Interest	Total Bonded Debt Service
2016	\$ 325	\$ 84	\$ 409
2017	332	79	411
2018	334	74	408
2019	339	68	407
2020	344	62	406
2021 – 2025	2,031	215	2,246
2026 – 2029	1,507	41	1,548
	\$ 5,212	\$ 623	\$ 5,835

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

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

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

**Lower Cape Fear Hospice Notes Payable**

During the year ended September 30, 2009, LCFH converted short-term debt into a long-term loan with financing provided by USDA Rural Development. The funds were used to construct an inpatient facility in Whiteville, North Carolina. The total amount of the loan was approximately \$2,071. This loan was refinanced in July 2013. The original amount was \$2,000. The loan has a fixed interest rate of 3.45% and matures in August 2028. The loan is carried on the financial statements as of September 30, 2015, at approximately \$1,853. The Whiteville Care Center serves as collateral.

During the year ended September 30, 2012, LCFH borrowed \$1,230 from First Citizens Bank to purchase land adjacent to its other facilities. The loan has a fixed interest rate of 3.35% and a repayment of 15 years. The loan is carried on the financial statements as of September 30, 2015, at approximately \$1,017. The land serves as collateral.

During the year ended September 30, 2014, LCFH obtained a construction loan from First Citizens Bank with a maximum draw of \$4,000 for the expansion and renovation of the Wilmington inpatient facility and for site parking and service road additions on the Wilmington campus. The construction began in 2013, resulting in a drawn down balance of \$3,856. The facility opened and began serving patients in November 2014. The loan has a fixed interest rate of 3.45% and a maturity date of August 2028. The loan is carried on the financial statements as of September 30, 2015 at approximately \$3,701.

During the year ended September 30, 2014, LCFH acquired Mercy Care of Horry County, and assumed a mortgage loan on its facility on Devon Court, Myrtle Beach, South Carolina. The mortgage loan is from Wells Fargo, and has a fixed interest rate of 3.9% and matures in May 2018. The loan is carried on the financial statements as of September 30, 2015, at approximately \$712.

Scheduled principal repayment on these notes payables are as follows:

Fiscal Year	Amount
2016	\$ 330
2017	348
2018	957
2019	331
2020	343
Thereafter	4,974
	7,283
Less current portion	(330)
	\$ 6,953

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

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

**Note 7. Derivative Investments**

NHRMC has the following interest rate swap agreements:

As of September 30, 2015							
Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/15	Change in Fair Value for the year ended 9/30/15
Series 2008A-1	\$ 6,630	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (738)	\$ 5
Series 2008A-2	6,620	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(737)	6
Series 2008B-1	19,055	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(2,717)	(200)
Series 2008B-2	3,015	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(1,660)	(485)
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd		
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index	avg LIBOR	167	569
						<u>\$ (5,685)</u>	

As of September 30, 2014							
Associated Bond Issues	Notional Amount	Start Date	End Date	NHRMC Pays	NHRMC Receives	Fair Value as of 9/30/14	Change in Fair Value for the year ended 9/30/14
Series 2008A-1	\$ 7,240	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	\$ (743)	\$ 150
Series 2008A-2	7,225	December 14, 2005	October 1, 2023	3.593%	70% of LIBOR	(743)	150
Series 2008B-1	20,280	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(2,517)	244
Series 2008B-2	1,445	December 14, 2005	October 1, 2026	3.618%	70% of LIBOR	(1,175)	(318)
				Wtd avg BMA Muni Bond Swap	73.87% of Wtd		
Basis Swap	50,000	January 25, 2002	October 21, 2021	Index	avg LIBOR	(402)	245
						<u>\$ (5,580)</u>	

**Swaps associated with 2005 and 2008 bonds**

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

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

The terms, fair values, and underlying bond issues of the outstanding swaps as of September 30, 2015 and 2014, are shown in the table above (in thousands). The notional amounts of the swaps approximate the principal amounts of the associated debt.

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

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

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**Note 7. Derivative Investments (Continued)**

During the year ended September 30, 2013, the swaps were restructured in conjunction with the issuance of the 2013 Bonds, the remaining swaps held to hedge the Series 2008 Bonds were determined to be ineffective hedging derivative instruments under the provisions of GASB 53. Therefore, the entire fair value of the ineffective swaps in the amount of \$5,404 as of September 30, 2013, was recorded as a component (a decrease) of net increase in fair value of investments in the statement of revenues, expenses, and changes in net position. For the years ended September 30, 2015 and 2014, the net change in fair value of \$-674 and \$226, respectively, has been recorded as a component of net (decrease) increase in fair value of investments in the statement of revenues, expenses and changes in net position.

As a result of the negative position, NHRMC is not exposed to credit risk at September 30, 2015. However, should interest rates change and the fair value of the swap become positive, NHRMC would be exposed to credit risk in the amount of the swap's fair value.

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

**Basis Swap**

During fiscal year 2002, NHRMC entered into a 19-year interest rate swap (basis swap) agreement, with a notional amount of \$50 million related to its Series 1999 Hospital Revenue Bonds. NHRMC's objective was to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. Because NHRMC anticipated that interest rates might decline, NHRMC decided to synthetically create variable-rate debt by entering into a derivative. Terms of the rate swap agreement is described below.

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

As of September 30, 2015, the basis swap has an estimated positive fair value of approximately \$167 which is recorded as an asset for interest rate swap agreements in the statement of net position. As of September 30, 2014, the basis swap had an estimated negative fair value of approximately \$402 which is recorded as a liability for interest rate swap agreements in the statement of net position. Under the provisions of GASB 53, the basis swap qualifies as an investment derivative instrument and therefore, changes in fair value of \$569 and \$245 for the years ended September 30, 2015 and 2014, respectively, have been recorded as a component of net (decrease) increase in fair value of investments in the statement of revenues, expenses and changes in net position.

As a result of the positive position, NHRMC is exposed to credit risk at September 30, 2015, 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.

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

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

**Note 7. Derivative Investments (Continued)**

LCFH Swap

LCFH hedged \$2,000 of its interest rate exposure associated with the LCFH 2007 Bonds through an interest rate swap agreement with a bank. As of September 30, 2015 and 2014, the \$1,550 and \$1,650 notional amounts, respectively, are hedged at an interest rate of 3.885%. Based on market tax exempt interest rates of about .020% and .041%, the present value of cash payment under the swap arrangement is a negative position of approximately \$259 and \$216 as of September 30, 2015 and 2014, 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, 2015. The term of the LCFH 2007 Bonds and the swap are essentially the same, 20 years.

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

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

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

Fiscal Year	Series 2007 Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2016	\$ 200	\$ 2	\$ 131	\$ 333
2017	200	2	122	324
2018	200	2	112	314
2019	200	1	103	304
2020	200	1	94	295
2021 – 2025	1,200	4	336	1,540
2026 – 2028	900	1	85	986
	<u>\$ 3,100</u>	<u>\$ 13</u>	<u>\$ 983</u>	<u>\$ 4,096</u>

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

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

**Note 8. Transactions with Health Sciences Foundation, Inc.**

During the year ended September 30, 2014, Health Sciences Foundation, Inc., d/b/a South East Area Health Education Center (SEAHEC), was affiliated with NHRMC and the University of North Carolina as SEAHEC leased space from NHRMC for its operations and reimbursed NHRMC for a portion of its medical resident salaries. NHRMC paid SEAHEC for educational services provided to its employees and subsidized the SEAHEC medical education program and family practice program. NHRMC also paid SEAHEC for various contracted medical services not related to medical education programs, such as physician trauma coverage, neonatal and pediatric specialty services.

On October 1, 2014, SEAHEC operations were merged into the operations of NHRMC. The merger resulted in the transfer by SEAHEC of its net assets to NHRMC as outlined in the Integration Agreement dated September 24, 2014. The initial opening balances of NHRMC's assets, deferred outflows of resources, liabilities, and net position, as of the beginning of the period, were determined on the basis of the carrying values reported in the separate financial statements of SEAHEC and NHRMC as of September 30, 2014, as follows:

	NHRMC	SEAHEC	Total	Adjustments		Total
				Debit	Credit	
<b>ASSETS</b>						
Current assets	\$ 260,204	\$ 4,563	\$ 264,767	\$ -	\$ 17	\$ 264,750
Capital assets	426,546	5,345	431,891	31	-	431,922
Other assets	366,037	7,615	373,652	-	-	373,652
Total assets	1,052,787	17,523	1,070,310	31	17	1,070,324
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred charges on bond refundings	12,826	-	12,826	-	-	12,826
<b>LIABILITIES</b>						
Current liabilities	128,382	2,737	131,119	-	199	131,318
Noncurrent liabilities	334,368	-	334,368	-	1,270	335,638
Total liabilities	462,750	2,737	465,487	-	1,469	466,956
<b>NET POSITION</b>						
Net investment in capital assets	170,669	-	170,669	-	-	170,669
Unrestricted	423,607	14,786	438,393	1,486	31	436,938
Restricted	8,587	-	8,587	-	-	8,587
Total net position	\$ 602,863	\$ 14,786	\$ 617,649	\$ 1,486	\$ 31	\$ 616,194

In determination of the beginning net position of NHRMC as of October 1, 2014, adjustments were made to reflect consistent methods of accounting for post-employment benefits and medical malpractice claims, resulting in decreased beginning net position of \$1,270 and \$199, respectively. As a result of these adjustments, beginning net position has been increased by \$13,331 on the statements of revenues, expenses, and changes in net position.

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

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

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**Note 9. Risk Management**

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

NHRMC purchases commercial insurance coverage against risk of loss due to errors and omissions, fiduciary liability, property damage and theft, pollution liability and various other insurable risks. NHRMC carries property insurance in the amount of \$750,000 for 2015 and 2014 with a deductible of \$100 for all perils except named windstorm. For 2015 and 2014, the minimum deductible for named storm is \$5,000 per location, with a maximum deductible of \$25,000 per location. For 2015 and 2014, NHRMC was self-insured for workers' compensation and employer's liability up to \$350 per claim. A specific limit of \$25,000 applies to worker's compensation. For 2015 and 2014, NHRMC was also self-insured for professional liability and general liability claims up to \$5,000. There was a \$20,000 annual aggregate retention in 2015 and 2014. In both 2015 and 2014, 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.

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

	Years Ended September 30,		
	2015	2014	2013
Beginning liability	\$ 28,258	\$ 28,099	\$ 27,957
Provisions for claims	56,383	50,400	55,116
Payments for claims	(56,596)	(47,565)	(52,848)
Administrative fees	(3,271)	(2,676)	(2,126)
Ending liability	<u>\$ 24,774</u>	<u>\$ 28,258</u>	<u>\$ 28,099</u>

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

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

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

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**Note 10. Pension and Supplemental Retirement Plan Obligations**

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

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

**Benefits Provided:** 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 30 years and .65% of the excess, if any, of the average compensation over Social Security covered compensation, times the years of service up to 30 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 30 years and .65% of the excess, if any, of the average compensation over Social Security covered compensations, times the years of service up to 30 years. The average compensation is the average salary of the employee during the 5 highest paid consecutive calendar years of creditable service during the 10 calendar years preceding the employee's retirement date.

Employees may retire with reduced retirement benefits after reaching age 55 and completing 5 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.

**Contributions:** 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. Contributions to the pension plan from NHRMC were \$12,125 for the year ended September 30, 2015.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At September 30, 2015, NHRMC reported a net pension obligation of \$40,608 (Note 16). The net pension obligation was measured as of September 30, 2014. The total pension liability used to calculate the net pension obligation was determined by an actuarial valuation as of January 1, 2014. The total pension liability was then rolled forward to the measurement date of September 30, 2014 utilizing update procedures incorporating the actuarial assumptions.

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

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

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

For the year ended September 30, 2015, NHRMC recognized pension expense of \$10,308. At September 30, 2015, NHRMC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (2,612)
Net difference between projected and actual earnings on pension plan investments	-	(2,613)
Contributions made in fiscal year ending September 30, 2015	12,125	-
Total	<u>\$ 12,125</u>	<u>\$ (5,225)</u>

\$12,125 reported as deferred outflows of resources related to pensions resulting from NHRMC's contributions subsequent to the measurement date will be recognized as a decrease of the net pension obligation in the year ended September 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30

2016	\$ (1,269)
2017	(1,269)
2018	(1,269)
2019	(1,269)
2020	(149)
	<u>\$ (5,225)</u>

Actuarial Assumptions – The total pension liability in the January 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.3 percent
Salary increases	3.0 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 with generational MP-2014 projection for Males and Females.

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equity	40.00%	4.50%
Small Cap U.S. Equity	5.00%	4.99%
International Equity	2.50%	4.99%
Emerging Markets Equity	7.50%	6.35%
Core U.S. Fixed Income	17.50%	1.96%
High Yield Bonds	7.50%	2.25%
Emerging Market Bonds (Corporate USD)	2.50%	3.52%
Emerging Market Bonds (Sov. Local)	5.00%	4.30%
Hedge Fund-of-Funds Universe	5.00%	3.32%
Commodities	7.50%	3.62%
Total	100%	

Discount rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balances at 9/30/14</b>	\$ 232,889	\$ 188,646	\$ 44,243
<b>Changes for the year:</b>			
Service Cost	7,974	-	7,974
Interest	16,423	-	16,423
Differences between expected and actual experience	(3,228)	-	(3,228)
Contributions - employer	-	8,422	(8,422)
Net investment income	-	16,615	(16,615)
Benefit payments, including refunds of employee contributions	(12,512)	(12,512)	-
Administrative expense	-	(233)	233
Other changes	-	-	-
<b>Net changes</b>	<b>8,657</b>	<b>12,292</b>	<b>(3,635)</b>
<b>Balances at 9/30/15</b>	<b>\$ 241,546</b>	<b>\$ 200,938</b>	<b>\$ 40,608</b>

Sensitivity of the net pension liability to changes in the discount rate – The following presents NHRMC's net pension liability calculated using the discount rate of 7.00 %, as well as what the NHRMC's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 %) or one percentage point higher (8.00 %) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Total Pension Liability	\$ 266,061	\$ 241,546	\$ 220,873
Plan Fiduciary Net Position	200,938	200,938	200,938
Net Pension Liability	<b>\$ 65,123</b>	<b>\$ 40,608</b>	<b>\$ 19,935</b>

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued, 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.

**PMH Plan Description**

PMH sponsors a single-employer, non-contributory defined benefit pension plan covering substantially all employees. The Plan was originally effective January 1, 1970, and was most recently amended and restated effective January 1, 2009.

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

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

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

**Benefits Provided**

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 % after 5 years of service. Employees hired prior to January 1, 1992 who retire under the above conditions are entitled to annual retirement benefits equal to 1% of their 1991 annual benefit compensation as defined by the Plan times the years of service prior to January 1, 1992 and .5% of their 1991 annual benefit compensation in excess of \$9 times the years of service after January 1, 1992. Personnel employed on or after January 1, 1992, who retire at or after age 65 with 5 years of credited service are entitled to an annual retirement benefit, payable monthly for a maximum of 35 years based on service to normal retirement date, in an amount equal to .75% of their average compensation as defined by the Plan and .65% of average compensation in excess of the applicable covered compensation for Social Security purposes for each year of credited service after December 31, 1991. Credited service for the .5% and .65% portions is limited to a maximum of 35 years. Employees may retire with reduced retirement benefits after reaching age 60 and completing 10 years of creditable service. The Plan also provides a death benefit for surviving spouses of vested employees.

**Contributions**

The contribution requirements of the contributing employer to the Plan are established by the Plan document and determined annually by PMH based on actuarial recommendations. Employee contributions were required prior to January 1, 1992, based on 3% of their annual salary up to \$9 and 4.5% of annual salary over \$9. No employee contributions are required or permitted after 1991. Contributions to the pension plan from PMH were \$545 for the year ended September 30, 2015.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At September 30, 2015, PMH reported a net pension obligation of \$3,086 (Note 16). The net pension obligation was measured as of September 30, 2014. The total pension liability used to calculate the net pension obligation was determined by an actuarial valuation as of January 1, 2014. The total pension liability was then rolled forward to the measurement date of September 30, 2014, utilizing update procedures incorporating the actuarial assumptions.

For the year ended September 30, 2015, PMH recognized pension expense of \$449. At September 30, 2015, PMH reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (42)
Net difference between projected and actual earnings on pension plan investments	-	(99)
Contributions made in fiscal year ending September 30, 2015	545	-
<b>Total</b>	<b>\$ 545</b>	<b>\$ (141)</b>

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

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

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

\$545 reported as deferred outflows of resources related to pensions resulting from PMH's contributions subsequent to the measurement date will be recognized as a decrease of the net pension obligation in the year ended September 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30

2016	\$	(40)
2017		(40)
2018		(35)
2019		(26)
	<u>\$</u>	<u>(141)</u>

Actuarial Assumptions – The total pension liability in the January 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.3%
Salary increases	3.0%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 with generational MP-2014 projection for Males and Females.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity (Large Cap)	40.00%	4.50%
Domestic Equity (Small Cap)	5.00%	5.00%
International Equity	10.00%	5.00%
Core U.S. Fixed Income	44.00%	2.00%
Cash	1.00%	1.20%
Total	<u>100%</u>	

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

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

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

Discount rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
<b>Balances at 9/30/14</b>	\$ 7,102	\$ 3,988	\$ 3,114
<b>Changes for the year:</b>			
Service cost	217	-	217
Interest	503	-	503
Differences between expected and actual experience	(58)	-	(58)
Contributions – employer	-	336	(336)
Net investment income	-	415	(415)
Benefit payments, including refunds of employee contributions	(281)	(281)	-
Administrative expense	-	(61)	61
Other changes	-	-	-
<b>Net changes</b>	<b>381</b>	<b>409</b>	<b>(28)</b>
<b>Balances at 9/30/15</b>	<b>\$ 7,483</b>	<b>\$ 4,397</b>	<b>\$ 3,086</b>

Sensitivity of the net pension liability to changes in the discount rate – The following presents PMH's net pension liability calculated using the discount rate of 7.00 %, as well as what the PMH's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 %) or one percentage point higher (8.00 %) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Total Pension Liability	\$ 8,546	\$ 7,483	\$ 6,615
Plan Fiduciary Net Position	4,397	4,397	4,397
Net Pension Liability	<b>\$ 4,149</b>	<b>\$ 3,086</b>	<b>\$ 2,218</b>

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued, stand-alone financial report that can be obtained by contacting the office of the Financial Officer, 507 E. Fremont Street, Burgaw, North Carolina, 28425.

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

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

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

**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 2 supplemental retirement plans under IRC Section 457(f) to certain eligible employees. NHRMC has recorded a liability of approximately \$1,229 and \$1,350 as of September 30, 2015 and 2014, respectively, in accordance with the provisions of these plans.

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

**Note 11. Defined Contribution Retirement Plans**

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

Employee optional contributions totaled approximately \$9,586 and \$8,956, for the years ended September 30, 2015 and 2014, respectively. Employee contribution percentages were 3.4% and 3.37% of total payroll for the years ended September 30, 2015 and 2014, respectively. There were no employer matching contributions by NHRMC for the years ended September 30, 2015 and 2014.

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

CHA employer required and actual matching contributions totaled approximately \$636 and \$369, and employee optional contributions totaled approximately \$1,283 and \$670, for the years ended September 30, 2015 and 2014, respectively. Employer matching contribution percentages were 2.09% and 1.99%, and employee contribution percentages were 4.23% and 3.61% of total payroll for the years ended September 30, 2015 and 2014, respectively.

As of January 1, 2009, LCFH adopted a defined contribution plan under IRS code section 403(b) and an elective deferral plan. The plans cover qualified employees of LCFH, which are generally all employees. LCFH can match contributions to the 403(b) plan, but is not required to do so. Employer contributions vest after 3 complete years of service. During the year ended September 30, 2015, management elected to discontinue the employer retirement contribution. Employer contributions to these plans for the year ended September 30, 2014, was \$783.

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

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

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

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**Note 12. Investment in Affiliates**

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

In March 2005, NHRMC invested in Atlantic Surgicenter, LLC (Surgicenter), a joint venture formed to operate a freestanding ambulatory surgery center consisting of four general operating rooms and one non-licensed procedure room, located in New Hanover County, North Carolina. Annually, NHRMC invests additional funds as needed to maintain its 40% ownership in the joint venture. In June 2012, resolutions were adopted by the members of the joint venture resulting in an increase in NHRMC ownership in the joint venture to 46% with additional capital contribution of \$767. In January 2014, the Surgicenter entered into a loan agreement with First Citizens Bank & Trust Company in the amount of \$2,400, and NHRMC signed as the guarantor. NHRMC has guaranteed a portion of the debt up to their ownership percentage in the joint venture.

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

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

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

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

In April 2015, NHRMC entered into a joint venture agreement to acquire and maintain a 10% ownership in the newly formed company, Provider-Led, Patient-Centered Care of North Carolina, LLC (PLPCC). This entity was formed to develop and plan for the creation of a statewide Medicaid health maintenance organization in anticipation of action by the North Carolina General Assembly to convert the North Carolina Medicaid Program to a managed care system.

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

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

**Note 12. Investment in Affiliates (Continued)**

A summary of NHRMC's joint venture and other affiliate investment activity as of and for the years ended September 30, 2015 and 2014, is as follows:

			2015				
Ownership Percentage	Method of Accounting	Net Income (Loss)	Investment as of September 30	2015 Capital Contributions	2015 Distributions Received	Cumulative Contributions (Net of Distributions Received)	
SARO	50%	Equity	\$ 933	\$ 545	\$ -	\$ 542	\$ (2,569)
Surgicenter	46%	Equity	241	635	-	-	2,744
PNI	50%	Equity	364	362	-	364	(4,448)
Dosher/ NHRMC	50%	Equity	(1)	87	-	-	181
AAQHNC	10%	Equity	(1)	9	-	-	18
PQP	100%	Equity	(604)	270	300	-	1,300
PLPCC	10%	Equity	-	1,100	1,100	-	1,100

  

			2014				
Ownership Percentage	Method of Accounting	Net Income (Loss)	Investment as of September 30	2014 Capital Contributions	2014 Distributions Received	Cumulative Contributions (net of distributions received)	
SARO	50%	Equity	\$ 520	\$ 155	\$ -	\$ 488	\$ (2,027)
Surgicenter	46%	Equity	263	396	-	-	2,744
PNI	50%	Equity	403	362	-	348	(4,084)
Dosher/ NHRMC	50%	Equity	(2)	89	-	-	181
AAQHNC	10%	Equity	(1)	10	-	-	18
PQP	100%	Equity	(426)	574	1,000	-	1,000

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

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

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

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**Note 13. Contingencies**

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

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

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

NHRMC entered into an agreement with a consulting firm during the year ended September 30, 2014 to achieve cost savings and operating efficiencies. As of September 30, 2015, maximum remaining payments total \$9,650, all of which is contingent. Contingent fees are based on a percentage of cost savings achieved by the consulting firm, and could range between \$0 and \$9,650.

**Note 14. Physician Practice Management Commitments**

CHA has engaged Carolinas Physician Network (CPN), a physician practice network within the nonprofit corporation of Carolinas HealthCare Systems, through contractual agreements, to operate and manage most of the medical practices owned by CHA and provide certain professional medical services for each of those practices. CPN provides physicians and mid-level providers to operate most of the medical practices owned by CHA and provides certain professional medical services for each of those practices. In exchange, CHA pays a flat annual fee adjusted annually to equal the estimated compensation of the Practice Providers. In its role as manager, CPN provides management and billing services, practice acquisition services, provider recruiting, and access to its practice management system. Fees under the management agreement are based on the number and specialties of the practices. The Management Services and Professional Services Agreements, amended in 2015, expires in 2016 and may be renewed for successive one year terms. During the years ended September 30, 2015 and 2014, CHA paid \$66,985 and \$66,683, respectively, to CPN under these agreements, including \$56,165 and \$56,590, respectively, for physician fees, and \$10,820 and \$10,093, respectively, for all other administrative services. CHA had \$9,286 and \$2,553 of physician fees payable to CPN as of September 30, 2015 and 2014, respectively.

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

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

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**Note 15. Pending GASB Statements**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2015, that have effective dates that may impact future financial presentations.

In February 2015, GASB issued GASB Statement 72, *Fair Value Measurement and Application*, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The provisions of this Statement are effective for financial statements beginning after June 15, 2015. Management does not expect GASB 72 to have any significant impact on its financial statements.

In June 2015, GASB issued GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The provisions of this Statement are effective for financial statements beginning after June 15, 2015. Management does not expect GASB 76 to have any significant impact on its financial statements.

**Note 16. Change in Accounting Principles/Restatement**

NHRMC and PMH implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, during the fiscal year ended September 30, 2015. In accordance with the statement, NHRMC and PMH recorded a beginning net pension liability and the effects on net position of contributions made by NHRMC and PMH during the measurement period (fiscal year ending September 30, 2014). As a result, net position for NHRMC and PMH decreased by \$40,184 and \$2,550, respectively.

## **Required Supplementary Information**

**New Hanover Regional Medical Center**  
**Changes in the Net Pension Liability and Related Ratios – Pension Plan of NHRMC**  
**(Dollars in Thousands)**

	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 7,974	\$ -
Interest cost	16,423	-
Changes in benefit terms	-	-
Differences between expected and actual experiences	(3,228)	-
Changes in assumptions	-	-
Benefit payments, including refunds of member contributions	(12,512)	-
<b>Net Change in Total Pension Liability</b>	8,657	-
<b>Total Pension Liability (beginning)</b>	232,889	-
<b>Total Pension Liability (Ending)</b>	<u>\$ 241,546</u>	<u>\$ 232,889</u>
<b>Plan Fiduciary Net Position</b>		
Contributions – Employer	\$ 8,422	\$ -
Net investment income	16,615	-
Benefit payments, including refunds of member contributions	(12,512)	-
Administrative expense	(233)	-
<b>Net Change in Plan Fiduciary Net Position</b>	12,292	-
<b>Plan Fiduciary Net Position (beginning)</b>	188,646	-
<b>Plan Fiduciary Net Position (ending)</b>	<u>\$ 200,938</u>	<u>\$ 188,646</u>
<b>Net Pension Liability (Ending)</b>	\$ 40,608	\$ 44,243
<b>Net Position as a % of Pension Liability</b>	83.19%	81.00%
<b>Covered-Employee Payroll</b>	\$ 251,816	\$ 241,422
<b>Net Pension Liability as a % of Payroll</b>	16.13%	18.33%

**New Hanover Regional Medical Center  
Schedule of NHRMC Contributions  
(Dollars in Thousands)**

	2015	2014
Actuarially determined contribution	\$ 11,917	\$ 8,422
Contributions made in relation to the actuarially determined contribution	12,125	8,422
Contribution deficiency (excess)	<u>\$ (208)</u>	<u>\$ -</u>
Covered-employee payroll	251,816	241,422
Contributions as a % of Payroll	4.82%	3.49%

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates are calculated as of October 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method:	Entry Age Normal with 20-year closed amortization period for initial unfunded and subsequent actuarial gains/losses
Asset Valuation Method:	5-year smoothing; set equal to market values as of 10/1/2014
IRS Limit Increases:	2.50%
Salary Increases:	3.00%
Investment Rate of Return:	7.00%, net of pension plan investment expense, including inflation
Retirement Age:	Varies by age
Mortality:	RP-2014 with generational projection using scale MP-2014

**New Hanover Regional Medical Center**  
**Changes in the Net Pension Liability and Related Ratios – Pension Plan of PMH**  
**(Dollars in Thousands)**

	Fiscal Year Ending	
	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 217	\$ -
Interest cost	503	-
Changes in benefit terms	-	-
Differences between expected and actual experiences	(58)	-
Changes in assumptions	-	-
Benefit payments, including refunds of member contributions	(281)	-
<b>Net Change in Total Pension Liability</b>	381	-
<b>Total Pension Liability (beginning)</b>	7,102	-
<b>Total Pension Liability (ending)</b>	<u>\$ 7,483</u>	<u>\$ 7,102</u>
<b>Plan Fiduciary Net Position</b>		
Contributions – Employer	\$ 336	\$ -
Net investment income	415	-
Benefit payments, including refunds of member contributions	(281)	-
Administrative expense	(61)	-
<b>Net Change in Plan Fiduciary Net Position</b>	409	-
<b>Plan Fiduciary Net Position (beginning)</b>	3,988	-
<b>Plan Fiduciary Net Position (ending)</b>	<u>\$ 4,397</u>	<u>\$ 3,988</u>
<b>Net Pension Liability (ending)</b>	\$ 3,086	\$ 3,114
<b>Net Position as a % of Pension Liability</b>	58.76%	56.15%
<b>Covered-Employee Payroll</b>	\$ 9,515	\$ 8,736
<b>Net Pension Liability as a % of Payroll</b>	32.43%	35.65%

**New Hanover Regional Medical Center  
Schedule of PMH Contributions  
(Dollars in Thousands)**

	Fiscal Year Ending	
	2015	2014
Actuarially determined contribution	\$ 522	\$ 336
Contributions made in relation to the actuarially determined contribution	545	336
Contribution deficiency (excess)	<u>\$ (23)</u>	<u>\$ -</u>
Covered-employee payroll	9,515	8,736
Contributions as a % of Payroll	5.73%	3.85%

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates are calculated as of October 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method:	Entry Age Normal with 20-year closed amortization period for initial unfunded and subsequent actuarial gains/losses
Asset Valuation Method:	5-year smoothing; set equal to market values as of 10/1/2014
IRS Limit Increases:	2.50%
Salary Increases:	3.00%
Investment Rate of Return:	7.00%, net of pension plan investment expense, including inflation
Retirement Age:	Varies by age
Mortality:	RP-2014 with generational projection using scale MP-2014

## Supplementary Information

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

	September 30, 2015				September 30, 2014			
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
<b>ASSETS</b>								
Current assets								
Cash and cash equivalents	\$ 122,645	\$ 3,943	\$ -	\$ 126,588	\$ 54,383	\$ 2,732	\$ -	\$ 57,115
Assets limited as to use:								
Cash equivalents held by bond paying agent	17,279	-	-	17,279	16,863	-	-	16,863
Cash for debt service-not held by bond paying agent	950	-	-	950	948	-	-	948
Cash equivalents and investments for the future payment of claims liabilities	21,880	-	-	21,880	21,755	-	-	21,755
Receivables:								
Patient accounts, less allowance for bad debts	110,207	-	-	110,207	109,434	-	-	109,434
Estimated third-party payor settlements	602	-	-	602	10,043	-	-	10,043
Due from component units	802	-	-	802	311	-	-	311
Other receivables	12,435	818	(90)	13,163	11,777	762	(264)	12,275
Inventories	19,760	-	-	19,760	17,570	-	-	17,570
Prepaid expenses	16,660	29	-	16,689	13,867	23	-	13,890
<b>Total current assets</b>	<b>323,220</b>	<b>4,790</b>	<b>(90)</b>	<b>327,920</b>	<b>256,951</b>	<b>3,517</b>	<b>(264)</b>	<b>260,204</b>
Noncurrent cash and investments								
Cash and Investments:								
Designated by Board for capital improvements	325,620	-	-	325,620	319,272	-	-	319,272
Designated by Board for supplemental retirement plans	1,464	-	-	1,464	1,585	-	-	1,585
Restricted by donors for specific purpose	-	9,456	-	9,456	-	2,914	-	2,914
Restricted by donors for endowments	-	2,066	-	2,066	-	2,018	-	2,018
	<b>327,084</b>	<b>11,522</b>	<b>-</b>	<b>338,606</b>	<b>320,857</b>	<b>4,932</b>	<b>-</b>	<b>325,789</b>
Pledges and grants receivable	-	1,747	-	1,747	-	1,728	-	1,728
<b>Total assets limited as to use</b>	<b>327,084</b>	<b>13,269</b>	<b>-</b>	<b>340,353</b>	<b>320,857</b>	<b>6,660</b>	<b>-</b>	<b>327,517</b>
Other assets								
Intangible capital assets, net of amortization	34,120	-	-	34,120	36,647	-	-	36,647
Investment in affiliates	3,008	-	-	3,008	1,586	-	-	1,586
Other long term assets	227	10	-	237	277	10	-	287
<b>Total other assets</b>	<b>37,355</b>	<b>10</b>	<b>-</b>	<b>37,365</b>	<b>38,510</b>	<b>10</b>	<b>-</b>	<b>38,520</b>
Capital assets – tangible								
Land	12,305	-	-	12,305	11,314	-	-	11,314
Depreciable capital assets, net of accumulated depreciation	412,057	-	-	412,057	404,826	-	-	404,826
Construction in progress	11,261	-	-	11,261	10,406	-	-	10,406
<b>Total capital assets – tangible</b>	<b>435,623</b>	<b>-</b>	<b>-</b>	<b>435,623</b>	<b>426,546</b>	<b>-</b>	<b>-</b>	<b>426,546</b>
<b>Total assets</b>	<b>1,123,282</b>	<b>18,069</b>	<b>(90)</b>	<b>1,141,261</b>	<b>1,042,864</b>	<b>10,187</b>	<b>(264)</b>	<b>1,052,787</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>								
Contributions to pension plan	12,125	-	-	12,125	8,422	-	-	8,422
Deferred charges on bond refundings	3,809	-	-	3,809	4,404	-	-	4,404
<b>Total deferred outflows of resources</b>	<b>15,934</b>	<b>-</b>	<b>-</b>	<b>15,934</b>	<b>12,826</b>	<b>-</b>	<b>-</b>	<b>12,826</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,139,216</b>	<b>\$ 18,069</b>	<b>\$ (90)</b>	<b>\$ 1,157,195</b>	<b>\$ 1,055,690</b>	<b>\$ 10,187</b>	<b>\$ (264)</b>	<b>\$ 1,065,613</b>

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

	September 30, 2015				September 30, 2014			
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	Eliminating Entries	NHRMC
<b>LIABILITIES</b>								
Current liabilities								
Accounts payable and other liabilities	\$ 32,346	\$ 206	\$ (90)	\$ 32,462	\$ 31,689	\$ 583	\$ (264)	\$ 32,008
Professional liability claims	14,511	-	-	14,511	16,575	-	-	16,575
Accrued salaries and wages	37,502	-	-	37,502	35,053	-	-	35,053
Estimated third-party payor settlements	10,284	-	-	10,284	11,627	-	-	11,627
Due to component units	3,548	-	-	3,548	1,517	-	-	1,517
Accrued interest payable	5,727	-	-	5,727	5,951	-	-	5,951
Other self-funded liabilities	10,263	-	-	10,263	11,683	-	-	11,683
Capital lease obligations, notes and bonds payable, current portion	12,605	-	-	12,605	13,968	-	-	13,968
<b>Total current liabilities</b>	<b>126,786</b>	<b>206</b>	<b>(90)</b>	<b>126,902</b>	<b>128,063</b>	<b>583</b>	<b>(264)</b>	<b>128,382</b>
Long-term obligations								
Net pension liability	40,608	-	-	40,608	44,243	-	-	44,243
Supplemental retirement plans	2,547	-	-	2,547	1,585	-	-	1,585
Interest rate swap agreements	5,685	-	-	5,685	5,580	-	-	5,580
Notes and bonds payable, less current portion	269,542	-	-	269,542	282,960	-	-	282,960
<b>Total long-term obligations</b>	<b>318,382</b>	<b>-</b>	<b>-</b>	<b>318,382</b>	<b>334,368</b>	<b>-</b>	<b>-</b>	<b>334,368</b>
<b>Total liabilities</b>	<b>445,168</b>	<b>206</b>	<b>(90)</b>	<b>445,284</b>	<b>462,431</b>	<b>583</b>	<b>(264)</b>	<b>462,750</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Pension deferrals	5,225	-	-	5,225	-	-	-	-
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 450,393</b>	<b>\$ 206</b>	<b>\$ (90)</b>	<b>\$ 450,509</b>	<b>\$ 462,431</b>	<b>\$ 583</b>	<b>\$ (264)</b>	<b>\$ 462,750</b>
<b>NET POSITION</b>								
Net investment in capital assets	191,405	-	-	191,405	170,669	-	-	170,669
Unrestricted	497,418	906	-	498,324	422,590	1,017	-	423,607
Restricted	-	16,957	-	16,957	-	8,587	-	8,587
<b>Total net position</b>	<b>688,823</b>	<b>17,863</b>	<b>-</b>	<b>706,686</b>	<b>593,259</b>	<b>9,604</b>	<b>-</b>	<b>602,863</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 1,139,216</b>	<b>\$ 18,069</b>	<b>\$ (90)</b>	<b>\$ 1,157,195</b>	<b>\$ 1,055,690</b>	<b>\$ 10,187</b>	<b>\$ (264)</b>	<b>\$ 1,065,613</b>

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

	Year Ended			Year Ended		
	September 30, 2015			September 30, 2014		
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
Operating revenues:						
Net patient service revenue	\$ 800,741	\$ -	\$ 800,741	\$ 735,072	\$ -	\$ 735,072
Other revenue	18,300	2,398	20,698	20,485	2,775	23,260
<b>Total operating revenue</b>	<b>819,041</b>	<b>2,398</b>	<b>821,439</b>	<b>755,557</b>	<b>2,775</b>	<b>758,332</b>
Operating expenses:						
Salaries, wages and benefits	368,655	619	369,274	345,408	550	345,958
Medical supplies	158,170	-	158,170	151,793	-	151,793
Professional fees	41,349	21	41,370	24,452	26	24,478
Purchased services	60,669	-	60,669	77,196	-	77,196
Depreciation and amortization	47,489	-	47,489	45,955	-	45,955
Other	41,004	615	41,619	48,313	741	49,054
<b>Total operating expenses</b>	<b>717,336</b>	<b>1,255</b>	<b>718,591</b>	<b>693,117</b>	<b>1,317</b>	<b>694,434</b>
<b>Operating income</b>	<b>101,705</b>	<b>1,143</b>	<b>102,848</b>	<b>62,440</b>	<b>1,458</b>	<b>63,898</b>
Nonoperating revenues (expenses):						
Interest expense	(11,834)	-	(11,834)	(12,507)	-	(12,507)
Other nonoperating income, net	257	94	351	(1,561)	22	(1,539)
Interest earned and net realized gain on investments	2,101	253	2,354	3,781	126	3,907
Net increase in fair value of investments	(758)	(649)	(1,407)	11,825	258	12,083
Gain (loss) on sale of capital assets	437	-	437	158	-	158
Equity in net income of joint ventures	931	-	931	757	-	757
Nonoperating revenues (expenses), net	(8,866)	(302)	(9,168)	2,453	406	2,859
<b>Income before capital contributions and capital transfers</b>	<b>92,839</b>	<b>841</b>	<b>93,680</b>	<b>64,893</b>	<b>1,864</b>	<b>66,757</b>
Capital contributions and transfers:						
Capital and permanent endowment contributions	423	45	468	142	8	150
Capital transfers to component units	(3,074)	(582)	(3,656)	(1,768)	(1,238)	(3,006)
<b>Total capital contributions and capital transfers</b>	<b>(2,651)</b>	<b>(537)</b>	<b>(3,188)</b>	<b>(1,626)</b>	<b>(1,230)</b>	<b>(2,856)</b>
<b>Change in net position</b>	<b>90,188</b>	<b>304</b>	<b>90,492</b>	<b>63,267</b>	<b>634</b>	<b>63,901</b>
<b>Net position, beginning, previously reported</b>	<b>593,259</b>	<b>9,604</b>	<b>602,863</b>	<b>570,176</b>	<b>8,970</b>	<b>579,146</b>
<b>Restatement</b>	<b>5,376</b>	<b>7,955</b>	<b>13,331</b>	<b>(40,184)</b>	<b>-</b>	<b>(40,184)</b>
<b>Net position, beginning, restated</b>	<b>598,635</b>	<b>17,559</b>	<b>616,194</b>	<b>529,992</b>	<b>8,970</b>	<b>538,962</b>
<b>Net position, ending</b>	<b>\$ 688,823</b>	<b>\$ 17,863</b>	<b>\$ 706,686</b>	<b>\$ 593,259</b>	<b>\$ 9,604</b>	<b>\$ 602,863</b>

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

	Year Ended September 30, 2015			Year Ended September 30, 2014		
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
<b>Cash Flows From Operating Activities</b>						
Cash received from and on behalf of patients	\$ 808,238	\$ -	\$ 808,238	\$ 720,539	\$ -	\$ 720,539
Cash payments to suppliers for goods and services	(308,289)	(1,020)	(309,309)	(303,572)	(619)	(304,191)
Cash payments to employees for services	(368,319)	(619)	(368,938)	(345,472)	(550)	(346,022)
Other operating cash receipts	17,470	(74)	17,396	17,396	97	17,493
<b>Net cash provided by (used in) operating activities</b>	<b>149,100</b>	<b>(1,713)</b>	<b>147,387</b>	<b>88,891</b>	<b>(1,072)</b>	<b>87,819</b>
<b>Cash Flows From Noncapital Financing Activities</b>						
Contributions and operating grants	-	2,398	2,398	-	2,775	2,775
Payments (to) from component unit	1,539	-	1,539	(1,890)	-	(1,890)
Advances between affiliates	217	(217)	-	210	(210)	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>1,756</b>	<b>2,181</b>	<b>3,937</b>	<b>(1,680)</b>	<b>2,565</b>	<b>885</b>
<b>Cash Flows From Capital and Related Financing Activities</b>						
Acquisition and construction of property and equipment	(48,352)	-	(48,352)	(45,741)	-	(45,741)
Proceeds from disposed assets	742	-	742	527	-	527
Capital contributions	423	45	468	142	8	150
Principal payments on capital lease obligations	(237)	-	(237)	(484)	-	(484)
Principal payments on revenue bonds and other outstanding debt	(14,199)	-	(14,199)	(13,817)	-	(13,817)
Interest paid on capital financing	(12,374)	-	(12,374)	(13,007)	-	(13,007)
Transfers (to) from component unit	(3,291)	(365)	(3,656)	(1,977)	(1,028)	(3,005)
<b>Net cash used in capital and related financing activities</b>	<b>(77,288)</b>	<b>(320)</b>	<b>(77,608)</b>	<b>(74,357)</b>	<b>(1,020)</b>	<b>(75,377)</b>
<b>Cash Flows From Investing Activities</b>						
(Purchases) sales of investments, net of maturities	(5,922)	-	(5,922)	(18,550)	-	(18,550)
Interest earned on investments	2,101	1,063	3,164	3,781	40	3,821
Contributions to partnerships	(1,100)	-	(1,100)	-	-	-
Distributions from partnerships	906	-	906	837	-	837
Other interest earned	(39)	-	(39)	(992)	-	(992)
<b>Net cash provided by (used in) investing activities</b>	<b>(4,054)</b>	<b>1,063</b>	<b>(2,991)</b>	<b>(14,924)</b>	<b>40</b>	<b>(14,884)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>69,514</b>	<b>1,211</b>	<b>70,725</b>	<b>(2,070)</b>	<b>513</b>	<b>(1,557)</b>
Cash and cash equivalents at beginning of year	126,556	2,732	129,288	128,626	2,219	130,845
Cash and cash equivalents at end of year	\$ 196,070	\$ 3,943	\$ 200,013	\$ 126,556	\$ 2,732	\$ 129,288

(Continued)

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

	Year Ended September 30, 2015			Year Ended September 30, 2014		
	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC	New Hanover Regional Medical Center	New Hanover Regional Medical Center Foundation	NHRMC
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>						
Unrestricted cash and cash equivalents	\$ 122,645	\$ 3,943	\$ 126,588	\$ 54,383	\$ 2,732	\$ 57,115
Cash and cash equivalents in noncurrent cash and investments						
Reserved for debt service-held by bond paying agent	17,279	-	17,279	16,863	-	16,863
Reserved for debt service-not held by bond paying agent	950	-	950	948	-	948
Designated by Board for payment of claims liabilities	225	-	225	156	-	156
Designated by Board for capital improvements	54,960	-	54,960	54,206	-	54,206
<b>Cash and cash equivalents, including noncurrent cash and cash equivalents at end of year</b>	<b>\$ 196,059</b>	<b>\$ 3,943</b>	<b>\$ 200,002</b>	<b>\$ 126,556</b>	<b>\$ 2,732</b>	<b>\$ 129,288</b>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>						
<b>Cash Flows From Operating Activities</b>						
Operating income	\$ 101,705	\$ 1,143	\$ 102,848	\$ 62,440	\$ 1,458	\$ 63,898
Employee services included in nonoperating income	-	-	-	(1,567)	-	(1,567)
Operating grants and contributions	-	(2,398)	(2,398)	-	(2,775)	(2,775)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	47,489	-	47,489	45,955	-	45,955
Pension expense	10,013	-	10,013	-	-	-
Changes in:						
Receivables	(1,431)	(74)	(1,505)	(12,577)	97	(12,480)
Inventories	(2,190)	-	(2,190)	(1,749)	-	(1,749)
Prepaid expenses	(2,793)	(7)	(2,800)	(3,393)	12	(3,381)
Accounts payable and other liabilities	5,933	(377)	5,556	(1,983)	136	(1,847)
Accrued salaries and wages	2,449	-	2,449	1,503	-	1,503
Deferred outflows of resources for pensions	(12,125)	-	(12,125)	-	-	-
Other long-term assets	50	-	50	262	-	262
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 149,100</b>	<b>\$ (1,713)</b>	<b>\$ 147,387</b>	<b>\$ 88,891</b>	<b>\$ (1,072)</b>	<b>\$ 87,819</b>
<b>Non-cash capital and related financing activities</b>						
Unrealized gain (losses)	\$ (758)	\$ (649)	\$ (1,407)	\$ 11,825	\$ 258	\$ 12,083
SEAHEC merger	\$ 5,376	\$ 7,955	\$ 13,331	\$ -	\$ -	\$ -

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

	September 30, 2015					September 30, 2014				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
<b>ASSETS</b>										
Current assets										
Cash and cash equivalents	\$ 3,112	\$ 5,776	\$ 3,408	\$ 235	\$ 12,531	\$ 5,790	\$ 4,370	\$ 3,424	\$ 621	\$ 14,205
Patient accounts, less allowance for bad debts	10,419	3,160	3,637	-	17,216	8,643	3,995	4,262	-	16,900
Due from health insurance programs	-	-	1,581	-	1,581	-	-	1,759	-	1,759
Due from primary government	-	24	3,489	36	3,549	-	33	1,484	-	1,517
Other receivables	464	349	927	-	1,740	312	562	117	-	991
Investments	-	8,258	-	-	8,258	-	6,522	-	-	6,522
Inventories	-	-	393	-	393	-	-	392	-	392
Prepaid expenses	1,950	390	179	-	2,519	2,279	441	245	-	2,965
<b>Total current assets</b>	<b>15,945</b>	<b>17,957</b>	<b>13,614</b>	<b>271</b>	<b>47,787</b>	<b>17,024</b>	<b>15,923</b>	<b>11,683</b>	<b>621</b>	<b>45,251</b>
Noncurrent cash, investments, and donor receivables										
Noncurrent Cash and Investments:										
Designated by Board for operating and PDO reserve	-	11,017	-	-	11,017	-	11,526	-	-	11,526
Designated by Board for capital improvements	-	6,023	-	-	6,023	-	6,688	-	-	6,688
Restricted by agreement for Mercy Care reserve	-	-	-	-	-	-	799	-	-	799
Restricted by donors for endowments	-	1,413	-	-	1,413	-	1,503	-	-	1,503
	-	18,453	-	-	18,453	-	20,516	-	-	20,516
Pledges and grants receivable	-	186	-	-	186	-	393	-	-	393
<b>Total noncurrent cash, investments, and donor receivables</b>	<b>-</b>	<b>18,639</b>	<b>-</b>	<b>-</b>	<b>18,639</b>	<b>-</b>	<b>20,909</b>	<b>-</b>	<b>-</b>	<b>20,909</b>
Other assets										
Intangible capital assets, net of amortization	85	-	-	-	85	360	-	7	-	367
Other long term assets	-	612	-	-	612	-	611	-	-	611
<b>Total other assets</b>	<b>85</b>	<b>612</b>	<b>-</b>	<b>-</b>	<b>697</b>	<b>360</b>	<b>611</b>	<b>7</b>	<b>-</b>	<b>978</b>
Capital assets – tangible										
Land	-	5,610	42	-	5,652	-	5,610	42	-	5,652
Depreciable capital assets, net of accumulated depreciation	5,150	18,359	10,888	-	34,397	5,124	15,163	9,450	-	29,737
Construction in progress	486	8	138	-	632	96	3,188	228	-	3,512
<b>Total capital assets – tangible</b>	<b>5,636</b>	<b>23,977</b>	<b>11,068</b>	<b>-</b>	<b>40,681</b>	<b>5,220</b>	<b>23,961</b>	<b>9,720</b>	<b>-</b>	<b>38,901</b>
<b>Total assets</b>	<b>21,666</b>	<b>61,185</b>	<b>24,682</b>	<b>271</b>	<b>107,804</b>	<b>22,604</b>	<b>61,404</b>	<b>21,410</b>	<b>621</b>	<b>106,039</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>										
Contributions to pension plan	-	-	545	-	545	-	-	336	-	336
Interest rate swap agreements	-	259	-	-	259	-	216	-	-	216
<b>Total deferred outflows of resources</b>	<b>-</b>	<b>259</b>	<b>545</b>	<b>-</b>	<b>804</b>	<b>-</b>	<b>216</b>	<b>336</b>	<b>-</b>	<b>552</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 21,666</b>	<b>\$ 61,444</b>	<b>\$ 25,227</b>	<b>\$ 271</b>	<b>\$ 108,608</b>	<b>\$ 22,604</b>	<b>\$ 61,620</b>	<b>\$ 21,746</b>	<b>\$ 621</b>	<b>\$ 106,591</b>

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

	September 30, 2015					September 30, 2014				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
<b>LIABILITIES</b>										
Current liabilities										
Accounts payable and other liabilities	\$ 12,717	\$ 1,689	\$ 1,281	\$ 1	\$ 15,688	\$ 5,448	\$ 2,252	\$ 1,491	\$ 8	\$ 9,199
Professional liability claims	505	-	338	-	843	-	-	-	-	-
Accrued salaries and wages	3,012	2,488	1,078	-	6,578	1,522	2,261	975	-	4,758
Estimated third-party payor settlements	-	-	-	-	-	-	-	604	-	604
Due to primary government	1	205	802	-	1,008	-	308	272	39	619
Capital lease obligations, notes and bonds payable, current portion	-	694	-	-	694	-	670	-	-	670
<b>Total current liabilities</b>	<b>16,235</b>	<b>5,076</b>	<b>3,499</b>	<b>1</b>	<b>24,811</b>	<b>6,970</b>	<b>5,491</b>	<b>3,342</b>	<b>47</b>	<b>15,850</b>
Long-term obligations										
Net pension liability	-	-	3,086	-	3,086	-	-	3,114	-	3,114
Interest rate swap agreements	-	259	-	-	259	-	216	-	-	216
Notes and bonds payable, less current portion	-	11,911	-	-	11,911	-	11,602	-	-	11,602
<b>Total long-term obligations</b>	<b>-</b>	<b>12,170</b>	<b>3,086</b>	<b>-</b>	<b>15,256</b>	<b>-</b>	<b>11,818</b>	<b>3,114</b>	<b>-</b>	<b>14,932</b>
<b>Total liabilities</b>	<b>16,235</b>	<b>17,246</b>	<b>6,585</b>	<b>1</b>	<b>40,067</b>	<b>6,970</b>	<b>17,309</b>	<b>6,456</b>	<b>47</b>	<b>30,782</b>
Commitments and contingencies										
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Pension deferrals	-	-	141	-	141	-	-	-	-	-
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 16,235</b>	<b>\$ 17,246</b>	<b>\$ 6,726</b>	<b>\$ 1</b>	<b>\$ 40,208</b>	<b>\$ 6,970</b>	<b>\$ 17,309</b>	<b>\$ 6,456</b>	<b>\$ 47</b>	<b>\$ 30,782</b>
<b>NET POSITION</b>										
Net investment in capital assets	5,721	11,224	11,068	-	28,013	5,580	11,623	9,727	-	26,930
Unrestricted	(290)	31,523	7,433	270	38,936	10,054	28,845	5,563	574	45,036
Restricted	-	1,451	-	-	1,451	-	3,843	-	-	3,843
<b>Total net position</b>	<b>5,431</b>	<b>44,198</b>	<b>18,501</b>	<b>270</b>	<b>68,400</b>	<b>15,634</b>	<b>44,311</b>	<b>15,290</b>	<b>574</b>	<b>75,809</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 21,666</b>	<b>\$ 61,444</b>	<b>\$ 25,227</b>	<b>\$ 271</b>	<b>\$ 108,608</b>	<b>\$ 22,604</b>	<b>\$ 61,620</b>	<b>\$ 21,746</b>	<b>\$ 621</b>	<b>\$ 106,591</b>

**New Hanover Regional Medical Center**

**Combining Statements of Revenues, Expenses, and Changes in Net Position – Discretely Presented Component Units**

(Dollars in Thousands)

	Year Ended September 30, 2015					Year Ended September 30, 2014				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
Operating revenues:										
Net patient service revenue	\$ 131,509	\$ 32,964	\$ 24,537	\$ -	\$ 189,010	\$ 111,961	\$ 31,506	\$ 22,215	\$ -	\$ 165,682
Other revenue	23,988	3,376	5,548	453	33,365	24,268	2,838	5,463	1,125	33,694
<b>Total operating revenue</b>	<b>155,497</b>	<b>36,340</b>	<b>30,085</b>	<b>453</b>	<b>222,375</b>	<b>136,229</b>	<b>34,344</b>	<b>27,678</b>	<b>1,125</b>	<b>199,376</b>
Operating expenses:										
Salaries, wages and benefits	38,638	24,636	17,825	229	81,328	23,730	23,969	17,247	223	65,169
Medical supplies	33,909	5,676	1,427	-	41,012	25,885	6,145	1,679	-	33,709
Professional fees	64,362	207	760	137	65,466	56,625	237	725	82	57,669
Purchased services	15,469	633	5,651	-	21,753	14,693	577	3,774	-	19,044
Depreciation and amortization	1,994	1,022	1,794	-	4,810	1,655	879	1,459	-	3,993
Other	11,389	2,609	2,626	391	17,015	9,671	2,920	2,856	246	15,693
<b>Total operating expenses</b>	<b>165,761</b>	<b>34,783</b>	<b>30,083</b>	<b>757</b>	<b>231,384</b>	<b>132,259</b>	<b>34,727</b>	<b>27,740</b>	<b>551</b>	<b>195,277</b>
<b>Operating income (loss)</b>	<b>(10,264)</b>	<b>1,557</b>	<b>2</b>	<b>(304)</b>	<b>(9,009)</b>	<b>3,970</b>	<b>(383)</b>	<b>(62)</b>	<b>574</b>	<b>4,099</b>
Nonoperating revenues (expenses):										
Interest expense	-	(377)	-	-	(377)	-	(273)	-	-	(273)
Other nonoperating income (loss)	-	(49)	(21)	-	(70)	-	112	(4)	-	108
Net (decrease) increase in fair value of investments	-	(1,271)	-	-	(1,271)	-	1,979	-	-	1,979
Loss on sale of capital assets	-	(17)	-	-	(17)	(106)	(57)	-	-	(163)
Nonoperating revenues (expenses), net	-	(1,714)	(21)	-	(1,735)	(106)	1,761	(4)	-	1,651
<b>Income (loss) before capital contributions and capital transfers</b>	<b>(10,264)</b>	<b>(157)</b>	<b>(19)</b>	<b>(304)</b>	<b>(10,744)</b>	<b>3,864</b>	<b>1,378</b>	<b>(66)</b>	<b>574</b>	<b>5,750</b>
Capital and permanent endowment contributions and capital transfers to (from) component units	61	44	3,230	-	3,335	929	3,189	1,159	-	5,277
<b>Change in net position</b>	<b>(10,203)</b>	<b>(113)</b>	<b>3,211</b>	<b>(304)</b>	<b>(7,409)</b>	<b>4,793</b>	<b>4,567</b>	<b>1,093</b>	<b>574</b>	<b>11,027</b>
<b>Net position, beginning</b>	<b>15,634</b>	<b>44,311</b>	<b>15,290</b>	<b>574</b>	<b>75,809</b>	<b>10,841</b>	<b>39,744</b>	<b>16,747</b>	<b>-</b>	<b>67,332</b>
<b>Restatement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,550)</b>	<b>-</b>	<b>(2,550)</b>
<b>Net position, beginning, restated</b>	<b>15,634</b>	<b>44,311</b>	<b>15,290</b>	<b>574</b>	<b>75,809</b>	<b>10,841</b>	<b>39,744</b>	<b>14,197</b>	<b>-</b>	<b>64,782</b>
<b>Net position, ending</b>	<b>\$ 5,431</b>	<b>\$ 44,198</b>	<b>\$ 18,501</b>	<b>\$ 270</b>	<b>\$ 68,400</b>	<b>\$ 15,634</b>	<b>\$ 44,311</b>	<b>\$ 15,290</b>	<b>\$ 574</b>	<b>\$ 75,809</b>

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

	Year Ended September 30, 2015					Year Ended September 30, 2014				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
<b>Cash Flows From Operating Activities</b>										
Cash received from and on behalf of patients	\$ 129,728	\$ 38,258	\$ 22,303	\$ -	\$ 190,289	\$ 111,984	\$ 36,785	\$ 23,717	\$ -	\$ 172,486
Cash payments to suppliers for services and goods	(117,201)	(13,601)	(10,122)	(609)	(141,533)	(106,376)	(16,663)	(9,613)	(281)	(132,933)
Cash payments to employees for services	(37,123)	(24,408)	(17,818)	(230)	(79,579)	(23,640)	(23,907)	(17,341)	(223)	(65,111)
Other operating cash receipts	23,988	2,895	5,542	453	32,878	24,268	2,574	5,463	1,125	33,430
<b>Net cash provided by (used in) operating activities</b>	<b>(608)</b>	<b>3,144</b>	<b>(95)</b>	<b>(386)</b>	<b>2,055</b>	<b>6,236</b>	<b>(1,211)</b>	<b>2,226</b>	<b>621</b>	<b>7,872</b>
<b>Cash Flows From Noncapital Financing Activities</b>										
Mercy Care merger cash contribution	-	-	-	-	-	-	959	-	-	959
<b>Net cash provided by noncapital financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>959</b>	<b>-</b>	<b>-</b>	<b>959</b>
<b>Cash Flows From Capital and Related Financing Activities</b>										
Acquisition of capital assets	(2,131)	(494)	(3,151)	-	(5,776)	(2,706)	(3,198)	(1,271)	-	(7,175)
Proceeds from disposed assets	-	52	-	-	52	-	-	-	-	-
Interest paid on capital financing	-	(377)	-	-	(377)	-	(273)	-	-	(273)
Proceeds from bonds	-	1,026	-	-	1,026	-	2,263	-	-	2,263
Payments on notes payable	-	(653)	-	-	(653)	-	(511)	-	-	(511)
Transfers (to) from component unit	61	-	3,230	-	3,291	929	-	1,159	-	2,088
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(2,070)</b>	<b>(446)</b>	<b>79</b>	<b>-</b>	<b>(2,437)</b>	<b>(1,777)</b>	<b>(1,719)</b>	<b>(112)</b>	<b>-</b>	<b>(3,608)</b>
<b>Cash Flows From Investing Activities</b>										
Purchases of investments, net of maturities	-	(1,292)	-	-	(1,292)	-	(949)	-	-	(949)
Interest earned on investments	-	(49)	-	-	(49)	-	112	-	-	112
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(1,341)</b>	<b>-</b>	<b>-</b>	<b>(1,341)</b>	<b>-</b>	<b>(837)</b>	<b>-</b>	<b>-</b>	<b>(837)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,678)</b>	<b>1,357</b>	<b>(16)</b>	<b>(386)</b>	<b>(1,723)</b>	<b>4,459</b>	<b>(2,808)</b>	<b>2,114</b>	<b>621</b>	<b>4,386</b>
Cash and cash equivalents at beginning of year	5,790	4,482	3,424	621	14,317	1,331	7,290	1,310	-	9,931
Cash and cash equivalents at end of year	\$ 3,112	\$ 5,839	\$ 3,408	\$ 235	\$ 12,594	\$ 5,790	\$ 4,482	\$ 3,424	\$ 621	\$ 14,317

(Continued)

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

	Year Ended September 30, 2015					Year Ended September 30, 2014				
	CHA	LCFH	PMH	PQP	Total Combined Units	CHA	LCFH	PMH	PQP	Total Combined Units
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>										
Unrestricted cash and cash equivalents	\$ 3,112	\$ 5,776	\$ 3,408	\$ 235	\$ 12,531	\$ 5,790	\$ 4,370	\$ 3,424	\$ 621	\$ 14,205
Cash and cash equivalents in noncurrent cash and investments										
Designated by Board for operating reserve	-	51	-	-	51	-	67	-	-	67
By donor restrictions	-	12	-	-	12	-	45	-	-	45
<b>Cash and cash equivalents, including noncurrent cash and cash equivalents at end of year</b>	<b>\$ 3,112</b>	<b>\$ 5,839</b>	<b>\$ 3,408</b>	<b>\$ 235</b>	<b>\$ 12,594</b>	<b>\$ 5,790</b>	<b>\$ 4,482</b>	<b>\$ 3,424</b>	<b>\$ 621</b>	<b>\$ 14,317</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>										
<b>Cash Flows From operating Activities</b>										
Operating income (loss)	\$ (10,264)	\$ 1,557	\$ 2	\$ (304)	\$ (9,009)	\$ 3,970	\$ (383)	\$ (62)	\$ 574	\$ 4,099
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:										
Depreciation and amortization	1,994	1,022	1,794	-	4,810	1,655	879	1,459	-	3,993
Pension expense	-	-	449	-	449	-	-	-	-	-
Changes in:										
Patient receivables and programs	(1,932)	1,301	(2,234)	-	(2,865)	24	1,009	1,502	-	2,535
Inventories	-	-	(1)	-	(1)	-	-	91	-	91
Prepaid expenses and other current assets	329	(298)	67	-	98	(595)	(2,959)	(33)	-	(3,587)
Accounts payable and other liabilities	7,750	(666)	270	(82)	7,272	1,093	75	(637)	47	578
Accrued salaries and wages	1,515	228	103	-	1,846	89	168	(93)	-	164
Deferred outflows of resources for pensions	-	-	(545)	-	(545)	-	-	(1)	-	(1)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (608)</b>	<b>\$ 3,144</b>	<b>\$ (95)</b>	<b>\$ (386)</b>	<b>\$ 2,055</b>	<b>\$ 6,236</b>	<b>\$ (1,211)</b>	<b>\$ 2,226</b>	<b>\$ 621</b>	<b>\$ 7,872</b>
<b>Non-cash capital and related financing activities</b>										
Unrealized gain	\$ -	\$ (1,271)	\$ -	\$ -	\$ (1,271)	\$ -	\$ 1,979	\$ -	\$ -	\$ 1,979
Capital assets acquired through lease agreement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167	\$ -	\$ -	\$ 167

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

	September 30, 2015					September 30, 2014				
	New Hanover		PQP	Eliminating	Combined	New Hanover		PQP	Eliminating	Combined
	Regional Medical Center	CHA				Regional Medical Center	CHA			
<b>ASSETS</b>										
Current assets										
Cash and cash equivalents	\$ 122,645	\$ 3,112	\$ 235	\$ -	\$ 125,992	\$ 54,383	\$ 5,790	\$ 621	\$ -	\$ 60,794
Assets limited as to use:										
Cash equivalents held by bond paying agent	17,279	-	-	-	17,279	16,863	-	-	-	16,863
Cash for debt service-not held by bond paying agent	950	-	-	-	950	948	-	-	-	948
Cash equivalents and investments for the future payment of claims liabilities	21,880	-	-	-	21,880	21,755	-	-	-	21,755
Receivables:										
Patient accounts, less allowance for bad debts	110,207	10,419	-	-	120,626	109,434	8,643	-	-	118,077
Estimated third-party payor settlements	602	-	-	-	602	10,043	-	-	-	10,043
Due from component units	802	-	36	(36)	802	311	-	-	(39)	272
Other receivables	12,435	464	-	-	12,899	11,777	312	-	-	12,089
Inventories	19,760	-	-	-	19,760	17,570	-	-	-	17,570
Prepaid expenses	16,660	1,950	-	-	18,610	13,867	2,279	-	-	16,146
<b>Total current assets</b>	<b>323,220</b>	<b>15,945</b>	<b>271</b>	<b>(36)</b>	<b>339,400</b>	<b>256,951</b>	<b>17,024</b>	<b>621</b>	<b>(39)</b>	<b>274,557</b>
Noncurrent cash and investments										
Cash and Investments:										
Designated by Board for capital improvements	325,620	-	-	-	325,620	319,272	-	-	-	319,272
Designated by Board for supplemental retirement plans	1,464	-	-	-	1,464	1,585	-	-	-	1,585
<b>Total assets limited as to use</b>	<b>327,084</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>327,084</b>	<b>320,857</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>320,857</b>
Other assets										
Intangible capital assets, net of amortization	34,120	85	-	-	34,205	36,647	360	-	-	37,007
Investment in affiliates	3,008	-	-	(270)	2,738	1,586	-	-	(574)	1,012
Other long-term assets	227	-	-	-	227	277	-	-	-	277
<b>Total other assets</b>	<b>37,355</b>	<b>85</b>	<b>-</b>	<b>(270)</b>	<b>37,170</b>	<b>38,510</b>	<b>360</b>	<b>-</b>	<b>(574)</b>	<b>38,296</b>
Capital assets – tangible										
Land	12,305	-	-	-	12,305	11,314	-	-	-	11,314
Depreciable capital assets, net of accumulated depreciation	412,057	5,150	-	-	417,207	404,826	5,124	-	-	409,950
Construction in progress	11,261	486	-	-	11,747	10,406	96	-	-	10,502
<b>Total capital assets – tangible</b>	<b>435,623</b>	<b>5,636</b>	<b>-</b>	<b>-</b>	<b>441,259</b>	<b>426,546</b>	<b>5,220</b>	<b>-</b>	<b>-</b>	<b>431,766</b>
<b>Total assets</b>	<b>1,123,282</b>	<b>21,666</b>	<b>271</b>	<b>(306)</b>	<b>1,144,913</b>	<b>1,042,864</b>	<b>22,604</b>	<b>621</b>	<b>(613)</b>	<b>1,065,476</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>										
Contributions to pension plan	12,125	-	-	-	12,125	8,422	-	-	-	8,422
Deferred charges on bond refundings	3,809	-	-	-	3,809	4,404	-	-	-	4,404
<b>Total deferred outflows of resources</b>	<b>15,934</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,934</b>	<b>12,826</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,826</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,139,216</b>	<b>\$ 21,666</b>	<b>\$ 271</b>	<b>\$ (306)</b>	<b>\$ 1,160,847</b>	<b>\$ 1,055,690</b>	<b>\$ 22,604</b>	<b>\$ 621</b>	<b>\$ (613)</b>	<b>\$ 1,078,302</b>

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

	September 30, 2015					September 30, 2014						
	New Hanover Regional Medical Center		CHA	PQP	Eliminating Entries	Combined	New Hanover Regional Medical Center		CHA	PQP	Eliminating Entries	Combined
	Center						Center					
<b>LIABILITIES</b>												
Current liabilities												
Accounts payable and other liabilities	\$ 32,346	\$ 12,717	\$ 1	\$ -	\$ 45,064	\$ 31,689	\$ 5,448	\$ 8	\$ -	\$ 37,145		
Professional liability claims	14,511	505	-	-	15,016	16,575	-	-	-	16,575		
Accrued salaries and wages	37,502	3,012	-	-	40,514	35,053	1,522	-	-	36,575		
Estimated third-party payor settlements	10,284	-	-	-	10,284	11,627	-	-	-	11,627		
Due to component units	3,548	1	-	(36)	3,513	1,517	-	39	(39)	1,517		
Accrued interest payable	5,727	-	-	-	5,727	5,951	-	-	-	5,951		
Other self-funded liabilities	10,263	-	-	-	10,263	11,683	-	-	-	11,683		
Capital lease obligations, notes and bonds payable, current portion	12,605	-	-	-	12,605	13,968	-	-	-	13,968		
<b>Total current liabilities</b>	<b>126,786</b>	<b>\$ 16,235</b>	<b>1</b>	<b>(36)</b>	<b>142,986</b>	<b>128,063</b>	<b>6,970</b>	<b>47</b>	<b>(39)</b>	<b>135,041</b>		
Long-term obligations												
Net pension liability	40,608	-	-	-	40,608	44,243	-	-	-	44,243		
Supplemental retirement plans	2,547	-	-	-	2,547	1,585	-	-	-	1,585		
Interest rate swap agreements	5,685	-	-	-	5,685	5,580	-	-	-	5,580		
Notes and bonds payable, less current portion	269,542	-	-	-	269,542	282,960	-	-	-	282,960		
<b>Total long-term obligations</b>	<b>318,382</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>318,382</b>	<b>334,368</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>334,368</b>		
<b>Total liabilities</b>	<b>445,168</b>	<b>16,235</b>	<b>1</b>	<b>(36)</b>	<b>461,368</b>	<b>462,431</b>	<b>6,970</b>	<b>47</b>	<b>(39)</b>	<b>469,409</b>		
<b>DEFERRED INFLOWS OF RESOURCES</b>												
Pension deferrals	5,225	-	-	-	5,225	-	-	-	-	-		
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 450,393</b>	<b>\$ 16,235</b>	<b>\$ 1</b>	<b>\$ (36)</b>	<b>\$ 466,593</b>	<b>\$ 462,431</b>	<b>\$ 6,970</b>	<b>\$ 47</b>	<b>\$ (39)</b>	<b>\$ 469,409</b>		
<b>NET POSITION</b>												
Net Investment in capital assets	191,405	5,721	-	-	197,126	170,669	5,580	-	-	176,249		
Unrestricted	497,418	(290)	270	(270)	497,128	422,590	10,054	574	(574)	432,644		
<b>Total net position</b>	<b>688,823</b>	<b>5,431</b>	<b>270</b>	<b>(270)</b>	<b>694,254</b>	<b>593,259</b>	<b>15,634</b>	<b>574</b>	<b>(574)</b>	<b>608,893</b>		
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 1,139,216</b>	<b>\$ 21,666</b>	<b>\$ 271</b>	<b>\$ (306)</b>	<b>\$ 1,160,847</b>	<b>\$ 1,055,690</b>	<b>\$ 22,604</b>	<b>\$ 621</b>	<b>\$ (613)</b>	<b>\$ 1,078,302</b>		

**New Hanover Regional Medical Center**

**Combining Statements of Revenues, Expenses, and Changes in Net Position – Obligated Unit**

(Dollars in Thousands)

	Year Ended September 30, 2015					Year Ended September 30, 2014				
	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined
Operating revenues:										
Net patient service revenue	\$ 800,741	\$ 131,509	\$ -	\$ -	\$ 932,250	\$ 735,072	\$ 111,961	\$ -	\$ -	\$ 847,033
Other revenue	18,300	23,988	453	(20,525)	22,216	20,485	24,268	1,125	(23,333)	22,545
<b>Total operating revenue</b>	<b>819,041</b>	<b>155,497</b>	<b>453</b>	<b>(20,525)</b>	<b>954,466</b>	<b>755,557</b>	<b>136,229</b>	<b>1,125</b>	<b>(23,333)</b>	<b>869,578</b>
Operating expenses:										
Salaries, wages and benefits	368,655	38,638	229	-	407,522	345,408	23,730	223	-	369,361
Medical supplies	158,170	33,909	-	-	192,079	151,793	25,885	-	-	177,678
Professional fees	41,349	64,362	137	(15,155)	90,693	24,452	56,625	82	-	81,159
Purchased services	60,669	15,469	-	(4,407)	71,731	77,196	14,693	-	(22,333)	69,556
Depreciation and amortization	47,489	1,994	-	-	49,483	45,955	1,655	-	-	47,610
Other	41,004	11,389	391	(663)	52,121	48,313	9,671	246	-	58,230
<b>Total operating expenses</b>	<b>717,336</b>	<b>165,761</b>	<b>757</b>	<b>(20,225)</b>	<b>863,629</b>	<b>693,117</b>	<b>132,259</b>	<b>551</b>	<b>(22,333)</b>	<b>803,594</b>
<b>Operating income (loss)</b>	<b>101,705</b>	<b>(10,264)</b>	<b>(304)</b>	<b>(300)</b>	<b>90,837</b>	<b>62,440</b>	<b>3,970</b>	<b>574</b>	<b>(1,000)</b>	<b>65,984</b>
Nonoperating revenues (expenses):										
Interest expense	(11,834)	-	-	-	(11,834)	(12,507)	-	-	-	(12,507)
Other nonoperating income, net	257	-	-	-	257	(1,561)	-	-	-	(1,561)
Interest earned and net realized gain (loss) on investments	2,101	-	-	-	2,101	3,781	-	-	-	3,781
Net increase in fair value of investments	(758)	-	-	-	(758)	11,825	-	-	-	11,825
Gain (loss) on sale of capital assets	437	-	-	-	437	158	(106)	-	-	52
Equity in net income of joint ventures	931	-	-	604	1,535	757	-	-	426	1,183
Nonoperating revenues (expenses), net	<b>(8,866)</b>	<b>-</b>	<b>-</b>	<b>604</b>	<b>(8,262)</b>	<b>2,453</b>	<b>(106)</b>	<b>-</b>	<b>426</b>	<b>2,773</b>
<b>Income (loss) before capital contributions and capital transfers</b>	<b>92,839</b>	<b>(10,264)</b>	<b>(304)</b>	<b>304</b>	<b>82,575</b>	<b>64,893</b>	<b>3,864</b>	<b>574</b>	<b>(574)</b>	<b>68,757</b>
Capital contributions and transfers:										
Capital and permanent endowment contributions	423	-	-	-	423	142	-	-	-	142
Capital transfers (to) from component units	(3,074)	61	-	-	(3,013)	(1,768)	929	-	-	(839)
<b>Total capital contributions and capital transfers</b>	<b>(2,651)</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>(2,590)</b>	<b>(1,626)</b>	<b>929</b>	<b>-</b>	<b>-</b>	<b>(697)</b>
<b>Change in net position</b>	<b>90,188</b>	<b>(10,203)</b>	<b>(304)</b>	<b>304</b>	<b>79,985</b>	<b>63,267</b>	<b>4,793</b>	<b>574</b>	<b>(574)</b>	<b>68,060</b>
<b>Net position, beginning, previously reported</b>	<b>593,259</b>	<b>15,634</b>	<b>574</b>	<b>(574)</b>	<b>608,893</b>	<b>570,176</b>	<b>10,841</b>	<b>-</b>	<b>-</b>	<b>581,017</b>
<b>Restatement</b>	<b>5,376</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,376</b>	<b>(40,184)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(40,184)</b>
<b>Net position, beginning, restated</b>	<b>598,635</b>	<b>15,634</b>	<b>574</b>	<b>(574)</b>	<b>614,269</b>	<b>529,992</b>	<b>10,841</b>	<b>-</b>	<b>-</b>	<b>540,833</b>
<b>Net position, ending</b>	<b>\$ 688,823</b>	<b>\$ 5,431</b>	<b>\$ 270</b>	<b>\$ (270)</b>	<b>\$ 694,254</b>	<b>\$ 593,259</b>	<b>\$ 15,634</b>	<b>\$ 574</b>	<b>\$ (574)</b>	<b>\$ 608,893</b>

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

	Year Ended September 30, 2015					Year Ended September 30, 2014				
	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined
<b>Cash Flows From Operating Activities</b>										
Cash received from and on behalf of patients	\$ 808,238	\$ 129,728	\$ -	\$ -	\$ 937,966	\$ 720,539	\$ 111,984	\$ -	\$ -	\$ 832,523
Cash payments to suppliers for goods and services	(308,289)	(117,201)	(609)	20,225	(405,874)	(303,572)	(106,376)	(281)	22,333	(387,896)
Cash payments to employees for services	(368,319)	(37,123)	(230)	-	(405,672)	(345,472)	(23,640)	(223)	-	(369,335)
Other operating cash receipts (payments)	17,470	23,988	453	(20,525)	21,386	17,396	24,268	1,125	(23,333)	19,456
<b>Net cash provided by (used in) operating activities</b>	<b>149,100</b>	<b>(608)</b>	<b>(386)</b>	<b>(300)</b>	<b>147,806</b>	<b>88,891</b>	<b>6,236</b>	<b>621</b>	<b>(1,000)</b>	<b>94,748</b>
<b>Cash Flows From Noncapital Financing Activities</b>										
Payments from component unit	1,539	-	-	-	1,539	(1,890)	-	-	-	(1,890)
Advances between affiliates	217	-	-	-	217	210	-	-	-	210
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>1,756</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,756</b>	<b>(1,680)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,680)</b>
<b>Cash Flows From Capital and Related Financing Activities</b>										
Acquisition and construction of property and equipment	(48,352)	(2,131)	-	-	(50,483)	(45,741)	(2,706)	-	-	(48,447)
Proceeds from disposed assets	742	-	-	-	742	527	-	-	-	527
Capital contributions	423	-	-	-	423	142	-	-	-	142
Principal payments on capital lease obligations	(237)	-	-	-	(237)	(484)	-	-	-	(484)
Principal payments on revenue bonds and other outstanding debt	(14,199)	-	-	-	(14,199)	(13,817)	-	-	-	(13,817)
Interest paid on capital financing	(12,374)	-	-	-	(12,374)	(13,007)	-	-	-	(13,007)
Transfers (to) from component unit	(3,291)	61	-	-	(3,230)	(1,977)	929	-	-	(1,048)
<b>Net cash used in capital and related financing activities</b>	<b>(77,288)</b>	<b>(2,070)</b>	<b>-</b>	<b>-</b>	<b>(79,358)</b>	<b>(74,357)</b>	<b>(1,777)</b>	<b>-</b>	<b>-</b>	<b>(76,134)</b>
<b>Cash Flows From Investing Activities</b>										
(Purchases) sales of investments, net of maturities	(5,933)	-	-	-	(5,933)	(18,550)	-	-	-	(18,550)
Interest earned on investments	2,101	-	-	-	2,101	3,781	-	-	-	3,781
Contributions to partnerships	(1,100)	-	-	300	(800)	-	-	-	1,000	1,000
Distributions from partnerships	906	-	-	-	906	837	-	-	-	837
Other interest earned	(39)	-	-	-	(39)	(992)	-	-	-	(992)
<b>Net cash used in investing activities</b>	<b>(4,065)</b>	<b>-</b>	<b>-</b>	<b>300</b>	<b>(3,765)</b>	<b>(14,924)</b>	<b>-</b>	<b>-</b>	<b>1,000</b>	<b>(13,924)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>69,503</b>	<b>(2,678)</b>	<b>(386)</b>	<b>-</b>	<b>66,439</b>	<b>(2,070)</b>	<b>4,459</b>	<b>621</b>	<b>-</b>	<b>3,010</b>
Cash and cash equivalents at beginning of year	126,556	5,790	621	-	132,967	128,626	1,331	-	-	129,957
Cash and cash equivalents at end of year	\$ 196,059	\$ 3,112	\$ 235	\$ -	\$ 199,406	\$ 126,556	\$ 5,790	\$ 621	\$ -	\$ 132,967

(Continued)

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

	Year Ended September 30, 2015					Year Ended September 30, 2014				
	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined	New Hanover Regional Medical Center	CHA	PQP	Eliminating Entries	Combined
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>										
Unrestricted cash and cash equivalents	\$ 122,645	\$ 3,112	\$ 235	\$ -	\$ 125,992	\$ 54,383	\$ 5,790	\$ 621	\$ -	\$ 60,794
Cash and cash equivalents in noncurrent cash and investments										
Reserved for debt service-held by bond paying agent	17,279	-	-	-	17,279	16,863	-	-	-	16,863
Reserved for debt service-not held by bond paying agent	950	-	-	-	950	948	-	-	-	948
Designated by Board for payment of claims liabilities	225	-	-	-	225	156	-	-	-	156
Designated by Board for capital improvements	54,960	-	-	-	54,960	54,206	-	-	-	54,206
<b>Cash and cash equivalents, including noncurrent cash and cash equivalents at end of year</b>	<b>\$ 196,059</b>	<b>\$ 3,112</b>	<b>\$ 235</b>	<b>\$ -</b>	<b>\$ 199,406</b>	<b>\$ 126,556</b>	<b>\$ 5,790</b>	<b>\$ 621</b>	<b>\$ -</b>	<b>\$ 132,967</b>
<b>Reconciliation of Operating Income (loss) to Net Cash provided by (used in) operating activities</b>										
<b>Cash Flows From Operating Activities</b>										
Operating income (loss)	\$ 101,705	\$ (10,264)	\$ (304)	\$ (300)	\$ 90,837	\$ 62,440	\$ 3,970	\$ 574	\$ (1,000)	\$ 65,984
Employee services included in nonoperating income	-	-	-	-	-	(1,567)	-	-	-	(1,567)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:										
Depreciation and amortization	47,489	1,994	-	-	49,483	45,955	1,655	-	-	47,610
Pension expense	10,013	-	-	-	10,013	-	-	-	-	-
Changes in:										
Receivables	(1,431)	(1,932)	-	-	(3,363)	(12,577)	24	-	-	(12,553)
Inventories	(2,190)	-	-	-	(2,190)	(1,749)	-	-	-	(1,749)
Prepaid expenses and other current assets	(2,793)	329	-	-	(2,464)	(3,393)	(595)	-	-	(3,988)
Accounts payable and other liabilities	5,933	7,750	(82)	-	13,601	(1,983)	1,093	47	-	(843)
Accrued salaries and wages	2,449	1,515	-	-	3,964	1,503	89	-	-	1,592
Deferred outflows of resources for pensions	(12,125)	-	-	-	(12,125)	-	-	-	-	-
Other long-term assets	50	-	-	-	50	262	-	-	-	262
<b>Net cash provided by operating activities</b>	<b>\$ 149,100</b>	<b>\$ (608)</b>	<b>\$ (386)</b>	<b>\$ (300)</b>	<b>\$ 147,806</b>	<b>\$ 88,891</b>	<b>\$ 6,236</b>	<b>\$ 621</b>	<b>\$ (1,000)</b>	<b>\$ 94,748</b>
<b>Non-cash capital and related financing activities</b>										
Unrealized gain	\$ (758)	\$ -	\$ -	\$ -	\$ (758)	\$ 11,825	\$ -	\$ -	\$ -	\$ 11,825
SEAHEC merger	\$ 5,376	\$ -	\$ -	\$ -	\$ 5,376	\$ -	\$ -	\$ -	\$ -	\$ -