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Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 10-01-2011 and ending 09-30-2012

B Check if applicable
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Terminated
- ☐ Amended return
- ☐ Application pending

C Name of organization
THE OUTER BANKS HOSPITAL INC

Doing Business As

Number and street (or P O box if mail is not delivered to street address) | Room/suite
2100 STANTONSBURG ROAD

City or town, state or country, and ZIP + 4
GREENVILLE, NC 27835

D Employer identification number
56-2112733

E Telephone number
(252)847-5129

G Gross receipts $ 50,024,707

F Name and address of principal officer
RONALD SLOAN
2100 STANTONSBURG ROAD
GREENVILLE,NC 27835

H(a) Is this a group return for affiliates? ☐ Yes ☑ No

H(b) Are all affiliates included? ☐ Yes ☐ No
If "No," attach a list (see instructions)

H(c) Group exemption number ▶

I Tax-exempt status ☑ 501(c)(3) ☐ 501(c) ( ) ◀ (insert no) ☐ 4947(a)(1) or ☐ 527

J Website: ▶ WWW VIDANTHEALTH COM

K Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶

L Year of formation 2002

M State of legal domicile NC

Part I Summary

1 Briefly describe the organization's mission or most significant activities
TO PROVIDE A WIDE RANGE OF QUALITY SERVICES TO THE RESIDENTS AND VISITORS OF THE OUTER BANKS

2 Check this box ▶☐ if the organization discontinued its operations or disposed of more than 25% of its net assets

3	Number of voting members of the governing body (Part VI, line 1a)	**3**	10
4	Number of independent voting members of the governing body (Part VI, line 1b)	**4**	8
5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	**5**	367
6	Total number of volunteers (estimate if necessary)	**6**	41
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	0
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	0

		Prior Year	Current Year
Revenue	**8** Contributions and grants (Part VIII, line 1h)	0	0
	9 Program service revenue (Part VIII, line 2g)	48,733,785	49,887,752
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	52,862	62,754
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	69,274	74,201
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	48,855,921	50,024,707
Expenses	**13** Grants and similar amounts paid (Part IX, column (A), lines 1–3)	0	0
	14 Benefits paid to or for members (Part IX, column (A), line 4)	0	0
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	19,226,039	19,682,933
	16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0
	b Total fundraising expenses (Part IX, column (D), line 25) ▶0		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	19,726,938	20,946,321
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	38,952,977	40,629,254
	19 Revenue less expenses Subtract line 18 from line 12	9,902,944	9,395,453

		Beginning of Current Year	End of Year
Net Assets or Fund Balances	**20** Total assets (Part X, line 16)	59,742,470	60,754,128
	21 Total liabilities (Part X, line 26)	5,157,270	6,273,475
	22 Net assets or fund balances Subtract line 21 from line 20	54,585,200	54,480,653

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

****** 2013-05-13
Signature of officer — Date

DAVID HUGHES SECRETARY/TREASURER
Type or print name and title

Paid Preparer's Use Only

Preparer's signature: JOHN NORMAN | Date | Check if self-employed ☐ | Preparer's taxpayer identification number (see instructions) P01506766

Firm's name (or yours if self-employed), address, and ZIP + 4: CLIFTONLARSONALLEN LLP, 101 N TRYON STREET SUITE 1000, CHARLOTTE, NC 28246 | EIN ▶ 41-0746749 | Phone no ▶ (704) 998-5200

May the IRS discuss this return with the preparer shown above? (see instructions) ☑ Yes ☐ No

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III . . . . . ☐

1 Briefly describe the organization's mission

TO ENHANCE THE QUALITY OF LIFE FOR THE RESIDENTS & VISITORS OF DARE COUNTY & THE SURROUNDING REGION BY PROMOTING WELLNESS & PROVIDING THE HIGHEST QUALITY HEALTHCARE SERVICE

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? . . . . . ☐ Yes ☑ No

If "Yes," describe these new services on Schedule O

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? . . . . . ☐ Yes ☑ No

If "Yes," describe these changes on Schedule O

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a (Code) (Expenses $ 26,647,393 including grants of $) (Revenue $ 37,884,481)

OUTPATIENT AND EMERGENCY SERVICES PROVIDED EMERGENCY SERVICES TO 23,871 PATIENTS 24 HOURS A DAY FOR 365 DAYS PROVIDED OUTPATIENT DIAGNOSTIC AND THERAPEUTIC SERVICES TO 19,268 PATIENTS PERFORMED 1,759 OUTPATIENT SURGICAL PROCEDURES PROVIDED A PHYSICIAN CLINIC STAFFED WITH 6 PHYSICIANS THAT CARED FOR 19,268 PATIENTS

4b (Code) (Expenses $ 7,998,336 including grants of $) (Revenue $ 11,371,200)

INPATIENT SERVICES PROVIDED INPATIENT CARE 24 HOURS A DAY FOR 365 DAYS TO 1,390 PATIENTS DELIVERED 404 BABIES PERFORMED 486 INPATIENT SURGICAL PROCEDURES

4c (Code) (Expenses $ including grants of $) (Revenue $)

4d Other program services (Describe in Schedule O)

(Expenses $ including grants of $) (Revenue $)

4e **Total program service expenses** ▶ $ 34,645,729

Part IV Checklist of Required Schedules

			Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? *If "Yes," complete Schedule A*	1	Yes	
2	Is the organization required to complete *Schedule B, Schedule of Contributors* (see instructions)?	2		No
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? *If "Yes," complete Schedule C, Part I*	3		No
4	**Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If "Yes," complete Schedule C, Part II*	4		No
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *If "Yes," complete Schedule C, Part III*	5		No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? *If "Yes," complete Schedule D, Part I*	6		No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? *If "Yes," complete Schedule D, Part II*	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? *If "Yes," complete Schedule D, Part III*	8		No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? *If "Yes," complete Schedule D, Part IV*	9		No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? *If "Yes," complete Schedule D, Part V*	10		No
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line10? *If "Yes," complete Schedule D, Part VI.*	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VII.*	11b		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VIII.*	11c	Yes	
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part IX.*	11d		No
e	Did the organization report an amount for other liabilities in Part X, line 25? *If "Yes," complete Schedule D, Part X.*	11e	Yes	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? *If "Yes," complete Schedule D, Part X.*	11f	Yes	
12a	Did the organization obtain separate, independent audited financial statements for the tax year? *If "Yes," complete Schedule D, Parts XI, XII, and XIII*	12a	Yes	
b	Was the organization included in consolidated, independent audited financial statements for the tax year? *If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional*	12b	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? *If "Yes," complete Schedule E*	13		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a		No
b	Did the organization have aggregate revenues or expenses of more than $10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at $100,000 or more? *If "Yes," complete Schedule F, Part I*	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than $5,000 of grants or assistance to any organization or entity located outside the U S ? *If "Yes," complete Schedule F, Part II and IV*	15		No
16	Did the organization report on Part IX, column (A), line 3, more than $5,000 of aggregate grants or assistance to individuals located outside the U S ? *If "Yes," complete Schedule F, Part III and IV*	16		No
17	Did the organization report a total of more than $15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? *If "Yes," complete Schedule G, Part I*	17		No
18	Did the organization report more than $15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? *If "Yes," complete Schedule G, Part II*	18		No
19	Did the organization report more than $15,000 of gross income from gaming activities on Part VIII, line 9a? *If "Yes," complete Schedule G, Part III*	19		No
20a	Did the organization operate one or more hospitals? *If "Yes," complete Schedule H*	20a	Yes	
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? **Note.** All Form 990 filers that operated one or more hospitals must attach audited financial statements	20b	Yes	

Part IV Checklist of Required Schedules *(continued)*

21	Did the organization report more than $5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? *If "Yes," complete Schedule I, Parts I and II*	**21**		No
22	Did the organization report more than $5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? *If "Yes," complete Schedule I, Parts I and III*	**22**		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? *If "Yes," complete Schedule J*	**23**	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than $100,000 as of the last day of the year, that was issued after December 31, 2002? *If "Yes," answer questions 24b–24d and complete Schedule K. If "No," go to line 25*	**24a**		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	**24b**		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	**24c**		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	**24d**		
25a	**Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part I*	**25a**		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If "Yes," complete Schedule L, Part I*	**25b**		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? *If "Yes," complete Schedule L, Part II*	**26**		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? *If "Yes," complete Schedule L, Part III*	**27**		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28a**		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28b**		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? *If "Yes," complete Schedule L, Part IV*	**28c**		No
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	**29**		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	**30**		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	**31**		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	**32**		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? *If "Yes," complete Schedule R, Part I*	**33**	Yes	
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1*	**34**	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	**35a**		No
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? *If "Yes," complete Schedule R, Part V, line 2*	**35b**		No
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	**36**		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? *If "Yes," complete Schedule R, Part VI*	**37**		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? **Note.** All Form 990 filers are required to complete Schedule O	**38**	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V . . . . . ☐

				Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	1a	0		
b	Enter the number of Forms W-2G included in line 1a *Enter -0-* if not applicable	1b	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c			
2a	Enter the number of employees reported on Form W-3, *Transmittal of Wage and Tax Statements* filed for the calendar year ending with or within the year covered by this return	2a	367		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?	2b		Yes	
	Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)				
3a	Did the organization have unrelated business gross income of $1,000 or more during the year?	3a			No
b	If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O*	3b			
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)?	4a			No
b	If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts				
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . .	5a			No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b			No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c			
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible?	6a			No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b			
7	**Organizations that may receive deductible contributions under section 170(c).**				
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?	7a			No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b			
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c			No
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d			
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e			No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . .	7f			No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g			
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h			
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8			
9	**Sponsoring organizations maintaining donor advised funds.**				
a	Did the organization make any taxable distributions under section 4966?	9a			
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b			
10	**Section 501(c)(7) organizations.** Enter				
a	Initiation fees and capital contributions included on Part VIII, line 12 . . .	10a			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b			
11	**Section 501(c)(12) organizations.** Enter				
a	Gross income from members or shareholders	11a			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	11b			
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?	12a			
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b			
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**				
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state	13a			
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b			
c	Enter the aggregate amount of reserves on hand	13c			
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a			No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O* . .	14b			

Part VI **Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response to any question in this Part VI . . . . . ☑

Section A. Governing Body and Management

				Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	1a	10		
b	Enter the number of voting members included in line 1a, above, who are independent	1b	8		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?		2		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? .		3		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		4		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets? .		5		No
6	Did the organization have members or stockholders?		6	Yes	
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?		7a	Yes	
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?		7b	Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following				
a	The governing body?		8a	Yes	
b	Each committee with authority to act on behalf of the governing body?		8b	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O		9		No

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

			Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a		No
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a		No
b	Describe in Schedule O the process, if any, used by the organization to review the Form 990			
12a	Did the organization have a written conflict of interest policy? *If "No," go to line 13*	12a	Yes	
b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c	Yes	
13	Did the organization have a written whistleblower policy?	13	Yes	
14	Did the organization have a written document retention and destruction policy?	14	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	Yes	
b	Other officers or key employees of the organization	15b	Yes	
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a		No
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	16b		

Section C. Disclosure

17 List the States with which a copy of this Form 990 is required to be filed ▶ NC

18 Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection Indicate how you made these available Check all that apply

☑ Own website ☐ Another's website ☑ Upon request

19 Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public See Additional Data Table

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization ▶

TODD WARLITNER
2100 STANTONSBURG ROAD
GREENVILLE, NC 27835
(252) 847-5129

Part VII Compensation of Officers, Directors,Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII . . . . . ☑

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization's tax year

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than $100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, or highest compensated employees who received more than $100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than $10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons

☐ Check this box if neither the organization nor any related organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) ROBERT OWENS CHAIRMAN	4 00	X						0	0	0
(2) LINDA PALOMBO VICE CHAIRMAN	4 00	X						0	0	0
(3) BEULAH CHARITY ASHBY BOARD DIRECTOR	2 00	X						0	0	0
(4) DR JEFF C HAMMER BOARD DIRECTOR	2 00	X						0	0	0
(5) ROGER ROBERTSON BOARD DIRECTOR	2 00	X						0	0	0
(6) TERRY WHEELER BOARD DIRECTOR	2 00	X						0	0	0
(7) WYNN DIXON BOARD DIRECTOR	2 00	X						0	0	0
(8) ERNEST LARKIN BOARD DIRECTOR	2 00	X						0	0	0
(9) JODY MIDGETTE BOARD DIRECTOR	2 00	X						0	0	0
(10) ARTHUR KENEY BOARD DIRECTOR	2 00	X						0	0	0
(11) STEVE RODRIGUEZ BOARD DIRECTOR	2 00	X						0	0	0
(12) BOB GUANCI BOARD DIRECTOR	2 00	X						0	0	0
(13) RONALD SLOAN PRESIDENT	40 00			X				122,104	0	24,239
(14) TODD WARLITNER VP, BUSINESS OPERATIONS	40 00				X			152,736	0	41,654
(15) GARY HUNTER PHYSICIAN	40 00					X		390,932	0	7,977
(16) JENNIFER HALLORAN PHYSICIAN	40 00					X		188,258	0	13,698
(17) DAVID THOMPSON PHYSICIAN	40 00					X		219,340	0	18,884

Part VII **Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees** (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(18) VERN METCALF PHYSICIAN	40 00					X		276,943	0	16,058
(19) DAVID LUSTIG PHYSICIAN	40 00					X		352,300	0	1,525
1b **Sub-Total**										
c **Total from continuation sheets to Part VII, Section A**										
d **Total (add lines 1b and 1c)**								1,702,613	0	124,035

2 Total number of individuals (including but not limited to those listed above) who received more than $100,000 of reportable compensation from the organization ▶ 15

			Yes	No
3	Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? *If "Yes," complete Schedule J for such individual*	**3**		No
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than $150,000? *If "Yes," complete Schedule J for such individual*	**4**	Yes	
5	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? *If "Yes," complete Schedule J for such person*	**5**	Yes	

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than $100,000 of compensation from the organization Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
GE MEDICAL SYSTEMS PO BOX 402076 ATLANTA, GA 303842076	SERVICE CONTRACT	385,448
AVIATION ANESTHESIA ASSOC INC 158 BATTLEFIELD COURT MANTEO, NC 27954	PROVIDE CNAS	325,385
OUTER BANKS ANESTHESIA PC 128 WEIR POINT DR MANTEO, NC 27954	PROVIDE CNAS	283,380
AUREUS RADIOLOGY LLC PO BOX 3037 OMAHA, NE 68103	PROFESSIONAL SERVICES	275,529
SHARED HOSPITAL SERVICES 3530 ELMHURST LANE PORTSMOUTH, VA 23701	CONTRACT EMPLOYEES	168,011

2 Total number of independent contractors (including but not limited to those listed above) who received more than $100,000 of compensation from the organization ▶ 5

Part VIII Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d				
	e	Government grants (contributions)	1e				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f				
	g	Noncash contributions included in lines 1a-1f $					
	h	**Total.** Add lines 1a-1f					
Program Service Revenue			Business Code				
	2a	PATIENT REVENUE	621110	49,255,681	49,255,681		
	b						
	c						
	d						
	e						
	f	All other program service revenue		632,071	632,071		
	g	**Total.** Add lines 2a–2f		49,887,752			
	3	Investment income (including dividends, interest and other similar amounts)		62,754			62,754
	4	Income from investment of tax-exempt bond proceeds					
	5	Royalties					
			(i) Real	(ii) Personal			
	6a	Gross rents					
	b	Less rental expenses					
	c	Rental income or (loss)					
	d	Net rental income or (loss)					
			(i) Securities	(ii) Other			
	7a	Gross amount from sales of assets other than inventory					
	b	Less cost or other basis and sales expenses					
	c	Gain or (loss)					
	d	Net gain or (loss)					
Other Revenue	8a	Gross income from fundraising events (not including $ _____ of contributions reported on line 1c) See Part IV, line 18	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from fundraising events					
	9a	Gross income from gaming activities See Part IV, line 19	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from gaming activities					
	10a	Gross sales of inventory, less returns and allowances	a				
	b	Less cost of goods sold	b				
	c	Net income or (loss) from sales of inventory					
		Miscellaneous Revenue	Business Code				
	11a	CAFETERIA MEALS	722210	74,201			74,201
	b						
	c						
	d	All other revenue					
	e	**Total.** Add lines 11a–11d		74,201			
	12	**Total revenue.** See Instructions		50,024,707	49,887,752	0	136,955

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)
Check if Schedule O contains a response to any question in this Part IX . . . . . ☐

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21				
2	Grants and other assistance to individuals in the United States See Part IV, line 22				
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees				
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7	Other salaries and wages	16,056,772	15,345,782	710,990	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	539,949	531,417	8,532	
9	Other employee benefits	1,995,611	1,925,223	70,388	
10	Payroll taxes	1,090,601	1,035,144	55,457	
11	Fees for services (non-employees)				
a	Management	3,814,615		3,814,615	
b	Legal	22,772		22,772	
c	Accounting	18,268		18,268	
d	Lobbying				
e	Professional fundraising *See Part IV, line 17* . .				
f	Investment management fees				
g	Other	4,139,809	3,138,884	1,000,925	
12	Advertising and promotion	136,118		136,118	
13	Office expenses	3,076,001	3,076,001		
14	Information technology	11,377	11,377		
15	Royalties . .				
16	Occupancy	880,768	880,768		
17	Travel	223,184	223,184		
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings				
20	Interest	564,987	564,987		
21	Payments to affiliates				
22	Depreciation, depletion, and amortization	2,420,507	2,420,507		
23	Insurance	517,899	517,899		
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	CHARGEABLE SUPPLIES	4,935,803	4,935,803		
b	RECRUITMENT	155,987	38,753	117,234	
c	NON OPERATING	28,226		28,226	
d					
e					
f	All other expenses				
25	**Total functional expenses.** Add lines 1 through 24f	40,629,254	34,645,729	5,983,525	0
26	**Joint costs.** Check here ▶ ☐ if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X Balance Sheet

				(A) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing			1	
	2	Savings and temporary cash investments		4,564,646	2	5,001,596
	3	Pledges and grants receivable, net			3	
	4	Accounts receivable, net		8,493,586	4	8,203,952
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L			5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) Complete Part II of Schedule L			6	
	7	Notes and loans receivable, net			7	
	8	Inventories for sale or use		949,673	8	1,028,991
	9	Prepaid expenses and deferred charges		266,669	9	175,039
	10a	Land, buildings, and equipment cost or other basis *Complete Part VI of Schedule D*	10a 40,741,805			
	b	Less accumulated depreciation	10b 22,339,274	19,934,489	10c	18,402,531
	11	Investments—publicly traded securities			11	
	12	Investments—other securities See Part IV, line 11			12	
	13	Investments—program-related See Part IV, line 11		23,173,997	13	25,789,275
	14	Intangible assets			14	
	15	Other assets See Part IV, line 11		2,359,410	15	2,152,744
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		59,742,470	16	60,754,128
Liabilities	17	Accounts payable and accrued expenses		4,027,978	17	4,561,626
	18	Grants payable			18	
	19	Deferred revenue			19	
	20	Tax-exempt bond liabilities			20	
	21	Escrow or custodial account liability *Complete Part IV of Schedule D*			21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons *Complete Part II of Schedule L*			22	
	23	Secured mortgages and notes payable to unrelated third parties			23	
	24	Unsecured notes and loans payable to unrelated third parties			24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D		1,129,292	25	1,711,849
	26	**Total liabilities.** Add lines 17 through 25		5,157,270	26	6,273,475
Net Assets or Fund Balances		**Organizations that follow SFAS 117, check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		54,585,200	27	54,480,653
	28	Temporarily restricted net assets			28	
	29	Permanently restricted net assets			29	
		Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 30 through 34.				
	30	Capital stock or trust principal, or current funds			30	
	31	Paid-in or capital surplus, or land, building or equipment fund			31	
	32	Retained earnings, endowment, accumulated income, or other funds			32	
	33	Total net assets or fund balances		54,585,200	33	54,480,653
	34	Total liabilities and net assets/fund balances		59,742,470	34	60,754,128

Part XI Reconcilliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI . . . . . ☑

1	Total revenue (must equal Part VIII, column (A), line 12) . . .	1	50,024,707
2	Total expenses (must equal Part IX, column (A), line 25)	2	40,629,254
3	Revenue less expenses Subtract line 2 from line 1	3	9,395,453
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A)) . .	4	54,585,200
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-9,500,000
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	54,480,653

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII . . . . . ☑

			Yes	No
1	Accounting method used to prepare the Form 990 ☐ Cash ☑ Accrual ☐ Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O			
2a	Were the organization's financial statements compiled or reviewed by an independent accountant? . .	2a		No
b	Were the organization's financial statements audited by an independent accountant?	2b	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	2c	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both ☐ Separate basis ☐ Consolidated basis ☑ Both consolidated and separated basis			
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	3a		No
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits . .	3b		

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SCHEDULE A (Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ **Attach to Form 990 or Form 990-EZ.** ▶ **See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
THE OUTER BANKS HOSPITAL INC

Employer identification number
56-2112733

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

1 ☐ A church, convention of churches, or association of churches **section 170(b)(1)(A)(i).**

2 ☐ A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)

3 ☑ A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4 ☐ A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

_____

5 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II)

6 ☐ A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7 ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)

8 ☐ A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)

9 ☐ An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)

10 ☐ An organization organized and operated exclusively to test for public safety See **section 509(a)(4).**

11 ☐ An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

a ☐ Type I **b** ☐ Type II **c** ☐ Type III - Functionally integrated **d** ☐ Type III - Other

e ☐ By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box ☐

g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

	Yes	No
(i) a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization? **11g(i)**		
(ii) a family member of a person described in (i) above? **11g(ii)**		
(iii) a 35% controlled entity of a person described in (i) or (ii) above? **11g(iii)**		

h Provide the following information about the supported organization(s)

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document? Yes	(iv) No	(v) Did you notify the organization in col (i) of your support? Yes	(v) No	(vi) Is the organization in col (i) organized in the U S ? Yes	(vi) No	(vii) Amount of support?
Total									

Part II **Support Schedule for Organizations Described in IRC 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)**
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 **Total.** Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 **Public Support.** Subtract line 5 from line 4						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
11 **Total support** (Add lines 7 through 10)						

12 Gross receipts from related activities, etc (See instructions) **12**

13 **First Five Years** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and **stop here**

Section C. Computation of Public Support Percentage

14 Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f)) **14**

15 Public Support Percentage for 2010 Schedule A, Part II, line 14 **15**

16a **33 1/3% support test—2011.** If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization

b **33 1/3% support test—2010.** If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization

17a **10%-facts-and-circumstances test—2011.** If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization

b **10%-facts-and-circumstances test—2010.** If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization

18 **Private Foundation** If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions

Part III **Support Schedule for Organizations Described in IRC 509(a)(2)**
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 **Total.** Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of $5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 **Public Support** (Subtract line 7c from line 6)						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
13 **Total support** (Add lines 9, 10c, 11 and 12)						

14 **First Five Years** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and **stop here** ▶☐

Section C. Computation of Public Support Percentage

15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage

17 Investment income percentage for **2011** (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from **2010** Schedule A, Part III, line 17	18	

19a **33 1/3% support tests—2011.** If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

b **33 1/3% support tests—2010.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

20 **Private Foundation** If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions ▶☐

Part IV **Supplemental Information.** Supplemental Information. Complete this part to provide the explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

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SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
THE OUTER BANKS HOSPITAL INC

Employer identification number
56-2112733

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

		(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year		
2	Aggregate contributions to (during year)		
3	Aggregate grants from (during year)		
4	Aggregate value at end of year		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? ☐ Yes ☐ No

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit ☐ Yes ☐ No

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply)
☐ Preservation of land for public use (e g , recreation or pleasure)
☐ Preservation of an historically importantly land area
☐ Protection of natural habitat
☐ Preservation of a certified historic structure
☐ Preservation of open space

2 Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

		Held at the End of the Year
a	Total number of conservation easements	2a
b	Total acreage restricted by conservation easements	2b
c	Number of conservation easements on a certified historic structure included in (a)	2c
d	Number of conservation easements included in (c) acquired after 8/17/06	2d

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶ _____

4 Number of states where property subject to conservation easement is located ▶ _____

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

6 Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶ _____

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ $ _____

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1 ▶ $ _____

(ii) Assets included in Form 990, Part X ▶ $ _____

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a Revenues included in Form 990, Part VIII, line 1 ▶ $ _____

b Assets included in Form 990, Part X ▶ $ _____

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets *(continued)*

3 Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

- a ☐ Public exhibition
- b ☐ Scholarly research
- c ☐ Preservation for future generations
- d ☐ Loan or exchange programs
- e ☐ Other

4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5 During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? ☐ Yes ☐ No

Part IV Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV and complete the following table

		Amount
c Beginning balance	1c	
d Additions during the year	1d	
e Distributions during the year	1e	
f Ending balance	1f	

2a Did the organization include an amount on Form 990, Part X, line 21? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV

Part V Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a) Current Year	(b) Prior Year	(c) Two Years Back	(d) Three Years Back	(e) Four Years Back
1a Beginning of year balance					
b Contributions					
c Investment earnings or losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

2 Provide the estimated percentage of the year end balance held as

- a Board designated or quasi-endowment ▶
- b Permanent endowment ▶
- c Term endowment ▶

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

		Yes	No
(i) unrelated organizations	3a(i)		
(ii) related organizations	3a(ii)		
b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?	3b		

4 Describe in Part XIV the intended uses of the organization's endowment funds

Part VI Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		1,694,182		1,694,182
b Buildings		28,038,964	14,273,816	13,765,148
c Leasehold improvements				
d Equipment		11,000,091	8,065,458	2,934,633
e Other		8,568		8,568
Total. Add lines 1a-1e *(Column (d) should equal Form 990, Part X, column (B), line 10(c).)* ▶				18,402,531

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
Other		
Total. *(Column (b) should equal Form 990, Part X, col (B) line 12)* ▶		

Part VIII Investments—Program Related. See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) INVESTMENTS	25,789,275	F
Total. *(Column (b) should equal Form 990, Part X, col (B) line 13)* ▶	25,789,275	

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
Total. *(Column (b) should equal Form 990, Part X, col.(B) line 15.)* . . . . . ▶	

Part X Other Liabilities. See Form 990, Part X, line 25.

1 (a) Description of Liability	(b) Amount
Federal Income Taxes	
DUE TO THIRD PARTY PAYORS	1,420,849
RESERVE FOR PROFESSIONAL LIABILITY LOSSES	291,000
Total. *(Column (b) should equal Form 990, Part X, col (B) line 25)* ▶	1,711,849

2. Fin 48 (ASC 740) Footnote In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC740)

Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	50,024,707
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	40,629,254
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	9,395,453
4	Net unrealized gains (losses) on investments	4	
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	-9,500,000
9	Total adjustments (net) Add lines 4 - 8	9	-9,500,000
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	-104,547

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements			1	50,024,707
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12				
a	Net unrealized gains on investments	2a			
b	Donated services and use of facilities	2b			
c	Recoveries of prior year grants	2c			
d	Other (Describe in Part XIV)	2d			
e	Add lines **2a** through **2d**			2e	0
3	Subtract line **2e** from line **1**			3	50,024,707
4	Amounts included on Form 990, Part VIII, line 12, but not on line **1**				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV)	4b			
c	Add lines **4a** and **4b**			4c	0
5	Total Revenue Add lines **3** and **4c.** (This should equal Form 990, Part I, line 12)			5	50,024,707

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements			1	40,629,254
2	Amounts included on line 1 but not on Form 990, Part IX, line 25				
a	Donated services and use of facilities	2a			
b	Prior year adjustments	2b			
c	Other losses	2c			
d	Other (Describe in Part XIV)	2d			
e	Add lines **2a** through **2d**			2e	0
3	Subtract line **2e** from line **1**			3	40,629,254
4	Amounts included on Form 990, Part IX, line 25, but not on line **1:**				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV)	4b			
c	Add lines **4a** and **4b**			4c	0
5	Total expenses Add lines **3** and **4c.** (This should equal Form 990, Part I, line 18)			5	40,629,254

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b Also complete this part to provide any additional information

Identifier	Return Reference	Explanation
DESCRIPTION OF UNCERTAIN TAX POSITIONS UNDER FIN 48	PART X	THE OUTER BANKS HOSPITAL, INC IS EXEMPT FROM INCOME TAXES UNDER SECTION 501(C)(3) OF THE INTERNAL REVENUE CODE
		PART XI, LINE 8 - OTHER ADJUSTMENTS CAPITAL CONTRIBUTIONS AND TRANSFERS WITH AFFILIATES NET - 9,500,000

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SCHEDULE H (Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 20.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
THE OUTER BANKS HOSPITAL INC

Employer identification number
56-2112733

Part I Charity Care and Certain Other Community Benefits at Cost

			Yes	No
1a	Did the organization have a charity care policy? If "No," skip to question 6a	1a	Yes	
b	If "Yes," is it a written policy?	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals ☐ Applied uniformly to all hospitals ☐ Applied uniformly to most hospitals ☐ Generally tailored to individual hospitals			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year			
a	Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing *free* care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care ☐ 100% ☐ 150% ☑ 200% ☐ Other _____ %	3a	Yes	
b	Did the organization use FPG to determine eligibility for providing *discounted* care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care ☑ 200% ☐ 250% ☐ 300% ☐ 350% ☐ 400% ☐ Other _____ %	3b	Yes	
c	If the organization did not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care			
4	Did the organization's policy provide free or discounted care to the "medically indigent"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount?	5b		No
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligibile for free or discounted care?	5c		
6a	Did the organization prepare a community benefit reportduring the tax year?	6a	Yes	
6b	If "Yes," did the organization make it available to the public?	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7 Charity Care and Certain Other Community Benefits at Cost

Charity Care and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Charity care at cost (from Worksheet 1)			1,962,083		1,962,083	4 830 %
b Medicaid (from Worksheet 3, column a)			4,851,033	4,851,033		
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d **Total** Charity Care and Means-Tested Government Programs			6,813,116	4,851,033	1,962,083	4 830 %
Other Benefits						
e Community health improvement services and community benefit operations (from (Worksheet 4)	16	4,105	546,100	12,260	533,840	1 310 %
f Health professions education (from Worksheet 5)	5	59	53,738		53,738	0 130 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)	6	7,528	179,216		179,216	0 440 %
j **Total** Other Benefits	27	11,692	779,054	12,260	766,794	1 880 %
k **Total.** Add lines 7d and 7j	27	11,692	7,592,170	4,863,293	2,728,877	6 710 %

Part II Community Building Activities Complete this table if the organization conducted any community building activities.

		(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1	Physical improvements and housing	1		1,440		1,440	0 %
2	Economic development	1		12,777		12,777	0 030 %
3	Community support	1	20	22,604		22,604	0 060 %
4	Environmental improvements						
5	Leadership development and training for community members						
6	Coalition building	1	318	5,947		5,947	0 010 %
7	Community health improvement advocacy						
8	Workforce development	1		2,260		2,260	0 010 %
9	Other						
10	**Total**	5	338	45,028		45,028	0 110 %

Part III Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

				Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No 15?	1	Yes		
2	Enter the amount of the organization's bad debt expense	2	3,544,272		
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3			
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit				

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	13,825,376
6	Enter Medicare allowable costs of care relating to payments on line 5	6	11,862,495
7	Subtract line 6 from line 5 This is the surplus or (shortfall)	7	1,962,881
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6 Check the box that describes the method used		

☐ Cost accounting system ☑ Cost to charge ratio ☐ Other

Section C. Collection Practices

9a	Did the organization have a written debt collection policy during the tax year?	9a	Yes		
b	If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI	9b	Yes		

Part IV Management Companies and Joint Ventures (see instructions)

	(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1	1 THE OUTER BANKS HOSPITAL MEDICAL OFFICE BUILDING LLC	HEALTHCARE	100 000 %		
2	2 OUTER BANKS PROFESSIONAL SERVICES LLC	HEALTHCARE	100 000 %		
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					

Part V Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest)

How many hospital facilities did the organization operate during the tax year? 1

	Name and address	Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)
1	THE OUTER BANKS HOSPITAL INC 4800 SOUTH CROATAN HIGHWAY NAGS HEAD, NC 27959	X				X		X		

Part V Facility Information *(continued)*

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

THE OUTER BANKS HOSPITAL INC

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A): 1

		Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)			
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8	**1**		
If "Yes," indicate what the Needs Assessment describes (check all that apply)			
a ☐ A definition of the community served by the hospital facility			
b ☐ Demographics of the community			
c ☐ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d ☐ How data was obtained			
e ☐ The health needs of the community			
f ☐ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g ☐ The process for identifying and prioritizing community health needs and services to meet those needs			
h ☐ The process for consulting with persons representing the community's interests			
i ☐ Information gaps that limit the hospital facility's ability to assess the community's health needs			
j ☐ Other (describe in Part VI)			
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ___			
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	**3**		
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	**4**		
5 Did the hospital facility make its Needs Assessment widely available to the public?	**5**		
If "Yes," indicate how the Needs Assessment was made widely available (check all that apply)			
a ☐ Hospital facility's website			
b ☐ Available upon request from the hospital facility			
c ☐ Other (describe in Part VI)			
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply)			
a ☐ Adoption of an implementation strategy to address the health needs of the hospital facility's community			
b ☐ Execution of the implementation strategy			
c ☐ Development of a community-wide community benefit plan for the facility			
d ☐ Participation in community-wide community benefit plan			
e ☐ Inclusion of a community benefit section in operational plans			
f ☐ Adoption of a budget for provision of services that address the needs identified in the CHNA			
g ☐ Prioritization of health needs in the community			
h ☐ Prioritization of services that the hospital facility will undertake to meet health needs in its community			
i ☐ Other (describe in Part VI)			
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	**7**		
Financial Assistance Policy			
Did the hospital facility have in place during the tax year a written financial assistance policy that			
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	**8**	Yes	
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care?	**9**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 200 000000000000%			
If "No," explain in Part VI the criteria the hospital facility used			

Part V Facility Information *(continued)*

			Yes	No
10	Used FPG to determine eligibility for providing discounted care?	10	Yes	
	If "Yes," indicate the FPG family income limit for eligibility for discounted care 200 000000000000%			
	If "No," explain in Part VI the criteria the hospital facility used			
11	Explained the basis for calculating amounts charged to patients?	11	Yes	
	If "Yes," indicate the factors used in determining such amounts (check all that apply)			
	a ☑ Income level			
	b ☑ Asset level			
	c ☑ Medical indigency			
	d ☑ Insurance status			
	e ☑ Uninsured discount			
	f ☐ Medicaid/Medicare			
	g ☐ State regulation			
	h ☐ Other (describe in Part VI)			
12	Explained the method for applying for financial assistance?	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility?	13	Yes	
	If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
	a ☑ The policy was posted at all times on the hospital facility's web site			
	b ☐ The policy was attached to all billing invoices			
	c ☑ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
	d ☑ The policy was posted in the hospital facility's admissions offices			
	e ☐ The policy was provided, in writing, to patients upon admission to the hospital facility			
	f ☑ The policy was available upon request			
	g ☐ Other (describe in Part VI)			

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP			
	a ☑ Reporting to credit agency			
	b ☐ Lawsuits			
	c ☐ Liens on residences			
	d ☐ Body attachments or arrests			
	e ☐ Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP?	16	Yes	
	If "Yes," check all actions in which the hospital facility or a third party engaged			
	a ☑ Reporting to credit agency			
	b ☐ Lawsuits			
	c ☐ Liens on residences			
	d ☐ Body attachments			
	e ☐ Other similar actions (describe in Part VI)			
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply)			
	a ☑ Notified patients of the financial assistance policy upon admission			
	b ☑ Notified patients of the financial assistance policy prior to discharge			
	c ☑ Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills			
	d ☑ Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy			
	e ☐ Other (describe in Part VI)			

Part V Facility Information *(continued)*

Policy Relating to Emergency Medical Care

		Yes	No
18 Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy?	**18**	Yes	
If "No," indicate why			
a ☐ The hospital facility did not provide care for any emergency medical conditions			
b ☐ The hospital facility's policy was not in writing			
c ☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)			
d ☐ Other (describe in Part VI)			

Individuals Eligible for Financial Assistance

19 Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care			
a ☐ The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged			
b ☑ The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged			
c ☐ The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged			
d ☐ Other (describe in Part VI)			
20 Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care?	**20**		No
If "Yes," explain in Part VI			
21 Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient?	**21**		No
If "Yes," explain in Part VI			

Part V Facility Information *(continued)*

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility
(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? _____

	Name and address	Type of Facility (Describe)
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

Part VI Supplemental Information

Complete this part to provide the following information

1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21

2 **Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health needs assessments reported in Part V, Section B

3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy

4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves

5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)

6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served

7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
		PART I, LINE 3C CHARITY CARE IS DETERMINED BASED UPON MEETING 200% OF FEDERAL POVERTY GUIDELINES AND HAVING LIMITED ASSETS OTHER THAN A HOME DISCOUNTS ARE ALSO PROVIDED FOR ANY PATIENTS WITHOUT INSURANCE, REGARDLESS OF INCOME LEVELS

Identifier	ReturnReference	Explanation
		PART I, LINE 6A IN ADDITION TO THE COMMUNITY BENEFIT REPORT FOR THE OUTER BANKS HOSPITAL, INFORMATION REGARDING THIS ENTITY IS FOUND IN THE ANNUAL REPORT FOR UNIVERSITY HEALTH SYSTEMS OF EASTERN CAROLINA

Identifier	ReturnReference	Explanation
		PART II SEE SCHEDULE O

Identifier	ReturnReference	Explanation
		PART III, LINE 4 LINE 2 COSTS WERE CALCULATED USING THE ESTIMATED COST TO CHARGE RATIO FROM THE MEDICARE COST REPORT

Identifier	ReturnReference	Explanation
		PART III, LINE 8 ANY SHORTFALL OF MEDICARE REVENUE TO MEDICARE ALLOWABLE COSTS OF CARE COULD BE CONSIDERED COMMUNITY BENEFIT BECAUSE IN THE AREA SERVED BY THE ORGANIZATION OTHER PROVIDERS WOULD NOT BE AVAILABLE TO PROVIDE THE SERVICES REQUIRED THEREFORE, THE CARE WOULD BECOME A GOVERNMENT OBLIGATION

Identifier	ReturnReference	Explanation
		PART III, LINE 9B RECOMMENDED PATIENT ACCOUNTS WILL CONTINUE TO GO THROUGH THE ACCOUNTS RECEIVABLE BILLING CYCLE AS NORMAL WHEN THE ACCOUNT REACHES THE CUSTOMER SERVICE/COLLECTIONS MANAGER, SUPERVISOR FINANCIAL COUNSELING OR PATIENT ACCOUNTS SUPERVISOR, BASED ON THE INFORMATION GIVEN, A DECISION WILL BE MADE WHETHER TO PROCEED WITH COLLECTION OR REFER THE ACCOUNT FOR APPROVAL OF CHARITY CARE THE PROCESS WILL OCCUR AS FOLLOWS I FINANCIAL COUNSELORS WILL TRY TO LOCATE THIRD PARTY PAYORS IF NOT ELIGIBLE FOR ANY THIRD PARTY COVERAGE (INCLUDING CHARITIES), THEY MAY, BASED UPON THE FINANCIAL INFORMATION RECEIVED, RECOMMEND THE PATIENT FOR CHARITY CARE II PATIENT COUNSELORS WILL REVIEW FOR ANY THIRD PARTY PAYORS AND VERIFY EMPLOYMENT AND ASSETS A CHARITY CARE APPLICATION WILL NEED TO BE COMPLETED ALONG WITH TAX RETURN, PAY STUBS, SOCIAL SECURITY AWARD LETTER AND OTHER FINANCIAL INFORMATION AS MAY BE REQUIRED III THE PATIENT ACCOUNTS SUPERVISOR, SUPERVISOR FINANCIAL COUNSELING OR CUSTOMER SERVICE/COLLECTIONS MANAGER, BASED UPON ACCOUNT BALANCE AND THE INFORMATION GIVEN, WILL MAKE A DECISION WHETHER TO PROCEED WITH COLLECTION OR REFER THE PATIENT ACCOUNT FOR APPROVAL FOR CHARITY CARE PRESUMPTIVE ELIGIBILITY FOR CHARITY CARE THERE ARE OCCASIONS IN WHICH A PATIENT MAY APPEAR ELIGIBLE FOR A CHARITY CARE DISCOUNT, BUT THERE IS NO FINANCIAL ASSISTANCE INFORMATION AVAILABLE TO SUPPORT FINANCIAL AID A SOME PATIENTS ARE PRESUMED TO BE ELIGIBLE FOR CHARITY CARE DISCOUNTS ON THE BASIS OF INDIVIDUAL LIFE CIRCUMSTANCES (E G , HOMELESSNESS, PATIENTS WITH NO INCOME, BANKRUPTCY, DECEASED PATIENTS WITH NO ESTATE OR SPOUSE, ETC) B THROUGH THE ASSISTANCE OF A THIRD PARTY VENDOR AND CERTAIN ALGORITHMS, IN CONJUNCTION WITH OUR CHARITY POLICY GUIDELINES, ALL ACCOUNTS PRIOR TO OUTSIDE COLLECTION AGENCY REFERRAL WILL BE TESTED FOR PRESUMPTIVE CHARITY C THE ACCOUNTS DEEMED CHARITY WILL BE ADJUSTED OFF AND THE REMAINING ACCOUNTS WILL BE REFERRED TO AN OUTSIDE COLLECTION AGENCY D ONCE THE AGENCY HAS HAD THE ACCOUNTS FOR SIX MONTHS AND HAS DEEMED THEM UNCOLLECTIBLE, THE ACCOUNTS WITH BALANCES $1,200 00 AND LESS WILL BE RETURNED TO THE HOSPITAL AND REMOVED FROM THE PATIENTS CREDIT FILE ACCOUNTS WITH BALANCES ABOVE $1,200 00 WILL REMAIN WITH THE AGENCY AND KEPT ON THE PATIENTS CREDIT FILE E THE ACCOUNTS RETURNED TO THE HOSPITAL WILL BE PLACED IN A UNIQUE FINANCIAL CLASS AND WILL NOT BE PURSUED FOR COLLECTIONS

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 11H N/A

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 13G N/A

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 15E N/A

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 16E N/A

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 17E N/A

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 18C N/A

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 18D N/A

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 19D N/A

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 20 N/A

Identifier	ReturnReference	Explanation
THE OUTER BANKS HOSPITAL, INC		PART V, SECTION B, LINE 21 N/A

Identifier	ReturnReference	Explanation
		PART VI, LINE 2 THE ORGANIZATION ASSESSES COMMUNITY NEED IN CONJUNCTION WITH THE STATE AFFILIATED COUNTY HEALTH DEPARTMENTS AND OTHER LOCAL HEALTH CARE ORGANIZATIONS SEE ALSO SCHEDULE O

Identifier	ReturnReference	Explanation
		PART VI, LINE 3 INFORMATION IS AVAILABLE ON THE ORGANIZATION'S WEBSITE AND AT REGISTRATION FOR PATIENTS IN ADDITION, FACE TO FACE FINANCIAL COUNSELING IS AVAILABLE TO PATIENTS AND THEIR FAMILIES IN THE CENTRAL BUSINESS OFFICE

Identifier	ReturnReference	Explanation
		PART VI, LINE 4 SEE SCHEDULE O

Identifier	ReturnReference	Explanation
		PART VI, LINE 5 SEE SCHEDULE O

Identifier	ReturnReference	Explanation
		PART VI, LINE 6 SEE SCHEDULE O

Identifier	ReturnReference	Explanation
REPORTS FILED WITH STATES	PART VI, LINE 7	NC

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Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees
▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
THE OUTER BANKS HOSPITAL INC

Employer identification number
56-2112733

Part I Questions Regarding Compensation

			Yes	No
1a	Check the appropiate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items ☐ First-class or charter travel ☐ Housing allowance or residence for personal use ☐ Travel for companions ☐ Payments for business use of personal residence ☐ Tax idemnification and gross-up payments ☐ Health or social club dues or initiation fees ☐ Discretionary spending account ☐ Personal services (e g , maid, chauffeur, chef)			
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement orprovision of all the expenses described above? If "No," complete Part III to explain	**1b**		
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	**2**		
3	Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply ☑ Compensation committee ☑ Written employment contract ☑ Independent compensation consultant ☑ Compensation survey or study ☐ Form 990 of other organizations ☑ Approval by the board or compensation committee			
4	During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization			
a	Receive a severance payment or change-of-control payment?	**4a**		No
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	**4b**		No
c	Participate in, or receive payment from, an equity-based compensation arrangement?	**4c**		No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III			
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.			
5	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of			
a	The organization?	**5a**		No
b	Any related organization?	**5b**		No
	If "Yes," to line 5a or 5b, describe in Part III			
6	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of			
a	The organization?	**6a**		No
b	Any related organization?	**6b**		No
	If "Yes," to line 6a or 6b, describe in Part III			
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III	**7**		No
8	Were any amounts reported in Form 990, Part VII, paid or accured pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III	**8**		No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	**9**		

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use Schedule J-1 if additional space needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

Note. The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) TODD WARLITNER	(i)	139,424	13,312	0	30,274	11,380	194,390	0
	(ii)	0	0	0	0	0	0	0
(2) GARY HUNTER	(i)	390,932	0	0	0	7,977	398,909	0
	(ii)	0	0	0	0	0	0	0
(3) JENNIFER HALLORAN	(i)	188,258	0	0	0	13,698	201,956	0
	(ii)	0	0	0	0	0	0	0
(4) DAVID THOMPSON	(i)	219,340	0	0	0	18,884	238,224	0
	(ii)	0	0	0	0	0	0	0
(5) VERN METCALF	(i)	276,943	0	0	0	16,058	293,001	0
	(ii)	0	0	0	0	0	0	0
(6) DAVID LUSTIG	(i)	352,300	0	0	0	1,525	353,825	0
	(ii)	0	0	0	0	0	0	0

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8 Also complete this part for any additional information

Identifier	Return Reference	Explanation
SUPPLEMENTAL INFORMATION	PART III	RONALD SLOAN WAS COMPENSATED BY UNIVERSITY HEALTH SYSTEMS OF EAST CAROLINA, INC (D/B/A VIDANT HEALTH) FOR SERVICES RENDERED IN HIS CAPACITY AS PRESIDENT OF THE OUTER BANKS HOSPITAL, INC VIDANT HEALTH IS AN UNRELATED ORGANIZATION TO THE OUTER BANKS HOSPITAL RONALD SLOAN'S COMPENSATION IS BROKEN OUT AS FOLLOWS BASE COMPENSATION $101,800 BONUS & INCENTIVE $ 13,000 OTHER REPORTABLE COMPENSATION $ 7,304 DEFERRED COMPENSATION $ 23,480 NON-TAXABLE BENEFITS $ 759 TOTAL COMPENSATION $146,343

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SCHEDULE O
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
THE OUTER BANKS HOSPITAL INC

Employer identification number
56-2112733

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION A, LINE 6	ACCORDING TO THE ORGANIZATION'S AMENDED AND RESTATED BYLAWS, ARTICLE II, THE ORGANIZATION HAS TWO MEMBERS, EAST CAROLINA HEALTH AND CHESAPEAKE HOSPITAL AUTHORITY
	FORM 990, PART VI, SECTION A, LINE 7A	THE MEMBERS ELECT THE BOARD OF DIRECTORS
	FORM 990, PART VI, SECTION A, LINE 7B	THE FOLLOWING ACTIONS SHALL NOT BE TAKEN WITHOUT UNANIMOUS CONSENT OF THE MEMBERS POSSESS PROPERTY, INVEST FUNDS, ADDITIONAL CAPITAL CONTRIBUTIONS, ADMIT MEMBERS, MERGER OR DISSOLUTION, AMENDMENT, CON LITIGATION, SALE OF ASSETS, BUSINESS OF CORPORATION
	FORM 990, PART VI, SECTION B, LINE 11	A DRAFT FORM 990 WILL BE REVIEWED BY THE PRESIDENT AND THE VP OF BUSINESS OPERATIONS BEFORE IT IS FILED WITH THE IRS
	FORM 990, PART VI, SECTION B, LINE 12C	CONFLICTS OF INTEREST ARE REQUIRED TO BE SUBMITTED ANNUALLY THESE SUBMISSIONS ARE REVIEWED BY LEGAL COUNSEL AGAINST CORPORATE COMPLIANCE POLICIES WHEN A CONFLICT ARISES, THE MEMBER OF THE GOVERNING BODY IS RECUSED FROM VOTING
	FORM 990, PART VI, SECTION B, LINE 15	COMPENSATION IS DETERMINED BY THE BOARD IN CONSULTATION WITH THE MEMBERS, CONSIDERING THE PERFORMANCE AND PREVAILING MARKET RATES THIS PROCESS WAS LAST PERFORMED IN 2010
	FORM 990, PART VI, SECTION C, LINE 19	THE ORGANIZATION MAKES ITS GOVERNING DOCUMENTS, CONFLICT OF INTEREST POLICY, AND FINANCIAL STATEMENTS AVAILABLE TO THE PUBLIC UPON REQUEST
	FORM 990, PART VII, SECTION B, LINE 1	COMBINED FORMS 1099 WERE ISSUED BY THE VIDANT HEALTH SYSTEM TO THE INDEPENDENT CONTRACTORS THE REPORTED COMPENSATION ON PART VII INCLUDES ONLY THOSE AMOUNTS PAID DIRECTLY BY THE OUTER BANKS HOSPITAL
CHANGES IN NET ASSETS OR FUND BALANCES	FORM 990, PART XI, LINE 5	CAPITAL CONTRIBUTIONS AND TRANSFERS WITH AFFILIATES NET -9,500,000 TOTAL TO FORM 990, PART XI, LINE 5 -9,500,000
	FORM 990, PART XII, LINE 2C	NO CHANGE IN METHOD FROM PRIOR YEAR

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SCHEDULE R (Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
THE OUTER BANKS HOSPITAL INC

Employer identification number
56-2112733

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) OUTER BANKS PROFESSIONAL SVC LLC 604 AMANDA ST MANTEO, NC 27954 27-0484506	FAMILY PRACTICE	NC	425,672	4,314,511	N/A
(2) OUTER BANKS MEDICAL OFFICE BUILDING LLC 4810 S CROATAN HWY NAGS HEAD, NC 27959 16-1740979	MED OFFICE BLDG	NC	757,875	847,779	N/A

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
(1) EAST CAROLINA HEALTH INC 2100 STANTONSBURG ROAD GREENVILLE, NC 27835 91-1997979	HEALTHCARE	NC	501(C)(3)	509(A)(3)	N/A		No
(2) EAST CAROLINA HEALTH INC 2100 STANTONSBURG ROAD GREENVILLE, NC 27835 56-2003393	HEALTHCARE	NC	501(C)(3)	LINE 3	N/A		No
(3) CHESAPEAKE HOSPITAL AUTHORITY 736 N BATTLEFIELD BLVD CHESAPEAKE, VA 23320 23-7133975	HEALTHCARE	VA	501(C)(3)	N/A	N/A		No

Part III **Identification of Related Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations? Yes	(h) No	(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner? Yes	(j) No	(k) Percentage ownership

Part IV **Identification of Related Organizations Taxable as a Corporation or Trust** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership

Part V Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

		Yes	No
Note. Complete line 1 if any entity is listed in Parts II, III or IV			
1 During the tax year, did the orgranization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?			
a Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties **(iv)** rent from a controlled entity	1a		No
b Gift, grant, or capital contribution to related organization(s)	1b		No
c Gift, grant, or capital contribution from related organization(s)	1c		No
d Loans or loan guarantees to or for related organization(s)	1d		No
e Loans or loan guarantees by related organization(s)	1e		No
f Sale of assets to related organization(s)	1f		No
g Purchase of assets from related organization(s)	1g		No
h Exchange of assets with related organization(s)	1h		No
i Lease of facilities, equipment, or other assets to related organization(s)	1i		No
j Lease of facilities, equipment, or other assets from related organization(s)	1j		No
k Performance of services or membership or fundraising solicitations for related organization(s)	1k		No
l Performance of services or membership or fundraising solicitations by related organization(s)	1l	Yes	
m Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)	1m		No
n Sharing of paid employees with related organization(s)	1n		No
o Reimbursement paid to related organization(s) for expenses	1o	Yes	
p Reimbursement paid by related organization(s) for expenses	1p		No
q Other transfer of cash or property to related organization(s)	1q	Yes	
r Other transfer of cash or property from related organization(s)	1r		No

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) EAST CAROLINA HEALTH INC	Q	5,700,000	ACTUAL CASH PAYMENT
(2) CHESAPEAKE HOSPITAL AUTHORITY	Q	3,800,000	ACTUAL CASH PAYMENT
(3)			
(4)			
(5)			
(6)			

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 37.)

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization See instructions regarding exclusion for certain investment partnerships

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income(related, unrelated, excluded from tax under sections 512-514)	(e) Are all partners section 501(c)(3) organizations?		(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
				Yes	No			Yes	No		Yes	No	

Schedule R (Form 990) 2011

Part VII Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation	

VIDANT HEALTH

COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

VIDANT HEALTH
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

CliftonLarsonAllen

INDEPENDENT AUDITORS' REPORT

The Board of Directors
University Health Systems of Eastern Carolina, Inc.
d/b/a Vidant Health
Greenville, North Carolina

We have audited the accompanying combined balance sheets of University Health Systems of Eastern Carolina, Inc. d/b/a Vidant Health ("Vidant Health") as of September 30, 2012 and 2011 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of Vidant Health's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects the combined balance sheet of Vidant Health as of September 30, 2012 and 2011, and the combined changes in net assets and cash flow for the years then ended, in conformity with U.S. generally accepted accounting principles.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 11 and the Schedule of Plan Funding Progress on pages 65 and 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board ("GASB"), 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
January 4, 2013

Annual Financial Report

The discussion and analysis of the University Health Systems of Eastern Carolina, Inc. d/b/a Vidant Health ("Vidant Health" or the "Parent") financial performance provides an overview of the health system's financial activities for the years ended September 30, 2012 and 2011. The Parent, along with its five blended component units (the "Health System") is a nonprofit, tax-exempt corporation. Vidant Health consists of the parent corporation and its blended component units: Pitt County Memorial Hospital, Inc. d/b/a Vidant Medical Center ("VMC"), East Carolina Health, Inc. d/b/a Vidant Community Hospitals ("VCOM"), Vidant Medical Group ("VMG"), PCMH Management, Inc. d/b/a Vidant Properties ("VP"), and HealthAccess, Inc. The financial statements of VMC include the activities of Vidant Medical Center, SurgiCenter Services of Pitt, Inc., and SurgiCenter of Eastern Carolina, LLC d/b/a Vidant SurgiCenter ("VSC"). The financial statements of VCOM also include the activities of East Carolina Health-Bertie d/b/a Vidant Bertie Hospital ("VBER"), East Carolina Health-Chowan d/b/a Vidant Chowan Hospital ("VCHO"), East Carolina Health-Heritage, Inc. d/b/a Vidant Edgecombe Hospital ("VEDG"), East Carolina Health-Beaufort, Inc. d/b/a Vidant Beaufort Hospital ("VBEA"), Duplin General Hospital d/b/a Vidant Duplin Hospital ("VDUP"), East Carolina Health, Inc. d/b/a Vidant Roanoke-Chowan Hospital ("VROA"), Pungo District Hospital Corporation d/b/a Vidant Pungo Hospital ("VPUN"), The Outer Banks Hospital, and Heritage MRI.

Vidant Health is a health care delivery system headquartered in Greenville, North Carolina that provides primarily hospital and other health care related services to the citizens of eastern North Carolina. As of September 30, 2012 Vidant Health has a total of 1,500 licensed beds and is anchored by VMC, an 861-bed teaching and tertiary hospital, which is affiliated with the Brody School of Medicine at East Carolina University. VCOM includes eight hospitals with a total of 639 beds, which are located in communities in eastern North Carolina. Please read this information in conjunction with Vidant Health's combined financial statements, which begin on page 12. The combined financial statements also include comprehensive notes that describe the health system, its history, and significant accounting policies.

Financial Highlights

- In 2012 Vidant Health's admissions, patient days, surgeries and outpatient visits increased by 9.2, 5.7, 10.1, and 15.2 percent, respectively. In 2012, Vidant Health's admissions, patient days, surgeries and outpatient visits (excluding VPUN and VBEA, which were acquired in September 2011 and October 2011, respectively) increased by 3.2, 0.3, 1.8, and 1.9 percent, respectively.

- Vidant Health's income from operations for the years ended September 30, 2012 and 2011 was $112.2 million and $90.6 million, respectively. Vidant Health's operating margins for 2012 and 2011 were 4.8 percent and 4.3 percent, respectively, (the operating margin percentage includes both interest and bad debt expense as operating expenses).

- Vidant Health's operating cash flow margins (income from operations plus depreciation, amortization and interest expense divided by total revenues with bad debt expense as operating expense) for the years ended September 30, 2012 and 2011 were 11.6 percent and 11.4 percent, respectively.

- Vidant Health's excess of revenues over expenses for the years ended September 30, 2012 and 2011 was $124.8 million and $49.4 million, respectively.

- Vidant Health's non-operating revenues for the years ended September 30, 2012 and 2011 were $12.5 million and a deficit of $41.1 million, respectively. Investment income for the year ended September 30, 2012 was $57.2 million, consisting of a realized gain on investments of $26.1 million and an unrealized gain on investments of $31.1 million. Other included an unrealized loss on the interest-rate swap of $2.4 million. Investment income for the year ended September 30, 2011 was $2.4 million, consisting of a realized gain on investments of $24.8 million and an unrealized loss on investments of $22.3 million. Other included an unrealized loss on the interest-rate swap of $4.0 million.

- Vidant Health's unrestricted cash and investment balances at September 30, 2012 and 2011 totaled $542.3 million and $474.4 million, respectively, which was an increase of $67.9 million.

- Effective September 1, 2011, Vidant Health entered into a lease agreement with Beaufort County to lease and control Beaufort Regional Health System's assets for a 30-year period. Beaufort Regional Health System d/b/a Vidant Beaufort Hospital ("VBEA") consists primarily of a 142-bed acute care hospital and a 30-physician group of medical practices located in and around Washington, North Carolina. During the lease period, Vidant Health is responsible for the operations of VBEA and for working capital and capital needs. As part of the consideration provided under the lease, Vidant Health prepaid approximately $26.0 million in lease payments which Beaufort County used to defease the County's outstanding bond debt and other notes payable to financial institutions of approximately $18.9 million. Vidant Health also agreed to implement a physician practice development plan and invest a minimum of $21.0 million in capital expenditures over the first five years of the lease. At the end of the lease term, Vidant Health is entitled to complete title and ownership of VBEA for a purchase price of $10.0 million.

- Effective on June 11, 2011, VMC purchased a 50 percent interest in NewCo Cancer Services, LLC, for $4.9 million. The other 50% interest of the LLC is owned by the Brody School of Medicine at East Carolina University ("BSOM"). NewCo Cancer Services, LLC is an organization that provides comprehensive outpatient cancer services to the citizens of eastern North Carolina. In addition to the initial ownership buy-in, each party contributed $0.5 million each for future renovations to the existing facility. NewCo Cancer Services, LLC, purchased all the existing BSOM outpatient cancer services except for the services related to the cyberknife and chemotherapy infusion services. VCOM purchased 100 percent of the cyberknife and chemotherapy infusion services from the BSOM for $4.8 million and $5.0 million, respectively.

- Effective May 1, 2012, Vidant Health issued $150.5 million of Series 2012A tax-exempt revenue bonds. The bonds were used to refinance portions of the Series 2008 Bonds in order to obtain more favorable interest rates.

- Effective October 1, 2011, Vidant Health entered into an Agreement and Plan of Change of Control with Pungo District Hospital Corporation. Under this agreement, Vidant Health acquired 100% control of Pungo District Hospital ("VPUN"). Pungo is a 39 –bed acute care hospital and 10 licensed skilled nursing beds located in Bellhaven, North Carolina. Vidant Health defeased Pungo's approximately $1.6 million outstanding tax-exempt revenue bonds, and has committed to make $2.0 million in capital investments in Pungo over the first three years.

Overview of the Financial Statements

Vidant Health presents three basic combined financial statements: combined balance sheets, combined statements of revenues, expenses and changes in net assets, and combined statements of cash flows. The statements and related notes provide information about the financial activity of Vidant Health.

The balance sheets describe the financial position on September 30, 2012 and 2011 and show the resources (assets) owned by the corporation and the obligations (liabilities) owed to others. The balance sheets include information that reflects the corporation's assets relative to its obligations to bondholders, suppliers, employees, and other creditors. The excess of assets over liabilities represents Vidant Health's net assets.

The statements of revenues, expenses, and changes in net assets report the financial results from operations during the fiscal year. These statements show how much Vidant Health's net assets increased or decreased during the past year as a result of operating and non-operating activities and other changes.

The statements of cash flows describe the flow of cash into and out of Vidant Health during the fiscal year. The statements report cash flows received during the year from operations, management of current assets and liabilities, contributions, investing activities, and other sources. The statements also report how cash was used for investment in capital projects and equipment, contributions and transfers, and other uses.

Non-financial factors would also need to be considered in evaluating the overall financial health of Vidant Health, including but not limited to, changes in Vidant Health's market share, patient base, the quality of service provided by Vidant Health as well as local, state, and national economic and regulatory matters and policy changes.

Summary Financial Statements of Vidant Health

Financial Position

The Vidant Health condensed combined balance sheets at September 30 are presented below:

CONDENSED COMBINED BALANCE SHEETS
(in thousands of dollars)

	2012	2011	2010
Current Assets	$ 507,365	$ 465,343	$ 399,600
Assets Limited as to Use - Other	496,574	439,767	418,150
Assets Limited as to Use - Revenue Bonds	12,463	26,857	26,968
Capital Assets, Net of Accumulated Depreciation	634,092	591,925	555,243
Other Assets	43,328	47,025	36,536
Total Assets	$ 1,693,822	$ 1,570,917	$ 1,436,497
Current Liabilities	$ 255,595	$ 244,342	$ 216,577
Long-Term Liabilities	614,888	632,265	593,847
Total Liabilities	870,483	876,607	810,424
Invested in Capital Assets, Net of Related Debt	126,070	86,437	82,754
Restricted for Lease	8,709	8,648	8,266
Unrestricted Net Assets	688,560	599,225	535,053
Total Net Assets	823,339	694,310	626,073
Total Liabilities and Net Assets	$ 1,693,822	$ 1,570,917	$ 1,436,497

At September 30, 2012, Vidant Health's balance sheet includes total assets of $1,693.8 million and net assets of $823.3 million. The other major components of Vidant Health's balance sheets are: current assets, assets limited as to use, capital assets, other assets, current liabilities, and long-term liabilities. From September 30, 2011 to 2012 and from 2010 to 2011, total assets increased by $122.9 million and $134.4 million, respectively, while net assets increased by $129.0 million and $68.2 million, respectively.

Current assets consist primarily of cash used for operations, patient receivables, other receivables, settlements due from third-party payors, inventories and prepaid expenses. In fiscal year 2012, current assets were $507.4 million and increased by $42.0 million. Cash and cash equivalents decreased by $2.7 million, patient receivables increased by $2.6 million, other receivables by $4.4 million, inventories by $0.8 million, third-party settlements by $36.2 million, and the current portion of assets limited as use-held by trustees increased by $0.6 million. The decrease in current portion of cash and cash equivalents is due to movement of more of the cash and cash equivalents to long-term.

In fiscal year 2011, current assets were $465.3 million and increased by $65.7 million. Cash and cash equivalents increased by $21.2 million, patient receivables by $23.5 million, other receivables by $2.8 million, inventories by $6.0 million, prepaid expenses by $6.4 million, third-party settlements by $6.8 million, and assets limited as use-held by trustees decreased by $1.0 million. The increase in cash and cash equivalents is due primarily due to the improved profitability and the cash generated from the growth in the business. The growth in the overall business and the acquisition of VDUP and VBEA led to the increase in the patient receivables.

Assets limited as to use – other than revenue bonds, consist primarily of investments in equity securities and bonds that are held for long-term financial requirements and totaled $496.5 million at September 30, 2012. These funds increased by $56.7 million in 2012 and increased by $21.6 million in 2011. Vidant Health's longer-term cash and investment position in both years increased primarily from strong cash flow provided by operating activities.

Assets limited as to use – revenue bonds totaled $12.5 million and $26.9 million at September 30, 2012 and 2011, respectively. These funds consist of investments that are held in trust to fulfill debt service fund requirements for Vidant Health's Series 2008 C, D, and E bonds.

Capital assets, net of accumulated depreciation, totaled $634.1 million at September 30, 2012 and increased by $42.2 million in 2012 and increased by $36.7 million in 2011. These changes are described below in the discussion of capital assets.

Other assets include goodwill, bond issue costs, and other long-term receivables and totaled $43.3 million at September 30, 2012. Other assets decreased by $3.7 million in 2012 primarily due to the amortization of bond issuance costs as well as losses from investments in various joint ventures. Other assets increased by $10.5 million in 2011 due primarily to the investment in NewCo Cancer Services, LLC.

Current liabilities consist primarily of accounts payable, accrued expenses, settlements due to third-party payors, the current portion of reserves established for professional liability losses and current maturities of long-term debt and lease obligations. At September 30, 2012, current liabilities were $255.6 million and increased by $11.3 million from 2011. Accounts payable decreased by $1.0 million, estimated settlements due to third-party payors decreased by $2.6 million and accrued expenses increased by $16.0 million, while current reserve for professional liability losses increased by $0.6 million and current maturities of long-term debt decreased by $1.7 million. The increase in 2012 accrued expenses resulted primarily from increased liabilities for accrued payroll and related taxes.

At September 30, 2011, current liabilities were $244.3 million and increased by $27.8 million from 2010. Accounts payable increased by $11.7 million, estimated settlements due to third-party payors by $2.3 million and accrued expenses by $14.7 million, while current reserve for professional liability losses decreased by $0.8 million and current maturities of long-term debt by $0.1 million. The increase in 2011 accrued expenses resulted primarily from increased liabilities for accrued payroll and related taxes, workman's compensation and employee health benefits.

Long-term liabilities consist primarily of: long-term debt, obligations under capital leases, due to the Roanoke-Chowan Alliance, reserve for professional liability losses, other liabilities and non-controlling interest. Long-term liabilities were $614.9 million at September 30, 2012 and decreased by $17.4 million. Long-term debt, less current maturities, decreased by $12.1 million, reserves for professional liability losses decreased by $1.0 million, other liabilities decreased by $3.2 million and non-controlling interest decreased by $0.6 million while due to Roanoke-Chowan Alliance also decreased by $0.6 million. Long-term debt, less current maturities, decreased primarily as a result of the final draws of the 2011 series tax-exempt revenue bonds increasing debt by $7.5 million offset by the change in the market value of the Vidant Health swap of $2.4 million and payments on principal of $19.6 million.

Long-term liabilities were $632.3 million at September 30, 2011 and increased by $38.4 million. Long-term debt, less current maturities, increased by $33.7 million, reserves for professional liability losses decreased by $3.4 million, other liabilities increased by $4.2 million and non-controlling interest

increased by $4.5 million while due to Roanoke-Chowan Alliance decreased by $0.5 million. Long-term debt, less current maturities, increased primarily as a result of the issuance of 2011 series tax-exempt revenue bonds of $50.0 million of which $42.5 million had been drawn down at September 30, 2011. In addition to the new debt, the long-term debt, less current maturities, changed as a result of a decrease in the market value of the Vidant Health swap of $4.0 million and payments on principal of $14.5 million.

Changes in Net Assets

The Vidant Health condensed combined statements of revenues and expenses and changes in net assets for years ended September 30 are presented below:

CONDENSED COMBINED STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
(in thousands of dollars)

	2012	2011	2010
Operating Revenues	$ 1,550,811	$ 1,304,298	$ 1,194,942
Operating Expenses			
Salaries and Wages	611,060	510,553	473,413
Employee Benefits	166,629	146,666	139,418
Supplies and Other	551,622	457,113	425,521
Depreciation and Amortization	83,510	75,414	72,188
Operating Lease Expense	25,747	23,994	22,206
Total Expenses	1,438,568	1,213,740	1,132,746
Income From Operations	112,243	90,558	62,196
Nonoperating Revenues (Expenses)			
Interest Expense	(31,766)	(27,741)	(29,542)
Investment Income (Loss) and Other	44,306	(13,385)	6,335
Total Nonoperating Expenses, Net	12,540	(41,126)	(23,207)
Excess of Revenues Over Expenses	124,783	49,432	38,989
Contributions from Members and Other, Net	4,246	18,805	553
Increase in Net Assets	129,029	68,237	39,542
Net Assets - Beginning of Year	694,310	626,073	586,531
Net Assets - End of Year	$ 823,339	$ 694,310	$ 626,073

Income from operations for 2012, 2011, and 2010 was $112.2 million, $90.6 million, and $62.2 million, respectively. The related operating margins for 2012, 2011, and 2010 were 4.8 percent, 4.3 percent, and 2.5 percent, respectively. The operating margin percentage includes both interest and bad debt expense as operating expenses.

During 2012, operating revenues were $1,550.8 million and increased by 18.9 percent, while operating expenses also increased by 18.5 percent. Operating revenues increased from: greater patient demand (adjusted patient days) of 12.2 percent primarily due to growth at VMC and the addition of VBEA in September of 2011 and VPUN at the beginning of the fiscal year; net impact of rate increases; new services, revenue cycle improvements, Medicare and Medicaid, and managed care payment increases. Also in 2012, Vidant Health inpatient admissions, patient days, surgeries and outpatient visits increased by 9.2 percent, 5.7 percent, 10.1 percent, and 15.2 percent, respectively. Salaries and benefits increased by 18.3 percent to $777.7 million due to increases in full-time equivalent employees, wage and market adjustments, employee achievement bonuses, FICA tax expense and employee health insurance expense. Supplies and other expense increased by 20.7 percent to $551.6 million due to increased overall volume. Depreciation and amortization expense increased by 10.7 percent to $83.5 million due to normal capital expenditures during the year. Operating lease expense increased by 7.3 percent to $25.7 million due to increased rental expense for physician offices acquired during the year.

During 2011, operating revenues were $1,304.3 million and increased by 9.2 percent, while operating expenses also increased by 7.2 percent. Operating revenues increased from: greater patient demand (adjusted patient days) of 10.6 percent primarily due to growth at VMC and the addition of VDUP at the beginning of the fiscal year; net impact of rate increases; new services, revenue cycle improvements, Medicare and Medicaid, and managed care payment increases. Also in 2011, Vidant Health inpatient admissions, patient days, surgeries and emergency room visits increased by 11.0 percent, 6.6 percent, 5.0 percent, and 15.6 percent, respectively. Salaries and benefits increased by 7.2 percent to $657.2 million due to increases in full-time equivalent employees, wage and market adjustments, employee achievement bonuses, FICA tax expense and employee health insurance expense. Growth in employee health insurance expense rate of growth decreased to 4.2 percent in 2011 after years of double-digit growth rates. The improvement in employee health insurance was due to increased emphasis on wellness and health plan redesign. Supplies and other expense increased by 7.4 percent to $457.1 million due to increased overall volume. Depreciation and amortization expense increased by 4.5 percent to $75.4 million due to normal capital expenditures during the year. Operating lease expense increased by 8.1 percent to $24.0 million due to the full year impact of leasing three new helicopters.

Total non-operating revenues and expenses were $12.5 million in 2012 as compared to a deficit of $41.1 million in 2011. Non-operating activity consists primarily of: investment income; interest expense; gain (loss) on interest rate swap; unrestricted contributions, and non-controlling interest due to Chesapeake General Hospital for their 40 percent ownership in The Outer Banks Hospital and the non-controlling interest due to the local physicians for their 45 percent ownership in SurgiCenter of Eastern Carolina d/b/a Vidant SurgiCenter ("VSC"). Investment income was a gain of $57.2 million in 2012 and increased by $54.8 million as compared to 2011. Vidant Health's 2012 investment income of $57.2 million consisted of an unrealized gain on investments of $31.1 million and a realized gain on investments of $26.1 million. Other income consisted primarily of an unrealized loss on Vidant Health's interest-rate swap of $2.4 million. Investment income was significantly higher in 2012 as compared to 2011 due to improved performance in the overall market over the prior fiscal year. In 2012 as compared to 2011, unrestricted contributions totaled $15.2 million and increased by $8.9 million. Interest expense on Vidant Health's debt totaled $31.8 million and increased by $4.0 million compared to 2011 due primarily to the addition of new bonds. Income attributable to non-controlling interest totaled $9.8 million and increased by $0.3 million compared to 2011.

Total non-operating expenses were $41.1 million in 2011 as compared to $23.2 million in 2010. Non-operating activity consists primarily of: investment income; interest expense; gain (loss) on interest rate swap; unrestricted contributions, and non-controlling interest due to Chesapeake General Hospital for their 40 percent ownership in The Outer Banks Hospital and the non-controlling interest due to the local physicians for their 45 percent ownership in VSC. Investment income was a gain of $2.4 million in 2011 and decreased by $28.1 million as compared to 2010. Vidant Health's 2011 investment loss of $2.4 million consisted of an unrealized loss on investments of $22.3 million, interest income and a realized gain on investments of $24.8 million and other income consisted primarily of an unrealized loss on Vidant Health's interest-rate swap of $4.0 million. Investment income was significantly less in 2011 as compared to 2010 due to the decline in the overall market in the fourth quarter of the fiscal year. In 2011 as compared to 2010, unrestricted contributions totaled $1.3 million and decreased by $4.6 million. Interest expense on Vidant Health's debt totaled $27.7 million and decreased by $1.8 million compared to 2010. Non-controlling interest due others totaled $9.5 million and increased by $1.4 million compared to 2010.

Cash Flows

The Vidant Health condensed combined statements of cash flows for the years ended September 30 are presented below:

CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	2012	2011	2010
Cash Flows			
Operating Activities	$ 150,089	$ 150,762	$ 150,309
Financing Activities	(156,554)	(97,060)	(91,741)
Investing Activities	(94)	(40,041)	(31,794)
Net Increase (Decrease) in Cash and Cash Equivalents	(6,559)	13,661	26,774
Cash and Cash Equivalents - Beginning of Year	152,580	138,919	112,145
Cash and Cash Equivalents - End of Year	$ 146,021	$ 152,580	$ 138,919

Vidant Health's cash and cash equivalents decreased by $6.6 million and increased $13.7 million in 2012 and 2011, respectively. Cash flows from operating activities were $150.1 million in 2012 and $150.8 million in 2011, and decreased by $0.7 million in 2012 and increased by $0.5 million in 2011. The decrease in 2012 cash flow from operations resulted primarily from higher payments to vendors and suppliers as well as employees for wages and benefits due to growth in overall patients' volumes and the addition of two new facilities, an increase of 19 percent from the prior year, compared to only a 17 percent growth in revenue from patients. The increase in 2011 cash flow from operations resulted primarily from higher receipts from patients due to growth in overall patients' volumes.

Net cash outflows for capital and related financing activities were $156.6 million in 2012. In 2012 cash was used to fund capital asset additions of $110.2 million, to make principal payments on long-term debt of $19.6 million and to make interest payments of $27.0 million. In 2011 cash was used to fund capital asset additions of $76.3 million, to make principal payments on long-term debt of $14.5 million and to make interest payments of $26.4 million.

Net cash flow used by investing activities was $0.1 million in 2012 and $40.0 million in 2011. Vidant Health had a realized investment gain of $28.6 million in 2012 and a realized investment gain of $24.8 million in 2011. During 2012 and 2011, net purchases of securities and investments consumed $15.9 million of cash in 2012 and $50.4 million of cash in 2011. During 2012, Vidant Health distributed $10.4 million of earnings to non-controlling members in joint ventures and $5.0 million of earnings in 2011.

Capital Assets and Long-Term Liability Administration

Capital Assets

At September 30, 2012 and 2011, Vidant Health had $634.1 million and $591.9 million invested in capital assets, respectively. A summary of these assets is presented in the notes to the financial statements. During fiscal year 2012 Vidant Health's investment in capital assets of $126.2 million exceeded its net depreciation expense of $82.9 million, representing the majority of the increase in net capital assets of $42.2 million. During 2012, Vidant Health invested $26.3 million in the continued construction of the new Children's Hospital, $6.8 million on the new Children's Emergency Department, and purchased Tarboro Clinic, P.A. land and buildings for $3.7 million. In addition, Vidant Duplin, Vidant Beaufort and Vidant Pungo collectively spent $8.1 million on information systems and electronic health records infrastructure.

During fiscal year 2011 Vidant Health's investment in capital assets of $112.1 million exceeded its net depreciation expense of $75.2 million, representing the majority of the increase in net capital assets of $36.7 million as Vidant Health focused on building its cash position by $13.7 million. During 2011, Vidant Health invested in the acquisition of two new hospitals, Vidant Duplin Hospital resulting in $10.5 million of capital assets acquired, and Vidant Beaufort Hospital resulting in $26.5 million of capital assets acquired. In addition Vidant Health purchased land and buildings in Doctor's Park and a new corporate facility totaling $6.6 million, a Cyberknife utilized in cancer treatment procedures for $4.2 million, and began construction on the new Children's Hospital resulting in $3.8 million added to construction in process at September 30, 2011.

In fiscal year 2013, Vidant Health expects to invest approximately $131.1 million in capital assets. Major capital expenditures budgeted for in 2013 includes continued work on the Children's Hospital of $23.4 million, various information system projects totaling $23.8 million, $42.3 million in normal equipment purchases, $19.9 million in anticipated renovations throughout the system in 2013.

Long-Term Liabilities

At September 30, 2012 and 2011, Vidant Health had outstanding long-term liabilities of $614.9 million and $632.3 million, respectively. Long-term liabilities consist primarily of Vidant Health's long-term debt, lease obligations, reserves for professional liability losses and non-controlling interest. At September 30, 2012 Vidant Health's long-term debt less current maturities of $26.6 million totaled $521.7 million. During 2012, Vidant Health made principal payments on long-term debt of $19.6 million. The market value of Vidant Health's LIBOR-based interest-rate swap is also included as a component of long-term debt. During 2012, the market value of the swap declined and increased long-term debt by $2.4 million. Non-controlling interest primarily due to Chesapeake General Hospital for their 40 percent ownership in The Outer Banks Hospital and also to local physicians for their 45 percent ownership in the Vidant SurgiCenter increased by $0.6 million during 2012. During 2012, Vidant Health drew down the remaining $7.5 million of the Series 2011 Bonds and also issued Series 2012A Bonds that were used to refund portions of the Series 2008 Bonds and the outstanding balance of the 1998A Bonds, primarily to obtain more favorable interest rates to reduce debt service payments.

At September 30, 2011 Vidant Health's long-term debt less current maturities of $28.3 million totaled $533.8 million. During 2011, Vidant Health made principal payments on long-term debt of $14.5 million. The market value of Vidant Health's LIBOR-based interest-rate swap is also included as a component of long-term debt. During 2011, the market value of the swap declined and increased long-term debt by $4.0 million. Non-controlling interest primarily due to Chesapeake General Hospital for their 40 percent ownership in The Outer Banks Hospital and also to local physicians for their 45 percent ownership in the Vidant SurgiCenter increased by $4.5 million during 2011. During 2011 Vidant Health also issued $50.0 million of Series 2011 tax-exempt revenue bonds. At September 30, 2011, Vidant Health had drawn approximately $42.5 million of the bond proceeds to prepay the lease for Vidant Beaufort Hospital and to fund other normal capital expenditures. The bonds were issued as a direct bank purchase and bear interest at a variable rate of one-month LIBOR.

Contacting Financial Management

If you have questions about this report or need additional information, please contact Vidant Health's Chief Financial Officer at Vidant Health, 2100 Stantonsburg Road, P.O. Box 6028, Greenville, North Carolina 27835-6028.

VIDANT HEALTH
COMBINED BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011
(IN THOUSANDS OF DOLLARS)

ASSETS	2012	2011
CURRENT ASSETS		
Cash and Cash Equivalents	$ 98,785	$ 101,492
Accounts Receivable		
Patients, Net of Estimated Uncollectibles	235,274	232,659
Other Receivables	36,393	31,979
Estimated Settlements Due from Third-Party Payors	81,137	44,920
Due from Roanoke-Chowan Alliance	540	500
Inventories	35,998	35,158
Prepaid Expenses	15,857	15,898
Assets Limited as to Use - Current	3,381	2,737
Total Current Assets	507,365	465,343
ASSETS LIMITED AS TO USE		
By Board for Capital Improvements	443,564	372,861
By Board for Professional Liability Losses	25,957	27,356
Held by Trustees - Revenue Bonds	12,463	26,857
Held by Trustees - Other	27,053	39,550
Total Assets Limited as to Use	509,037	466,624
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	634,092	591,925
OTHER ASSETS		
Goodwill	25,822	25,822
Other Intangible Assets, Net	2,210	2,471
Bond Issuance Costs, Net	1,984	3,905
Due from Roanoke-Chowan Alliance, Less Current Maturities	5,206	6,080
Other Assets	8,106	8,747
Total Other Assets	43,328	47,025
Total Assets	$ 1,693,822	$ 1,570,917

See accompanying Notes to Combined Financial Statements

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES		
Accounts Payable	$ 72,871	$ 73,907
Accrued Expenses	113,230	97,272
Estimated Settlements Due to Third-Party Payors	38,979	41,617
Current Reserve for Professional Liability Losses	3,381	2,737
Current Maturities of Long-Term Debt	26,560	28,279
Current Maturities Due to Roanoke-Chowan Alliance	574	530
Total Current Liabilities	255,595	244,342
LONG-TERM LIABILITIES		
Long-Term Debt, Less Current Maturities	521,731	533,793
Due to Roanoke-Chowan Alliance, Less Current Maturities	5,006	5,580
Reserve for Professional Liability Losses	26,498	27,468
Other Liabilities	24,638	27,804
Non-Controlling Interest	37,015	37,620
Total Long-Term Liabilities	614,888	632,265
Total Liabilities	870,483	876,607
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	126,070	86,437
Restricted for Lease	8,709	8,648
Unrestricted Net Assets	688,560	599,225
Total Net Assets	823,339	694,310
Total Liabilities and Net Assets	$ 1,693,822	$ 1,570,917

VIDANT HEALTH
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(IN THOUSANDS OF DOLLARS)

	2012	2011
OPERATING REVENUES		
Net Patient Service Revenue, Net of Provision for Bad Debts	$ 1,491,106	$ 1,251,990
Other Revenue	59,705	52,308
Total Revenues	1,550,811	1,304,298
OPERATING EXPENSES		
Salaries and Wages	611,060	510,553
Employee Benefits	166,629	146,666
Supplies and Other	551,622	457,113
Depreciation and Amortization	83,510	75,414
Operating Lease Expense	25,747	23,994
Total Expenses	1,438,568	1,213,740
INCOME FROM OPERATIONS	112,243	90,558
NONOPERATING REVENUES (EXPENSES)		
Interest Expense	(31,766)	(27,741)
Investment Income	57,196	2,441
Income Applicable to Non-Controlling Interest	(9,764)	(9,484)
Other	(3,126)	(6,342)
Total Nonoperating Expenses, Net	12,540	(41,126)
EXCESS OF REVENUES OVER EXPENSES	124,783	49,432
Contributions from Members and Other, Net	4,246	18,805
INCREASE IN NET ASSETS	129,029	68,237
Net Assets - Beginning of Year	694,310	626,073
NET ASSETS - END OF YEAR	$ 823,339	$ 694,310

See accompanying Notes to Combined Financial Statements

VIDANT HEALTH
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(IN THOUSANDS OF DOLLARS)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Payments on Behalf of Patients	$ 1,445,751	$ 1,233,017
Receipts from Other Operations	57,651	54,701
Payments to Employees for Wages and Benefits	(761,167)	(649,091)
Payments to Vendors and Suppliers	(592,146)	(487,865)
Net Cash Provided by Operating Activities	150,089	150,762
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Asset Additions	(110,216)	(76,320)
Proceeds from Disposals of Capital Assets	-	858
Proceeds from Issuance of Long-Term Debt	158,926	42,540
Principal Payments on Long-Term Debt	(168,472)	(14,484)
Intangible Asset Additions	(305)	(2,652)
Principal Payments on Lease Obligation Payable	(530)	(491)
Due from Roanoke-Chowan Alliance	834	488
Payments on Bond Issuance Costs	(491)	(267)
Contributions for Capital Assets of Beaufort and Other	-	(25,491)
Interest Paid Related to Capital Financing Activities	(26,973)	(26,416)
Cash from Acquisitions of Hospitals	1,281	5,175
Deferred Loss on 2012 Refunding	(18,272)	-
2012A Original Issue Premium and Underwriter Discount, net	7,664	-
Net Cash Used in Capital and Related Financing Activities	(156,554)	(97,060)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of Investment Securities	(648,153)	(701,508)
Proceeds from Sales and Maturities of Investments	632,298	651,137
Investment Income	26,141	24,763
Other Nonoperating Expense, Net	2,894	(1,138)
Goodwill	-	(2,925)
Distributions to Non-Controlling Members in Joint Ventures, Net	(10,448)	(4,972)
Change in Other Assets	(2,826)	(5,398)
Net Cash Used in Investing Activities	(94)	(40,041)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,559)	13,661
Cash and Cash Equivalents - Beginning of Year	152,580	138,919
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 146,021	$ 152,580

See accompanying Notes to Combined Financial Statements

VIDANT HEALTH
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(IN THOUSANDS OF DOLLARS)

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from Operations	$ 112,243	$ 90,558
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation and Amortization	83,510	75,414
Provision for Bad Debts	137,715	145,824
Loss on Disposal of Capital Assets	1,112	596
Changes in Operating Assets and Liabilities		
Accounts Receivable	(143,707)	(158,135)
Inventories	(504)	(2,602)
Prepaid Expenses	322	(1,963)
Estimated Third-Party Payor Settlements	(39,363)	(6,662)
Accounts Payable	(14,269)	2,042
Accrued Expenses	16,522	8,128
Other Liabilities	(3,166)	1,797
Reserve for Professional Liability Losses	(326)	(4,235)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 150,089	$ 150,762
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINED BALANCE SHEETS		
Cash and Cash Equivalents in Current Assets	$ 98,785	$ 101,492
Cash and Cash Equivalents in Assets Limited as to Use	47,236	51,088
	$ 146,021	$ 152,580
Non-cash assets and liabilities, acquired from Vidant Pungo Hospital in 2012 and Vidant Duplin and Beaufort in 2011		
Accounts Receivable	$ 1,548	$ 14,065
Inventories	335	3,359
Prepaid Expenses	281	4,444
Capital Assets	4,828	37,049
Other Assets	67	1,479
Accounts Payable	(2,054)	(11,410)
Accrued Expenses	(783)	(7,770)
Estimated Third-Party Settlements	(508)	(2,218)
Long-Term Debt	(1,820)	(25,491)
Net Assets	(4,775)	(18,682)
Cash Acquired at Acquisition	$ (2,881)	$ (5,175)

Accounts payable related to capital asset additions totaled $11 2 million and $6 7 million at September 30, 2012 and 2011, respectively

Interest expense includes amortization of bond issuance costs of $2 4 million and $0 4 million, amortization of deferred loss on refunding of $2 2 million and $1 0 million, and amortization of bond discounts and premiums of $1 5 million and $0 5 million at September 30, 2012 and 2011, respectively

See accompanying Notes to Combined Financial Statements

NOTE 1 ORGANIZATION

University Health Systems of Eastern Carolina, Inc. d/b/a Vidant Health ("Vidant Health" or the "Parent") was incorporated on November 24, 1998 and is a non-profit, tax-exempt corporation. The Parent, along with its five blended component units, (the "Health System") is a health care delivery system providing hospital and other health care related services to the citizens of eastern North Carolina. A number of Vidant Health's Board of Directors are appointed by the County of Pitt (see detailed discussion under the Reporting Entity section below); however, the facilities are not owned by the County of Pitt. Vidant Health is not considered to be a component unit of any other governmental organization.

Pitt County Memorial Hospital, Inc. d/b/a Vidant Medical Center ("VMC" or the "Hospital") is required to pay the County annual payments in lieu of taxes and to partially reimburse the County for its contribution to the North Carolina Medicaid Program. The payments in lieu of taxes were approximately $1.8 million and $1.7 million for 2012 and 2011, respectively. The Medicaid payment was approximately $0.6 million for both 2012 and 2011. The annual payments are recognized as components of nonoperating expenses in the combined statements of revenues, expenses, and changes in net assets.

Reporting Entity

As required by accounting principles generally accepted in the United States of America, the combined financial statements of the Health System present the financial position and results of operations of the parent entity and its component units: VMC, East Carolina Health, Inc. d/b/a Vidant Community Hospitals ("VCOM"), Vidant Medical Group ("VMG"), PCMH Management, Inc. d/b/a Vidant Properties ("VP"), and Health Access, Inc. Effective October 1, 2011, control of VP's Board of Directors was transferred from VMC to Vidant Health. The component units are included and blended in the Health System's reporting entity because substantially all of the Board members of the component units are appointed by Vidant Health's Board of Directors and because of their operational or financial relationships with Vidant Health. All significant intercompany balances and transactions have been eliminated in combination. Effective March 1, 2012, the Parent Corporation's Board of Directors consists of eleven voting members, six of whom must be current or former Pitt County, North Carolina ("Pitt County") appointees of VMC's Board of Trustees and five of whom must be current or former Board of Governors of the University of North Carolina ("UNC") appointees of the Corporation's Board of Trustees. The Vice Chancellor of Health Sciences for East Carolina University also serves ex-officio without voting rights. No more than nine current members of VMC's Board of Trustees may serve simultaneously as members of the Parent Corporation's Board of Directors. At all times, a majority, or six members, of the Parent Corporation's Board of Directors must be current members of VMC's Board of Trustees. Appointments are for terms of three years, and thereafter members may be reappointed for one additional successive term of three years.

Vidant Medical Center

VMC is a tax-exempt 501(c)(3) corporation formed for the purpose of providing health care services to the citizens of eastern North Carolina. VMC is an academic teaching hospital, a regional referral center, and a community general hospital. The Hospital combines the financial statements of the Hospital and its component units: SurgiCenter Services of Pitt, Inc. ("SSOP"), and SurgiCenter of Eastern Carolina, LLC d/b/a Vidant SurgiCenter ("VSC").

NOTE 1 ORGANIZATION (CONTINUED)

Vidant Medical Center (Continued)

VSC's financial statements are combined into Vidant Health with the 45% interest purchased by physicians shown as a non-controlling interest. Although it is a separate legal entity, VMC has been blended with Vidant Health due to the fact that its twenty-member Board of Directors is appointed by Vidant Health's Board of Directors. A deferred gain from the original purchase transaction is recorded in other long-term liabilities and the goodwill for VSC is recorded in other assets. Both amounts eliminate upon combination.

The Hospital is affiliated with the Brody School of Medicine at East Carolina University ("Brody School of Medicine"), which is physically adjacent to the Hospital. The Hospital and the Brody School of Medicine are committed to providing access to quality medical service to all citizens of Pitt County and eastern North Carolina.

Vidant Community Hospitals

VCOM is a tax-exempt 501(c)(3) corporation formed in 1996 to enhance the quality and management of non-profit hospitals and health care system services by the operation of community health systems for the benefit of the residents of eastern North Carolina.

- VCOM is party to a 23-year lease agreement, which entitles VCOM to operate the assets of Vidant Roanoke-Chowan Hospital. At the end of the lease term VCOM has the option and intends to purchase the leased assets for $0.1 million. In addition, VCOM leases East Carolina Health-Chowan d/b/a Vidant Chowan Hospital from Chowan County. At the end of the lease term, ownership of the facilities will pass to VCOM subject to Chowan County's option to buy back the hospital and related facilities for an amount equal to the then fair market value.

- VCOM operates The Outer Banks Hospital ("TOBH"), which is a joint venture between Vidant Health (60 percent) and Chesapeake General Hospital (40 percent). Chesapeake General Hospital's 40 percent interest is reported as a non-controlling interest.

- Effective October 1, 2010, Vidant Health terminated a management agreement with Duplin General Hospital d/b/a Vidant Duplin Hospital ("VDUP") and entered into a lease agreement with Duplin County to lease and control VDUP's assets for a 25 year period. At the end of the lease term, Vidant Health is entitled to complete title and ownership of VDUP for $1. Although VDUP is a separate legal entity, effective October 1, 2010, it has been blended with VCOM due to the fact its Board of Directors is appointed by VCOM.

NOTE 1 ORGANIZATION (CONTINUED)

Vidant Community Hospitals (Continued)

- Effective September 1, 2011, Vidant Health entered into a lease agreement with Beaufort County to lease and control Beaufort Regional Health System's assets for a 30-year period. At the end of the lease term, Vidant Health is entitled to complete title and ownership of East Carolina Health-Beaufort, Inc. d/b/a Vidant Beaufort Hospital ("VBEA") for a purchase price of $10.0 million. Although VBEA is a separate legal entity, effective September 1, 2011, it has been blended with VCOM due to the fact its Board of Directors is appointed by VCOM.

- VCOM also operates East Carolina Health – Bertie d/b/a Vidant Bertie Hospital, East Carolina Health – Heritage, Inc. d/b/a Vidant Edgecombe Hospital, and Heritage MRI.

- Effective October 1, 2011, Vidant Health entered into an Agreement and Plan of Change of Control with Pungo District Hospital Corporation. Under this agreement, Vidant Health acquired 100% control of Pungo District Hospital ("VPUN"). VPUN is a 39 –bed acute care hospital and 10 licensed skilled nursing beds located in Bellhaven, North Carolina. Although VPUN is a separate legal entity, effective October 1, 2011, it has been blended with VCOM due to the fact its Board of Directors is appointed by VCOM.

Although it is a separate legal entity, VCOM has been blended with Vidant Health due to the fact that its seven-member Board of Directors is appointed by Vidant Health's Board of Directors.

HealthAccess, Inc.

HealthAccess, Inc. ("HealthAccess") is a non-profit, 501(c)(3) tax-exempt corporation formed in 1993 to establish an outreach program for Vidant Health by offering support services to other health care providers in eastern North Carolina. HealthAccess has developed and currently offers home health and hospice services (d/b/a Vidant Home Health & Hospice) and promotes the general health of the community and of the employees of VMC through the operation of a full-service wellness center (d/b/a Vidant Wellness Center). Although it is a separate legal entity, HealthAccess is blended with Vidant Health due to the fact that its seven-member Board of Directors is appointed by Vidant Health's Board of Directors.

Vidant Medical Group

Effective January 1, 2010, Pitt Professional Services ("PPS") transferred all assets and liabilities to VMG. At that time, ownership changed from VMC to Vidant Health and other physician practices from various Vidant Health entities were brought under VMG's management. This new entity provides the capability to lead and manage all aspects of physician organizations. VMG provides a variety of physician services through both stand-alone and hospital-based practice settings. The establishment of VMG has provided strategic alignment and improved the coordination of care throughout the Health System and associated service areas. Although a separate legal entity, VMG has been blended with Vidant Health because Vidant Health holds 100% of the membership interest in VMG.

NOTE 1 ORGANIZATION (CONTINUED)

Vidant Properties

VP currently owns and operates several office buildings in the Health System's service area. The Hospital leases the office buildings for health center office space. Although a separate legal entity, VP has been blended with Vidant Health because Vidant Health holds 100% of the ownership interest in VP.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Vidant Health utilizes enterprise fund accounting whereby revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, Vidant Health has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates in the Preparation of Financial Statements

The preparation of the combined 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 as of September 30, 2012 and 2011 and the reported amount of revenues and expenses during the years ended September 30, 2012 and 2011. Actual results could differ from those estimates.

Income Taxes

The Parent, VMC, VCOM, HealthAccess, SSOP, and VMG are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. VP, the other component unit of Vidant Health, is a title holding company organized under Section 501(c)(2) of the Internal Revenue Code and as such is a tax-exempt organization. VSC and Heritage MRI are both taxable as a partnership, which is a pass-through entity under IRS regulations. As a result, although they are both for profit entities, VMC's share of VSC's excess of revenue over expenses, and Heritage Hospital d/b/a Vidant Edgecombe Hospital ("VEDG")'s share of Heritage MRI's excess of revenues over expenses, will be tax-exempt to Vidant Health.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and estimated provision for bad debts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Income

Investments in debt and fixed income equity securities are recorded at fair value. All investment income, including changes in the fair value of instruments, is recognized as nonoperating revenue in the statements of revenues, expenses, and changes in net assets.

Operating Revenues and Expenses

The statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – Vidant Health's principal activity. Nonexchange revenues and expenses, including grants, payments to County and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues and expenses. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of 90 days or less when purchased.

Inventories

Inventories, which consist principally of medical, pharmaceutical and dietary supplies, are stated at the lower of cost (first-in, first-out method) or market.

Assets Limited as to Use

Assets limited as to use include: (1) assets set aside by the Board of Directors for capital improvements and to fund professional liability losses, over which the Board retains control and may at its discretion subsequently use for other purposes, and (2) assets held by a trustee for capital improvements or debt service and the Supplemental Executive Retirement Plan. Assets limited as to use consist of cash, cash equivalents, and investments. All investment income on such assets, including changes in the fair value of instruments, are recognized as nonoperating gains or losses in the statements of revenues, expenses, and changes in net assets.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost or at fair value at date of donation and depreciated by the straight-line method over their estimated useful lives as follows:

Capital Asset Classification	Estimated Useful Lives
Land Improvements	5-40 years
Buildings and Building Improvements	5-50 years
Equipment	3-20 years

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition, the asset and related accumulated depreciation accounts are relieved and any related gain or loss is credited or charged to nonoperating revenues or expenses.

Goodwill

The corporation tests goodwill for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Bond issuance costs are amortized over the period the obligation is outstanding using a method that approximates the effective interest method. Capitalized interest, classified under capital assets, was $9.6 million at September 30, 2012 and 2011. Bond issuance costs, net of accumulated amortization of approximately $2.4 million and $3.0 million, respectively, were $2.0 million and $3.9 million at September 30, 2012 and 2011, respectively.

Concentration of Credit Risk

Vidant Health provides services primarily to the residents of eastern North Carolina without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to the large number of patients served and the formalized agreements with third-party payors. Vidant Health has significant accounts receivable (approximately 49 percent and 47 percent in 2012 and 2011, respectively) whose collectability or realizability is dependent upon the performance of certain governmental programs, primarily Medicare and Medicaid. Management does not believe there are significant credit risks associated with these governmental programs.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Vidant Health's employees earn vacation days at varying rates depending upon years of service. The maximum accrual vacation carryover from one fiscal year to the next will be one year of annual vacation credit for employees with less than 10 years of continuous service and two years accrual for employees with more than 10 years of continuous service.

Estimated Professional Liability Losses

The provision for estimated self-insured medical professional liability losses includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Fair Values of Financial Instruments

The following methods and assumptions were used by management in estimating fair values for financial instruments:

Current Assets and Current Liabilities - The carrying amounts reported in the combined balance sheets for current assets and current liabilities qualifying as financial instruments approximate their fair values.

Assets Limited as to Use - The fair values of Vidant Health's assets limited as to use have been based upon market quotations.

Long-Term Debt - The fair values of Vidant Health's long-term debt have been primarily based upon market quotations for similar debt. The estimated fair value of long-term debt was approximately $588.4 million and $585.4 million at September 30, 2012 and 2011, respectively.

Swap Agreements – Vidant Health considers its' interest rate swap agreement an ineffective hedge. Accordingly, their value is reconciled on the balance sheet at their respective fair values and all changes in fair value in the combined statement of operations as part of other nonoperating revenues (expenses). Interest rate swap fair values are determined using pricing models that use observable market inputs such as interest rates and yield curves.

Vidant Health's remaining financial instruments at September 30, 2012 are not significant.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets of Vidant Health are classified in three components. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, goodwill, bond issuance costs and assets whose use is limited from the issuance of bonds, and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted for lease includes contributions from the Roanoke-Chowan Alliance, Inc. to VCOM to be used for capital improvements for the benefit of the health services provided in Vidant Roanoke-Chowan Hospital (VROA) service area or for noncapital projects that expand the health care services to the residents of VROA's service area. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt or restricted for lease.

On September 11, 2012, the Roanoke-Chowan Alliance Board voted to approve a motion to move forward with early termination of the lease agreement, which is expected to occur in January of 2013. Vidant Health will commit to purchase $5.7 million in capital for VROA over the next 8 years and a final payment of $78,000, upon which Vidant Health will own the assets.

Grants and Contributions

From time to time, Vidant Health receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted or that are restricted to capital acquisitions are reported as nonoperating revenues and expenses.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34.* The objective of this statement is to improve financial reporting for a governmental financial reporting entity. Statement No. 14 and No. 34 were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also clarifies the reporting of equity interests in legally separate organizations. This statement will be effective for Vidant Health's fiscal year ending September 30, 2013, and is not expected to have a significant impact on the combined financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' committee on Accounting Procedure issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements in this statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This statement will be effective for Vidant Health's fiscal year ending September 30, 2013, and is not expected to have a significant impact on the combined financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement addresses the reporting financial statement elements, which are distinct from assets and liabilities. The statement provides guidance for deferred outflows of resources and deferred inflows of resources. This statement will be effective for Vidant Health's fiscal year ending September 30, 2013, and is not expected to have a significant impact on the combined financial statements.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53.* This statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The statement establishes when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement will be effective for Vidant Health's fiscal year ended September 30, 2012; however, it did not have a significant impact on the combined financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to establish new accounting and financial reporting requirements for governments that provide their employees with pensions. The requirements in this statement will change how governments calculate and report the costs and obligations associated with pensions and improve the decision-usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information across governments. This statement will be effective for Vidant Health's fiscal year ending September 30, 2015. Management has not evaluated the impact of adopting this statement, but it could be significant to the combined balance sheet.

Reclassifications

Certain amounts in the 2011 combined financial statements have been reclassified to conform to the 2012 presentation for comparative purposes with no effect on previously reported excess of revenues over expenses or changes in net assets.

NOTE 3 CHARITY CARE

Vidant Health provides care to patients who meet certain criteria under its charity care policy with charge or at amounts less than its established rates. Key elements used to determine eligibility include household income, real property and other assets. Vidant Health does not pursue collection of amounts determined to qualify as charity care; therefore, they are not reported as revenue.

Vidant Health maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy and the estimated cost of these services and supplies. Vidant Health has a Presumptive Charity Program which recognizes that there is a segment of the population that should fall within the guidelines of its charity programs; yet do not qualify due to failure to apply or failure to provide income documentation. Vidant Health's Presumptive Charity Program seeks to identify and provide financial relief for those patients who would have qualified had their economic situation been known and documented. Vidant Health also contracts with an independent third party which provides assistance in determining which patients qualify for presumptive charity.

NOTE 3 CHARITY CARE (CONTINUED)

Vidant Health 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 Hospital'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. The amounts foregone for patient service revenues furnished under Vidant Health's charity care policy aggregated approximately $137.6 million and $120.0 million for the years ended September 30, 2012 and 2011, respectively. Using the methodology noted above, Vidant Health has estimated the costs associated with amounts foregone for patient service revenues of $47.2 million and $43.3 million for the years ended September 30, 2012 and 2011, respectively.

Vidant Health did not receive any funds to subsidize the costs of providing charity care under its charity care policy for the years ended September 30, 2012 and 2011.

NOTE 4 NET PATIENT SERVICE REVENUE

Vidant Health has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of these arrangements follows:

Medicare

VMC's and VCOM's inpatient acute care, rehab, psych and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors and covers payment for both operating and capital costs. Direct medical education costs related to Medicare beneficiaries are paid on the basis of reasonable costs. VMC and VCOM are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by VMC and VCOM's and audits thereof by the Medicare fiscal intermediary. VBER, VCHO, VPUN and The Outer Banks Hospital (the "Critical Access Hospitals") have received critical access status, which provides for cost-based reimbursement from the Medicare program. VMC and VCOM's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. VMC's and VCOM's Medicare cost reports have been audited by the Medicare fiscal intermediary through 2006.

Medicaid

VMC's Medicaid reimbursement is based on full cost for inpatient and outpatient services. VMC is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by VMC and audits thereof by the Medicaid fiscal intermediary. VMC's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 2002. VCOM's Medicaid cost reports have been audited through 2006.

NOTE 4 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid (continued)

VCOM's Medicaid reimbursement is based on a payment per discharge system with case-mix adjustments based on DRGs (Diagnosis Related Groups) similar to those used in the Medicare program. Outpatient Services are paid at 80 percent of cost based on the filing of Medicaid Cost Reports. The Critical Access Hospitals receive cost-based Medicaid reimbursement.

Vidant Health has historically participated in the voluntary North Carolina Medicaid Reimbursement Initiative Program (the "MRI Program"), The MRI Program allowed the Hospital to receive additional annual Medicaid funding for its disproportionate share costs. In March 2012, the Center for Medicare and Medicaid Services ("CMS") approved a new disproportionate share plan for North Carolina. This new plan covers all non-state government hospitals and private hospitals in North Carolina, except for the UNC Health Care System affiliated hospitals (the "GAP Plan") and is essentially a supplemental upper payment limit plan to the existing MRI Program.

Under the provisions of the GAP Plan, Vidant Health is assessed an inter-governmental transfer ("IGT Payment") by the North Carolina Medicaid program ("Medicaid"), in return Medicaid makes an upper payment limit payment to Vidant Health. When both amounts are reasonably estimable and probable of payment, Vidant Health recognizes the revenues related to the UPL Plan as net patient service revenue. The IGT Payment is classified as an operating expense. Management continues to evaluate the approval and settlement process relating to the Program and records reserves in accordance with such evaluation and at September 30, 2012 and 2011, had reserved Medicaid Reimbursement Initiative payments of $0.4 million and $1.5 million, respectively, which are included in estimated settlements due to third-party payors in the accompanying combined balance sheets.

The GAP Plan was approved in March 2012; however, the provisions were retroactively effective to January 1, 2011. Thus, Vidant Health has recognized approximately nine months of revenue in 2012 that related to the 2011 fiscal year.

The following table summarizes the revenue recognized by Vidant related to these plans for the years ended September 30, 2012 and 2011 (in thousands of dollars):

	2012	2011
GAP Plan Year - 2011		
IGT Payment	$ (2,762)	$ -
UPL Received	28,713	-
	25,951	-
GAP Plan Year - 2012		
IGT Payment	(6,126)	-
UPL Received	39,796	-
	33,670	-
MRI Program Revenue	27,076	19,293
	$ 86,697	$ 19,293

NOTE 4 NET PATIENT SERVICE REVENUE (CONTINUED)

Vidant Health and Affiliates have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 59 percent and 55 percent, respectively, of Vidant Health's net patient revenue for the years ended September 30, 2012 and 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2012 net patient service revenue increased approximately $40.9 million due to changes in estimates primarily related to settlements of prior-year cost reports, nine months of settlements for the GAP Plan related to prior year and the Medicare Rural Floor Appeal settlement. The 2011 net patient service revenue decreased approximately $0.4 million due to changes in estimates related to settlements of prior-year cost reports.

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Vidant Health is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management is monitoring compliance through its Corporate Compliance Program.

NOTE 4 NET PATIENT SERVICE REVENUE (CONTINUED)

Net patient service revenue for the years ended September 30 is comprised of (in thousands of dollars):

	2012	2011
Charges at Established Rates	$ 3,798,228	$ 3,291,761
Deductions		
Medicare Adjustments	1,164,915	983,179
Medicaid Adjustments	424,067	426,692
Other Contractual Adjustments	442,808	364,057
Provision for Bad Debts	137,715	145,824
Charity Care	137,617	120,019
Net Patient Service Revenue	$ 1,491,106	$ 1,251,990

NOTE 5 DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, Vidant Health's deposits may not be returned. Vidant Health does not have a deposit policy for custodial credit risk. As of September 30, 2012, $94.3 million of Vidant Health's bank balance of $101.9 million was exposed to custodial credit risk as it exceeded the FDIC insurance limit. As of September 30, 2011, $74.6 million of Vidant Health's bank balance of $81.1 million was exposed to custodial credit risk as it exceeded the FDIC insurance limit.

Investments and Assets Limited as to Use

Following is a summary of the fair value of Vidant Health's investments including those classified as assets limited as to use at September 30, 2012 and 2011. These investments are uninsured and unregistered for which securities are held by the broker or dealer, or by its trust department or agent but not in Vidant Health's name (in thousands of dollars):

	2012	2011
Investments Classified as Assets Limited as to Use		
U S Treasury Securities	$ 23,150	$ 4,338
U S Government Backed Securities	18,178	36,983
Corporate Debt and Commercial Paper	85,620	85,820
Fixed Income Mutual Funds	139,634	158,077
Equities and Equity Mutual Funds	197,383	131,835
	463,965	417,053
Cash and Cash Equivalents	47,236	51,088
Accrued Interest Receivable	1,217	1,220
	512,418	469,361
Less Amounts Classified as Current	3,381	2,737
	$ 509,037	$ 466,624

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments and Assets Limited as to Use (Continued)

Investments include bond proceeds of $12.5 million and $26.9 million at September 30, 2012 and 2011, respectively, which are restricted for debt service reserve funds.

A summary of investment income for the years ended September 30, 2012 and 2011 follows (in thousands of dollars):

	2012	2011
Dividends and Interest Income	$ 11,053	$ 10,809
Net Realized Gains (Losses)	15,088	13,954
Net Unrealized Gains (Losses)	31,055	(22,322)
	$ 57,196	$ 2,441

As of September 30, 2012, maturities of investments classified as limited as to use are as follows (in thousands of dollars):

		Investment Maturities (in Years)			
Investment Type	Market Value	Less than 1	1– 5	6–10	More than 10
Cash and Cash Equivalents and Accrued Interest Receivable	$ 48,453	$ 48,453	$ -	$ -	$ -
Corporate Debt and Commercial Paper	85,620	6,503	55,627	13,279	10,211
U S Government Backed Securities	18,177	2,598	14,106	1,023	450
U S Treasury Securities	23,151	925	7,900	6,567	7,759
Equities	101,084	101,084	-	-	-
Equity Mutual Funds	96,299	96,299	-	-	-
Fixed Income Mutual Funds	139,634	139,634	-	-	-
	$ 512,418	$ 395,496	$ 77,633	$ 20,869	$ 18,420

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, Vidant Health's investment policy requires that no less than 35% of the portfolio be invested in fixed income assets.

Vidant Health holds investments in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect Vidant Health's investments and the amounts reported in the combined statements of revenues, expenses and changes in net assets.

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

To limit the amount of credit risk, Vidant Health requires that its investments be held in a diversified portfolio that has the following maximum allocation guidelines: Long-Term Investment Fund - Fixed Income 55%, Equity 55%; Total Cash Reserve and Investment Fund – Fixed Income 65%, Equity 45%.

Further policy requirements that help minimize credit risk are that no one company can comprise more than 7% of the total money invested by any individual fund manager for equity investments, and no more than 5% of the total fixed income assets shall be committed to the securities of any one issuer. Also, investments in high yield securities rated B or higher by Moody's or S&P, or if unrated, of comparable quality are limited to 10% of the total allocation, and the total allocation for securities denominated in foreign currencies is limited to 30%.

NOTE 6 ACCOUNTS RECEIVABLE AND PAYABLE AND ACCRUED EXPENSES

Vidant Health provides services to the residents of eastern North Carolina without collateral. An allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of the receivables. The allowance is based on historical collection experiences and a review of the current status of the existing receivables. The composition of receivables from patients and third-party payors at September 30 is as follows (in thousands of dollars):

	2012	2011
Receivables		
Patients	$ 172,483	$ 143,653
Third-Party Payors	144,405	162,674
Medicare	207,907	188,900
Medicaid	91,063	83,230
Total Patient Accounts Receivable	615,858	578,457
Less Contractual Allowances	(267,920)	(230,476)
Less Allowance for Uncollectible Amounts	(112,664)	(115,322)
Patient Accounts Receivable, Net	$ 235,274	$ 232,659
Other Miscellaneous Operating Receivables	$ 36,393	$ 31,979
Estimated Settlements Due from Third-Party Payors	$ 81,137	$ 44,920

NOTE 6 ACCOUNTS RECEIVABLE AND PAYABLE AND ACCRUED EXPENSES (CONTINUED)

Accounts payable and accrued expenses reported by Vidant Health consist of the following amounts at September 30 (in thousands of dollars):

	2012	2011
Accounts Payable to Vendors	$ 72,871	$ 73,907
Payable to Employees (Including Payroll Taxes)	$ 86,534	$ 71,409
Accrued Interest Payable	4,921	6,268
Accrued Health Insurance	13,225	14,106
Other	8,550	5,489
Accrued Expenses	$ 113,230	$ 97,272
Estimated Settlements Due to Third-Party Payors	$ 38,979	$ 41,617

NOTE 7 OTHER ASSETS

Other assets include investments in unaffiliated entities in which Vidant Health owns a 50 percent interest or less. Vidant Health utilizes the equity method of accounting for those investments for which they own at least 20 percent, but not greater than 50 percent. Under the equity method of accounting, the investment is initially recorded at cost and is subsequently adjusted for additional contributions or undistributed earnings or losses and distributions. Investments of less than 20 percent are accounted for under the cost method. Investments in unaffiliated entities were $8.1 million and $8.7 million at September 30, 2012 and 2011, respectively.

NOTE 8 CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended September 30 are as follows (in thousands of dollars):

	September 30, 2011	Additions/ Transfers	Reductions/ Transfers	September 30, 2012
Historical Cost				
Land	$ 45,342	$ 1,420	$ (110)	$ 46,652
Land Improvements	17,561	266	(1)	17,826
Buildings	658,004	22,988	(3,337)	677,655
Equipment	585,665	84,493	(19,743)	650,415
Total at Historical Cost	1,306,572	109,167	(23,191)	1,392,548
Less Accumulated Depreciation				
Land Improvements	16,800	1,518	(39)	18,279
Buildings	307,777	36,728	(2,427)	342,078
Equipment	398,370	55,801	(11,198)	442,973
Total Accumulated Depreciation	722,947	94,047	(13,664)	803,330
	583,625	15,120	(9,527)	589,218
Construction in Progress	8,300	46,877	(10,303)	44,874
Capital Assets, Net	$ 591,925	$ 61,997	$ (19,830)	$ 634,092

	September 30, 2010	Additions/ Transfers	Reductions/ Transfers	September 30, 2011
Historical Cost				
Land	$ 37,484	$ 8,955	$ (1,097)	$ 45,342
Land Improvements	17,340	227	(6)	17,561
Buildings	603,708	56,721	(2,425)	658,004
Equipment	523,800	70,510	(8,645)	585,665
Total at Historical Cost	1,182,332	136,413	(12,173)	1,306,572
Less Accumulated Depreciation				
Land Improvements	15,327	1,475	(2)	16,800
Buildings	268,558	39,293	(74)	307,777
Equipment	347,660	54,658	(3,948)	398,370
Total Accumulated Depreciation	631,545	95,426	(4,024)	722,947
	550,787	40,987	(8,149)	583,625
Construction in Progress	4,456	13,379	(9,535)	8,300
Capital Assets, Net	$ 555,243	$ 54,366	$ (17,684)	$ 591,925

Depreciation expense for the years ended September 30, 2012 and 2011 was approximately $82.9 million and $75.2 million, respectively.

Vidant Health has entered into contracts for various construction projects. Vidant Health's outstanding commitments totaled approximately $15.7 million and $35.2 million at September 30, 2012 and 2011, respectively.

NOTE 9 LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

A summary of long-term debt and other noncurrent liabilities at September 30 is as follows (in thousands of dollars):

	September 30, 2011	Additions	Reductions	September 30, 2012	Current Portion
Bonds and Notes Payable					
Revenue Bonds	$ 52,895	$ 7,460	$ (11,315)	$ 49,040	$ 995
Revenue Refunding Bonds	500,075	150,500	(156,510)	494,065	24,781
Notes Payable	6,563	1,186	(647)	7,102	784
	559,533	159,146	(168,472)	550,207	26,560
Less Unamortized Discount/Premium and Deferred Loss on Refunding	32,433	10,608	(3,728)	39,313	-
Interest Rate Swap Agreement	(34,972)	-	(2,425)	(37,397)	-
Total Long-Term Debt	562,072	148,538	(162,319)	548,291	26,560
Noncurrent Liabilities					
Due to Roanoke-Chowan Alliance	6,110	-	(530)	5,580	574
Reserve for Professional Liability Losses	30,205	-	(326)	29,879	3,381
Other Liabilities	25,389	-	(751)	24,638	-
Non-Controlling Interest	37,620	-	(605)	37,015	-
Total Other Noncurrent Liabilities	99,324	-	(2,212)	97,112	3,955
Total Long-Term Debt and Other Noncurrent Liabilities	$ 661,396	$ 148,538	$ (164,531)	$ 645,403	$ 30,515

	September 30, 2010	Additions	Reductions	September 30, 2011	Current Portion
Bonds and Notes Payable					
Revenue Bonds	$ 13,254	$ 42,540	$ (2,899)	$ 52,895	$ 3,745
Revenue Refunding Bonds	506,760	-	(6,685)	500,075	23,975
Notes Payable	11,463	-	(4,900)	6,563	559
	531,477	42,540	(14,484)	559,533	28,279
Less Unamortized Discount and Deferred Loss on Refunding	33,963	-	(1,530)	32,433	-
Interest Rate Swap Agreement	(31,002)	-	(3,970)	(34,972)	-
Total Long-Term Debt	528,516	42,540	(8,984)	562,072	28,279
Noncurrent Liabilities					
Due to Roanoke-Chowan Alliance	6,601	-	(491)	6,110	530
Reserve for Professional Liability Losses	34,440	-	(4,235)	30,205	2,737
Other Liabilities	23,592	1,797	-	25,389	-
Non-Controlling Interest	33,108	4,512	-	37,620	-
Total Other Noncurrent Liabilities	97,741	6,309	(4,726)	99,324	3,267
Total Long-Term Debt and Other Noncurrent Liabilities	$ 626,257	$ 48,849	$ (13,710)	$ 661,396	$ 31,546

NOTE 9 LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (CONTINUED)

Long-term debt at September 30 consists of (in thousands of dollars):

	2012	2011
Current Interest Serial Bonds - Series 1998A, maturing incrementally through December 1, 2029, interest payable semi-annually on June 1 and December 1 at 3 90% to 5 25%	$ -	$ 10,355
Health Care Facilities Revenue Bonds - Series 2008A-1, A-2, B-1 and B-2, maturing incrementally December 1, 2036, principal payable annually December 1, interest payable monthly on the 1st Wednesday of the month based on variable weekly interest rates	222,510	229,095
Health Care Facilities Revenue Bonds - Series 2008C, D, E-1 and E-2, maturing incrementally December 1, 2033, principal payable annually December 1, interest payable semi-annually June 1 and December 1 at 3 5% to 6 75%	122,455	270,980
Health Care Facilities Revenue Bonds - Series 2011, maturing incrementally through 2041, principal payable annually December 1, interest payable monthly based on variable interest rates	49,040	42,540
Health Care Facilities Revenue Bonds - Series 2012A, maturing incrementally through June 1, 2036, principal payable annually June 1, interest payable semi-annually June 1 and December 1, at fixed rates from 2% to 5%	149,100	-
Notes Payable	7,102	6,563
	550,207	559,533
Plus (Less) Net Unamortized Discount/Premium	(1,977)	(11,124)
Deferred Loss on Refunding	(37,336)	(21,309)
Interest Rate Swap Agreement	37,397	34,972
Current Maturities of Long-Term Debt	(26,560)	(28,279)
	$ 521,731	$ 533,793

NOTE 9 LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (CONTINUED)

Bonds Payable

Series 2012 Bonds

In May 2012, Vidant Health issued Series 2012A tax-exempt revenue bonds (the "Series 2012A Bonds"). Proceeds of the Series 2012A Bonds were used to refund the outstanding balance of the Series 1998A Bonds, $71.5 million of the Series 2008C Bonds, $21.8 million of the Series 2008E-1 Bonds, and $54.2 million of the Series 2008E-2 Bonds.

$54.1 million of the Series 2012A Bonds are Serial Bonds with fixed rates from 2% to 5%, and the remaining $96.4 million are Term Bonds with fixed rates from 4% to 5%. Interest Payments on the Series 2012A Bonds are due each June 1 and December 1 and principal payments are due annually each June 1, beginning June 1, 2012.

The Series 2012A Bonds were issued pursuant to a Trust Agreement, dated as of May 1, 20012 (the "Trust Agreement"), between the North Carolina Medical Care Commission (the "Commission") and U.S. Bank National Association, as bond trustee (the "Bond Trustee"). Concurrently with the issuance of the Series 2012A Bonds, the Commission entered into Loan Agreements with Vidant Health. The Series 2012A Bonds are limited obligations of the Commission payable solely from money to be received from Vidant Health and the Hospital (the "Obligated Group") pursuant to the terms of the Loan Agreements and pursuant to Master Obligations issued under a Master Trust Indenture (Amended and Restated), dated as of February 1, 2006 (the "Master Indenture"), between Vidant Health, the Hospital U.S. Bank National Association, as master trustee (the "Master Trustee"), and Supplemental Master Trust Indenture No. 21, dated as of May 1, 2012 ("Supplemental Master Indenture No. 21"), between Vidant Health, the Hospital and the Master Trustee. The Series 2012A Bonds are collateralized by the accounts of the members of the Obligated Group. No Restricted Affiliate or other entity affiliated with Vidant Health will be directly obligated to make payments due under the Loan Agreement or the Series 2012A Master Obligation. However, each member of the Obligated Group has covenanted that it will cause each of its Restricted Affiliates to pay, loan or otherwise transfer to such member of the Obligated Group (i) such amounts as are necessary to make payments due under all Master Obligations or portions thereof the proceeds of which were loaned or otherwise made available or benefited such Restricted Affiliate and (ii) such other amounts as are necessary to enable such Member of the Obligated Group to make payments due under all Master Obligations.

The Refunded Bonds were redeemed in May 2012 from the proceeds of the issuance of the Series 2012A Bonds, resulting in a loss of $18.3 million that is amortized over the life of the Series 2012A Bonds. The unamortized balance of the deferred loss was $18.0 million at September 30, 2012.

To accomplish the refunding of the 2008C, 2008E-1 and 2008E-2 Bonds (the "Refunded 2008 Bonds"), a portion of the proceeds of the Bonds was deposited with U.S. National Bank Association, as Escrow Agent, in trust pursuant to the terms and conditions of an Escrow Deposit Agreement dated May 1, 2012. At September 30, 2012 the outstanding balance of the refunded 2008C Bonds held in escrow was $71.5 million and the outstanding balance of the refunded 2008E Bonds held in escrow was $54.2 million.

NOTE 9 LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (CONTINUED)

Series 2011 Bonds

Effective June 23, 2011, Vidant Health issued $50.0 million of Series 2011 tax-exempt revenue bonds (the "Series 2011 Bonds"). Approximately $26.0 million of the proceeds of the Series 2011 were used to prepay the lease agreement for Vidant Beaufort Hospital. The remaining proceeds are to be used for normal capital expenditures.

The Series 2011 Bonds bear interest at a variable rate equal to 65.1% of one-month LIBOR plus .88225% (3.15% at September 30, 2012).

Series 2008 Bonds

In December 2008, Vidant Health issued Series 2008A-E tax-exempt revenue bonds (the "Series 2008 Bonds"). Proceeds of the Series 2008A and 2008B Bonds (the "VRDB Bonds") were used to refund all of the outstanding Series 2006A and 2006B Bonds and $11.0 million of the Series 2006D Bonds. Proceeds of the Series 2008C, 2008D and 2008E Bonds were used to refund all of the outstanding Series 2006C Bonds and the balance of the outstanding Series 2006D Bonds that were not refunded by the Series 2008B Bonds.

The Series 2008A and 2008B Bonds are variable rate demand bonds, initially bearing interest at weekly rates that are indexed to a current short-term market rate. In addition, a demand feature allows the bondholders to give seven days notice to require the bonds to be remarketed at par value plus accrued interest. Upon the issuance of the Series 2008A and 2008B Bonds, Vidant Health simultaneously entered into a Letter of Credit and Reimbursement (the "Credit Agreements") with two banks to allow Vidant Health to draw upon irrevocable letters of credit (the "Credit Facility") to repay the bondholders in the unlikely event that a remarketing fails. If Vidant Health draws on the Credit Facility, it will be obligated under the Credit Agreements to repay each tender advance, including interest at the Tender Advance Rate, as defined (approximately 5.25% at September 30, 2012). Interest payments are payable monthly.

Principal payments are payable beginning 180 days after the date the tender advance is made. The Series 2008A Bonds are repaid monthly or semi-annually based on a five year level amortization. The Series 2008B Bonds are repaid annually based on the remaining life of the letter of credit. Any remaining unpaid balance is due upon the earlier of the termination date, or, if applicable, the date the bonds are remarketed. The Credit Facility supporting the Series 2008A and 2008B expires in December 2013 and December 2015, respectively.

The Series 2008C and 2008D Bonds bear interest at rates fixed to maturity. The Series 2008E Bonds are variable rate bonds divided into two sub-series, one of which bears interest initially at a long-term interest rate of 5.75% for a period of approximately five years and the other of which bears interest initially at a long-term interest rate of 6.00% for a period of approximately six years.

The Series 2006 Bonds were redeemed in December 2008 from the proceeds of the issuance of the Series 2008 Bonds, resulting in a loss of $23.1 million that is amortized over the life of the Series 2008 Bonds. The unamortized balance of the deferred loss was $19.4 million and $20.4 million at September 30, 2012 and 2011, respectively.

NOTE 9 LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (CONTINUED)

Series 1998 Bonds

In September 1998, the Hospital issued the Series 1998A tax-exempt refunding revenue bonds (the "Series 1998A Bonds") to defease the previously issued Series 1995 tax-exempt revenue bonds (the "Series 1995 bonds"), to refund the outstanding tax-exempt bonds of the Roanoke-Chowan Alliance, to repay the loan from the North Carolina Medical Care Commission related to the Pooled Equipment Financing Program, to acquire property in becoming a private institution, to purchase equipment and undertake various construction projects, and to pay certain costs of issuance of the Series 1998A Bonds. Proceeds from the 1998A Bonds were placed in an irrevocable escrow account with a Trustee to be used solely for satisfying the obligations of the Series 1995 Bonds.

In October 1998, the Hospital issued Series 1998B tax-exempt revenue bonds to acquire Vidant Edgecombe Hospital and pay costs of issuance.

A portion of the Series 1998A and all of the Series 1998B Bonds were redeemed in February 2006. The defeasance of the Refunded 1998 Bonds, resulted in a loss of $19.9 million that was recognized and is amortized over the life of the Refunded 2006 Series, and subsequently the Series 2008 Revenue Bonds. Vidant Health completed the refunding to reduce its total debt service payments over the next 23 years by $21.3 million and to obtain a net present value savings of $14.1 million. The remainder of the Series 1998A bonds were refunded as part of the Series 2012A Bonds in May of 2012.

The outstanding balance of the defeased 1995 Revenue Bonds was $65.2 million and $70.4 million at September 30, 2012 and 2011, respectively.

Vidant Health and its Restricted Affiliates are required to comply with certain restrictive covenants relating to its bonds payable, the most restrictive of which requires the maintenance of a minimum debt service coverage ratio of 1.20.

NOTE 9 LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (CONTINUED)

Notes Payable

Notes payable at September 30, 2012 and 2011 were $7.1 million and $6.6 million, respectively. The various notes payable bear interest between 4.0 percent and 6.0 percent and principal amounts are due through fiscal year 2022. The notes payable are collateralized by certain capital assets.

Scheduled future debt service requirements of long-term debt for years subsequent to September 30, 2012 are as follows (in thousands of dollars):

	Series 2008 Bonds	Series 2011 Bonds	Series 2012 Bonds	Other	Total Principal	Interest Payments	Interest Rate Swaps, Net	Total Debt Service
2013	$ 10,640	$ 995	$ 1,335	$ 784	$ 13,754	$ 16,646	$ 6,089	$ 36,489
2014	11,040	1,030	1,365	769	14,204	16,475	5,803	36,482
2015	10,420	1,065	2,415	767	14,667	16,279	5,506	36,452
2016	10,290	1,100	2,750	807	14,947	16,095	5,201	36,243
2017	10,885	1,140	2,940	799	15,764	15,887	4,882	36,533
2018-2022	60,535	6,350	17,155	3,176	87,216	76,041	19,200	182,457
2023-2027	72,585	7,565	28,160	-	108,310	69,239	9,264	186,813
2028-2032	106,585	9,015	23,445	-	139,045	53,592	493	193,130
2033-2037	51,985	10,735	69,535	-	132,255	16,496	-	148,751
2038-2041	-	10,045	-	-	10,045	810	-	10,855
	$ 344,965	$ 49,040	$ 149,100	$ 7,102	$ 550,207	$ 297,560	$ 56,438	$ 904,205

In accordance with U.S. generally accepted accounting principles, maturities of the 2008A and 2008B Bonds are reported in the combined balance sheets under the repayment terms of the Credit Agreement. Maturities of long-term debt are reported in the combined balance sheet at September 30, 2012 as follows (in thousands of dollars):

	Series 2008 Bonds	Series 2011 Bonds	Series 2012 Bonds	Other	Total Principal	Interest Payments	Interest Rate Swaps, Net	Total Debt Service
2013	$ 23,446	$ 995	$ 1,335	$ 784	$ 26,560	$ 28,443	$ 6,089	$ 61,092
2014	119,899	1,030	1,365	769	123,063	21,563	5,803	150,429
2015	23,605	1,065	2,415	767	27,852	18,892	5,506	52,250
2016	58,300	1,100	2,750	807	62,957	16,212	5,201	84,370
2017	-	1,140	2,940	799	4,879	15,538	4,882	25,299
2018-2022	-	6,350	17,155	3,176	26,681	74,624	19,200	120,505
2023-2027	-	7,565	28,160	-	35,725	68,449	9,264	113,438
2028-2032	72,380	9,015	23,445	-	104,840	53,445	493	158,778
2033-2037	47,335	10,735	69,535	-	127,605	16,472	-	144,077
2038-2041	-	10,045	-	-	10,045	810	-	10,855
	$ 344,965	$ 49,040	$ 149,100	$ 7,102	$ 550,207	$ 314,448	$ 56,438	$ 921,093

NOTE 9 LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (CONTINUED)

Swap Agreement

On October 5, 2005, Vidant Health entered into a forward starting floating to fixed interest rate swap agreement with an effective date of February 16, 2006 and a termination date of December 1, 2028 (the "Swap Agreement") for the purpose of hedging the variable interest rate on the 2006 Refunding Bonds.

The agreement by the Counterparty to pay certain amounts to Vidant Health pursuant to the Swap Agreement did not alter or affect Vidant Health's obligation to pay the principal of, interest on, or the redemption price of any of the 2006 Refunding Bonds. Therefore, the Swap Agreement remained in effect upon the refunding of the 2006 Refunding Bonds. The Swap Agreement is being used to hedge the variable interest on the VRDB Bonds. The principal amount and repayment terms of the VRDB Bonds did not change significantly from the 2006 Refunding Bonds. The notional amount of the Swap Agreement at September 30, 2012 and 2011 was $211.2 million and $211.2 million, respectively.

In order to secure the Vidant Health's payment obligations under the 2006 Swap, Vidant Health issued Master Obligation, Series 2006A and 2006B (Derivative Agreement) (the "Series Derivative Agreement Master Obligation") to the Counterparty. The Derivative Agreement Master Obligation was issued under the Master Indenture and Supplemental Master Trust Indenture No. 8, dated as of February 1, 2006, between Vidant Health and the Master Trustee. The payment of the Parent Corporation's regularly scheduled payments, and in limited circumstances, termination payments under the 2006 Swap is guaranteed by a financial guaranty insurance policy issued by Ambac Assurance Corporation. During 2010, Ambac Assurance Corporation declared bankruptcy and Vidant Health has been required to post collateral when the estimated fair value of the Swap is a liability in excess of $15.0 million.

Effective June 14, 2012 the interest rate swap was novated from Citibank N.A. to Wells Fargo Bank N.A with the same terms and conditions of the 2006A and 2006B Derivative Agreement. The exception to those terms and conditions is an increase in the estimated fair value of the swap liability in excess of $30.0 million before a required posting of collateral.

The estimated fair value of the swap as of September 30, 2012 and 2011 was a liability of $37.4 million and a liability of $35.0 million, respectively, and has been included in long-term debt, along with the corresponding deferred inflow of resources which is recognized in long-term assets in the combined balance sheets. The change in fair value was a loss of $2.4 million and a loss of $4.0 million as of September 30, 2012 and 2011, respectively, and is included in other nonoperating revenues (expenses) in the combined statements of revenues, expenses, and changes in net assets.

NOTE 9 LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (CONTINUED)

Basis Risk
Vidant health is exposed to basis risk on its interest rate swap. Basis risk is the difference between the interest rates on the underlying bonds and a per annum rate of 62 percent of one-month LIBOR plus 0.30 percent. Vidant Health pays a fixed rate of 3.452 percent per annum, in each case on a notional amount equal to the original principal amount of the 2006 Refunding Bonds. Settlements are made on the first Wednesday of each month.

Collateral is included in investments as Assets Limited as to Use, Held by Trustee - Other in the accompanying combined balance sheets.

NOTE 10 OPERATING LEASES

The following schedule discloses future noncancelable operating lease payments with initial or remaining terms of one year or more at September 30, 2012 (in thousands of dollars):

2013	$ 15,564
2014	8,802
2015	6,957
2016	5,499
2017	2,412
Thereafter	4,083
	$ 43,317

NOTE 11 AGREEMENT WITH ROANOKE-CHOWAN ALLIANCE

VCOM has entered into a 23-year lease agreement (the "Agreement") with Roanoke-Chowan Alliance, Inc. ("RCA") and its controlled affiliates. The Agreement calls for monthly lease payments of $83,335. In addition, on each February 1st during the term of the Agreement, RCA will make a contribution to VCOM in an amount equal to the total lease payments made by VCOM to RCA in the preceding year. VCOM shall use this contribution for capital improvements for the benefit of the health services provided in VROA's service area or for noncapital projects that expand the health care services provided to the residents of VROA's service area. At any point during the lease term, VCOM has the option to purchase the leased assets for a sum equal to the present value of the remaining lease payments, based on a discount rate of 8 percent. In addition, at the expiration of the Agreement, VCOM has the option to and intends to purchase the leased assets for $0.1 million.

On September 11, 2012, the Roanoke-Chowan Alliance Board voted to approve a motion to move forward with early termination of the lease agreement, which is expected to occur in January of 2013. Vidant Health will commit to purchase $5.7 million in capital for VROA over the next 8 years and a final payment of $78,000, upon which Vidant Health will own the assets.

NOTE 11 AGREEMENT WITH ROANOKE-CHOWAN ALLIANCE (CONTINUED)

The maturities due from/due to RCA subsequent to September 30, 2012 are as follows (in thousands of dollars):

	Due from Roanoke-Chowan Alliance	Due to Roanoke-Chowan Alliance	
		Principal	Interest
2013	$ 540	$ 574	$ 426
2014	583	622	378
2015	630	674	326
2016	681	730	270
2017	735	790	210
2018–2020	2,577	2,190	232
	5,746	5,580	$ 1,842
Less Current Portion	(540)	(574)	
	$ 5,206	$ 5,006	

NOTE 12 COMMITMENTS AND CONTINGENCIES

Medical Malpractice Costs

Vidant Health, excluding TOBH, is self-insured for general and professional liability claims up to certain limits for each event and in the annual aggregate, on a claims-made basis. Vidant Health also has excess coverage policies, which are limited to a maximum of the respective policy limits.

The provision for estimated medical malpractice claims include estimates of the ultimate costs for reported claims and claims incurred but not reported. Liabilities for self-insured general and professional liability risks, for both asserted and unasserted claims, are based on actuarially projected estimates of their value based on historical loss payment patterns, discounted at a rate of 4 percent for 2012 and 2011. The medical malpractice expense is allocated from Vidant Health based on the estimated risk exposures of each corporation. The overall medical malpractice liability is recorded on the balance sheet of Vidant Health.

Vidant Health's Board of Directors has designated a fund for the payment of professional liability claims. An actuary has been retained to assist Vidant Health in determining amounts to be deposited into the fund.

TOBH is insured under a claims-made policy for general and professional liability claims that covers annual malpractice costs with coverage up to certain limits each event and in the annual aggregate, with a $10,000 deductible. The excess coverage policy is limited to a maximum of the policy limit.

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Workers' Compensation

Vidant Health, excluding TOBH, is self-insured for workers' compensation with an occurrence retention of $0.7 million each occurrence. An excess workers' compensation policy, with statutory limits for each employee accident or disease, covers claims above the self-insured retention. In addition, the excess workers' compensation policy provides employer's liability coverage with limits of $1.0 million each accident. There are three other excess liability policies that provide an annual aggregate limit for employer's liability above the excess workers' compensation policy.

TOBH has workers' compensation coverage that provides statutory limits for employee accidents and disease with no deductible. In addition, the policy provides employer's liability coverage with limits of $1.0 million. There is a separate excess liability policy that provides an annual aggregate limit for employer's liability above this policy.

Medical Coverage

Vidant Health is self-insured for employee medical and dental coverage with an excess coverage (stop loss) policy that covers annual medical costs in excess of $0.2 million on a claims-made basis. Annual costs were approximately $74.5 million and $68.1 million for the years ended September 30, 2012 and 2011, respectively. The medical insurance expense is allocated from VMC based on average cost per participant of the overall plan for Vidant Health to each corporation based on the corporation's number of participants. The overall medical coverage liability is recorded on the balance sheet of VMC.

NOTE 13 DEFINED CONTRIBUTION RETIREMENT PLAN

Vidant Health sponsors a defined contribution retirement plan, with a matching component of 50 percent of the employee's contribution, up to 5 percent of their salary, for employees who have met the eligibility requirements of the plan. During fiscal years 2012 and 2011, Vidant Health contributed approximately $8.3 million and $7.1 million, respectively, to the plan.

NOTE 14 DEFINED BENEFIT PENSION PLANS

Vidant Health maintains a non-contributory defined benefit pension plan (the "Plan") covering substantially all of Vidant Health and its affiliates', employees with greater than one year of service. Plan participants become 50 percent vested after five years of service and continue vesting on a graduated scale until completing 10 years of service, at which time full vesting occurs. The Plan is funded annually by Vidant Health and its affiliates in an amount equal to the actuarially determined contribution (pension cost). The Plan is considered a governmental entity under Section 401(a) of the Internal Revenue Code of 1954. As such, accounting and reporting for the Plan is governed by the Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*. The Plan year is January 1 to December 31. The Plan covers all employees hired prior to January 1, 2010. Employees hired after this date are eligible to participate in an enhanced defined contribution plan which will not have any financial implications beyond the current plan until the year 2015.

NOTE 14 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Effective October 1, 2010, Vidant Health assumed sponsorship of and full financial responsibility for the VDUP defined benefit pension plan. Effective September 30, 2010, the plan was amended to freeze the plan. No participant shall accrue any additional benefits, and each participant accrued benefit shall be determined based on their average annual compensation and number of years of service at September 30, 2010. VDUP made an additional $2.4 million contribution on September 27, 2010 to the plan in connection with this amendment to fund any unfunded amounts at that time.

The annual required contribution was computed as part of an actuarial valuation performed as of January 1, 2011 using the Projected Unit Credit method. Significant actuarial assumptions used in the valuation include the following:

	VHC
Rate of Return on Plan Assets	8 0%
Mortality	RP - 2000 Mortality Table
Projected Salary Increases	4 0%
Inflation Rate	3 0%

The actuarial value of Plan assets was determined by adjusting the market value of Plan assets to reflect the investment gains and losses (the difference between the actual investment return and the expected investment return) during each of the last five years at a rate of 8% per year for both Vidant Health and VDUP.

The annual pension cost, net pension obligation, and three-year trend information of the Vidant Health and VDUP plans were as follows for the years ended September 30, 2012, 2011 and 2010:

	2012	2011	2010
Annual Required Contribution (Pension Cost)	$ 23,396,795	$ 19,388,529	$ 16,587,809
Annual Contributions Made	23,396,795	19,388,529	16,587,809
Net Pension Obligation	$ -	$ -	$ -

Three-Year Trend Information	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
2012	$ 23,396,795	100%	$ -
2011	19,388,529	100%	-
2010	16,587,809	100%	-

NOTE 14 DEFINED BENEFIT PENSION PLANS (CONTINUED)

As of January 1, 2012 the most recent actuarial date, the Vidant Health Plan was 81% funded. The actuarial accrued liability for benefits was $443.5 million and the actuarial value of assets was $360.1 million resulting in an unfunded actuarial accrued liability of $83.4 million. The covered payroll (annual payroll of employees covered by the Plan) was $390.0 million and the ratio of the unfunded actuarial accrued liability to the covered payroll was 21.4%.

The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Combined Financial Statements, presents multi-year trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Vidant Health has also established a non-contributory, non-vesting Supplemental Executive Retirement Plan. For each of the years ended September 30, 2012 and 2011, Vidant Health recognized expense of approximately $2.2 million. The Plan had a net pension obligation of approximately $14.7 million and $14.9 million at September 30, 2012 and 2011, respectively, and had funds on deposit of approximately $14.7 million and $14.1 million at September 30, 2012 and 2011, respectively, in relation to this Plan. Effective January 1, 2010, Vidant Health froze the plan to new entrants. On November 20, 2012, the Vidant Health board froze plan benefits of existing participants beginning January 1, 2013, to be replaced by a cash balance plan.

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS ("OPEB")

Vidant Health adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* ("GASB 45"). This statement establishes standards for measurement, recognition, and display of OPEB expenses/expenditures and related assets/(liabilities), note disclosures and required supplementary information.

Plan Description. Vidant Health sponsors a Postretirement Healthcare Benefit Program (referred to as "retiree medical plan") for all employees hired before July 1, 2008 that satisfy the criteria for receiving retirement benefits under the Pension Plan for the Employees of VMC. The retiree medical plan includes eligible retirees, spouses, and spouse survivors. All eligible members pay a portion of the expense. Effective July 1, 2008, Vidant Health froze the plan to new entrants.

Membership of the Retiree Medical Plan consisted of the following at October 1, 2011 and 2010, the dates of the latest actuarial valuations:

	2012	2011
Retirees eligible for benefits (includes eligible spouses)	126	120
Active plan members (includes eligible spouses)	5,627	5,776
Total	5,753	5,896

Funding Policy. Vidant Health has chosen to fund the retiree medical plan on a pay as you go basis.

The annual required contribution has not been expressed as a percentage of covered payroll since benefits provided are not payroll related. Vidant Health provides health benefits through a third-party administrator.

Summary of Significant Accounting Policies. Postemployment expenditures are made from Vidant Health's operating assets. No funds are set aside to pay benefits or administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. Vidant Health's annual OPEB cost (expense) is calculated based on the annual required contribution of employer ("ARC"), and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years.

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS ("OPEB") (CONTINUED)

The following table shows the components of Vidant Health's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Vidant Health's net OPEB obligation for the health care benefits for the years ended September 30, 2012 and 2011:

	2012	2011
Annual required contribution	$ 1,195,289	$ 1,411,503
Interest on net OPEB obligation	174,898	211,429
Adjustment to annual required contribution	(179,812)	(217,369)
Annual OPEB cost	1,190,375	1,405,563
Contributions made	(1,912,276)	(1,862,200)
Decrease in net OPEB obligation	(721,901)	(456,637)
Net OPEB obligation, beginning of year	2,186,229	2,642,866
Net OPEB obligation, end of year	$ 1,464,328	$ 2,186,229

The Vidant Health annual OPEB cost, the percentage of annual OPEB cost contributed to the plan or paid as a benefit, and the net OPEB obligation were as follows:

	Annual OPEB Cost	Annual % of OPEB Cost Contributed	Net OPEB Obligation
2012	$ 1,190,375	156 4%	$ 1,464,328
2011	1,405,563	132 5%	2,186,229
2010	1,416,715	113 8%	2,642,866

Funded Status and Funding Progress. As of October 1, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus the unfunded actuarial accrued liability ("UAAL") was $10,459,745. The amortization of this amount over 30 years is $860,289 per year. The normal cost for 2011 is $335,000.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Examples include assumptions about future employment, mortality, and health care trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the combined financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS ("OPEB") (CONTINUED)

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members at that point.

In the October 1, 2011 and 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an 8.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the Plan sponsor's general assets as of October 1, 2011 and 2010, and an annual medical cost trend increase of 8.5 to 5.0 percent annually. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized as a level dollar amount on an open basis over a 30 year period.

NOTE 16 OTHER NONOPERATING REVENUES AND EXPENSES

Other nonoperating revenues and expenses on the combined statement of revenues, expenses and changes in net assets are comprised of the following at September 30, 2012 and 2011 (in thousands of dollars):

	2012	2011
Market to Market Loss on Interest Rate Swap	$ (2,425)	$ (3,970)
Foundation Expenses	(1,706)	(1,780)
Payments to Pitt County		
Payment in Lieu of Taxes	(1,768)	(1,683)
Medicaid Funding	(599)	(582)
Investment Expense	(1,243)	(1,165)
Contributions	(7,037)	(2,346)
Unrestricted Contributions	15,186	6,295
Loss on Equity Investments	(3,534)	(1,111)
	$ (3,126)	$ (6,342)

NOTE 17 RELATED PARTIES

East Carolina University

The Hospital is the primary affiliated teaching hospital for the Brody School of Medicine ("BSOM") through a formal agreement executed on December 17, 1975 and renewed on October 14, 1996 for an additional 20-year period. The Brody School of Medicine reimburses the Hospital for costs associated with the utilization of Hospital facilities. The Hospital reimburses the Brody School of Medicine for any third-party reimbursement resulting from any School costs being included in the Hospital's Medicare cost reimbursement reports.

The Hospital recognized approximately $28,000 during both of the years ended September 30, 2012 and 2011, from the Brody School of Medicine for reimbursement of agreed upon costs. The Hospital has recorded receivables of approximately $0.5 million

NOTE 17 RELATED PARTIES (CONTINUED)

East Carolina University (Continued)

and $0.9 million and payables of approximately $5.2 million and $5.0 million as of September 30, 2012 and 2011, respectively, with the Brody School of Medicine, which are settled in the normal course of business. The receivables include $0 and ($0.6) million as of September 30, 2012 and 2011, respectively, of estimated cost report settlement items with BSOM related to the sharing of graduate medical education costs. These amounts are included as changes in net patient service revenue for the years ended September 30, 2012 and September 30, 2011.

Vidant Health Foundation

University Health Systems of Eastern Carolina Foundation d/b/a Vidant Health Foundation (the "Foundation") was organized to receive gifts, donations, income and funds for the promotion of health and wellness to the general public and community in eastern North Carolina and all areas served by Vidant Health or equity partners. The Foundation provides these services directly to the Development Councils for VBER, VEDG, and TOBH. VMC provides management services, supplies, and labor to the Foundation. VCOM hospitals also provide some administrative services. The Foundation is not required to reimburse VMC or the VCOM hospitals for the cost of these expenses. At September 30, 2012 and 2011, the Foundation's assets were approximately $1.5 million and $1.0 million, respectively. There were no liabilities for each year. No assets were restricted for use for the benefit of VCOM hospitals at September 30, 2012 and 2011, respectively. The Foundation had an increase in net assets of approximately $0.4 million and a decrease of approximately $0.3 million for the years ended September 30, 2012 and 2011, respectively.

Vidant Medical Center Foundation

VMC provides management services, supplies, and labor to Pitt County Memorial Hospital Foundation d/b/a Vidant Medical Center Foundation ("VMCF"). VMCF is not required to reimburse the Hospital for the cost of these expenses. VMCF was organized to receive gifts, donations, income and funds for the advancement of medicine and medical facilities in eastern North Carolina. At September 30, 2012 and 2011, VMCF's assets were approximately $25.0 million and $33.2 million, respectively, and liabilities were approximately $16.6 million and $23.2 million, respectively. The assets that were restricted for use for the benefit of Vidant Health were $14.7 million and $21.4 million at September 30, 2012 and 2011, respectively. VMCF had a decrease in net assets of approximately $1.6 million and a decrease in net assets of approximately $0.1 for the years ended September 30, 2012 and 2011, respectively.

Family Practice Center and Eastern Area Health Education Center, Inc.

The Family Practice Center (the "Center") and Eastern Area Health Education Center, Inc. ("EAHEC"), as related organizations to the Brody School of Medicine, have a lease agreement with VMC whereby VMC provides operational facilities to the Center and EAHEC. The agreement also provides for the Center and EAHEC to pay their own direct costs and to reimburse VMC for certain shared services. VMC has recorded income from EAHEC of $0.6 million and $0.7 million for fiscal years 2012 and 2011, respectively. VMC had a receivable of approximately $5,500 and $6,800 at September 30, 2012 and 2011, respectively, from EAHEC. VMC has recorded income from the Center of approximately $0.1 million and $0.3 million for fiscal years 2012 and 2011, respectively.

NOTE 18 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on Systems continuing to meet the escalating meaningful use criteria. For the first payment year, Vidant Health must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, Vidant Health must demonstrate meaningful use for the entire year. The incentive payments are generally made over a 4-year period.

Subsequent to year end, Vidant Health demonstrated meaningful use to the 90-day period ended September 30, 2012 and accordingly will recognize the related revenue in the following fiscal year.

SUPPLEMENTARY INFORMATION

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
University Health Systems of Eastern Carolina, Inc.
d/b/a Vidant Health
Greenville, North Carolina

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining schedules on pages 53 through 64 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

CliftonLarsonAllen LLP

Charlotte, North Carolina
January 4, 2013

VIDANT HEALTH
COMBINING BALANCE SHEET
SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

ASSETS	Combined	Eliminations	Vidant Health	Vidant Medical Center	Vidant Community Hospitals	Vidant Medical Group	Vidant Properties	HealthAccess, Inc
CURRENT ASSETS								
Cash and Cash Equivalents	$ 98,785	$ -	$ 16,091	$ 17,319	$ 58,985	$ 3,896	$ 1,724	$ 770
Accounts Receivable - Patients, Net	235,274	-	-	164,817	55,730	12,356	-	2,371
Other Receivables	36,393	(21,142)	20,902	22,344	7,458	6,490	35	306
Estimated Settlements Due from Third-Party Payors	81,137	-	-	74,272	6,865	-	-	-
Due from Roanoke-Chowan Alliance	540	-	-	-	540	-	-	-
Inventories	35,998	-	-	25,148	10,327	442	-	81
Prepaid Expenses	15,857	-	3,734	3,806	6,649	1,591	12	65
Current Portion Due from Affiliates	-	(309)	-	254	55	-	-	-
Assets Limited as to Use	3,381	-	3,381	-	-	-	-	-
Total Current Assets	507,365	(21,451)	44,108	307,960	146,609	24,775	1,771	3,593
ASSETS LIMITED AS TO USE								
By Board for Capital Improvements	443,564	-	200,309	212,760	26,113	-	2,230	2,152
By Board for Professional Liability Losses	25,957	-	25,957	-	-	-	-	-
Held by Trustees - 2008 Revenue Bonds	12,463	(12,450)	12,463	10,366	2,084	-	-	-
Held by Trustees - Other	27,053	(84)	11,866	14,742	529	-	-	-
Total Assets Limited as to Use	509,037	(12,534)	250,595	237,868	28,726	-	2,230	2,152
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	634,092	-	28,979	427,002	146,404	3,814	22,013	5,880
OTHER ASSETS								
Due from Affiliates	-	(469,725)	469,725	-	-	-	-	-
Goodwill	25,822	-	-	3,414	22,395	13	-	-
Other Intangible Assets, Net	2,210	-	305	1,893	-	12	-	-
Bond Issuance Costs, Net	1,984	(2,114)	1,984	1,620	494	-	-	-
Due from Roanoke-Chowan Alliance, Less Current Maturities	5,206	-	-	-	5,206	-	-	-
Other Assets	8,106	-	441	4,876	2,105	-	-	684
Total Other Assets	43,328	(471,839)	472,455	11,803	30,200	25	-	684
Total Assets	$ 1,693,822	$ (505,824)	$ 796,137	$ 984,633	$ 351,939	$ 28,614	$ 26,014	$ 12,309

VIDANT HEALTH
COMBINING BALANCE SHEET (CONTINUED)
SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

LIABILITIES AND NET ASSETS	Combined	Eliminations	Vidant Health	Vidant Medical Center	Vidant Community Hospitals	Vidant Medical Group	Vidant Properties	HealthAccess, Inc
CURRENT LIABILITIES								
Accounts Payable	$ 72,871	$ (18,296)	$ 23,962	$ 44,630	$ 17,380	$ 3,394	$ 1,036	$ 765
Accrued Expenses	113,230	(324)	15,192	66,936	19,775	10,414	46	1,191
Estimated Settlements Due to Third-Party Payors	38,979	-	-	19,786	19,193	-	-	-
Current Reserve for Professional Liability Losses	3,381	-	3,381	-	-	-	-	-
Current Maturities of Long-Term Debt	26,560	-	25,776	-	596	-	188	-
Current Maturities of Due to Roanoke-Chowan Alliance	574	-	-	-	574	-	-	-
Current Portion of Due to Affiliates	-	(2,853)	-	2,220	633	-	-	-
Total Current Liabilities	255,595	(21,473)	68,311	133,572	58,151	13,808	1,270	1,956
LONG-TERM LIABILITIES								
Long-Term Debt, Less Current Maturities	521,731	-	515,413	-	5,540	-	778	-
Due to Roanoke-Chowan Alliance, Less Current Maturities	5,006	-	-	-	5,006	-	-	-
Due to Affiliates, Less Current Maturities	-	(484,351)	-	378,082	106,269	-	-	-
Reserve for Professional Liability Losses	26,498	-	25,957	-	541	-	-	-
Other Liabilities	24,638	-	-	23,332	1,174	132	-	-
Non-Controlling Interest	37,015	-	-	15,216	21,799	-	-	-
Total Liabilities	870,483	(505,824)	609,681	550,202	198,480	13,940	2,048	1,956
NET ASSETS								
Invested in Capital Assets, Net of Related Debt	126,070	470,442	(497,458)	63,993	58,339	3,827	21,047	5,880
Restricted for Lease	8,709	-	-	-	8,709	-	-	-
Unrestricted Net Assets	688,560	(470,442)	683,914	370,438	86,411	10,847	2,919	4,473
Total Net Assets	823,339	-	186,456	434,431	153,459	14,674	23,966	10,353
Total Liabilities and Net Assets	$ 1,693,822	$ (505,824)	$ 796,137	$ 984,633	$ 351,939	$ 28,614	$ 26,014	$ 12,309

VIDANT HEALTH
COMBINING STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

	Combined	Eliminations	Vidant Health	Vidant Medical Center	Vidant Community Hospitals	Vidant Medical Group	Vidant Properties	HealthAccess, Inc
OPERATING REVENUES								
Net Patient Service Revenue	$ 1,491,106	$ -	$ -	$ 1,072,642	$ 346,179	$ 61,623	$ -	$ 10,662
Other Revenue	59,705	(135,467)	103,663	37,385	9,514	34,588	3,884	6,138
Total Revenues	1,550,811	(135,467)	103,663	1,110,027	355,693	96,211	3,884	16,800
OPERATING EXPENSES								
Salaries and Wages	611,060	-	47,244	346,677	136,695	70,971	-	9,473
Employee Benefits	166,629	(1,195)	8,514	111,717	35,451	9,514	-	2,628
Supplies and Other	551,622	(131,758)	48,821	442,181	149,058	36,434	1,478	5,408
Depreciation and Amortization	83,510	-	5,160	58,830	16,065	1,049	1,638	768
Operating Lease Expense	25,747	(2,514)	1,425	17,044	6,277	3,251	-	264
Total Expenses	1,438,568	(135,467)	111,164	976,449	343,546	121,219	3,116	18,541
INCOME (LOSS) FROM OPERATIONS	112,243	-	(7,501)	133,578	12,147	(25,008)	768	(1,741)
NONOPERATING REVENUES (EXPENSES)								
Interest Expense	(31,766)	20,056	(28,888)	(17,829)	(5,079)	-	(26)	-
Investment Income	57,196	-	42,672	12,815	1,463	9	139	98
Income Applicable to Non-Controlling Interest	(9,764)	-	-	(6,001)	(3,763)	-	-	-
Other	(3,126)	(20,056)	13,795	3,546	(691)	(199)	-	479
Total Nonoperating Revenues (Expenses), Net	12,540	-	27,579	(7,469)	(8,070)	(190)	113	577
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	$ 124,783	$ -	$ 20,078	$ 126,109	$ 4,077	$ (25,198)	$ 881	$ (1,164)

VIDANT MEDICAL CENTER
COMBINING BALANCE SHEET
SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

ASSETS	Combined	Eliminations	Vidant Medical Center	SurgiCenter Services of Pitt, Inc	Vidant SurgiCenter
CURRENT ASSETS					
Cash and Cash Equivalents	$ 17,319	$ -	$ 15,352	$ 1,042	$ 925
Accounts Receivable - Patients, Net	164,817	-	160,318	-	4,499
Other Receivables	22,344	(617)	22,860	7	94
Estimated Settlements Due from Third-Party Payors	74,272	-	74,272	-	-
Inventories	25,148	-	24,497	-	651
Prepaid Expenses	3,806	-	3,779	4	23
Current Portion Due from Affiliates	254	-	254	-	-
Total Current Assets	307,960	(617)	301,332	1,053	6,192
ASSETS LIMITED AS TO USE					
By Board for Capital Improvements - Receivable from Vidant Health	212,760	-	212,760	-	-
Held by Trustees for Capital Improvements - Receivable from Vidant Health	10,366	-	10,366	-	-
Held by Trustees - Other	14,742	-	14,742	-	-
Total Assets Limited as to Use	237,868	-	237,868	-	-
CAPITAL ASSETS, NET	427,002	-	415,152	8,684	3,166
OTHER ASSETS					
Goodwill	3,414	(29,053)	2,926	-	29,541
Other Intangible Assets, Net	1,893	-	1,893	-	-
Bond Issuance Costs, Net	1,620	-	1,620	-	-
Other Assets	4,876	(19,102)	23,978	-	-
Total Other Assets	11,803	(48,155)	30,417	-	29,541
Total Assets	$ 984,633	$ (48,772)	$ 984,769	$ 9,737	$ 38,899

VIDANT MEDICAL CENTER
COMBINING BALANCE SHEET (CONTINUED)
SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

LIABILITIES AND NET ASSETS	Combined	Eliminations	Vidant Medical Center	SurgiCenter Services of Pitt, Inc	Vidant SurgiCenter
CURRENT LIABILITIES					
Accounts Payable	$ 44,630	$ (617)	$ 42,476	$ 12	$ 2,759
Accrued Expenses	66,936	-	66,816	-	120
Estimated Settlements Due to Third-Party Payors	19,786	-	19,786	-	-
Current Maturity of Due to Affiliates	2,220	-	2,220	-	-
Total Current Liabilities	133,572	(617)	131,298	12	2,879
Due to Affiliates, Less Current Maturities	378,082	-	378,082	-	-
Other Liabilities	23,332	(29,053)	23,332	29,053	-
Non-Controlling Interest	15,216	15,216	-	-	-
Total Liabilities	550,202	(14,454)	532,712	29,065	2,879
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	63,993	(29,053)	51,655	8,684	32,707
Unrestricted Net Assets	370,438	(5,265)	400,402	(28,012)	3,313
Total Net Assets	434,431	(34,318)	452,057	(19,328)	36,020
Total Liabilities and Net Assets	$ 984,633	$ (48,772)	$ 984,769	$ 9,737	$ 38,899

VIDANT MEDICAL CENTER
COMBINING STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

	Combined	Eliminations	Vidant Medical Center	SurgiCenter Services of Pitt, Inc	Vidant SurgiCenter
OPERATING REVENUES					
Net Patient Service Revenue	$ 1,072,642	$ -	$ 1,040,900	$ -	$ 31,742
Other Revenue	37,385	(7,654)	43,914	1,060	65
Total Revenues	1,110,027	(7,654)	1,084,814	1,060	31,807
OPERATING EXPENSES					
Salaries and Wages	346,677	-	346,677	-	-
Employee Benefits	111,717	-	111,717	-	-
Supplies and Other	442,181	(5,064)	430,750	68	16,427
Depreciation and Amortization	58,830	-	57,382	455	993
Operating Lease Expense	17,044	(2,590)	18,579	10	1,045
Total Expenses	976,449	(7,654)	965,105	533	18,465
INCOME FROM OPERATIONS	133,578	-	119,709	527	13,342
NONOPERATING REVENUES (EXPENSES)					
Interest Expense	(17,829)	-	(17,829)	-	-
Investment Income	12,815	-	12,776	11	28
Income Applicable to Non-Controlling Interest	(6,001)	(6,001)	-	-	-
Other	3,546	-	3,582	-	(36)
Total Nonoperating Revenues (Expenses), Net	(7,469)	(6,001)	(1,471)	11	(8)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	$ 126,109	$ (6,001)	$ 118,238	$ 538	$ 13,334

VIDANT COMMUNITY HOSPITALS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

ASSETS	Combined	Eliminations	Vidant Community Hospitals	The Outer Banks Hospital	Vidant Roanoke-Chowan Hospital	Vidant Bertie Hospital	Vidant Edgecombe Hospital	Heritage MRI	Vidant Chowan Hospital	Vidant Duplin Hospital	Vidant Beaufort Hospital	Vidant Pungo Hospital
CURRENT ASSETS												
Cash	$ 58,985	$ -	$ 29,964	$ 5,002	$ 5,271	$ 4,377	$ 3,161	$ -	$ 4,992	$ 3,315	$ 2,362	$ 541
Accounts Receivable, Patients, Net	55,730	-	-	8,363	11,699	3,233	10,582	-	7,139	5,539	7,424	1,751
Other Receivables	7,458	(2,366)	1,999	645	804	7	863	354	560	684	3,830	78
Estimated Settlements Due from Third-Party Payors	6,865	-	-	1,349	460	1,198	906	-	2,292	-	179	481
Due from Roanoke-Chowan Alliance, Current Portion	540	-	-	-	540	-	-	-	-	-	-	-
Inventories	10,327	-	-	1,029	1,819	358	1,873	-	1,571	786	2,543	348
Prepaid Expenses	6,649	-	-	175	376	70	72	-	165	4,493	1,080	218
Due from Affiliates	55	-	-	-	7	-	45	-	3	-	-	-
Total Current Assets	146,609	(2,366)	31,963	16,563	20,976	9,243	17,502	354	16,722	14,817	17,418	3,417
ASSETS LIMITED AS TO USE												
By Board for Capital Improvements	26,113	-	98	25,789	-	-	-	-	216	-	-	10
Held by Trustee - Revenue Bonds	2,084	-	-	-	257	-	1,716	-	111	-	-	-
Held by Trustee - Other	529	-	-	-	3	-	23	-	1	-	502	-
Total Assets Limited as to Use	28,726	-	98	25,789	260	-	1,739	-	328	-	502	10
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	146,404	-	858	18,403	24,114	6,321	24,971	-	20,245	16,240	28,806	6,446
OTHER ASSETS												
Goodwill	22,395	-	-	-	-	-	22,395	-	-	-	-	-
Bond Issuance Costs, Net	494	-	-	-	47	2	282	-	22	-	141	-
Due from Roanoke-Chowan Alliance, Less Current Portion	5,206	-	-	-	5,206	-	-	-	-	-	-	-
Other Assets	2,105	-	-	-	550	-	-	-	-	-	1,555	-
Total Other Assets	30,200	-	-	-	5,803	2	22,677	-	22	-	1,696	-
Total Assets	$ 351,939	$ (2,366)	$ 32,919	$ 60,755	$ 51,153	$ 15,566	$ 66,889	$ 354	$ 37,317	$ 31,057	$ 48,422	$ 9,873

VIDANT COMMUNITY HOSPITALS
COMBINING BALANCE SHEET (CONTINUED)
SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

LIABILITIES AND NET ASSETS	Combined	Eliminations	Vidant Community Hospitals	The Outer Banks Hospital	Vidant Roanoke-Chowan Hospital	Vidant Bertie Hospital	Vidant Edgecombe Hospital	Heritage MRI	Vidant Chowan Hospital	Vidant Duplin Hospital	Vidant Beaufort Hospital	Vidant Pungo Hospital
CURRENT LIABILITIES												
Accounts Payable	$ 17,380	$ (2,366)	$ 1,190	$ 1,741	$ 4,482	$ 966	$ 3,082	$ 334	$ 2,380	$ 1,846	$ 3,200	$ 525
Accrued Expenses	19,775	-	353	2,822	3,528	816	3,037	-	2,300	1,750	4,522	647
Estimated Settlements Due to Third-Party Payors	19,193	-	-	1,421	2,243	598	8,225	-	2,213	2,929	711	853
Current Maturities of Long-Term Debt	596	-	-	-	-	504	-	-	-	-	-	92
Current Maturities of Due to Roanoke-Chowan Alliance	574	-	-	-	574	-	-	-	-	-	-	-
Current Portion of Due to Affiliates	633	-	-	-	63	1	399	-	26	-	144	-
Total Current Liabilities	58,151	(2,366)	1,543	5,984	10,890	2,885	14,743	334	6,919	6,525	8,577	2,117
LONG-TERM LIABILITIES												
Long-Term Debt, Less Current Maturities	5,540	-	-	-	-	5,500	-	-	-	-	-	40
Due to Roanoke-Chowan Alliance, Less Current Maturities	5,006	-	-	-	5,006	-	-	-	-	-	-	-
Due to Affiliates	106,269	-	-	-	10,393	362	66,168	-	4,937	-	24,409	-
Other Liabilities	1,174	-	-	-	347	145	300	-	212	170	-	-
Reserve for Professional Liabilities Losses	541	-	-	291	-	-	-	-	-	250	-	-
Non-controlling Interest	21,799	21,799	-	-	-	-	-	-	-	-	-	-
Total Liabilities	198,480	19,433	1,543	6,275	26,636	8,892	81,211	334	12,068	6,945	32,986	2,157
NET ASSETS												
Invested in Capital Assets, Net of Related Debt	58,339	-	858	18,403	13,962	(44)	(17,203)	-	15,415	16,240	4,394	6,314
Restricted for Lease	8,709	-	-	-	8,704	5	-	-	-	-	-	-
Unrestricted Net Assets	86,411	(21,799)	30,518	36,077	1,851	6,713	2,881	20	9,834	7,872	11,042	1,402
Total Net Assets	153,459	(21,799)	31,376	54,480	24,517	6,674	(14,322)	20	25,249	24,112	15,436	7,716
Total Liabilities and Net Assets	$ 351,939	$ (2,366)	$ 32,919	$ 60,755	$ 51,153	$ 15,566	$ 66,889	$ 354	$ 37,317	$ 31,057	$ 48,422	$ 9,873

VIDANT COMMUNITY HOSPITALS
COMBINING STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

	Combined	Eliminations	Vidant Community Hospitals	The Outer Banks Hospital	Vidant Roanoke-Chowan Hospital	Vidant Bertie Hospital	Vidant Edgecombe Hospital	Heritage MRI	Vidant Chowan Hospital	Vidant Duplin Hospital	Vidant Beaufort Hospital	Vidant Pungo Hospital
OPERATING REVENUES												
Net Patient Service Revenue, Net of Provision for Bad Debts	$ 346,179	$ -	$ 1	$ 49,256	$ 68,602	$ 16,924	$ 71,519	$ -	$ 43,950	$ 32,903	$ 53,246	$ 9,778
Other Revenue	9,514	(2,924)	12	706	2,536	769	1,847	318	3,284	1,347	1,469	150
Total Operating Revenues	355,693	(2,924)	13	49,962	71,138	17,693	73,366	318	47,234	34,250	54,715	9,928
OPERATING EXPENSES												
Salaries and Wages	136,695	-	-	16,057	26,583	7,334	24,656	-	18,324	15,868	22,673	5,200
Employee Benefits	35,451	-	-	3,626	7,435	1,532	6,325	-	5,264	4,159	5,681	1,429
Supplies and Other	149,058	(2,811)	825	17,284	29,919	7,017	30,481	22	17,181	14,659	30,225	4,256
Depreciation and Amortization	16,065	-	6	2,421	2,763	927	3,163	-	2,465	1,609	2,066	645
Operating Lease Expense	6,277	(113)	1	1,213	1,429	378	958	281	1,058	629	378	65
Total Expenses	343,546	(2,924)	832	40,601	68,129	17,188	65,583	303	44,292	36,924	61,023	11,595
INCOME (LOSS) FROM OPERATIONS	12,147	-	(819)	9,361	3,009	505	7,783	15	2,942	(2,674)	(6,308)	(1,667)
NONOPERATING REVENUES (EXPENSES)												
Interest Expense	(5,079)	-	-	-	(593)	(354)	(3,664)	-	(173)	-	(284)	(11)
Investment Income	1,463	-	1,164	63	124	6	41	-	19	21	22	3
Income Applicable to Non-Controlling Interest	(3,763)	(3,763)	-	-	-	-	-	-	-	-	-	-
Other	(691)	-	-	(28)	(202)	(19)	(7)	-	(174)	(22)	(113)	(126)
Total Nonoperating Revenues (Expenses), Net	(8,070)	(3,763)	1,164	35	(671)	(367)	(3,630)	-	(328)	(1)	(375)	(134)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	$ 4,077	$ (3,763)	$ 345	$ 9,396	$ 2,338	$ 138	$ 4,153	$ 15	$ 2,614	$ (2,675)	$ (6,683)	$ (1,801)

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VIDANT HEALTH
COMBINING BALANCE SHEET
SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

ASSETS	Combined 2012	Eliminations	Obligated Group	Unrestricted Affiliates
CURRENT ASSETS				
Cash and Cash Equivalents	$ 98,785	$ -	$ 87,920	$ 10,865
Accounts Receivable				
Patients, Net of Estimated Uncollectibles	235,274	-	210,056	25,218
Other Receivables	36,393	(4,175)	32,978	7,590
Estimated Settlements Due from Third-Party Payors	81,137	-	79,788	1,349
Due from Roanoke-Chowan Alliance	540	-	540	-
Inventories	35,998	-	33,876	2,122
Prepaid Expenses	15,857	-	14,064	1,793
Assets Limited as to Use - Held by Trustees	3,381	-	3,381	-
Total Current Assets	507,365	(4,175)	462,603	48,937
ASSETS LIMITED AS TO USE				
By Board for Capital Improvements	443,564	-	417,775	25,789
By Board for Professional Liability Losses	25,957	-	25,957	-
Held by Trustees - 2008 Revenue Bonds	12,547	-	12,547	-
Held by Trustees - Other	26,969	-	26,969	-
Total Assets Limited as to Use	509,037	-	483,248	25,789
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	634,092		600,025	34,067
OTHER ASSETS				
Goodwill	25,822	(29,053)	25,321	29,554
Intangible Assets, Net	2,210	-	2,198	12
Bond Issuance Costs, Net	1,984	-	1,984	-
Due from Roanoke-Chowan Alliance, Less Current Maturities	5,206	-	5,206	-
Other Assets	8,106	-	8,106	-
Total Other Assets	43,328	(29,053)	42,815	29,566
Total Assets	$ 1,693,822	$ (33,228)	$ 1,588,691	$ 138,359

*In accordance with the 2008 Series Health Care Facilities Revenue and Revenue Refunding Bonds Master Trust Indenture, the following table summarizes the obligated group members and unrestricted affiliates

Obligated Group Members	Unrestricted Affiliates
Vidant Health	The Outer Banks Hospital, Inc
Vidant Medical Center	The Outer Banks Medical Office Building, LLC
Vidant Roanoke-Chowan Hospital	HealthEast Outer Banks Medical Center, LLC
Vidant Bertie Hospital	EastPointe Health, LLC
Vidant Chowan Hospital	Vidant Medical Group
Vidant Edgecombe Hospital	SurgiCenter Services of Pitt, Inc
Vidant Properties	Vidant SurgiCenter
Health Access, Inc	Moye Medical Endoscopy Center, LLC
	DGH-ECH Partnership, LLC
	Onslow Radiation Oncology, LLC

	Combined 2012	Eliminations	Obligated Group	Unrestricted Affiliates
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	$ 72,871	$ (4,175)	$ 68,806	$ 8,240
Accrued Expenses	113,230	-	99,874	13,356
Estimated Settlements Due to Third-Party Payors	38,979	-	37,558	1,421
Current Reserve for Professional Liability Losses	3,381	-	3,381	-
Current Maturities of Long-Term Debt	26,560	-	26,560	-
Current Maturities of Obligations Lease Obligation Payable	574	-	574	-
Total Current Liabilities	255,595	(4,175)	236,753	23,017
LONG-TERM LIABILITIES				
Long-Term Debt, Less Current Maturities	521,731	-	521,731	-
Lease Obligation Payable less Current Maturities	5,006	-	5,006	-
Reserve for Professional Liability Losses	26,498	-	26,207	291
Other Liabilities	24,638	(29,053)	24,506	29,185
Non-Controlling Interest	37,015	37,015	-	-
Total Liabilities	870,483	3,787	814,203	52,493
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	126,154	(29,053)	91,586	63,621
Restricted for Lease	8,709	-	8,709	-
Unrestricted Net Assets	688,476	(7,962)	674,193	22,245
Total Net Assets	823,339	(37,015)	774,488	85,866
Total Liabilities and Net Assets	$ 1,693,822	$ (33,228)	$ 1,588,691	$ 138,359

VIDANT HEALTH
COMBINING STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS OF DOLLARS)

	Combined 2012	Eliminations	Obligated Group	Unrestricted Affiliates
OPERATING REVENUES				
Net Patient Service Revenue	$ 1,491,106	$ -	$ 1,348,485	$ 142,621
Other Revenue	59,705	(25,303)	48,271	36,737
Total Revenues	1,550,811	(25,303)	1,396,756	179,358
OPERATING EXPENSES				
Salaries and Wages	611,060	-	524,032	87,028
Employee Benefits	166,629	-	153,489	13,140
Supplies and Other	551,622	(22,641)	502,671	71,592
Depreciation and Amortization	83,510	-	78,592	4,918
Operating Lease Expense	25,747	(2,662)	23,966	4,443
Total Expenses	1,438,568	(25,303)	1,282,750	181,121
INCOME FROM OPERATIONS	112,243	-	114,006	(1,778)
NONOPERATING REVENUES (EXPENSES)				
Interest Expense	(31,766)	-	(31,766)	-
Investment Income (Loss)	57,196	-	57,085	111
Income Applicable to Non-Controlling Interest	(9,764)	(9,764)	-	-
Other	(3,126)	-	(2,863)	(263)
Total Nonoperating Revenues (Expenses)	12,540	(9,764)	22,456	(152)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	$ 124,783	$ (9,764)	$ 136,462	$ (1,930)

*In accordance with the 2008 Series Health Care Facilities Revenue and Revenue Refunding Bonds Master Trust Indenture, the following table summarizes the obligated group members and unrestricted affiliates

Obligated Group Members	Unrestricted Affiliates
Vidant Health	The Outer Banks Hospital, Inc
Vidant Medical Center	The Outer Banks Medical Office Building, LLC
Vidant Roanoke-Chowan Hospital	HealthEast Outer Banks Medical Center, LLC
Vidant Bertie Hospital	EastPointe Health, LLC
Vidant Chowan Hospital	Vidant Medical Group
Vidant Edgecombe Hospital	SurgiCenter Services of Pitt, Inc
Vidant Properties	Vidant SurgiCenter
Health Access, Inc	Moye Medical Endoscopy Center, LLC
	DGH-ECH Partnership, LLC
	Onslow Radiation Oncology, LLC

VIDANT HEALTH
REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)
SEPTEMBER 30, 2012

Defined Benefit Pension Plans (in thousands of dollars):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Actuarial Accrued Liability (Asset) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ((b-a) / c)
Vidant Health						
2012	$ 360,118	$ 443,483	$ 83,365	81 2%	$ 390,008	21 4%
2011	345,920	395,581	49,661	87 4%	399,812	12 4%
2010	328,755	361,372	32,617	91 0%	369,569	8 8%
2009	256,248	331,424	75,176	77 3%	341,777	22 0%
2008	300,603	312,572	11,969	96 2%	303,579	3 9%
2007	262,161	274,426	12,265	95 5%	282,309	4 3%
Vidant Duplin Hospital						
2011 *	11,534	8,871	(2,663)	130 0%	-	0 0%

* Included in the Vidant Health plan for fiscal year 2012.

Analysis of the dollar amounts of net assets available for plan benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides an indication of the Vidant Health's and VDUP's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the pension plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of Vidant Health's and VDUP's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage is, the stronger the Plan.

Other Postemployment Benefits (OPEB):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
10/1/2011	$ -	$ 10,459,745	$ 10,459,745	0 0%	$ 587,669,000	1 8%
10/1/2010	-	14,944,358	14,944,358	0 0%	490,664,000	3 0%
10/1/2009	-	11,864,610	11,864,610	0 0%	452,292,000	2 6%

VIDANT HEALTH
REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)
SEPTEMBER 30, 2012

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
2012	$ 1,195,289	$ 1,912,276	160 0%
2011	1,411,503	1,862,200	131 9%
2010	1,423,094	1,611,872	113 3%