



**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Consolidated Financial Statements and Supplementary Information

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

## CENTRA HEALTH, INC. AND SUBSIDIARIES

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KPMG LLP  
Suite 400  
300 North Greene Street  
Greensboro, NC 27401

## Independent Auditors' Report

To the Board of Directors  
Centra Health, Inc. and subsidiaries:

We have audited the accompanying consolidated financial statements of Centra Health, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Centra Health, Inc. and subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



*Other Matters*

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 40 to 43 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures 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 consolidated financial statements as a whole.

*KPMG LLP*

Greensboro, North Carolina  
May 29, 2018

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2017 and 2016

<b>Assets</b>	<u><b>2017</b></u>	<u><b>2016</b></u>
Current assets:		
Cash and cash equivalents	\$ 39,282,453	51,229,076
Patient accounts receivable, net	142,881,595	112,342,507
Investments and assets whose use is limited	—	874,973
Inventories	24,201,915	22,159,419
Prepaid expenses and other current assets	35,602,333	30,187,936
Total currents assets	<u>241,968,296</u>	<u>216,793,911</u>
Investments and assets whose use is limited	526,165,589	445,243,428
Property, plant, and equipment, net	445,107,047	407,943,794
Investments in joint ventures	4,714,824	4,524,890
Other assets	15,170,113	15,680,476
Total assets	<u>\$ 1,233,125,869</u>	<u>1,090,186,499</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 61,252,727	56,512,028
Employee compensation and benefits	41,691,043	37,177,438
Estimated settlements to third-party payors	9,581,904	10,491,118
Line of credit	10,000,000	—
Current portion of long-term obligations	6,074,250	10,457,512
Other current liabilities	5,531,475	4,381,311
Total current liabilities	<u>134,131,399</u>	<u>119,019,407</u>
Long-term obligations, net of current portion	319,969,834	270,171,970
Interest rate swap agreements	15,954,384	18,119,892
Pension obligations	29,992,037	36,994,450
Other long-term liabilities	37,158,605	32,864,926
Total liabilities	<u>537,206,259</u>	<u>477,170,645</u>
Net assets:		
Unrestricted	629,786,685	553,283,267
Temporarily restricted	37,254,547	30,854,209
Permanently restricted	28,878,378	28,878,378
Total net assets	<u>695,919,610</u>	<u>613,015,854</u>
Total liabilities and net assets	<u>\$ 1,233,125,869</u>	<u>1,090,186,499</u>

See accompanying notes to consolidated financial statements.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Operating revenue and other support:		
Net patient service revenue (net of contractual allowances and discounts)	\$ 960,427,195	874,906,893
Provision for bad debts	(55,615,245)	(55,030,110)
Net patient service revenue less provision for bad debts	904,811,950	819,876,783
Outside lab revenue	7,534,252	11,685,209
Foundation revenue and support	1,414,537	1,772,135
Premium and capitation revenue	117,554,520	110,260,439
Net assets released from restrictions for operations	4,255,541	7,283,920
Other operating revenue	62,642,376	58,036,515
Total operating revenue and other support	1,098,213,176	1,008,915,001
Operating expenses:		
Salaries and wages	441,842,116	408,945,819
Benefits	95,917,816	89,426,981
Medical supplies and drugs	156,904,358	140,255,455
Professional services	49,407,599	43,414,271
Medical claims expense	59,891,882	58,576,246
Other purchased services	137,922,789	118,630,601
Other operating expenses	73,384,915	68,345,849
Depreciation and amortization	49,288,767	50,616,184
Interest	9,761,536	6,974,453
Loss on early extinguishment of debt	2,570,146	—
Total operating expenses	1,076,891,924	985,185,859
Operating income	21,321,252	23,729,142
Nonoperating gains (losses):		
Investment income and realized gains on investments	42,266,651	15,749,241
Change in value of interest rate swap agreements	2,397,220	2,761,205
Net periodic pension costs	(3,679,758)	(3,746,534)
Other	(123,262)	42,734
Net nonoperating gains	40,860,851	14,806,646
Excess of revenue and other support over expenses	\$ 62,182,103	38,535,788

## CENTRA HEALTH, INC. AND SUBSIDIARIES

### Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Excess of revenue and other support over expenses	\$ 62,182,103	38,535,788
Net unrealized gains on investments	9,292,016	8,189,449
Change in funded status of defined-benefit plan	4,882,171	2,763,844
Net assets released from restrictions for capital acquisitions	147,128	29,835
	<u>76,503,418</u>	<u>49,518,916</u>
Change in unrestricted net assets		
Temporarily restricted net assets:		
Gifts and bequests	2,787,103	2,057,441
Net unrealized gains on investments	3,453,359	2,931,757
Net investment income and realized gains on investments	4,562,545	386,750
Net assets released from restrictions	(4,402,669)	(7,313,755)
	<u>6,400,338</u>	<u>(1,937,807)</u>
Change in temporarily restricted net assets		
Change in net assets	82,903,756	47,581,109
Net assets at beginning of year	<u>613,015,854</u>	<u>565,434,745</u>
Net assets at end of year	<u>\$ 695,919,610</u>	<u>613,015,854</u>

See accompanying notes to consolidated financial statements.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 82,903,756	47,581,109
Adjustments to reconcile changes in net assets to net cash provided by operations:		
Depreciation and amortization	49,288,767	50,616,184
Amortization of financing costs included with interest expense	846,725	291,061
Amortization of bond discounts and premiums	(223,356)	—
Loss on early extinguishment of debt	2,570,146	—
Net realized and unrealized gains on investments and assets	(55,829,882)	(23,347,440)
Provision for bad debts	55,615,245	55,030,110
Change in funded status of defined-benefit plan	(4,882,171)	(2,763,844)
Net periodic pension costs	3,679,758	3,746,534
Change in fair value of interest rate swap agreement	(2,397,220)	(2,761,205)
Gains on equity investments in joint ventures	(2,610,086)	(2,941,470)
Losses (gains) on sale of property, buildings, and equipment	68,282	(25,514)
Proceeds from advance fees	3,380,696	3,632,101
Contributions received restricted for capital acquisitions	(335,502)	—
Changes in operating assets and liabilities:		
Patient accounts receivable	(86,154,333)	(60,814,789)
Estimated settlements with third-party payors	(909,214)	1,716,036
Inventories	(2,042,496)	(2,073,024)
Prepaid expenses and other current assets	(5,414,397)	(2,144,686)
Other assets	510,363	289,144
Accounts payable, accrued expenses and other current liabilities	4,665,528	12,787,064
Employee compensation and benefits	4,513,605	3,784,141
Pension obligations	(5,800,000)	(4,800,000)
Other long-term liabilities	2,672,152	439,505
Net cash provided by operating activities	<u>44,116,366</u>	<u>78,241,017</u>
Cash flows from investing activities:		
Sales of investments and assets whose use is limited	37,287,308	4,872,340
Purchases of investments and assets whose use is limited	(10,000,000)	(10,500,000)
Bond proceeds restricted for construction funds and costs of issuance	(51,504,614)	—
Acquisition of property, plant, and equipment	(85,063,255)	(87,527,455)
Proceeds on sale of property, plant, and equipment	—	25,514
Distributions from joint ventures	2,420,152	3,151,519
Net cash used in investing activities	<u>(106,860,409)</u>	<u>(89,978,082)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term obligations	238,293,264	26,858,192
Refundings of long-term obligations	(185,531,623)	—
Principal payments on long-term obligations	(8,524,237)	(9,630,620)
Financing costs	(2,016,317)	(272,667)
Proceeds from line of credit	19,000,000	—
Principal payments on line of credit	(9,000,000)	—
Resident refunds	(1,759,169)	(1,237,869)
Contributions received restricted for capital acquisitions	335,502	—
Net cash provided by financing activities	<u>50,797,420</u>	<u>15,717,036</u>
Net increase in cash and cash equivalents	(11,946,623)	3,979,971
Cash and cash equivalents at beginning of year	<u>51,229,076</u>	<u>47,249,105</u>
Cash and cash equivalents at end of year	\$ <u>39,282,453</u>	\$ <u>51,229,076</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 7,362,301	6,663,239
Fixed asset purchases included in accounts payable	1,457,047	910,026

See accompanying notes to consolidated financial statements.

## **CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### **(1) Organization and Summary of Significant Accounting Policies**

#### **(a) Organization**

Centra Health, Inc. and subsidiaries' (Centra) operations include four acute care hospitals, a long-term acute care hospital, four nursing homes, a continuing care retirement community, a residential children and adolescent psychiatric facility, 12 specialty education facilities, additional outpatient treatment facilities, a foundation, a medical insurance company and an indemnity insurance company. Centra is a not-for-profit (NFP) corporation with a commitment to promote and develop healthcare services and the general well-being of the community. Centra also coordinates the activities and interactions of related entities.

#### **(b) Principles of Consolidation**

The consolidated financial statements include the accounts of Centra Health, Inc., its wholly owned taxable subsidiaries, General Business Concerns, Inc. (GBC), PCHP Holding, Inc., and Piedmont Community Health Plan, Inc. (PCHP). The consolidated financial statements also include the tax-exempt organizations of Centra Health Foundation (Foundation), Centra Medical Group, LLC, Centra Medical Group Bedford, LLC, Centra Medical Group Southside, LLC, Central Virginia Hospital for Restorative and Rehabilitative Care, LLC (Centra Specialty Hospital), Southside Community Hospital, Inc. (Southside), Centra Health Indemnity Company, LLC (CHIC), Bedford Memorial Hospital (Bedford), HealthWorks Clinic, LLC (HealthWorks), Central Virginia Quality Care Network, LLC (CVQCN), Centra Outpatient Rehabilitation Services, LLC (Outpatient Rehab), and CCRC, Inc., a majority-owned (91%) subsidiary of Centra. All significant intercompany transactions and account balances have been eliminated in consolidation.

#### **(c) Use of Estimates**

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation allowances for patient accounts receivable, third-party reimbursement settlements, self-insurance liabilities, retirement obligations, and the carrying amounts of property, equipment, investments, and interest rate swap agreements. Actual results could differ from those estimates.

#### **(d) Cash and Cash Equivalents**

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less when purchased. Centra will routinely invest its surplus funds in money market accounts. At various times throughout the year, Centra maintains deposits at financial institutions in excess of amounts covered by Federal Deposit Insurance Corporation limits.

#### **(e) Investments and Assets Whose Use Is Limited**

Assets whose use is limited include assets set aside by the board of directors for future capital improvements, assets held by the trustee under the Master Trust Indenture, assets restricted by donors and funds designated for construction projects.

## CENTRA HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Investments are classified as available-for-sale securities. As such, realized gains and losses on sales on investments are included in excess of revenue and other support over expenses. Unrealized gains and losses are included in change in unrestricted net assets. Should realized or unrealized gains and losses be restricted by donor or law, they are included with changes in temporary or permanently restricted net assets as appropriate.

Investments are recorded in the consolidated financial statements at estimated fair value. For investments made directly by Centra whose values are based on quoted market prices in active markets, the market price of the investment is used to report fair value. Centra's interest in alternative investment funds, such as real assets, are generally reported at the net asset value (NAV) reported by the fund manager. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, Centra has concluded, as a practical expedient, that NAV approximates fair value.

#### **(f) *Perpetual and Charitable Remainder Trusts***

The Foundation has entered into several types of agreements with donors under which the Foundation will receive future benefits. The Foundation has two types of agreements: perpetual trusts held by a third party and charitable remainder trusts. Under the perpetual trusts, a donor establishes and funds a perpetual trust administered by a trustee other than the Foundation. The Foundation has the irrevocable right to receive the income earned on the trust assets in perpetuity but never receives the assets held in trust. Distributions received by the Foundation may be restricted by the donor. Under the charitable remainder trusts, the donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, the Foundation receives the assets remaining in the trust. The Foundation may ultimately have unrestricted use of those assets, or the donor may place permanent or temporary restrictions on their use. The Foundation's beneficial interest in trusts is recorded at fair value within assets whose use is limited and other assets.

#### **(g) *Interest Rate Swap Agreements***

Investments in interest rate swap agreements are carried at fair value, estimated using a discounted cash flow method at a rate commensurate with the risk involved. Changes in the fair value of the interest rate swap agreements are reported as nonoperating gains (losses) in the consolidated statements of operations and changes in net assets. Net cash settlements are included in interest expense.

#### **(h) *Property, Plant, and Equipment***

Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method, except for leasehold improvements. Leasehold improvements are depreciated over the life of the related lease or the useful life of the asset, whichever is shorter. Costs associated with the development and installation of internal-use software may be capitalized or expensed. These costs are expensed if they are incurred in the preliminary or post-implementation/operation stages and capitalized if they are incurred in the application development stage and meet certain capitalization requirements.

The estimated useful lives for buildings and land improvements is 20–40 years, for equipment is 3–20 years, and for computer software is 3 – 10 years.

## CENTRA HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets. Gain or losses on disposal of property, plant, and equipment are included in other operating revenue. Routine repairs and maintenance costs are expensed as incurred.

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as an increase in unrestricted net assets, and excluded from excess of revenue and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted gifts.

#### **(i) Goodwill**

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*, Centra does not amortize goodwill, rather the carrying value of goodwill is tested annually for impairment. Total goodwill recorded was approximately \$10,388,000 as of December 31, 2017 and 2016, respectively and is included in other assets in the accompanying consolidated balance sheets. There was no impairment recognized in 2017 or 2016.

#### **(j) Inventories**

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

#### **(k) Deferred Financing Costs**

Costs of obtaining financing are deferred and amortized over the terms of the related indebtedness to which they apply.

#### **(l) Advance Fees and Deposits**

Under the CCRC, Inc. Residency Agreement, the reservation fee is refundable in full if, before the occupancy date, (i) the applicant terminates the Residency Agreement within seven days of either signing the Residency Agreement or making the reservation deposit, (ii) the applicant is not admitted or dies, or (iii) CCRC, Inc. terminates the Residency Agreement; otherwise, the reservation fee is refundable to the applicant net of a \$500 administrative fee.

The Residency Agreement provides for partial refunds of the advance fee under the circumstances outlined below. CCRC, Inc. offers residents a choice of one of the following two options:

1. Declining Refund Resident Fee – After the occupancy date, if the Residency Agreement is terminated for any reason, all fees are refundable less an amount equal to 2% of such fees per month of occupancy until the balance is zero.

Advance fees received under declining refund resident contracts are amortized into revenue over the actuarially determined life expectancy of each individual resident or couple, adjusted annually.

2. Guaranteed Refund Resident Fee – After the occupancy date, if the Residency Agreement is terminated for any reason, 90% of the fee is refundable upon reoccupancy of the resident's unit.

## CENTRA HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Advance fees received under the 90% guaranteed refund resident contracts are amortized into revenue as follows:

- The nonrefundable portion is amortized over the actuarially determined life expectancy of each individual resident or couple adjusted annually.
- The refundable portion is not amortized.

The portion of advance fees subject to refund provisions amounted to approximately \$11,907,000 and \$11,158,000 at December 31, 2017 and 2016, respectively, and is included in other long-term liabilities on the accompanying consolidated balance sheets.

#### **(m) Net Assets**

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Centra and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to externally imposed restrictions.

*Temporarily restricted net assets* – Net assets subject to externally imposed stipulations that may or will be met either by actions of Centra and/or the passage of time.

*Permanently restricted net assets* – Net assets subject to externally imposed stipulations that they be maintained by Centra in perpetuity.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless use of the related asset is limited by donor imposed restrictions or law. Expiration of temporary restrictions of net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets if used to acquire capital assets; otherwise, they are recorded as unrestricted operating revenue. Related income on permanently restricted and temporarily restricted net assets is classified based on donor restriction as temporarily restricted until the restriction is met and the funds are appropriated for expenditure.

#### **(n) Net Patient Service Revenue (Net of Contractual Allowances and Discounts)**

Centra recognizes revenue in the period in which services are rendered. Centra has agreements with third-party payors that provide payment to Centra at amounts that are generally less than established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Accordingly, net patient service revenue is reported as the estimated net realizable amounts from patients, third-party payors and others, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Adjustments are accrued on an estimated basis in the period the related services are rendered and retroactively adjusted in future periods as changes to estimates become known and tentative and final settlement adjustments are identified.

## CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### **(o) Charity Care**

Centra provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because Centra does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue or included in patient accounts receivable.

### **(p) Premium and Capitation Revenue**

Premium and capitation receipts are recognized as revenue during the coverage period Centra's medical insurance subsidiary is obligated to provide healthcare services. Premium billings are billed in the month preceding the coverage period and are recorded as unearned revenue until earned. Payments received from Centra's medical insurance subsidiary are eliminated in consolidation.

Certain insurance subsidiaries participate in the risk adjustment programs established by the Affordable Care Act. The overall goal of these programs is to provide certainty and protect against adverse insurance plan selection while stabilizing premiums as exchanges launched in 2014. Premium revenue and a corresponding receivable of approximately \$900,000 and \$1,252,000 were estimated and recorded related to these programs as of and for the year ended December 31, 2017. The laws and regulations governing these programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change in the near term.

### **(q) Medical Claims Expense**

Medical claims expense for Centra's insurance subsidiary is recognized as services are provided, including estimated amounts for claims incurred but not yet reported. These expenses are reported net of subscriber copay and deductible amounts and net of reimbursement from coordination of benefits. Reinsurance premiums, net of recoveries, are included in medical claims expense in the accompanying consolidated statements of operations and changes in net assets.

### **(r) Donor-Restricted Gifts**

Unconditional promises to give cash and other assets to Centra are reported at net present value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at net present value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

### **(s) Mission Statement and Nonoperating Gains and Losses**

Centra's primary mission is to provide excellent care for life. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in gains or losses unrelated to Centra's primary mission are considered to be nonoperating. Nonoperating gains and losses include investment income and expenses, realized gains

## CENTRA HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2017 and 2016

and losses on sales of investments, change in value of interest rate swap agreements, net periodic pension costs and other nonrecurring items that are considered extraordinary or unusual in nature.

Other changes in unrestricted net assets, which are excluded from excess of revenue and other support over expenses include contributions of long-term assets, unrealized gains and losses on investments, changes in funding status of the defined-benefit plan, and net assets released from restrictions for capital acquisitions.

#### **(t) Recently Issued Accounting Standards**

The FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* in May 2014. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal year 2018. Centra expects to record a decrease in net patient services revenue related to self-pay patients and a corresponding decrease in provision for bad debts upon adoption of the standard.

The FASB issued ASU 2015-09, *Financials Services – Insurance (Topic 944): Disclosures about Short-Duration Contracts* in May 2015. This ASU requires insurance entities to disclose additional information for the purpose of providing better insight into an insurer's initial claim estimates and subsequent adjustments to help financial statement users understand the frequency, severity, and timing of future cash flows related to the estimated claims costs. The adoption of this ASU had no material effect on Centra's consolidated results of operations or financial position, as it affected disclosure only. See note 18 for this disclosure.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, in February 2016. This ASU requires the recognition of lease assets and lease liabilities by lessee for those leases classified as operating leases under previous GAAP, which have a term of greater than 12 months. This ASU defines a lease as a contract, or part of a contract, that conveys the right to control the use of the identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. This ASU retains a distinction between finance leases and operating leases in the consolidated statements of operations and changes in net assets, and the consolidated statements of cash flows is largely unchanged from existing GAAP. ASU 2016-02 is effective for fiscal year 2019. Centra expects to record an increase in lease assets and lease liabilities presented in the consolidated balance sheets upon adoption of the standard.

The FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. This ASU reduces classes of net assets from three to two (net assets without donor restrictions and net assets with donor restrictions), increases quantitative and qualitative disclosures regarding liquidity, and required reporting expenses by both their natural classification and their functional classification. The ASU is effective for fiscal year 2018. Early adoption is permitted; however, Centra elected to not adopt this ASU in fiscal year 2017.

## CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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The FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, in November 2016. This ASU requires entities to include in total cash and cash equivalents on the statement of cash flows the cash and cash equivalents that have restrictions on withdrawal or use. It also requires additional disclosure of the nature of restrictions on its cash and cash equivalents. ASU 2016-08 is effective for fiscal year 2018.

The FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, in March 2017. This ASU requires entities that sponsor employee defined benefit pension and other postretirement benefit plans to report the service cost component in the same line item on the statement of operations and changes in net assets as benefit costs. The other components of net benefit cost will be presented separately outside of operating income. ASU 2017-07 is effective for fiscal year 2018. Early adoption is permitted, and Centra adopted provisions of this ASU in 2017. See note 17 for additional information on the 2016 financial statement adjustments as a result of adopting and applying this ASU.

### (2) Net Patient Service Revenue and Estimated Third-Party Settlements

Patient service revenue, net of contractual allowances and discounts, but before the provision for bad debts, recognized in 2017 and 2016 from major payor sources is as follows:

	<u>2017</u>	<u>Percentage</u>	<u>2016</u>	<u>Percentage</u>
Medicare	\$ 426,683,691	44.4 %	\$ 389,617,928	44.5 %
Medicaid	107,822,437	11.2	95,853,847	11.0
Anthem	241,658,383	25.2	206,470,369	23.6
Managed care	100,508,696	10.5	115,037,142	13.1
Commercial	29,781,375	3.1	29,901,265	3.4
Self-pay and other	53,972,613	5.6	38,026,342	4.4
Total	<u>\$ 960,427,195</u>	<u>100.0 %</u>	<u>\$ 874,906,893</u>	<u>100.0 %</u>

Centra has entered into payment agreements with third-party payors including certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Centra recognizes patient service revenue associated with services provided to patients who have third-party coverage based on the contractual rates for the services rendered. A summary of the payment arrangements with major third-party payors is as follows:

*Anthem:* Inpatient services rendered to Anthem subscribers are reimbursed at prospectively determined per case or per diem rates and outpatient services are reimbursed at prospectively determined discounted rates. The amounts reimbursed are not subject to retroactive adjustment.

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*Medicare:* Inpatient acute care services, defined capital costs, and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services, related to Medicare beneficiaries are paid based on predetermined reimbursement methodologies. Centra is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Centra and audits thereof by the Medicare fiscal intermediary. Centra's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2013.

*Medicaid:* Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates based on a blend of per patient day and per discharge payments. Inpatient nonacute services and certain outpatient services rendered to Medicaid beneficiaries are paid based on a cost reimbursement methodology. Centra is reimbursed at a tentative rate with final settlements determined after submission of annual cost reports by Centra and audits thereof by Medicaid. Centra's Medicaid cost reports have been desk settled by Medicaid through December 31, 2016.

Net patient service revenue included retroactive adjustments under reimbursement agreements with governmental programs. Adjustments are accrued on an estimated basis in the period the related services are rendered and retroactively adjusted in future periods as changes to estimates become known and tentative and final settlement adjustments are identified. Net patient service revenue decreased by approximately \$733,000 and \$506,000 during years ended December 31, 2017 and 2016, respectively, as a result of changes in estimates associated with settlements and other revisions to prior years for third-party settlement accounts. In the opinion of management, adequate provisions have been made in the consolidated financial statements for adjustments that may occur from final settlements of reimbursable amounts.

For uninsured patients who do not qualify for charity care, Centra recognizes revenue on the basis of its discounted rates. Uninsured patients received a 59% and 55% discount from billed charges (excluding elective services) in 2017 and 2016, respectively. Based on historical experience, a significant portion of Centra's uninsured patients who do not qualify for charity care will be unable or unwilling to pay for the services provided. Thus, Centra records a provision for bad debts related to uninsured patients in the period the services are provided.

Centra provides services at no charge or at a substantially discounted rate to patients who are approved under the guidelines of its financial assistance policy. Centra does not pursue collection of amounts determined to qualify as charity care. Services qualifying for charity care consideration include emergent and medically necessary services. Patient household income and the equity value of certain assets in relation to federal poverty guidelines is included in determination for charity care qualification.

While charity care is excluded from net patient service revenue and patient receivables, Centra maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone and estimated costs incurred for services and supplies furnished under its charity care policy. Costs incurred are estimated based on the ratio of total operating expenses to gross charges, which is then applied to charity care charges. The estimated cost to provide charity care was approximately \$40,822,000 and \$21,661,000 for 2017 and 2016, respectively. The increase over 2016 was driven by

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greater need in the community with continued growth of services, as well as updates to methodologies and processes by which charity care is identified and provided.

**(3) Patient Accounts Receivable, Net**

Patient accounts receivable, net at December 31 consists of the following:

	<b>2017</b>	<b>2016</b>
Patient accounts receivable	\$ 365,742,241	268,783,338
Less:		
Allowance for bad debts	(34,091,543)	(22,672,712)
Allowance for charity	(19,733,509)	(18,286,793)
Allowance for contractual adjustments	(169,035,594)	(115,481,326)
Patient accounts receivable, net	\$ 142,881,595	112,342,507

Patient accounts receivable are reduced by an allowance for bad debts. In evaluating the collectibility of accounts receivable, Centra analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for bad debts. For receivables associated with services provided to patients who have third-party coverage, Centra analyzes contractually due amounts and provides an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and provision for contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, Centra records a provision for bad debts in the period of service on the basis of its historical collections, which indicates that some patients are unwilling to pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debts.

The activity in the allowance for bad debts is as follows:

	<b>2017</b>	<b>2016</b>
Beginning balance, allowance for bad debts	\$ 22,672,712	19,210,070
Provision for bad debts	55,615,245	55,030,110
Less net write-offs	(44,196,414)	(51,567,468)
Ending balance, allowance for bad debts	\$ 34,091,543	22,672,712

Centra's net write-offs decreased approximately \$7,371,000 from 2016 to 2017. This decrease in net write-offs was due to the increase in the self-pay discount percentage offered in 2017 (as indicated in note 2), improved collection efforts and revenue cycle optimization initiatives, and updated policies for bad debt analysis, review and write-off.

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**(4) Investments and Assets Whose Use Is Limited**

Investments and assets whose use is limited at December 31 are invested for the following purposes:

	<b>2017</b>	<b>2016</b>
Internally designated by the board of directors for capital acquisition	\$ 379,995,689	349,059,631
Internally designated for self-insurance	9,874,417	9,295,605
Restricted by Trustee – construction and costs of issuance funds	43,296,699	—
Temporarily restricted by donor	36,625,098	30,205,225
Permanently restricted by donor	28,878,378	28,878,378
Unrestricted – designated as endowment	920,000	920,000
Unrestricted	26,394,307	27,584,348
Other	181,001	175,214
	\$ 526,165,589	446,118,401

Investment income in 2017 and 2016 consists of the following:

	<b>2017</b>		
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Total</b>
Investment income	\$ 2,726,993	1,017,696	3,744,689
Net realized gains	41,410,391	4,040,796	45,451,187
Net unrealized gains	9,292,016	3,453,359	12,745,375
Investment fees	(1,870,733)	(495,947)	(2,366,680)
	\$ 51,558,667	8,015,904	59,574,571
	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Total</b>
Investment income	\$ 3,037,993	871,764	3,909,757
Net realized gains	14,434,730	1,245	14,435,975
Net unrealized gains	8,189,449	2,931,757	11,121,206
Investment fees	(1,723,482)	(486,259)	(2,209,741)
	\$ 23,938,690	3,318,507	27,257,197

All securities are classified as available-for-sale. In accordance with accounting standards, Centra periodically evaluates whether any declines in the fair value of investments that are not classified as trading securities are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: the length of time and extent that a security has been in an unrealized loss position; the

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existence of an event that would impair the issuer's future earnings potential; the near term prospects for recovery of the fair value of a security; and the intent and ability of Centra to hold the security until the fair value recovers. Declines in fair value below cost that are deemed to be other-than-temporary are included in the accompanying consolidated statements of operations and changes in net assets as nonoperating losses.

The following tables show the gross unrealized losses and fair value of Centra's investments with unrealized losses that are not deemed to be other than temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2017 and 2016:

2017 Description of securities	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Private pooled investments \$	47,340	(50)	63	(5)	47,403	(55)

2016 Description of securities	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Private pooled investments \$	122,600	(3,959)	76,862	(2,577)	199,462	(6,536)

Unrealized losses on Centra's private pooled investments are related to economic conditions experienced in prior years. Investment returns continue to improve in relation to improved market and economic activity as indicated with the investments' gains over the past year. As of December 31, 2017 and 2016, Centra has the ability to hold such investments until recovery of their fair value and intends to do so, and does not consider the investments to be other than temporarily impaired.

#### (5) Fair Values of Assets and Liabilities

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer or settle a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820, *Fair Value Measurements*, establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The classification of an investment within the hierarchy is based upon the pricing transparency or ability to redeem the investment and does not necessarily correspond to the perceived risk of that investment. Inputs are used in applying various valuation techniques that are assumptions, which market participants use to make valuation decisions, including assumptions about risk. Inputs may include pricing information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples discount rates, and other factors.

Assets and liabilities measured and reported at fair value are classified within their fair value hierarchy as follows:

- Level 1: Valuations based on quoted market prices in active markets.

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- Level 2: Investments that trade in markets that are considered to be active, but are based on dealer quotations or alternative pricing sources supported by observable inputs or investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs.
- Level 3: Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Centra's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

#### *Assets and Liabilities at Fair Value on a Recurring Basis*

Level 1 investments include common stocks, mutual funds, corporate bonds, and U.S. Treasury obligations, which are valued based on prices readily available in the active markets in which those securities are traded and money market funds, which are based on their transacted values. Level 2 investments include private pooled investments, government debt obligations, municipal bonds, hedge funds, and interest rate swap agreements, which are valued on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Private pooled investments in real estate are based on the NAV reported by the fund manager. There were no transfers into or out of Level 3 during 2017 or 2016.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis:

	December 31, 2017				
	Total	Level 1	Level 2	Level 3	NAV *
<b>Assets:</b>					
Cash and cash equivalents	\$ 50,125,922	50,125,922	—	—	—
Money markets	1,981,762	1,981,762	—	—	—
Common stocks	3,973,121	3,973,121	—	—	—
Mutual funds	3,856,511	3,856,511	—	—	—
Private pooled investments	441,760,625	—	420,688,522	—	21,072,103
Debt securities	484,872	484,872	—	—	—
Beneficial interest in trusts	23,982,776	—	23,982,776	—	—
Total assets	<u>\$ 526,165,589</u>	<u>60,422,188</u>	<u>444,671,298</u>	<u>—</u>	<u>21,072,103</u>
<b>Liabilities:</b>					
Interest rate swap agreements	\$ 15,594,384	—	15,594,384	—	—

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		<b>December 31, 2016</b>				
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV *</u>
<b>Assets:</b>						
Cash and cash equivalents	\$	7,098,482	7,098,482	—	—	—
Money markets		1,045,651	1,045,651	—	—	—
Common stocks		4,247,408	4,247,408	—	—	—
Mutual funds		20,155,220	20,155,220	—	—	—
Private pooled investments		391,182,276	—	371,343,797	—	19,838,479
Debt securities		167,842	142,603	25,239	—	—
Beneficial interest in trusts		<u>22,221,522</u>	<u>—</u>	<u>22,221,522</u>	<u>—</u>	<u>—</u>
Total assets	\$	<u>446,118,401</u>	<u>32,689,364</u>	<u>393,590,558</u>	<u>—</u>	<u>19,838,479</u>
<b>Liabilities:</b>						
Interest rate swap agreements	\$	18,351,605	—	18,351,605	—	—

\* Investments reported at NAV as a practical expedient estimate of fair value at December 31, 2017 and 2016.

**(6) Property, Plant, and Equipment**

Property, plant, and equipment at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 31,193,510	23,614,729
Land improvements	18,775,702	18,506,327
Buildings and leasehold improvements	570,568,279	541,266,730
Equipment	<u>477,882,959</u>	<u>460,443,221</u>
	1,098,420,450	1,043,831,007
Less accumulated depreciation and amortization	<u>713,978,424</u>	<u>670,539,782</u>
	384,442,026	373,291,225
Construction in progress	<u>60,665,021</u>	<u>34,652,569</u>
	<u>\$ 445,107,047</u>	<u>407,943,794</u>

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 is approximately \$49,289,000 and \$50,616,000, respectively.

Construction in progress primarily consists of various in-house construction projects along with the Bedford emergency department expansion, Community Access Network building construction and the electronic medical record system implementation project. The estimated cost to complete these projects as of December 31, 2017 is approximately \$50,157,000.

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**(7) Long-Term Obligations**

Long-term obligations at December 31 consist of the following:

<u>Bond series</u>	<u>Issuing body</u>	<u>2017</u>	<u>2016</u>
2017A/B/C/D	Economic Development Authority of the City of Lynchburg, Virginia	\$ 228,285,000	—
2014A/B	Economic Development Authority of the City of Lynchburg, Virginia	65,767,034	64,611,257
2012	Industrial Development Authority of the City of Lynchburg, Virginia	—	8,450,710
2011	Industrial Development Authority of the City of Farmville, Virginia	—	5,055,735
2010	Industrial Development Authority of the City of Lynchburg, Virginia	—	19,483,933
2007	Industrial Development Authority of the County of Campbell, Virginia	—	4,735,464
2007	Industrial Development Authority of the Town of Amherst, Virginia	—	5,049,699
2007	Industrial Development Authority of the County of Appomattox, Virginia	—	4,906,951
2004A/B/C/D/E/F	Economic Development Authority of the City of Lynchburg, Virginia	—	145,575,000
	Total tax-exempt bonds	294,052,034	257,868,749
	Other long-term obligations:		
	Taxable promissory note (2014)	20,056,750	20,083,000
	Notes payable to Carilion Clinic	4,800,000	5,322,000
	Other notes payable	—	148,868
	Total long-term obligations	318,908,784	283,422,617
	Plus unamortized bond premiums	9,473,848	352,774
	Less unamortized bond discounts	(593,193)	—
	Less unamortized debt issuance costs	(1,745,355)	(3,145,909)
	Less current portion	(6,074,250)	(10,457,512)
	Total long-term obligations, net of current portion	\$ <u>319,969,834</u>	<u>270,171,970</u>

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The Obligated Group is made up of Centra health, Inc., Southside, Bedford, Centra Medical Group, LLC and CCRC, Inc. In July 2017, Centra issued Hospital Revenue and Refunding Bonds (Centra Health Obligated Group), Series 2017A, Series 2017B, Series 2017C and Series 2017D (collectively, the Series 2017 bonds) in the aggregate par amount of \$228,285,000. Proceeds from the Series 2017 bonds were used to refund in full the Series 2004, Series 2007, Series 2010, Series 2011 and Series 2012 bonds, pay certain issuance costs for the Series 2017 bonds, and to finance various capital additions and improvements within the Obligated Group. The Series 2017A bonds were issued at a premium of \$9,352,669. The Series 2017A, Series 2017B and Series 2017C bonds were issued with an underwriter's discount totaling \$601,432. The Series 2017 bonds issuance resulted in a loss on extinguishment of debt of approximately, \$2,570,000 representing the write-off of unamortized bond issuance costs on outstanding bonds refunded through this transaction. Unused funds to finance capital additions and improvements are held with the Trustee until requisitioned for reimbursement after expenditures are made. Funds held by Trustee restricted for capital expenditures were \$43,217,000 at December 31, 2017.

Each Series 2017A Bond bears interest at fixed rates between approximately 3.13% and 5.00% (4.00% at December 31, 2017) and is payable semi-annually. Interest rates on the Series 2017B, 2017C and 2017D bonds are variable and payable monthly. Interest rates on the Series 2017B, 2017C and 2017D Bonds were approximately 1.73%, 1.26% and 1.50% at December 31, 2017, respectively.

The Series 2017B and 2017C Bonds require issuance of an irrevocable direct-pay letter of credit (credit facility), which was issued by a bank for each series. Each credit facility is scheduled to expire on July 25, 2022.

In September 2014, the Series 2014A and B Hospital Revenue Bonds were issued in the aggregate amount of \$79,895,000. The Series 2014A bears interest at a fixed rate of 4.55% and Series 2014B bears interest at a variable rate both payable quarterly (1.68% at December 31, 2017). Proceeds of the sale of the bonds were used for acquisition, construction, and equipment for various capital projects including new medical centers, a 24-hour outpatient emergency room, and a new pulmonary unit.

In September 2014, Centra Health issued a taxable promissory note in the amount of \$20,105,000, variable interest rate payable quarterly (2.41% at December 31, 2017). Proceeds of the sale of the bonds were used for the acquisition, construction, equipment, and supplementing costs of various ambulatory surgery centers.

On June 30, 2014, Bedford and Centra Health, Inc. entered into a Debt Service Agreement with Carilion Clinic (Carilion) to provide for the payment of debt service for Carilion's Bedford portion of its Series 2005C Hospital Revenue Bonds and the Series 2012 Hospital Revenue Bonds. Bedford makes debt service payments to Carilion based on the terms set forth in the Debt Service Agreement. Interest rates range from 4.00% to 5.00% with final payment in 2022. Bedford was formerly a joint venture with Carilion until Centra acquired Carilion's membership interest in 2014.

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Centra is obligated to make payments of principal and interest that correspond its debt obligation agreements. The aggregate annual maturities of indebtedness for each of the five years subsequent to December 31, 2017 and thereafter are as follows:

2018		\$	6,074,250
2019			6,036,000
2020			8,710,250
2021			6,554,000
2022			7,553,000
Thereafter			<u>283,981,284</u>
Total		\$	<u>318,908,784</u>

Centra must remain compliance with certain covenants and restrictions required by the master trust indenture underlying its revenue bonds. The covenants include maintaining a required debt service coverage ratio, debt to capitalization ratio, a specific liquidity target, as well as other nonfinancial restrictions. As of December 31, 2017 and 2016, Centra is in compliance with these covenants.

#### (8) Interest Rate Swap Agreements

Centra entered into various interest rate swap agreements with certain investment companies to reduce the exposure of volatility in interest rates. As such, Centra pays a fixed rate of interest, as noted in the following table, while the investment company pays based on a monthly floating LIBOR rate plus a spread. The difference between the fixed and floating rates is accrued and recorded in interest expense in the accompanying consolidated statements of operations and changes in net assets beginning on the effective date.

The following summarizes the general terms for each of Centra's interest rate swap agreements:

Description	Notional amount (1)	Effective date	Termination date	Centra pays	Centra receives
Fixed payor	\$ 36,775,000	12/19/2012	1/1/2028	3.325 %	61% of one-month LIBOR + 0.24%
Fixed payor	39,200,000	5/19/2016	1/1/2035	3.475	61% of one-month LIBOR + 0.24%
Fixed payor	27,650,000	5/20/2016	1/1/2035	3.371	61% of one-month LIBOR + 0.24%
Fixed payor	—	12/17/2010	12/17/2017	2.850	68% of one-month LIBOR + 0.98%
Fixed payor	4,213,112	6/30/2011	12/15/2022	2.890	68% of one-month LIBOR + 0.81%

(1) – as of December 31, 2017

The fair value of each interest rate swap is the estimated amount Centra would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the interest rate swap counterparties. The fair value of these derivative instruments is included as a noncurrent liability in the accompanying consolidated balance sheets. The change in fair value is included with net nonoperating gains on the consolidated statements of operations and changes in net assets as changes in fair value of interest rate swap agreements.

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The related financial information on each of these interest rate swap agreements at December 31 is as follows:

Description	Termination date	Fair Value 12/31/15	Gain recognized	Fair value 12/31/16 (2)	Gain recognized	Fair value 12/31/17
Fixed payor	1/1/2028	\$ (5,387,032)	1,017,371	(4,369,661)	918,324	(3,451,337)
Fixed payor	1/1/2035	(9,764,092)	789,887	(8,974,205)	610,697	(8,363,508)
Fixed payor	1/1/2035	(5,244,446)	618,671	(4,625,775)	560,730	(4,065,045)
Fixed payor	12/17/2017	(488,442)	256,729	(231,713)	231,713	—
Fixed payor	12/15/2022	(228,797)	78,547	(150,250)	75,756	(74,494)
	Total	<u>\$ (21,112,809)</u>	<u>2,761,205</u>	<u>(18,351,604)</u>	<u>2,397,220</u>	<u>(15,954,384)</u>

(2) Balance of the swap terminating on December 17, 2017 is classified as a current liability at December 31, 2016. Remaining balances are classified as noncurrent interest rate swap agreement liabilities.

Centra is exposed to financial loss in the event of underperformance by a counterparty to any of the interest rate swap agreements described above. General market conditions could impact the credit standing of the counterparties and, therefore, potentially impact the value of the instruments on Centra's consolidated balance sheets. Centra controls this counterparty risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

**(9) Retirement Plans**

Centra and its subsidiaries (except Bedford, Southside, and PCHP) have a defined-benefit pension plan covering substantially all of its employees (the Plan). The benefits are based on years of service and the average compensation during the highest five consecutive calendar years of service. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Centra elected to freeze the Plan as of December 31, 2009 to new participants and no future accruals will be earned.

Accounting principles generally accepted in the United States of America require Centra to: (a) recognize in its consolidated balance sheets an asset for the Plan's overfunded status or a liability for the Plan's underfunded status; (b) measure the Plan's assets and its obligations that determine its funded status as of the end of Centra's fiscal year (with limited exceptions); and (c) recognize changes in the funded status the Plan in the year in which the changes occur. Those changes are reported with changes in unrestricted net assets in the consolidated statements of operations and changes in net assets.

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A summary of the projected benefit obligation, change in Plan assets, and net periodic pension cost is as follows:

	<u>2017</u>	<u>2016</u>
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 246,995,638	240,507,278
Interest cost	10,184,224	10,521,248
Actuarial loss	19,409,859	5,052,680
Benefits paid	<u>(9,210,394)</u>	<u>(9,085,568)</u>
Projected benefit obligation, end of year	<u>267,379,327</u>	<u>246,995,638</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	210,001,188	199,695,518
Actual return on plan assets	30,796,496	14,591,238
Employer contributions	5,800,000	4,800,000
Benefits paid	<u>(9,210,394)</u>	<u>(9,085,568)</u>
Fair value of plan assets, end of year	<u>237,387,290</u>	<u>210,001,188</u>
Funded status of the Plan (underfunded)	<u>\$ (29,992,037)</u>	<u>(36,994,450)</u>
Reconciliation of accrued pension costs:		
Prepaid pension costs	\$ 10,257,545	9,204,079
Employer contributions	5,800,000	4,800,000
Net periodic pension costs	<u>(3,679,758)</u>	<u>(3,746,534)</u>
Prepaid pension costs, end of year	12,377,787	10,257,545
Accumulated amounts recognized as other change in net assets	<u>(42,369,824)</u>	<u>(47,251,995)</u>
Funded status of the Plan (underfunded)	<u>\$ (29,992,037)</u>	<u>(36,994,450)</u>
Components of net periodic benefit cost:		
Interest cost	\$ 10,184,224	10,521,248
Expected return on plan assets	(12,119,118)	(12,040,265)
Amortization of net actuarial loss	<u>5,614,652</u>	<u>5,265,551</u>
Net periodic pension cost	<u>\$ 3,679,758</u>	<u>3,746,534</u>
Other changes in plan assets and benefit obligations recognized in other changes in net assets:		
Net actuarial (loss) gain	\$ (732,481)	(2,501,707)
Amortization of net actuarial loss	<u>5,614,652</u>	<u>5,265,551</u>
Total recognized in other changes in net assets	<u>\$ 4,882,171</u>	<u>2,763,844</u>

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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**(a) Assumptions**

Weighted average assumptions used to determine benefit obligations:

	<b>2017</b>	<b>2016</b>
Discount rate	3.65 %	4.20 %
Expected long-term return on assets	5.50	5.75
Compensation rate increase	N/A	N/A

Weighted average assumptions used to determine net periodic benefit cost:

	<b>2017</b>	<b>2016</b>
Discount rate	4.20 %	4.45 %
Expected long-term return on assets	5.75	6.00
Compensation rate increase	N/A	N/A

The expected long-term rate of return for the Plan's total assets is based on an analysis of anticipated returns for equity and fixed-income investments for the portfolio allocation.

**(b) Plan Assets**

The asset allocation for Centra's funded retirement plan at December 31, 2017 and 2016, and the target allocation for 2018 by asset category are as follows:

	<b>Target allocation</b>	<b>Percentage of plan assets at year-end</b>	
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Equity securities	40.0 %	40.2 %	39.6 %
Fixed-income securities	60.0	59.8	60.4
Total	100.0 %	100.0 %	100.0 %

The policy, as established by Centra's Investment Committee, is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The assets will be reallocated quarterly to meet the above target allocations. The investment policy is reviewed on a quarterly basis, under the advisement of a certified investment adviser to determine if the policy should be changed.

As disclosed in note 5, GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Prices for certain common collective trusts are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2. Prices for real estate common collective trusts and hedge funds are classified as Level 3.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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The following tables set forth by level the fair value hierarchy the Plan's financial assets accounted for at fair value as of December 31, 2017 and 2016, respectively. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Centra's assessment of the significance of a particular input to the fair value measurement for plan assets requires judgment, and may affect the valuation of fair value of plan investments and their placement within the fair value hierarchy levels.

<b>December 31, 2017</b>					
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>NAV</b>
Common collective trusts:					
Equity securities	\$ 95,538,677	—	95,538,677	—	—
Fixed income	141,848,613	—	141,848,613	—	—
Total	<u>\$ 237,387,290</u>	<u>—</u>	<u>237,387,290</u>	<u>—</u>	<u>—</u>

<b>December 31, 2016</b>					
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>NAV</b>
Common collective trusts:					
Equity securities	\$ 83,215,272	—	83,215,272	—	—
Fixed income	126,785,916	—	126,785,916	—	—
Total	<u>\$ 210,001,188</u>	<u>—</u>	<u>210,001,188</u>	<u>—</u>	<u>—</u>

**(c) Cash Flows**

Centra expects to make contributions of \$3,200,000 to the Plan during 2018.

Estimated future benefit payments – The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2018	\$ 10,805,000
2019	11,342,000
2020	12,050,000
2021	12,691,000
2022–2026	70,603,000

**(d) Section 403(b) Plan**

Centra and its NFP subsidiaries have a tax sheltered annuity program qualified under Section 403(b) of the Internal Revenue Code covering all employees meeting age and service requirements. Centra matches up to 3% on eligible employee contributions. The program also allows Centra to make discretionary contributions, subject to certain limitations. Centra provided an additional discretionary contribution of 2% of base pay into each eligible employee's personal retirement savings account for 2017 and 2016. Centra's contributions for 2017 and 2016 were approximately \$17,253,000 and \$17,305,000, respectively.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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**(10) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Indigent care	\$ 1,242,744	1,360,728
Capital acquisitions	2,623,377	2,588,317
Program services	<u>33,388,426</u>	<u>26,905,164</u>
	<u>\$ 37,254,547</u>	<u>30,854,209</u>

Permanently restricted net assets at December 31 are restricted to:

	<u>2017</u>	<u>2016</u>
Indigent care	\$ 830,012	830,012
Capital acquisitions	1,800,730	1,800,730
Program services	20,971,930	20,971,930
General purpose	<u>5,275,706</u>	<u>5,275,706</u>
	<u>\$ 28,878,378</u>	<u>28,878,378</u>

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of indigent care, capital acquisitions, and program expenses, which totaled approximately \$4,403,000 and \$7,314,000, respectively.

**(11) Endowment Funds**

The Foundation's endowment consists of approximately 45 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Foundation's board of directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Foundation's board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) Interpretation of Relevant Law**

The board of directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net asset composition by type of fund as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds:				
Donor restricted	\$ —	15,025,324	28,878,378	43,903,702
Board designated	920,000	—	—	920,000
Total funds	\$ <u>920,000</u>	<u>15,025,324</u>	<u>28,878,378</u>	<u>44,823,702</u>

Changes in endowment net assets for the year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 920,000	11,209,631	28,878,378	41,008,009
Investment returns:				
Investment income	—	654,424	—	654,424
Net appreciation	—	3,815,693	—	3,815,693
Appropriation of endowment assets for expenditure	—	(654,424)	—	(654,424)
Endowment net assets, end of year	\$ <u>920,000</u>	<u>15,025,324</u>	<u>28,878,378</u>	<u>44,823,702</u>

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

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Endowment net asset composition by type of fund as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds:				
Donor restricted	\$ —	11,209,631	28,878,378	40,088,009
Board designated	920,000	—	—	920,000
Total funds	<u>\$ 920,000</u>	<u>11,209,631</u>	<u>28,878,378</u>	<u>41,008,009</u>

Changes in endowment net assets for the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 920,000	10,596,014	28,878,378	40,394,392
Investment returns:				
Investment income	—	621,910	—	621,910
Net appreciation	—	613,617	—	613,617
Appropriation of endowment assets for expenditure	—	(621,910)	—	(621,910)
Endowment net assets, end of year	<u>\$ 920,000</u>	<u>11,209,631</u>	<u>28,878,378</u>	<u>41,008,009</u>

**(b) Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Foundation's board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, overtime, to provide an average rate of return on equity investments of 6% and a fixed-income yield of 2% annually. Actual returns in any given year may vary from this amount.

**(c) Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

## CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### **(d) Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation has a policy of requesting for distribution each year either net income of the asset or a percentage of the assets average fair value, which results in an average net cash distribution of 2.4% of total assets. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4.3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

### **(12) Tax Status**

Centra Health, Inc., CCRC, Inc., Foundation, Southside, and Bedford are exempt from income tax under Section 501 (a) of the Internal Revenue Code. Accordingly, no income taxes have been provided for these entities in the accompanying consolidated financial statements except for taxes related to certain unrelated business income engaged in by Centra.

Centra Medical Group, LLC, CHIC, Centra Specialty Hospital, Healthworks, CVQCN, and Outpatient Rehab are disregarded for federal income tax purposes and, therefore, are included under Centra's tax return.

Centra Medical Group Southside, LLC and Centra Medical Group, LLC are disregarded for federal income tax purposes and, therefore, are included under Southside's and Bedford's tax return, respectively.

Centra has adopted relevant accounting standards related to taxes for its subsidiaries, GBC, PCHP Holding, Inc. and PCHP. Under the asset-and-liability method for these standards, deferred tax assets and liabilities are recognized for the temporary differences between the financial statement carrying amounts and the tax basis of the subsidiary's assets and liabilities at income tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

CHIC is wholly owned by Centra Health, Inc. Any liability for taxes is passed through to Centra Health, Inc. A provision will be made when operations of this subsidiary indicates a liability for taxes.

Centra has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2017. Centra believes they are no longer subject to income tax examinations for years prior to December 31, 2014.

### **(13) Functional Expenses**

Centra provides a broad range of healthcare services to residents within its primary and secondary service areas. Expenses related to providing these services are as follows:

	<u>2017</u>	<u>2016</u>
Healthcare services	\$ 953,446,194	887,932,362
General and administrative	123,445,730	97,253,497
Total operating expenses	<u>\$ 1,076,891,924</u>	<u>985,185,859</u>

## CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### (14) Investments in Joint Ventures

#### (a) *Central Virginia Imaging LLC*

Central Virginia Imaging LLC (CVI) is a Virginia limited liability company established June 8, 1998. The company has two members, Centra Health, Inc. (50%), and Radiology Consultants of Lynchburg, Inc. (50%). The company was established to provide computed tomography scanning and magnetic resonance imaging services. Centra Health, Inc.'s investment in CVI is accounted for under the equity method. At December 31, 2017 and 2016, CVI had total net assets of approximately \$140,000 and \$146,000, respectively.

#### (b) *The Surgery Center of Lynchburg, LLC*

The Surgery Center of Lynchburg, LLC (Surgery Center) is a Virginia limited liability company organized on January 29, 1999 to provide outpatient surgical services in the central Virginia area. Centra Health, Inc. owns 50% of the Surgery Center and the remaining 50% is owned by individual physicians. Centra Health, Inc.'s investment in the Surgery Center is accounted for under the equity method. At December 31, 2017 and 2016, the Surgery Center had total net assets of approximately \$4,745,000 and \$3,958,000, respectively.

#### (c) *The Halifax Centra Venture*

Effective June 16, 2003, Centra Health, Inc. and Halifax Regional Hospital (Halifax) located in South Boston, Virginia, entered into a joint venture to construct and operate a cardiac catheterization laboratory at Halifax. Centra Health, Inc. and Halifax each have a 50% interest in the venture. Centra Health, Inc.'s investment in The Halifax Centra Venture is accounted for under the equity method. The cardiac catheterization laboratory is a department of Halifax. Net income for The Halifax Centra Venture in 2017 and 2016 was approximately \$369,000 and \$1,213,000, respectively.

### (15) Commitments and Contingencies

#### (a) *Lease Commitments*

Total rental expense in 2017 and 2016 for all operating leases was approximately \$6,144,000 and \$6,066,000, respectively. Future minimum payments for the next five years on operating lease agreements at December 31, 2017 are as follows:

2018	\$	4,064,656
2019		3,135,399
2020		2,616,760
2021		2,237,100
2022		1,668,110
Thereafter		<u>8,575,992</u>
	\$	<u>22,298,017</u>

## CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### **(b) Compliance**

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 could change by a material amount in the near term. Centra believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the consolidated financial statements. Compliance with such laws and regulations is subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Centra self-reported to the United States Department of Justice (DOJ) certain conduct relating to potential violations of the Stark Law and/or the False Claims Act (Disclosure). While negotiating a resolution to the Disclosure with the DOJ and other governmental entities, Centra and the DOJ became aware of additional acts or omissions by Centra that potentially violated the Stark Law, the Anti-Kickback Statute and/or the False Claims Act. Centra continues to work collaboratively with the DOJ and government entities to determine what repayments might be appropriate. Management believes that the ultimate outcome to this matter will not have a material effect on Centra's consolidated financial statements.

### **(c) Litigation**

Centra is subject to various legal proceedings and claims that are inherent to the provision of healthcare services. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Centra's consolidated financial statements. Management believe that Centra is adequately insured for any current legal proceedings and claims.

### **(d) Line of Credit**

In March 2017, Centra entered into an agreement with a commercial bank for a line of credit providing unsecured advances to Centra of up to \$10,000,000, which expired in March 2018. As of December 31, 2017, there was \$10,000,000 due under the agreement. See note 19 for information regarding a loan agreement entered into subsequent to year end.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

**(16) Concentrations of Credit Risk**

Centra grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The approximate mix of receivables from patients and third-party payors at December 31 was as follows:

	<u>2017</u>	<u>2016</u>
Medicare	41 %	41 %
Medicaid	14	14
Anthem	13	11
Commercial and managed care	17	17
Patients and other	<u>15</u>	<u>17</u>
Totals	<u>100 %</u>	<u>100 %</u>

**(17) Retrospective Application of a Change in Accounting Principle**

Centra elected to early adopt provisions of ASU 2017-07, Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Management concluded that application of this ASU more accurately reflects employee benefit costs incurred during the reporting period. As stated in note 9, Centra elected to freeze its Plan in 2009 to new participants, and additional benefits have not been earned by current or former employees in the Plan since 2009. Application of this ASU more appropriately classifies components of net period pension costs as a nonoperating loss. The change in accounting principle on net period pension costs is reported through retrospective application. There is no impact to Centra's net assets by implementing this ASU. A summary of adjustments Centra's consolidated statements of operations and changes in net assets for 2016 is presented below.

	<u>2016</u>	<u>2016</u> <u>(as adjusted)</u>
Operating expenses:		
Benefits	\$ 93,173,515	89,426,981
Other expenses	<u>895,758,878</u>	<u>895,758,878</u>
Total expenses	<u>\$ 988,932,393</u>	<u>985,185,859</u>

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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	<b>2016</b>	<b>2016 (as adjusted)</b>
Operating income	\$ 19,982,608	23,729,142
Nonoperating gains (losses):		
Net periodic pension costs	—	(3,746,534)
Other nonoperating gains, net	18,553,180	18,553,180
Net nonoperating gains	18,553,180	14,806,646
Excess of revenues and other support over expenses	\$ 38,535,788	38,535,788

**(18) Insurance Activity**

**(a) CHIC**

CHIC provides claims-made healthcare facilities commercial general liability, professional liability, employee benefits liability, and excess liability coverages to Centra. CHIC provides commercial general liability up to \$52,000,000 per event and \$56,500,000 annually in the aggregate. CHIC provides professional liability up to \$32,300,000 per person or batch event (\$32,250,000 in 2016) and \$36,500,000 annually in the aggregate. CHIC provides employee benefit liability up to \$51,000,000 per event and \$53,000,000 annually in the aggregate. CHIC provided various limits prior to January 1, 2016. Accrued professional liability costs on a discounted basis as of December 31, 2017 and 2016 were approximately \$16,223,000 and \$15,200,000, respectively, and is included in other long-term liabilities on the consolidated balance sheets.

Pursuant to reinsurance agreements with unaffiliated reinsurers, CHIC retains \$2,000,000 per event for general liability coverage and \$2,300,000 per person or event (\$2,250,000 in 2016) for professional liability and \$6,500,000 annually in the aggregate combined for both coverages. For employee benefits liability, CHIC retains \$1,000,000 per event and \$3,000,000 annually in the aggregate. The first \$10,000,000 in excess of the primary layer of coverage also includes an additional self-insured retention of \$50,000 each event after CHIC's aggregate limit has been reached. Reinsured limits varied prior to January 1, 2016.

Prior to December 31, 2002, Centra Health, Inc. maintained professional liability insurance coverage with a reciprocal insurance company which insured Centra Health, Inc. and a coalition of other hospitals, physicians, and attorneys. Centra Health, Inc. elected not to purchase tail coverage to insure itself for incidents that occurred prior to December 31, 2002, but which may be reported subsequent to that date.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

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A reconciliation of direct net premiums, on both a written and an earned basis is as follows:

		<u>2017</u>	<u>2016</u>
Direct	\$	4,659,000	4,799,000
Ceded		<u>(463,735)</u>	<u>(471,866)</u>
Net premiums earned	\$	<u><u>4,195,265</u></u>	<u><u>4,327,134</u></u>

The components of the gross liability for losses and loss adjustment expenses and related reinsurance recoverable as of December 31 are as follows:

		<u>2017</u>		<u>2016</u>	
		<u>Gross liability</u>	<u>Reinsurance recoverable</u>	<u>Gross liability</u>	<u>Reinsurance recoverable</u>
Case-basis reserves	\$	7,117,217	—	4,341,642	—
IBNR reserves		4,271,889	588,000	5,768,449	570,000
Discounting		<u>(804,063)</u>	—	<u>(711,955)</u>	—
Total	\$	<u><u>10,585,043</u></u>	<u><u>588,000</u></u>	<u><u>9,398,136</u></u>	<u><u>570,000</u></u>

Net discounted losses and loss adjustment expense activity, net of reinsurance, is as follows:

		<u>2017</u>	<u>2016</u>
Net liability at the beginning of the year, discounted	\$	8,828,136	8,761,496
Incurred related to:			
Current year		4,880,368	4,377,567
Development of prior years		(536,260)	(1,749,310)
Change in discounting		<u>(92,108)</u>	<u>31,382</u>
Total incurred during the year		<u><u>4,252,000</u></u>	<u><u>2,659,639</u></u>
Paid related to:			
Current year		809,056	219,829
Prior years		<u>2,274,037</u>	<u>2,373,170</u>
Total paid during the year		<u><u>3,083,093</u></u>	<u><u>2,592,999</u></u>
Net liability at the end of the year, discounted	\$	<u><u>9,997,043</u></u>	<u><u>8,828,136</u></u>

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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The reconciliation of the net incurred and paid losses development tables to the liability for losses and loss adjustment expenses on the consolidated balance sheet as of December 31, 2017 is as follows:

Net outstanding liabilities:		
Professional and general liability		\$ 10,801,106
Reinsurance recoverable:		
Professional and general liability		588,000
Discounting		<u>(804,063)</u>
Total gross liability for unpaid losses and loss adjustment expenses, discounted		\$ <u><u>10,585,043</u></u>

The following is information about incurred and cumulative paid losses and loss adjustment expenses, net of reinsurance, and total IBNR liabilities plus expected development on reported claims, net of reinsurance and the cumulative number of reported claims as of December 31, 2017 for the years presented:

Accident Year	Professional and general liability			
	Incurred	Cumulative paid	Total IBNR plus expected development on reported claims	Cumulative number of reported claims
2008	\$ 1,744,648	1,744,648	—	8
2009	2,416,404	2,416,404	—	10
2010	4,632,682	4,566,889	5,793	8
2011	2,337,250	2,224,394	10,710	18
2012	1,376,532	1,376,532	—	14
2013	1,537,107	990,188	38,430	13
2014	4,131,011	3,723,354	86,431	12
2015	3,595,845	1,576,313	398,158	12
2016	4,192,151	695,006	1,297,256	11
2017	4,880,368	809,056	1,846,466	21
Total	\$ <u><u>30,843,998</u></u>	<u><u>20,122,784</u></u>	<u><u>3,683,244</u></u>	

CHIC determines the number of reported claims by tracking the number of claims at the claimant level. Each claim has a claim number and claimant. Claims are not included in the analysis until they have been asserted or reported by a claimant.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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Discounted liability, discount rate, discounts and change in discounting as of and for the years ended December 31, 2017 and 2016, are as follows for professional and general liability:

Discounted liabilities for unpaid losses and loss adjustment expenses		Discount rate		Amount of discount		Change in discounting	
		2017	2016	2017	2016	2017	2016
\$ 9,997,043	8,828,136	—	—	804,063	711,955	92,108	(31,382)

Professional liability policies entered into on a claims-made basis must be renewed or replaced with equivalent insurance if claims incurred during their term but asserted after their expiration are to be insured. The estimated liability for professional and general liability claims will be significantly affected if current and future claims differ from historical trends. While management monitors reported claims closely and considers potential outcomes as estimated by its actuaries when determining its professional and liability accruals, the complexity of the claims, the extended period of time to settle the claims, and the wide range of potential outcomes complicate the estimation. In the opinion of management, adequate provision has been made for the related risk.

**(b) PCHP**

PCHP, through its two subsidiaries Piedmont Community HealthCare and Piedmont Community Healthcare HMO (collectively, PCHC), offers fully insured network product options to local employers, Medicare Advantage beneficiaries and individuals on the Federally Facilitated Market Place.

Certain benefits are ceded to an unaffiliated insurance company under a stop loss insurance policy. The ceded reinsurance agreement provides PCHC with increased capacity to maintain its exposure to loss within its capital resources. This contract provides for payments to PCHC when certain medical and pharmacy claims exceed \$450,000 per member. There is a limit of \$5,000,000 per agreement periods and an unlimited lifetime limit per member, subject to certain limitations.

A reconciliation of direct to net premiums, on both a written and an earned basis is as follows:

	2017	2016
Direct	\$ 113,887,130	106,432,724
Ceded	<u>(1,757,172)</u>	<u>(1,476,618)</u>
Net premiums earned	<u>\$ 112,129,958</u>	<u>104,956,106</u>

Claims unpaid represent management's best estimate of ultimate net cost of all reported and unreported claims incurred through December 31. The liability for unpaid claims is computed in accordance with generally accepted actuarial practices and is based upon authorized health care services and past claims payment experience, together with current factors which, in management's judgment, require recognition in the calculation. These accruals are continually monitored and

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

reviewed. Changes in assumptions for medical benefits, as well as changes in actual experience, could cause these estimates to change in the near term. Such changes are reflected in current operations when known and could be material.

The following table provides a reconciliation of the beginning and ending balances of claims payable and related accounts for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Balance at January 1	\$ 1,607,248	414,489
Add provision for claims occurring in:		
Current year	108,102,173	97,905,673
Prior year	<u>(1,190,761)</u>	<u>(162,532)</u>
Total incurred losses	<u>106,911,412</u>	<u>97,743,141</u>
Deduct payments for claims related to:		
Current year	98,214,085	88,372,535
Prior year	<u>6,406,292</u>	<u>8,177,847</u>
Total claims payments	<u>104,620,377</u>	<u>96,550,382</u>
Balance at December 31	\$ <u>3,898,283</u>	<u>1,607,248</u>

The ending balances reflected above are included in the following on the consolidated balance sheets:

	<u>2017</u>	<u>2016</u>
Accounts payable and accrued expenses	\$ 8,802,517	8,358,024
Prepaid expenses and other current assets	<u>(4,904,234)</u>	<u>(6,750,776)</u>
	\$ <u>3,898,283</u>	<u>1,607,248</u>

Changes in estimates of incurred for prior years recognized in 2017 and 2016 were attributable to lower than anticipated utilization. The methodology used in calculating the liability has been consistently applied between the years.

**(c) Self-Insurance**

Centra is self-insured for employee health benefits. The liabilities associated with these claims were approximately \$4,444,000 and \$4,213,000 at December 31, 2017 and 2016, respectively. Centra is also self-insured for workers' compensation insurance. The liability associated with these claims was approximately \$645,000 and \$601,000 at December 31, 2017 and 2016, respectively.

## **CENTRA HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### **(19) Subsequent Events**

Centra has evaluated subsequent events for the consolidated balance sheet date through May 29, 2018, the date at which the consolidated financial statements were issued, and identified the following event for disclosure:

- In March 2018, Centra entered into a loan agreement with a commercial bank allowing for advances of up to \$25,000,000. The loan is secured by the same collateral provided to holders of other parity obligations under the master trust indenture. The interest rate is variable and computed based on one-month LIBOR plus 50 basis points. Interest is payable monthly, and all principal and interest is due in full three (3) years from the closing date.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**  
Consolidating Balance Sheet Information – Obligated Group  
December 31, 2017

<b>Assets</b>	<b>Centra Health</b>	<b>Southside Community Hospital</b>	<b>Bedford Memorial Hospital</b>	<b>CCRC</b>	<b>Centra Medical Group</b>	<b>Eliminations</b>	<b>Subtotal Obligated Group</b>
<b>Current assets:</b>							
Cash and cash equivalents	\$ 2,539,235	3,644,902	2,165,792	2,028,063	3,272,629	—	13,650,621
Patient accounts receivable, net	109,437,460	11,524,395	7,711,531	—	13,753,032	(423,310)	142,003,108
Inventories	20,311,453	2,593,380	1,006,548	—	255,944	—	24,167,325
Prepaid expenses and other current assets	18,856,811	394,504	28,501	119,339	2,725,034	—	22,124,189
<b>Total currents assets</b>	<b>151,144,959</b>	<b>18,157,181</b>	<b>10,912,372</b>	<b>2,147,402</b>	<b>20,006,639</b>	<b>(423,310)</b>	<b>201,945,243</b>
<b>Investments and assets whose use is limited</b>	<b>420,851,588</b>	<b>2,565,519</b>	<b>—</b>	<b>10,974,583</b>	<b>—</b>	<b>—</b>	<b>434,391,690</b>
Property, plant, and equipment, net	352,530,712	27,677,098	25,936,957	8,901,439	25,745,535	—	440,791,741
Investments in joint ventures	4,714,824	—	—	—	—	—	4,714,824
Invested capital, controlled entities	208,168,765	—	—	—	—	(101,015,165)	107,153,600
Due from related parties	9,602,756	5,485,921	7,121	—	16,214,114	(17,849,932)	13,459,980
Other assets	3,149,657	—	3,137,519	—	—	—	6,287,176
<b>Total assets</b>	<b>\$ 1,150,163,261</b>	<b>53,885,719</b>	<b>39,993,969</b>	<b>22,023,424</b>	<b>61,966,288</b>	<b>(119,288,407)</b>	<b>1,208,744,254</b>
<b>Liabilities and Net Assets (Deficit)</b>							
<b>Current liabilities:</b>							
Accounts payable and accrued expenses	\$ 42,685,102	2,139,097	1,005,046	528,724	6,266,382	(423,208)	52,201,143
Employee compensation and benefits	23,681,437	1,827,831	1,174,860	49,301	13,905,927	—	40,639,356
Estimated settlements to third-party payors	9,004,110	476,002	519,634	—	22,442	—	10,022,188
Line of credit	10,000,000	—	—	—	—	—	10,000,000
Current portion of long-term obligations	5,536,250	—	538,000	—	—	—	6,074,250
Due to related parties	—	—	17,699,868	122,346	27,712	(17,849,926)	—
Other current liabilities	5,277,029	254,446	—	—	—	—	5,531,475
<b>Total current liabilities</b>	<b>96,183,928</b>	<b>4,697,376</b>	<b>20,937,408</b>	<b>700,371</b>	<b>20,222,463</b>	<b>(18,273,134)</b>	<b>124,468,412</b>
<b>Long-term obligations, net of current portion</b>	<b>307,277,826</b>	<b>—</b>	<b>4,511,298</b>	<b>8,180,710</b>	<b>—</b>	<b>—</b>	<b>319,969,834</b>
Interest rate swap agreements	15,879,890	74,494	—	—	—	—	15,954,384
Pension obligations	29,992,037	—	—	—	—	—	29,992,037
Other long-term liabilities	4,057,057	739,229	308,000	16,379,134	—	—	21,483,420
<b>Total liabilities</b>	<b>453,390,738</b>	<b>5,511,099</b>	<b>25,756,706</b>	<b>25,260,215</b>	<b>20,222,463</b>	<b>(18,273,134)</b>	<b>511,868,087</b>
<b>Net assets (deficit):</b>							
Unrestricted	630,620,655	48,257,103	14,237,263	(3,236,791)	41,743,825	(100,897,756)	630,724,299
Temporarily restricted	37,273,490	53,368	—	—	—	(53,368)	37,273,490
Permanently restricted	28,878,378	64,149	—	—	—	(64,149)	28,878,378
<b>Total net assets (deficit)</b>	<b>696,772,523</b>	<b>48,374,620</b>	<b>14,237,263</b>	<b>(3,236,791)</b>	<b>41,743,825</b>	<b>(101,015,273)</b>	<b>696,876,167</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 1,150,163,261</b>	<b>53,885,719</b>	<b>39,993,969</b>	<b>22,023,424</b>	<b>61,966,288</b>	<b>(119,288,407)</b>	<b>1,208,744,254</b>

See accompanying independent auditors' report.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**  
Consolidating Balance Sheet Information – Obligated Group  
December 31, 2017

Assets	Subtotal Obligated Group	PCHP Consolidated	General Business Concerns	Centra Health Foundation	Centra Specialty Hospital	Centra Health Indemnity Company	Healthworks Clinic	Centra VA Quality Care Network	Outpatient Rehab	PCHP Holding	Eliminations	Consolidated totals
<b>Current assets:</b>												
Cash and cash equivalents	\$ 13,650,621	19,343,546	639,813	403,007	600,339	3,239,816	792,115	66,042	460,596	86,558	—	39,282,453
Patient accounts receivable, net	142,003,108	—	—	—	2,510,694	—	552,209	—	2,747,601	—	(4,932,017)	142,881,595
Inventories	24,167,325	—	—	—	27,101	—	7,489	—	—	—	—	24,201,915
Prepaid expenses and other current assets	22,124,189	13,301,247	17,457	—	37,032	589,930	2,399	74,000	—	3,235	(547,156)	35,602,333
<b>Total currents assets</b>	<b>201,945,243</b>	<b>32,644,793</b>	<b>657,270</b>	<b>403,007</b>	<b>3,175,166</b>	<b>3,829,746</b>	<b>1,354,212</b>	<b>140,042</b>	<b>3,208,197</b>	<b>89,793</b>	<b>(5,479,173)</b>	<b>241,968,296</b>
<b>Investments and assets whose use is limited</b>												
Property, plant, and equipment, net	434,391,690	—	—	71,234,319	—	20,539,580	—	—	—	—	—	526,165,589
Investments in joint ventures	440,791,741	2,121,409	1,294,077	276	353,108	—	424,935	—	121,501	—	—	445,107,047
Invested capital, controlled entities	4,714,824	—	—	—	—	—	—	—	—	—	—	4,714,824
Due from related parties	107,153,600	—	—	—	—	—	—	—	—	7,276,836	(114,430,436)	—
Other assets	13,459,980	10,024	23,242	—	—	—	—	—	—	—	(13,493,246)	—
<b>Total assets</b>	<b>\$ 1,208,744,254</b>	<b>42,079,546</b>	<b>1,974,589</b>	<b>73,202,780</b>	<b>3,528,274</b>	<b>24,369,326</b>	<b>3,914,127</b>	<b>140,042</b>	<b>3,329,698</b>	<b>7,366,629</b>	<b>(135,523,396)</b>	<b>1,233,125,869</b>
<b>Liabilities and Net Assets (Deficit)</b>												
<b>Current liabilities:</b>												
Accounts payable and accrued expenses	\$ 52,201,143	13,365,913	17,490	107,466	356,338	62,910	112,815	8,477	26,202	—	(5,006,027)	61,252,727
Employee compensation and benefits	40,639,356	324,000	—	24,036	363,579	—	52,780	57,827	229,465	—	—	41,691,043
Estimated settlements to third-party payors	10,022,188	—	—	—	32,872	—	—	—	—	—	(473,156)	9,581,904
Line of credit	10,000,000	—	—	—	—	—	—	—	—	—	—	10,000,000
Current portion of long-term obligations	6,074,250	—	—	—	786,633	—	—	—	—	—	(786,633)	6,074,250
Due to related parties	—	118,941	—	147,857	3,562,822	—	1,945,631	3,106,385	4,601,577	10,024	(13,493,237)	—
Other current liabilities	5,531,475	—	—	—	—	—	—	—	—	—	—	5,531,475
<b>Total current liabilities</b>	<b>124,468,412</b>	<b>13,808,854</b>	<b>17,490</b>	<b>279,359</b>	<b>5,102,244</b>	<b>62,910</b>	<b>2,111,226</b>	<b>3,172,689</b>	<b>4,857,244</b>	<b>10,024</b>	<b>(19,759,053)</b>	<b>134,131,399</b>
Long-term obligations, net of current portion	319,969,834	—	—	—	481,087	—	—	—	—	—	(481,087)	319,969,834
Interest rate swap agreements	15,954,384	—	—	—	—	—	—	—	—	—	—	15,954,384
Pension obligations	29,992,037	—	—	—	—	—	—	—	—	—	—	29,992,037
Other long-term liabilities	21,483,420	2,122,092	—	55,684	—	11,141,968	—	—	—	2,355,441	—	37,158,605
<b>Total liabilities</b>	<b>511,868,087</b>	<b>15,930,946</b>	<b>17,490</b>	<b>335,043</b>	<b>5,583,331</b>	<b>11,204,878</b>	<b>2,111,226</b>	<b>3,172,689</b>	<b>4,857,244</b>	<b>2,365,465</b>	<b>(20,240,140)</b>	<b>537,206,259</b>
<b>Net assets (deficit):</b>												
Unrestricted	630,724,299	26,148,600	1,957,099	6,833,386	(2,055,057)	13,164,448	1,802,901	(3,032,647)	(1,527,546)	5,001,164	(49,248,905)	629,767,742
Temporarily restricted	37,273,490	—	—	37,220,122	—	—	—	—	—	—	(37,220,122)	37,273,490
Permanently restricted	28,878,378	—	—	28,814,229	—	—	—	—	—	—	(28,814,229)	28,878,378
<b>Total net assets (deficit)</b>	<b>696,876,167</b>	<b>26,148,600</b>	<b>1,957,099</b>	<b>72,867,737</b>	<b>(2,055,057)</b>	<b>13,164,448</b>	<b>1,802,901</b>	<b>(3,032,647)</b>	<b>(1,527,546)</b>	<b>5,001,164</b>	<b>(115,283,256)</b>	<b>695,919,610</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 1,208,744,254</b>	<b>42,079,546</b>	<b>1,974,589</b>	<b>73,202,780</b>	<b>3,528,274</b>	<b>24,369,326</b>	<b>3,914,127</b>	<b>140,042</b>	<b>3,329,698</b>	<b>7,366,629</b>	<b>(135,523,396)</b>	<b>1,233,125,869</b>

See accompanying independent auditors' report.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**  
Consolidating Statement of Operations Information – Obligated Group  
Year ended December 31, 2017

	<u>Centra Health</u>	<u>Southside Community Hospital</u>	<u>Bedford Memorial Hospital</u>	<u>CCRC</u>	<u>Centra Medical Group</u>	<u>Eliminations</u>	<u>Subtotal Obligated Group</u>
Unrestricted revenue and other support:							
Net patient service revenue (net of contractals and discounts)	\$ 741,933,785	87,129,680	39,747,176	—	123,710,118	(576,404)	991,944,355
Provision for bad debts	(30,287,336)	(6,686,206)	(3,122,553)	—	(15,360,114)	—	(55,456,209)
Net patient service revenue less provision for bad debts	711,646,449	80,443,474	36,624,623	—	108,350,004	(576,404)	936,488,146
Outside lab revenue	7,534,252	—	—	—	—	—	7,534,252
Net assets released from restrictions for operations	4,021,330	49,474	40,444	—	2,715	—	4,113,963
Other operating revenue	78,979,861	1,982,217	515,142	4,544,204	44,693,254	(60,841,839)	69,872,839
Total unrestricted revenue and other support	802,181,892	82,475,165	37,180,209	4,544,204	153,045,973	(61,418,243)	1,018,009,200
Expenses:							
Salaries and wages	262,585,714	25,095,333	16,899,983	752,673	120,354,818	—	425,688,521
Benefits	63,600,008	6,387,336	4,227,194	192,702	21,600,131	—	96,007,371
Medical supplies and drugs	138,949,299	10,517,695	3,117,846	—	4,368,588	(507,060)	156,446,368
Professional services	13,584,134	1,405,492	577,401	—	37,930,657	(4,100,347)	49,397,337
Other purchased services	116,816,021	19,115,259	9,803,046	1,397,245	31,143,883	(56,755,500)	121,519,954
Other operating expenses	61,049,259	4,240,390	2,616,007	739,508	2,292,689	(55,336)	70,882,517
Depreciation and amortization	37,932,561	4,019,639	3,168,540	1,172,584	2,547,044	—	48,840,368
Interest	9,409,571	108,962	140,134	102,869	—	—	9,761,536
Loss on early extinguishment of debt	2,489,044	12,450	—	68,652	—	—	2,570,146
Total expenses	706,415,611	70,902,556	40,550,151	4,426,233	220,237,810	(61,418,243)	981,114,118
Operating income (loss)	95,766,281	11,572,609	(3,369,942)	117,971	(67,191,837)	—	36,895,082
Nonoperating gains (losses):							
Investment income and realized gains on investments	39,579,275	112,928	3,658	1,072,334	—	—	40,768,195
Income from controlled entities	(70,640,205)	—	—	—	—	57,199,144	(13,441,061)
Change in value of interest rate swap agreements	2,321,464	75,756	—	—	—	—	2,397,220
Net periodic pension costs	(3,679,758)	—	—	—	—	—	(3,679,758)
Other	(130,865)	7,603	—	—	—	—	(123,262)
Total net nonoperating gains (losses)	(32,550,089)	196,287	3,658	1,072,334	—	57,199,144	25,921,334
Excess (deficiency) of unrestricted revenue and other support over expenses	\$ 63,216,192	11,768,896	(3,366,284)	1,190,305	(67,191,837)	57,199,144	62,816,416

See accompanying independent auditors' report.

**CENTRA HEALTH, INC. AND SUBSIDIARIES**

Consolidating Statement of Operations Information – Obligated Group

Year ended December 31, 2017

	<b>Subtotal Obligated Group</b>	<b>PCHP Consolidated</b>	<b>General Business Concerns</b>	<b>Centra Health Foundation</b>	<b>Centra Specialty Hospital</b>	<b>Centra Health Indemnity Company</b>	<b>Healthworks Clinic</b>	<b>Centra VA Quality Care Network</b>	<b>Outpatient Rehab</b>	<b>PCHP Holding</b>	<b>Eliminations</b>	<b>Consolidated totals</b>
Unrestricted revenue and other support:												
Net patient service revenue (net of contractuels and discounts)	\$ 991,944,355	—	—	—	9,885,315	—	2,000,105	—	4,531,769	—	(47,934,349)	960,427,195
Provision for bad debts	(55,456,209)	—	—	—	—	—	(39,036)	—	(120,000)	—	—	(55,615,245)
Net patient service revenue less provision for bad debts	936,488,146	—	—	—	9,885,315	—	1,961,069	—	4,411,769	—	(47,934,349)	904,811,950
Outside lab revenue	7,534,252	—	—	—	—	—	—	—	—	—	—	7,534,252
Foundation revenue and support	—	—	—	1,414,537	—	—	—	—	—	—	—	1,414,537
Premium and capitation revenue	—	117,554,520	—	—	—	—	—	—	—	—	—	117,554,520
Net assets released from restrictions for operations	4,113,963	—	—	4,255,541	—	—	—	—	—	—	(4,113,963)	4,255,541
Other operating revenue	69,872,839	—	627,357	—	4,649	4,196,765	827,532	310,826	15,103	—	(13,212,695)	62,642,376
<b>Total unrestricted revenue and other support</b>	<b>1,018,009,200</b>	<b>117,554,520</b>	<b>627,357</b>	<b>5,670,078</b>	<b>9,889,964</b>	<b>4,196,765</b>	<b>2,788,601</b>	<b>310,826</b>	<b>4,426,872</b>	<b>—</b>	<b>(65,261,007)</b>	<b>1,098,213,176</b>
Expenses:												
Salaries and wages	425,688,521	5,679,396	—	531,639	4,173,753	—	1,413,871	812,463	3,542,473	—	—	441,842,116
Benefits	96,007,371	1,520,018	—	130,418	1,066,063	—	359,918	201,611	961,021	—	(4,328,604)	95,917,816
Medical supplies and drugs	156,446,368	—	—	—	984,348	—	80,182	—	36,894	—	(643,434)	156,904,358
Professional services	49,397,337	—	—	—	—	—	519,981	—	—	—	(509,719)	49,407,599
Medical claims expense	—	106,511,412	—	—	—	—	—	—	—	—	(46,619,530)	59,891,882
Other purchased services	121,519,954	15,271,907	226,049	312,023	2,886,993	4,569,018	742,867	209,127	1,219,955	1,150	(9,036,254)	137,922,789
Other operating expenses	70,882,517	266,999	138,776	1,730,509	249,130	—	66,131	7,900	52,368	—	(9,415)	73,384,915
Depreciation and amortization	48,840,368	169,456	110,947	184	75,083	—	54,667	—	38,062	—	—	49,288,767
Interest	9,761,536	—	—	—	100,364	—	—	—	—	—	(100,364)	9,761,536
Loss on early extinguishment of debt	2,570,146	—	—	—	—	—	—	—	—	—	—	2,570,146
Net assets released from restrictions used for operations	—	—	—	4,113,963	—	—	—	—	—	—	(4,113,963)	—
<b>Total expenses</b>	<b>981,114,118</b>	<b>129,419,188</b>	<b>475,772</b>	<b>6,818,736</b>	<b>9,535,734</b>	<b>4,569,018</b>	<b>3,237,617</b>	<b>1,231,101</b>	<b>5,850,773</b>	<b>1,150</b>	<b>(65,361,283)</b>	<b>1,076,891,924</b>
<b>Operating income (loss)</b>	<b>36,895,082</b>	<b>(11,864,668)</b>	<b>151,585</b>	<b>(1,148,658)</b>	<b>354,230</b>	<b>(372,253)</b>	<b>(449,016)</b>	<b>(920,275)</b>	<b>(1,423,901)</b>	<b>(1,150)</b>	<b>100,276</b>	<b>21,321,252</b>
Nonoperating gains (losses):												
Investment income and realized gains on investments	40,768,195	121,770	—	—	7,135	1,469,912	—	—	3	—	(100,364)	42,266,651
Income from controlled entities	(13,441,061)	—	—	—	—	—	—	—	—	—	13,441,061	—
Change in value of interest rate swap agreements	2,397,220	—	—	—	—	—	—	—	—	—	—	2,397,220
Net periodic pension costs	(3,679,758)	—	—	—	—	—	—	—	—	—	—	(3,679,758)
Other	(123,262)	—	—	—	—	—	—	—	—	—	—	(123,262)
<b>Total net nonoperating gains</b>	<b>25,921,334</b>	<b>121,770</b>	<b>—</b>	<b>—</b>	<b>7,135</b>	<b>1,469,912</b>	<b>—</b>	<b>—</b>	<b>3</b>	<b>—</b>	<b>13,340,697</b>	<b>40,860,851</b>
<b>Excess (deficiency) of unrestricted revenue and other support over expenses</b>	<b>\$ 62,816,416</b>	<b>(11,742,898)</b>	<b>151,585</b>	<b>(1,148,658)</b>	<b>361,365</b>	<b>1,097,659</b>	<b>(449,016)</b>	<b>(920,275)</b>	<b>(1,423,898)</b>	<b>(1,150)</b>	<b>13,440,973</b>	<b>62,182,103</b>

See accompanying independent auditors' report.

## NO-DEFAULT CERTIFICATE

In accordance with Section 3.10(b)(ii) of the Amended and Restated Master Trust Indenture dated as of July 1, 2017 (the "Indenture"), by and among Centra Health, Inc., Bedford Memorial Hospital, Southside Community Hospital, Inc., CCRC, Inc., Centra Medical Group, LLC, and U.S. Bank National Association, as Master Trustee, Centra Health, Inc., as "Obligated Group Agent" (as defined in the Indenture), provides this Certificate.

The Obligated Group Agent has made a review of the activities of each Member (as defined in the Indenture) during the Fiscal Year ending December 31, 2017 for the purpose of determining whether or not the Members have complied with all of the terms, provisions and conditions of the Indenture. Each Member has kept, observed, performed and fulfilled in all material respects each and every covenant, provision and condition of the Indenture on its part to be performed and is not in default in any material respect in the performance or observance of any of the terms, covenants, provisions or conditions of the Indenture.

By:   
Senior Vice President & CFO  
Centra Health, Inc.

Date: May 29, 2018