

# CAMC Health System, Inc. and Subsidiaries

Consolidated Financial Statements and  
Other Additional Financial Information as of and for  
the Years Ended December 31, 2017 and 2016, and  
Independent Auditors' Report

# CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
CAMC Health System, Inc.:

We have audited the accompanying consolidated financial statements of CAMC Health System, Inc. and its subsidiaries (the "System"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CAMC Health System, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Other Additional Financial Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The other additional financial information listed in the table of contents on pages 40–47 are presented for the purpose of additional analysis and are not a required part of the financial statements. This other additional financial information is the responsibility of the System’s management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

*Deloitte & Touche LLP*

April 27, 2018

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2017 AND 2016 (In thousands)

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	2017	2016
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 40,940	\$ 36,217
Short-term investments	69,574	75,337
Current portion of assets limited as to use	6,200	6,200
Patient receivables—net of allowances for uncollectible accounts of \$14,020 in 2017 and \$17,507 in 2016	191,841	213,055
Other receivables	19,164	6,977
Estimated amounts due from third-party payors	40,181	11,402
Inventories	19,438	24,057
Prepaid expenses and other	<u>9,832</u>	<u>7,296</u>
Total current assets	397,170	380,541
ASSETS LIMITED AS TO USE	358,235	329,806
OTHER INVESTMENTS	-	12,534
PROPERTY, EQUIPMENT, AND INFORMATION SYSTEMS—Net	411,324	421,296
OTHER ASSETS	<u>8,040</u>	<u>8,495</u>
TOTAL	<u>\$ 1,174,769</u>	<u>\$ 1,152,672</u>

(Continued)

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2017 AND 2016 (In thousands)

	<b>2017</b>	<b>2016</b>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 86,665	\$ 78,915
Self-insurance reserves	6,200	6,200
Derivative obligation	25,511	25,234
Accrued payroll and payroll-related expenses	52,546	62,686
Estimated amounts due to third-party payors	11,863	10,276
Current maturities of long-term debt and capital lease obligations	<u>14,266</u>	<u>13,769</u>
Total current liabilities	<u>197,051</u>	<u>197,080</u>
LONG-TERM LIABILITIES:		
Long-term debt and capital lease obligations—less current maturities	353,316	366,889
Retirement obligations	9,861	10,331
Self-insurance reserves	24,647	17,500
Other	<u>9,187</u>	<u>9,284</u>
Total long-term liabilities	<u>397,011</u>	<u>404,004</u>
Total liabilities	<u>594,062</u>	<u>601,084</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
NET ASSETS:		
Unrestricted	508,979	489,369
Noncontrolling interest in joint ventures	<u>518</u>	<u>494</u>
Unrestricted—total	509,497	489,863
Temporarily restricted	46,982	38,071
Permanently restricted	<u>24,228</u>	<u>23,654</u>
Total net assets	<u>580,707</u>	<u>551,588</u>
<b>TOTAL</b>	<b><u>\$ 1,174,769</u></b>	<b><u>\$ 1,152,672</u></b>

See notes to consolidated financial statements.

(Concluded)

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)

	2017	2016
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Net patient service revenue (net of contractual allowances and discounts)	\$ 1,037,014	\$ 992,194
Provision for bad debts	<u>(23,695)</u>	<u>(30,647)</u>
Net patient service revenues—less provision for bad debts	1,013,319	961,547
Other revenue	65,704	49,643
Investment income—net	45,625	28,532
Net assets released from restrictions	<u>3,256</u>	<u>1,852</u>
Total unrestricted revenue and other support	<u>1,127,904</u>	<u>1,041,574</u>
EXPENSES:		
Salaries and wages	436,331	410,051
Employee benefits	125,251	106,185
Professional compensation and fees	24,211	21,607
Supplies and other	435,310	422,848
Depreciation and amortization	44,012	39,931
Medicaid provider tax	30,135	25,821
Interest and debt expense	15,885	15,158
Change in fair value of derivatives	<u>(488)</u>	<u>41</u>
Total expenses	<u>1,110,647</u>	<u>1,041,642</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES—		
Controlling and noncontrolling interest	17,257	(68)
EXCESS OF REVENUES OVER EXPENSES—		
Noncontrolling interest	<u>157</u>	<u>73</u>
EXCESS OF REVENUES OVER EXPENSES—Net of noncontrolling interest	<u>\$ 17,414</u>	<u>\$ 5</u>

See notes to consolidated financial statements.

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)

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	2017	2016
UNRESTRICTED NET ASSETS:		
Excess (deficiency) of revenue over expenses—controlling and noncontrolling interest	\$ 17,257	\$ (68)
Change in retirement obligations actuarial loss and prior service cost	1,661	(603)
Contributions for capital expenditures	698	592
Equity transactions with noncontrolling interest	<u>18</u>	<u>(91)</u>
Increase (decrease) in unrestricted net assets	<u>19,634</u>	<u>(170)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	3,402	1,785
Investment income—net	8,765	4,491
Net assets released from restrictions for programs	<u>(3,256)</u>	<u>(1,852)</u>
Increase in temporarily restricted net assets	<u>8,911</u>	<u>4,424</u>
PERMANENTLY RESTRICTED NET ASSETS—Contributions	<u>574</u>	<u>602</u>
Increase in permanently restricted net assets	<u>574</u>	<u>602</u>
INCREASE IN NET ASSETS	29,119	4,856
NET ASSETS—Beginning of year	<u>551,588</u>	<u>546,732</u>
NET ASSETS—End of year	<u>\$ 580,707</u>	<u>\$ 551,588</u>

See notes to consolidated financial statements.

# CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)

	2017	2016
OPERATING ACTIVITIES:		
Increase in net assets	\$ 29,119	\$ 4,856
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in fair value of derivatives	(488)	41
Loss on impairment and disposal of fixed assets	65	38
Change in retirement obligations actuarial loss and prior service cost	(1,661)	603
Depreciation and amortization	44,012	39,931
Provision for bad debts	23,695	30,647
Realized and unrealized gain on investments	(36,826)	(20,620)
Net restricted contributions and investment income	(12,741)	(6,878)
Equity transactions with noncontrolling interest	(18)	91
Noncash settlement	(21,330)	-
Changes in assets and liabilities:		
Patient receivables	(2,481)	(104,698)
Other receivables	(1,304)	(1,555)
Short-term trading investments	7,111	115,313
Inventories, prepaid expenses, and other	3,303	(2,589)
Estimated amounts due (from)/to third-party payors	(27,192)	1,199
Accounts payable and accrued expenses	19,309	3,946
Accrued payroll and payroll-related expenses	(10,140)	10,546
Other liabilities	<u>8,241</u>	<u>(2,141)</u>
Net cash provided by operating activities	<u>20,674</u>	<u>68,730</u>
INVESTING ACTIVITIES:		
Capital expenditures	(35,217)	(65,537)
Purchases of limited as to use investments	(191,045)	(3,342)
Proceeds from sales of limited as to use investments	213,808	10,223
Restricted cash as collateral	(11,670)	(12,100)
Restricted cash from collateral	<u>8,490</u>	<u>11,480</u>
Net cash used in investing activities	<u>(15,634)</u>	<u>(59,276)</u>
FINANCING ACTIVITIES:		
Principal payments on debt obligations and capital lease obligations	(13,076)	(13,113)
Repayments under lines of credit	(2,626)	(2,060)
Borrowings under lines of credit	2,626	2,060
Equity transactions with noncontrolling interest	18	(91)
Net restricted contributions and investment income	<u>12,741</u>	<u>6,878</u>
Net cash used in financing activities	<u>(317)</u>	<u>(6,326)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,723	3,128
CASH AND CASH EQUIVALENTS—Beginning of year	<u>36,217</u>	<u>33,089</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 40,940</u>	<u>\$ 36,217</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 14,044</u>	<u>\$ 13,747</u>
Capital assets acquired under capital lease obligation	<u>\$ -</u>	<u>\$ 2,832</u>
Capital expenditures remaining in accounts payable at year-end	<u>\$ 1,470</u>	<u>\$ 2,582</u>

See notes to consolidated financial statements.

# CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)

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### 1. ORGANIZATION

CAMC Health System, Inc. (the "Parent") is a West Virginia nonprofit corporation that the Internal Revenue Service (IRS) has determined is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"). As the parent holding company, the Parent provides general guidance and strategic direction and is the sole corporate member for the following subsidiaries (collectively, the "System"):

**Charleston Area Medical Center, Inc. ("CAMC")**—A West Virginia nonprofit corporation that owns and operates the General, Memorial, and Women and Children's Hospitals, located in Kanawha County, West Virginia and Teays Valley Hospital ("CAMC Teays") located in Putnam County, West Virginia. CAMC is a general partner in two medical office building LLCs, each organized as limited liability corporations. CAMC owns a 79.9% interest in the General division medical office building LLC and a 90.4% interest in the Women and Children's medical office building LLC. The residual interest is reflected as noncontrolling interest in the consolidated financial statements.

**CAMC Foundation, Inc. (the "Foundation")**—A West Virginia nonprofit corporation established for the purpose of raising funds for CAMC.

**CAMC Health Education and Research Institute, Inc. (the "Institute")**—A West Virginia nonprofit corporation established for the purpose of managing, promoting, and conducting medical education and research programs.

**Integrated Health Care Providers, Inc. ("Integrated")**—A West Virginia nonprofit taxable corporation established for the purpose of providing physician services. On December 1, 2015, Integrated began transitioning a substantial number of its practice operations to CAMC to be operated as hospital-based services within provider-based departments of CAMC. As of December 31, 2017, Integrated was dissolved.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation**—The accompanying consolidated financial statements include the accounts of the Parent and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Investments in companies in which the System owns 20% to 50% of the voting interest and has the ability to exercise significant influence over operating and financial policies of the investee are accounted for using the equity method of accounting. As a result, the System's share of the earnings or losses of such equity affiliates is included in the accompanying consolidated statements of operations and the System's share of these companies' shareholders' equity is included in investments in the accompanying consolidated balance sheets. The investment balances and equity earnings were not material in 2017 or 2016.

**Cash and Cash Equivalents and Short-Term Investments**—Cash and cash equivalents represent cash and temporary investments with original maturities of three months or less. Cash and cash equivalents exclude cash maintained in board-designated, restricted, self-insurance, and trustee-held funds. Short-term investments represent investments that management has identified as available to meet current operating needs. Short-term investments are stated at fair value.

The Parent and its subsidiaries maintain certain cash balances with banks that exceed the amounts insured by the Federal Deposit Insurance Corporation.

**Net Patient Service Revenues and Patient Receivables**—Net patient service revenues and patient receivables are derived primarily from patients who reside in West Virginia and surrounding states.

Gross patient service revenue is recognized based on the System’s standard billing rates. Gross patient service billings are reduced to “patient service revenue (net of contractual allowances and discounts),” through (1) a provision for contractual allowances for patients who have third-party coverage with contracted rates less than standard billed charges for the services rendered, including federal and state indemnity and managed care programs and commercial insurance and (2) a provision for patients who meet the charity care criteria and are provided services at amounts less than the established rates. Patient service revenue (net of contractual allowances and discounts) for the years ended December 31, 2017 and 2016, by major primary payor sources, is as follows:

	<b>Patient Service Revenue (Net of Contractual Allowances and Discounts)</b>	
	<b>2017</b>	<b>2016</b>
Medicare	\$ 321,756	\$306,453
Medicaid	168,102	129,499
Other government third-party payors	32,507	67,917
Blue Cross	301,072	311,338
Commercial and other third-party payors	162,846	126,923
Self-pay	<u>50,731</u>	<u>50,064</u>
Total	<u>\$1,037,014</u>	<u>\$992,194</u>

Patient receivables are reduced to their estimated net realizable value through an allowance for uncollectible accounts and contractual adjustments.

**Allowance for Uncollectible Accounts**—The System recognizes a significant amount of patient service revenue at the time the services are rendered even though the System does not assess the patient’s ability to pay at that time. As a result, the provision for bad debts is presented as a deduction from patient services revenue (net of contractual allowances and discounts). The System does not require collateral or other security on its patient receivables. Self-pay accounts for patients with no insurance and patient deductibles and co-payments on third-party accounts are reduced by an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. This allowance is established based on the length of time the account has been past due and historical experience. The System considers the patient portion of accounts receivable for write-off beginning 120 days after billing.

**Analysis**—The System’s allowance for doubtful accounts for self-pay patients and patient responsibility increased to 74% of self-pay and patient responsibility accounts receivable as of December 31, 2017, from 60% of self-pay and patient responsibility accounts receivable as of December 31, 2016. The System’s allowance for uncollectible accounts decreased by \$3,487 to \$14,020 as of December 31, 2017, from \$17,507 as of December 31, 2016, with a decrease in self-pay gross accounts receivable to \$18,934 as of December 31, 2017, from \$29,316 as of December 31, 2016. The System does not maintain a material allowance for uncollectible accounts from third-party payors, nor does it have a history of significant write-offs from third-party payors.

**Allowance for Contractual Adjustments**—As gross patient service billings are recognized and recorded as accounts receivable, the third-party portion of patient receivables is reduced by an allowance for contractual adjustments to the estimated contracted rate. The System analyzes its past history of collectability and adjusts for certain events or trends as necessary for each of its major payor sources to estimate the allowance for contractual adjustments.

Payments received under the reimbursement arrangements with Medicare and Medicaid are subject to retroactive audit and adjustment. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. Settlement of prior-year cost reports and revisions to other prior-year settlement estimates decreased net patient service revenue by \$4,162 and \$188 in 2017 and 2016, respectively.

Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimated settlements will change by a material amount in the near term. Management believes that adequate provisions have been made for reasonable adjustments that may result from such final settlements. Management believes it is in substantial compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The approximate percentage of patient receivables, net of allowances for contractual adjustments, charity care, and uncollectible accounts, by type of payor as of December 31, 2017 and 2016, is as follows:

	<b>2017</b>	<b>2016</b>
Medicare	27 %	28 %
Medicaid	12	11
Public Employees’ Insurance Agency (PEIA)	4	10
Other government third-party payors	3	3
Blue Cross	30	35
Commercial and other third-party payors	23	12
Self-pay	<u>1</u>	<u>1</u>
Total	<u>100 %</u>	<u>100 %</u>

**Financial Assistance**—The System provides care to patients who meet certain criteria under its financial assistance policies without charge or at amounts less than established rates. Because the System does not pursue collection of amounts determined to qualify as financial assistance, such amounts are not reported as net patient service revenue (see Notes 3 and 4). The System maintains records to identify and monitor the level of financial assistance it provides. These records include the amount of charges foregone for services furnished under the System’s financial assistance policies.

The System’s policy for financial assistance and uninsured discount includes slowing collection actions until 120 days after first billing statement and expanding community knowledge of the System’s financial assistance policy. The uninsured discount is provided pursuant to the System’s established financial assistance policy and recorded in charity allowances.

**Inventories**—Inventories represent supplies that are valued at the lower of cost or net realizable value on a first-in, first-out basis.

**Assets Limited as to Use and Investments**—Assets limited as to use primarily include assets held by trustees under indenture and other agreements, designated assets set aside by the board of trustees, self-insurance funds, and donor-restricted assets. Other investments are alternative investments that are not limited as to use.

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk and market uncertainty associated with certain investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying consolidated financial statements.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investment income or loss (including realized gains and losses, interest, dividends, and unrealized gains and losses) is included in unrestricted investment income or loss, unless the income or loss is restricted by donor or law.

The System invests in alternative investments that primarily represent ownership in limited partnerships that invest in hedge funds, real asset funds, and private equity/venture capital funds. In order to liquidate such investments, management is required to provide notice ranging from 45 to 90 days to withdraw from the partnerships and in certain cases may only withdraw from the partnership quarterly or annually. There are no unfunded commitments. Substantially, all of the System’s alternative investments are redeemable at net asset value per ownership unit or its equivalent. Fair value for alternative investments is based on the net asset value per ownership unit, as published and determined by the fund manager at least quarterly using the estimated fair value of the underlying investments.

The System's alternative investments are accounted for utilizing the cost or equity method as the System's actual or effective ownership percentage is less than 5%, and the System has virtually no influence over the partnership's operating and financial policies. Alternative investments consist of the following at December 31, 2017 and 2016:

	2017		2016	
	Recorded Value	Fair Value	Recorded Value	Fair Value
Included within assets limited as to use	\$ 1,348	\$ 2,440	\$ 17,713	\$ 25,623
Included within other investments	-	-	<u>12,534</u>	<u>20,364</u>
Total	<u>\$ 1,348</u>	<u>\$ 2,440</u>	<u>\$ 30,247</u>	<u>\$ 45,987</u>

The System's investment policy establishes reasonable expectations, objectives, and guidelines; sets forth an investment structure detailing permitted asset classes and expected allocation among asset classes; encourages effective communication; and creates a framework for a well-diversified asset mix, which can be expected to generate acceptable long-term returns at a level of risk suitable to the investment committee. The System's investments are pooled to obtain maximum use of funds and higher interest rates. Investment income from this pool is allocated to unrestricted and temporarily restricted net assets based on the percentage of total investments.

**Derivatives**—CAMC has entered into interest rate swap agreements in connection with its debt management program. CAMC records its derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets at fair value. None of CAMC's current derivatives are designated as an accounting hedge and the asset or liability is presented as current as CAMC has the right to settle the agreements prior to expiration and periodically evaluates the interest rate environment to determine if the agreements are consistent with its debt management program.

**Property, Equipment, and Information Systems**—Amounts capitalized as part of property, equipment, and information systems, including additions and improvements to existing facilities, are recorded at acquisition cost. Property, equipment, and information systems consisted of the following:

	2017	2016
Land	\$ 48,952	\$ 48,906
Buildings and improvements	531,076	503,891
Equipment and information systems	588,121	569,173
Construction in progress	<u>6,993</u>	<u>19,635</u>
Total property, equipment, and information systems	1,175,142	1,141,605
Less accumulated depreciation and amortization	<u>(763,818)</u>	<u>(720,309)</u>
Property, equipment, and information systems—net	<u>\$ 411,324</u>	<u>\$ 421,296</u>

Capital lease assets included in property, equipment, and information systems in the accompanying consolidated balance sheets are \$12,977 and \$12,977, net of \$6,214 and \$4,807 of accumulated amortization, as of December 31, 2017 and 2016, respectively.

During 2017 and 2016, approximately \$884 and \$2,930, respectively, of internal labor costs and \$350 and \$541, respectively, of interest were capitalized.

Depreciation, including amortization of assets recorded under capital leases, is recorded on the straight-line method over the estimated useful lives of the aggregate building components and improvements (generally 10 to 45 years). Upon retirement or disposal, the asset and accumulated depreciation accounts are adjusted, and any gain or loss is recorded in the consolidated statements of operations. Maintenance costs and repairs are expensed as incurred. Depreciation expense was \$36,809 and \$37,039 for the years ended December 31, 2017 and 2016, respectively.

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any write-downs due to impairment are charged to operations at the time impairment is identified.

**Intangible Assets**—Intangible assets are reviewed for impairment if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of comparison of the undiscounted cash flows of the intangible asset with its carrying amount. If such undiscounted cash flows are less than the carrying amount, the fair value of the intangible asset is determined and the carrying value is adjusted through an impairment charge to such fair value.

**Deferred Financing Costs**—Costs related to long-term financing, presented within the consolidated balance sheets as a direct reduction to the related debt liability, are being amortized over the life of the bonds. The carrying value of deferred financing costs was \$3,414 and \$3,625 as of December 31, 2017 and 2016, respectively.

**Contributions**—Contributions are recognized at fair value in the period cash or an unconditional promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets released from restrictions in the accompanying consolidated financial statements.

**Temporarily and Permanently Restricted Net Assets**—Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Temporary restricted net assets as of December 31, 2017 and 2016, are restricted to the following:

	<b>2017</b>	<b>2016</b>
Patient-related projects	\$31,978	\$26,400
Scholarships and education	6,341	4,982
Various other healthcare related activities	<u>8,663</u>	<u>6,689</u>
Total	<u>\$46,982</u>	<u>\$38,071</u>

Permanently restricted net assets as of December 31, 2017 and 2016, are restricted to the following:

	<b>2017</b>	<b>2016</b>
Patient-related projects	\$12,035	\$11,540
Scholarships and education	7,993	7,937
Various other healthcare related activities	<u>4,200</u>	<u>4,177</u>
Total	<u>\$24,228</u>	<u>\$23,654</u>

**Self-Insurance Programs**—The System has self-insurance programs for professional malpractice, general liability, unemployment compensation, disability, and employee health insurance. The estimated self-insurance obligations include a provision for incurred but not reported claims.

**Excess (Deficiency) of Revenues over Expenses**—The consolidated statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), equity transactions with noncontrolling interest, the change in retirement obligations actuarial loss, and prior service cost.

**Income Taxes**—The IRS has determined that CAMC, the Foundation, and the Institute are exempt from income taxes under Section 501(c)(3) of the Code and applicable state statutes. The System does not have any material uncertain tax positions as of December 31, 2017 and 2016. Tax years from 2013 remain open.

Integrated, a taxable nonprofit corporation, recognizes income taxes for the amount of taxes payable for the current year and for the impact of deferred tax liabilities and assets. For the years ended December 31, 2017 and 2016, Integrated had cumulative net operating losses (NOLs) available for carryforward approximating \$77,597 and \$73,572, respectively. Integrated was dissolved on December 31, 2017. All NOLs were forfeited upon dissolution.

**Other Revenue**—Other revenue is derived from ancillary services, which are an integral part of the operations of the System other than providing health care services to patients. Such revenue is recognized when the related service is performed, drugs are dispensed, or in the case of grant revenue, when the System incurs the cost related to the grant's purpose.

**Use of Estimates**—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the System to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The more significant judgments and estimates including the following: recognition of net patient service revenue, which includes contractual allowances; provisions for bad debts and charity care; recorded values of investments; and reserves for losses and expenses related to health care professional and general liability. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates and are recorded in the period in which they are determined.

**Recently Issued Accounting Pronouncements**—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue (Topic 606): *Revenue from Contracts with Customers*", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principal of the revenue model is 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 and services. The guidance may be adopted using either a full or modified retrospective approach. The System has preliminarily evaluated the requirements of this ASU to ensure the processes, systems, and internal controls are in place to collect the necessary information to implement this ASU, which will be effective January 1, 2018. The System plans to use the modified retrospective approach to adopt this ASU. The System plans to utilize the portfolio approach practical expedient to analyze contracts within its core service lines. The practical expedient allows the System to evaluate the criteria for revenue recognition over a portfolio of similar contracts as opposed to evaluating each individual contract. A significant component of the adoption of this ASU is grouping patient accounts into portfolios of similar characteristics that will result in materially consistent revenue when compared to the revenue that would have been recognized if each patient account was evaluated individually. The System has preliminarily determined that there will be no significant impact to revenue recognized upon the adoption of this ASU. The adoption of this ASU is expected to result in significant changes to the presentation of financial information within the consolidated statements of operations and changes in net assets, as well as expanded disclosures within the notes to the consolidated financial statements. It is expected that the primary change will relate to the presentation of the provision for bad debts, which relates to self-pay patients and amounts due from patients with insurance for co-pays and deductibles. Under this ASU, the amounts will be a direct deduction to patient service revenue.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*." ASU No. 2016-02 requires lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. ASU No. 2016-02 will be effective January 1, 2019. The System is currently evaluating the impact of the adoption of ASU No. 2016-12 on the System's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities.”* ASU No. 2016-14 requires not-for-profit entities to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period (“net assets with donor restriction” or “net assets without donor restriction”), rather than for the currently required three classes. Additionally, ASU No. 2016-14 requires presentation on the face of the statement of changes in net assets the amount of the change in each of the two classes of net assets rather than for the currently required three classes and enhanced disclosures. ASU No. 2016-14 will be effective as of January 1, 2018. The amendments in the ASU No. 2016-14 should be initially adopted only for an annual fiscal period within the fiscal year of adoption. The System does not expect this standard to have a significant impact on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *“Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,”* which provides clarifying guidance on the classification of certain cash receipts and cash payments in order to establish consistent application of principles. The standard is effective as of January 1, 2018. The standard must be applied retrospectively for each period presented. The System does not expect this standard to have a significant impact on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *“Compensation—Retirement Benefits (Topic 715).”* The amendments in this ASU require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the statement of operations to present the other components of net benefit cost must be disclosed. The amendments in this ASU are effective for the System as of January 1, 2018. The amendments in this ASU should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the statement of operations and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The System does not expect this standard to have a significant impact on the consolidated financial statements.

**Newly Adopted Accounting Pronouncements**—In January 2017, the FASB issued ASU No. 2017-02, *“Not-for-Profit Entities—Consolidation.”* This ASU amends the consolidation guidance in Subtopic 958-810, *Not-for-Profit Entities—Consolidation*, to clarify when a not-for-profit entity (NFP) that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, become effective. The amendments in this ASU maintain how NFP general partners currently apply the consolidation guidance in Subtopic 810-20 by including that guidance within Subtopic 958-810. The amendments also add to Subtopic 958-810 the general guidance in Subtopic 810-10 on when NFP limited partners should consolidate a limited partnership. The amendments in this update was effective for fiscal years beginning after December 15, 2016. The System adopted this standard as of January 1, 2017, which did not result in a material impact to the consolidated financial statements.

### 3. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended December 31, 2017 and 2016, consists of the following:

	2017	2016
Gross patient service billings	\$ 3,280,348	\$ 2,912,712
Charity care allowances	(60,822)	(58,700)
Contractual allowances	(2,268,154)	(1,919,838)
Medicaid-upper payment limit (UPL) program	15,593	29,019
Medicaid-directed payment program (DPP)	54,666	13,881
Medicaid-enhanced payment program revenue	12,130	13,728
Medicaid-disproportionate share hospital (DSH) payment program revenue	<u>3,253</u>	<u>1,392</u>
Patient service revenue	1,037,014	992,194
Provision for bad debts	<u>(23,695)</u>	<u>(30,647)</u>
Net patient service revenue	<u>\$ 1,013,319</u>	<u>\$ 961,547</u>

The System has agreements with third-party payors that provide for payments at amounts that differ from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

**Medicare**—Payment for inpatient acute care services rendered to Medicare program beneficiaries and associated medical education, DSH, and capital cost reimbursement and capital costs 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. Outpatient services are reimbursed at prospectively determined rates per visit based primarily on an ambulatory payment classification. Some inpatient non-acute services, certain outpatient services, and a percentage of bad debt costs related to Medicare beneficiaries are substantially paid based on a cost reimbursement methodology. Other amounts related to interns and residents and DSH are paid based on formulas as defined in the Medicare regulations. The System is paid for cost reimbursable items, interns, and residents and DSH at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medicare program.

The Medicare cost reports for CAMC have been audited by the Medicare fiscal intermediary through December 31, 2013, and for CAMC Teays through February 28, 2014.

**Medicaid**—Payments for inpatient services rendered to Medicaid program beneficiaries are primarily reimbursed on a prospective payment system per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed primarily at prospectively determined rates per visit based on a fee schedule with no retrospective adjustment.

**PEIA**—Inpatient services rendered to PEIA subscribers are reimbursed on a prospective payment system. Outpatient services rendered to PEIA subscribers are reimbursed based on a fee schedule with no retroactive adjustment.

**Other**—The System has also entered into payment agreements with certain commercial insurance carriers, preferred provider organizations (PPO), and health maintenance organizations (HMO). Payment under the commercial, HMO, and PPO arrangements are primarily based on a percentage of charges.

**Rate Regulation**—Through June 30, 2016, the Health Care Authority (HCA) was empowered, by provisions of the West Virginia Code, to regulate CAMC's gross patient revenues from nongovernment payors and to evaluate health care entity financial performance. Beginning July 1, 2016, the HCA no longer has the authority to regulate rates in West Virginia.

**Medicaid-UPL Program Supplemental Security Income (SSI) Population**—On May 23, 2012, the West Virginia Medicaid Program received federal Centers for Medicare and Medicaid Services (CMS) approval to implement the UPL program proposed by the West Virginia Hospital Association and is associated with the SSI segment of the Medicaid population. The UPL is an allowable method for West Virginia to supplement payment on medical services rendered to the Medicaid fee for service SSI population. The UPL program in West Virginia for this population segment has continued uninterrupted since its inception and is currently extended for West Virginia state fiscal year ending June 30, 2018. The payment is computed primarily on the following factors: hospital allowable total cost to charge ratio and what Medicaid paid on the SSI fee for service Medicaid population. The SSI Medicaid population has transitioned from Medicaid fee for service to Medicaid managed care effective July 1, 2017, with supplemental payments continuing under an alternative methodology known as the Directed Payment Program (DPP) accepted by CMS to provide Medicaid supplemental payments through Managed Care Organizations.

**Medicaid-UPL and DPP-Expanded Medicaid Population**—The Patient Protection and Affordable Care Act allowed states to expand eligibility for Medicaid medical benefits effective January 1, 2014. West Virginia expanded Medicaid eligibility effective January 1, 2014, in a Medicaid fee for service environment through August 31, 2015. Effective September 1, 2015, beneficiaries of the expanded Medicaid population were transitioned to Medicaid-managed care. These beneficiaries of the expanded population can be eligible for supplemental UPL or DPP reimbursement. In 2014, West Virginia began working with CMS to secure supplemental UPL or DPP reimbursement effective January 1, 2014.

Included within net patient service revenue for the years ended December 31, 2017 and 2016, are \$0 and \$9,577, respectively, of amounts received by the System related to supplemental UPL payments on the expanded population related to the first and second calendar quarters of 2015, which had not been recognized as revenue in prior years. Also included within net patient service revenue for the years ended December 31, 2017 and 2016, are \$32,249 and \$2,653, respectively, of amounts received by the System related to DPP payments for the third and fourth quarters of 2015 and state fiscal year ended June 30, 2016, which had not been recognized as revenue in prior years. In addition to these amounts, the System recognized as a component of net patient service revenue for the years ended December 31, 2017 and 2016, \$15,593 and \$19,442, respectively, related to the UPL program and \$22,417 and \$11,228 related to the DPP program. Supplemental payments for the Medicaid population have been extended for West Virginia state fiscal year ending June 30, 2018.

**Medicaid-Enhanced Payment Programs**—Under the West Virginia Medicaid-Enhanced Payment Programs, the methodology utilized in determining payments is based on the West Virginia State Plans approved on May 15, 2006. The methodology utilizes the following four payment groups: urban, rural, tertiary safety net, and rural safety net, and the amounts currently assigned and approved by CMS.

**Medicaid Provider Tax**—During 2017 and 2016, the System recorded, \$30,135 and \$25,821, respectively, related to Medicaid Provider Taxes within Medicaid provider tax in the accompanying consolidated statements of operations. Such taxes include the following:

**Medicaid-UPL/DPP Program Tax**—The West Virginia Department of Tax and Revenue imposes a tax on licensed general acute care hospitals to generate revenue that is used as the state contribution toward drawing down additional federal-matching dollars for Medicaid to enhance current hospital payment rates under the UPL and DPP programs. The tax rate increased in 2017 to 0.75% of net patient service revenue from 0.74% in 2016 of net patient service revenue.

**Broad-Based Health Care-Related Tax**—The West Virginia Broad-Based Health Care-Related Tax of 1993 assesses a tax on net patient service revenue at rates varying from 0.35% to 5%, depending on the type of services provided.

#### **4. CHARITY CARE AND COMMUNITY SERVICE BENEFIT**

The System provides care to patients who meet certain criteria under the approved charity care policy without charge or at amounts less than the established rates. Because the System does not pursue collection of amounts that are determined to qualify as charity care, they are not reported as net patient service revenue. The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of gross charges forgone for direct patient care, which were \$60,822 and \$58,700 for the years ended December 31, 2017 and 2016, respectively. The cost associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care and amounted to \$18,607 and \$20,347 for the years ended December 31, 2017 and 2016, respectively.

In addition to the charity care provided for direct patient care, the System provides free and below-cost service and programs for the community. The costs of these services and programs are included in compensation and employee benefits and various other expense line items of the System's consolidated statements of operations.

## 5. ASSETS LIMITED AS TO USE AND INVESTMENTS

Assets limited as to use and investments as of December 31, 2017 and 2016, consist of the following:

	<b>2017</b>	<b>2016</b>
Short-term investments:		
Cash and cash equivalents	\$ 20,199	\$ 10,896
Corporate stocks and equity mutual funds	9,117	7,651
Fixed-income securities and mutual funds	<u>40,258</u>	<u>56,790</u>
Total short-term investments	<u>\$ 69,574</u>	<u>\$ 75,337</u>
Assets limited as to use:		
Self-insurance:		
Cash and cash equivalents	\$ 2,446	\$ 2,275
US Treasury and US government agency obligations	1,155	2,142
Corporate stocks	20,745	17,658
Alternative investments	1,348	2,748
Equity mutual funds	18,101	13,889
Fixed-income securities and mutual funds	<u>8,052</u>	<u>6,614</u>
Total self-insurance	<u>51,847</u>	<u>45,326</u>
Board-designated and restricted funds:		
Cash and cash equivalents	21,053	20,350
US Treasury and US government agency obligations	15,740	-
Corporate stocks and equity mutual funds	160,413	159,898
Corporate bonds and fixed-income mutual funds	70,047	53,916
Alternative investments	<u>-</u>	<u>14,965</u>
Total board-designated and restricted funds	<u>267,253</u>	<u>249,129</u>
Trustee-held funds:		
Debt-service reserve fund—cash equivalents and US government agency obligations	12,638	12,493
Collateral on derivatives—cash equivalents	16,660	13,480
Other assets:		
Cash equivalents	7,057	6,443
Other fixed-income	<u>8,980</u>	<u>9,135</u>
Total trustee-held funds	<u>45,335</u>	<u>41,551</u>
Total assets limited as to use	364,435	336,006
Less current portion	<u>(6,200)</u>	<u>(6,200)</u>
Assets limited as to use—net of current portion	<u>\$ 358,235</u>	<u>\$ 329,806</u>
Other investments—alternative investments	<u>\$ -</u>	<u>\$ 12,534</u>

Board-designated and trustee-held funds consist of the Foundation's and CAMC's investments set aside for capital, debt, and other similar expenditures. Self-insurance assets relate primarily to the malpractice and general liability self-insurance. The Board has also designated the majority of proceeds received in 2013 from two taxable notes for use toward future capital projects. Trustee-held investments also include funds set aside for certain obligated group debt-service requirements (see Note 7).

## 6. INVESTMENT INCOME

Investment income and unrealized and realized gains and losses on investments for the years ended December 31, 2017 and 2016, are composed of the following:

	<b>2017</b>	<b>2016</b>
Unrestricted:		
Interest and dividends	\$ 8,799	\$ 7,912
Realized gain on investments—net	11,000	14,787
Net unrealized gain	<u>25,826</u>	<u>5,833</u>
Total unrestricted investment income—net	<u>45,625</u>	<u>28,532</u>
Temporarily restricted:		
Interest and dividends	1,434	1,075
Realized gain on investments—net	1,137	5,405
Net unrealized gain (loss)	<u>6,194</u>	<u>(1,989)</u>
Total temporarily restricted investment income—net	<u>8,765</u>	<u>4,491</u>
Net investment income and realized and unrealized gains and losses on investments	<u>\$54,390</u>	<u>\$33,023</u>

## 7. LONG-TERM DEBT, LEASE OBLIGATIONS, AND DERIVATIVES

Obligations under long-term debt and capital lease obligations as of December 31, 2017 and 2016, consist of the following:

	<b>2017</b>	<b>2016</b>
2014 Series A Bonds	\$ 45,625	\$ 45,625
2013 Taxable Debt Notes	73,850	75,515
2010 Mountaineer Imaging	4,889	5,500
2009 Series A Bonds	97,780	104,205
2008 Series A Bonds	118,790	120,440
2008 CAMC Teays Bonds	17,710	18,829
2006 Promissory Note	4,404	4,665
Capital lease obligations	<u>5,250</u>	<u>6,523</u>
 Total	 368,298	 381,302
Plus unamortized bond premium	3,792	4,150
Less unamortized bond discount	(1,094)	(1,168)
Less unamortized issuance costs	<u>(3,414)</u>	<u>(3,626)</u>
 Total—net of unamortized discount and premium and debt issuance costs	 367,582	 380,658
Less current maturities	<u>(14,266)</u>	<u>(13,769)</u>
 Total long-term debt and lease obligations	 <u>\$353,316</u>	 <u>\$366,889</u>

The fair value of the System's debt obligations was \$367,428 and \$377,275 as of December 31, 2017 and 2016, respectively, and falls within Level 2 in the fair value hierarchy. In determining the fair value of debt, the System considers its credit standing and does not take into account the credit standing of the financial institution that participated in the issuance of the debt instruments. Additional considerations for valuing the debt include the maturity date and the coupon and yield of the debt instrument.

**Obligated Group**—CAMC and the Foundation are members of the Obligated group (the "Obligated Group") in accordance with the provisions of the 1993 restated master trust indenture and are jointly and severally liable for the performance of all covenants and obligations contained in the 1993 restated master trust indenture and in the related notes and guarantees. The 2013 taxable debt notes; 2008 Series A Bonds; 2008 CAMC Teays Bonds; 2009 Series A Bonds; 2014 Series A Bonds; and various notes, lines, and letters of credit are obligations under the 1993 restated master trust indenture. The Foundation's restricted net assets are not available to satisfy obligations of the obligated group. The obligations of the Obligated Group are evidenced and secured by promissory notes issued pursuant to a 1993 restated master trust indenture dated January 1, 1993, as supplemented from time to time. All notes issued under the 1993 restated master trust indenture are secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

The Obligated Group is subject to certain restrictive covenants that require, among other items, the Obligated Group to maintain certain financial ratios as defined in the debt agreements and to make certain informational filings with its creditors. The System is currently in compliance with all restrictive covenants.

**2014 Series A Bonds**—In June 2014, CAMC entered into a loan agreement with the West Virginia Hospital Authority (the "Authority") pursuant to which CAMC borrowed the proceeds of the Authority's \$45,625 fixed-rate hospital revenue refunding bonds 2014 Series A. The bonds were issued at a premium of \$5,046, which will be amortized to interest and debt expense over the 14-year life of the issue. Interest on the bonds is payable semiannually and principal is payable annually beginning September 2024. The coupon rates of the bonds range from 3.5% to 5% depending on maturity.

**2013 Taxable Debt Notes**—On March 22, 2013, CAMC issued and sold \$60,000 4.5% taxable Master Note 2013-1 with final maturity on March 14, 2043, utilizing level debt amortization over 30 years. On May 21, 2013, CAMC issued and sold \$20,000 4.02% taxable Master Note 2013-2 with final maturity on March 15, 2038, utilizing level debt amortization over 25 years. These notes are issued and secured under the 1993 restated master trust indenture and secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

**2010 Bank Loan**—In December 2010, CAMC entered into a bank loan agreement for \$9,000. Principal and interest are payable in equal monthly installments sufficient to fully amortize the debt in 15 years with the outstanding balance of the note being due and payable in full on December 10, 2015. CAMC refinanced this note on December 10, 2015, with outstanding balance now due in full on December 10, 2020. Interest accrues at a variable rate equal to 30-day London InterBank Offered Rate (LIBOR), plus 1.25%. The rate aggregated to 2.3% as of December 31, 2017.

**2009 Series A Bonds**—In September 2009, CAMC entered into a loan agreement with the West Virginia Hospital Finance Authority (the "Finance Authority") pursuant to which CAMC borrowed the proceeds of the Finance Authority's \$179,925 fixed-rate hospital revenue refunding and improvement bonds 2009 Series A. The coupon rates of the bonds range from 3% to 5.62% depending on maturity. In aggregate, the bonds sold at a net discount of \$2,406, which is being amortized to interest and debt expense over the 23-year life of the issue. Interest on the bonds is payable semiannually and principal is payable annually. Under the terms of the loan agreement, CAMC makes monthly loan repayments sufficient in time and amount to enable the Finance Authority to pay the principal of, and the interest on, the Series 2009 bonds.

**2008 Series A Bonds**—In June 2008, CAMC entered into a loan agreement with the Finance Authority pursuant to which CAMC borrowed the proceeds of the Finance Authority's \$127,355 variable-rate revenue bonds 2008 Series A. The bonds require the payment of principal and interest through September 1, 2037. The bonds are multimodal variable-rate demand obligations supported by credit enhancement and a liquidity facility.

The timely payment of principal and interest on the 2008 Series A Bonds and the purchase price of tendered bonds are secured by an irrevocable, transferable direct pay letter of credit issued by a bank. The letter of credit will expire on June 19, 2021, unless renewed, and may be replaced by a substitute letter of credit. Should any portion of the bonds not remarket, the holders of said bonds may tender them to the bank holding the direct pay letter of credit. Draws on the letter of credit, which cannot be remarketed after 90 days, will begin repayment over 10 years with a balloon payment at the end of five years. There

were no draws on the letter of credit in 2017. Interest on the 2008 bonds is variable and can bear interest at a daily rate or a weekly rate as determined by a remarketing agent. Interest accrues at the stated interest rate, which, in the judgment of the remarketing agent under then-existing market conditions, would result in the sale of the 2008 bonds on such rate determination date at a price equal to the principal amount thereof, plus interest accrued through the rate period. As of December 31, 2017, the interest rate was 1.73%.

**2008 CAMC Teays Bonds**—On September 30, 2008, CAMC Teays entered into a loan agreement with the Authority pursuant to which CAMC Teays borrowed the proceeds of the Authority's \$26,000 variable-rate revenue bonds. CAMC Teays was merged with and into CAMC on March 1, 2014, and this indebtedness was assumed by CAMC by operation of law. The bonds require the payment of principal and interest through October 31, 2018, and was recently renewed with an expiration date of June 19, 2021. Principal is amortizing as if the debt is repaying over 21 years in equal monthly installments. On June 19, 2021, a balloon payment is due for the remaining principal and accrued interest. Interest is accrued on a monthly basis. The associated note carries a variable monthly interest rate equal to 68% of LIBOR, plus 120-basis points (1.2%). As of December 31, 2017, the interest rate was 2.04%.

**2006 Promissory Note**—This note, evidencing a taxable bank loan made to CAMC Teays, was also assumed by CAMC upon the effective date of its merger with CAMC Teays on March 1, 2014. The 2006 Promissory Note carries a variable monthly interest rate equal to the LIBOR, plus 100 basis points (1%), which aggregated to 1.17% as of December 31, 2017. Interest on the note is paid monthly in arrears on the first business day of each month through an amended maturity date of January 1, 2020.

**Other**—CAMC maintains a \$10,000 working capital line of credit with a local bank, which expires on December 31, 2018. As of December 31, 2017 and 2016, there was no outstanding balance. A note securing the line of credit has been issued under the 1993 restated master trust indenture.

As of December 31, 2017 and 2016, there was \$3,135 and \$3,825, respectively, committed to four undrawn recurring letters of credit related to workers' compensation. These letters of credit are renewed annually and currently expire on various dates ranging from March 31, 2018, to December 23, 2018.

CAMC is one of three charter members of HealthNet, Inc. (HNET), a West Virginia nonprofit corporation that provides air medical transportation service to CAMC's primary patient population. HNET is not a consolidated entity within the Parent. CAMC has issued guarantees in the aggregate amount of \$8,908 to support the acquisition, renovation, and replacement of two medical helicopters. The guarantees reduce as HNET's lease liability for each of the helicopters is repaid. As of December 31, 2017, CAMC had not been called upon to make payments under the guarantee agreement.

CAMC has recorded \$3,535 and \$4,480 as of December 31, 2017 and 2016, respectively, as a capital lease obligation for these helicopters as a result of the lease guarantees and the helicopters being primarily used by CAMC. The related assets included in property, equipment, and information systems in the accompanying consolidated balance sheets.

CAMC entered into an agreement with GE Healthcare Financial Services on December 14, 2015, on a capital lease to purchase anesthesia equipment over a 36-month period. As of December 31, 2017 and 2016, there was \$947 and \$947, respectively, committed to this

lease, with the related asset included in property, equipment, and information systems in the accompanying consolidated balance sheets.

CAMC entered into an agreement with Medtronic USA on April 8, 2016, on a capital lease to purchase surgical products over a 48-month period. As of December 31, 2017 and 2016, there was \$768 and \$1,096, respectively, committed to this lease, with the related asset included in property, equipment, and information systems in the accompanying consolidated balance sheets.

**Debt-Service Requirements**—The System is required to make principal payments under long-term debt and capital lease obligations. The required principal payments are as follows:

	2018	2019	2020	2021	2022	Thereafter	Total
2014 Series A Bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,625	\$ 45,625
2013 Taxable Debt Notes	1,740	1,810	1,890	1,975	2,060	64,375	73,850
2010 Mountaineer Imaging	611	611	3,667	-	-	-	4,889
2009 Series A Bonds	6,735	6,735	7,095	7,415	7,960	61,840	97,780
2008 Series A Bonds	1,725	2,135	2,200	2,330	2,405	107,995	118,790
2008 CAMC Teays Bonds	1,168	1,168	1,168	14,206	-	-	17,710
2006 Promissory Note	280	280	3,844	-	-	-	4,404
Capital lease obligations	<u>2,218</u>	<u>1,290</u>	<u>640</u>	<u>393</u>	<u>402</u>	<u>307</u>	<u>5,250</u>
Total principal	14,477	14,029	20,504	26,319	12,827	280,142	368,298
Plus unamortized bond premium	-	-	-	-	-	3,792	3,792
Less unamortized bond discount	-	-	-	-	-	(1,094)	(1,094)
Less debt issuance costs	<u>(211)</u>	<u>(211)</u>	<u>(211)</u>	<u>(211)</u>	<u>(211)</u>	<u>(2,359)</u>	<u>(3,414)</u>
Principal—net	<u>\$14,266</u>	<u>\$13,818</u>	<u>\$20,293</u>	<u>\$26,108</u>	<u>\$12,616</u>	<u>\$280,481</u>	<u>\$367,582</u>

**Advanced Refundings**—The outstanding balance of advanced refunded bonds excluded from the consolidated balance sheets was \$12,638 as of December 31, 2017, and \$12,493 as of December 31, 2016. The System advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustee is solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in US government securities.

**Derivatives**—CAMC has entered into floating- to- fixed and floating- to- floating interest rate swap agreements in connection with its debt management program. The objective is to reduce the amount of interest related to outstanding debt obligations. Such agreements are not designated as hedging instruments. Net interest paid or received under the swap agreements is included in the consolidated statements of operations as a component of interest and debt expense while the change in the fair value of the derivative is reported separately in the consolidated statements of operations.

CAMC's interest rate swap agreements as of December 31, 2017 and 2016, are as follows:

Swap Type	Expiration Date	System Pays	Notional Amount	
			2017	2016
Floating	September 1, 2032	BMA municipal bond index rate	\$ 124,150	\$ 129,900
Floating	September 4, 2027	USD-securities industry and financial markets association municipal bond index	50,000	50,000
Fixed	September 1, 2037	4.19 %	<u>97,620</u>	<u>99,015</u>
			<u>\$ 271,770</u>	<u>\$ 278,915</u>

Net interest paid and received on CAMC's interest rate swap transactions was an expense of \$2,137 and \$2,321 for the years ended December 31, 2017 and 2016, respectively. This is included in interest and debt expense in the accompanying consolidated statements of operations.

Under the terms of certain of the derivative contracts, the Obligated Group is required to maintain collateral posted with the counterparty to secure a portion of the estimated value of the derivative instruments when said instruments are valued in favor of the counterparty, as periodically determined by the counterparty. Collateral must be posted when the applicable aggregate derivative values exceed \$5,000 in favor of the counterparty. As of December 31, 2017 and 2016, \$16,660 and \$13,480, respectively, of collateral had been posted. The System's accounting policy is not to offset collateral amounts against amounts recognized for derivative obligations. Accordingly, the posted collateral is included in assets limited as to use in the accompanying consolidated balance sheets. On January 25, 2017, Moody's Investors Service downgraded from A3 as of December 31, 2016, to Baa1 the underlying rating assigned to Obligated Group's outstanding revenue bonds. Under derivative contracts, a downgrade to Baa1 changed the collateral threshold to \$5,000 effective February 2017.

Generally, the counterparties to the transactions could force an early termination if the Obligated Group's underlying credit rating declines from Baa1 to Baa3 or below as determined by Moody's Investors Service, if the Obligated Group fails to post collateral or if the Obligated Group fails to make swap payments. Aggregate termination payments would approximate the fair market value of the outstanding instruments as reported above.

To evidence its obligations under the derivatives, promissory notes were negotiated by CAMC and the swap counterparty to give the swap counterparty security for the Obligated Group's obligations under the derivative agreements. The actual obligation of the Obligated Group on these notes may vary significantly from the nominal amounts of each note. No amounts are outstanding under these notes.

The following table summarizes the estimated fair value of CAMC's derivative financial instruments at December 31, 2017 and 2016 (in thousands):

Derivatives not Designated as Hedging Instruments	Consolidated Balance Sheet Location	2017	2016
Asset derivatives—interest rate swaps	Prepaid expenses and other	\$ 5,070	\$ 4,305
Liability derivatives—interest rate swaps	Derivative obligation	<u>25,511</u>	<u>25,234</u>
Net amount		<u>\$ 20,441</u>	<u>\$ 20,929</u>

**Operating Lease Agreements**—The System leases various land, computer, office, and movable equipment under noncancelable operating lease agreements expiring at various dates. Payments required under the noncancelable operating lease agreements as of December 31, 2017, are as follows:

<b>Years Ending December 31</b>	
2018	\$ 5,961
2019	4,763
2020	2,096
2021	454
2022	96
Thereafter	<u>-</u>
Total	<u>\$13,370</u>

Total expense for operating leases, which is included in supplies and other in the accompanying consolidated statements of operations, was \$5,708 and \$5,270 for the years ended December 31, 2017 and 2016, respectively.

## **8. LIABILITIES FOR SELF-INSURANCE RESERVES**

Certain of the System’s subsidiaries are self-insured for professional malpractice and general liability claims through the CAMC Health System Inc. and Affiliates Malpractice Self-Insurance Trust (the “Trust”). This is a revocable trust. Participating affiliates have proportionate rights to the Trust’s account balance held under the custodial management of a bank trust department and can withdraw from the Trust, subject to certain actuarially determined thresholds. The Trust’s account may be used for payment of any professional malpractice and general liability losses, expenses relating thereto, costs of administering the Trust, and insurance premiums for coverage in excess of the self-insured limits.

Obligations of the Trust are determined using statistical analysis by an independent actuarial valuation of occurrence-based risks, which includes consideration of incurred, but not reported claims exposure. The System’s methodology for estimating this self-insured obligation is a simulation modeling approach largely dependent on the System’s actual loss history and certain national, regional, and state-specific claim statistics. As of December 31, 2017 and 2016, the System has recorded \$29,893 and \$22,693, respectively, as the liability for self-insured asserted and unasserted professional malpractice and general liability claims. The estimated current portion of \$6,200 in 2017 and \$6,200 in 2016 is recorded in current liabilities in the accompanying consolidated balance sheets. The estimated liability for such malpractice and general liability claims has been discounted using a discount rate of 2% and 1.5% in 2017 and 2016, respectively. While the ultimate amount of costs incurred under the System’s self-insured programs is dependent on future developments, in management’s opinion, recorded reserves are adequate to cover the future settlement value of claims. However, it is reasonably possible that recorded reserves may not be adequate to cover the future settlement of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in operations in the periods in which such adjustments are known.

The malpractice self-insurance limits are a maximum \$3,000 per occurrence and a maximum annual aggregate limit of \$12,000 for May 1, 2001, through April 30, 2002; \$5,000 per occurrence and a maximum annual aggregate limit of \$20,000 for May 1, 2002,

through April 30, 2003; \$7,000 per occurrence and a maximum annual aggregate limit of \$25,000 for May 1, 2003, through April 30, 2004; \$10,000 per occurrence and a maximum annual aggregate limit of \$30,000 for May 1, 2004, through April 30, 2011, and \$10,000 per reported claim and a maximum annual aggregate limit of \$25,000 for May 1, 2011, through April 30, 2018.

Prior to 2012, certain members of the System were also self-insured for workers' compensation, unemployment compensation, disability, and employee health insurance. The workers' compensation plan's trust fund is under the custodial management of a bank trust department. The workers' compensation long-term portion of the obligation recorded in self-insurance reserves in the accompanying consolidated balance sheets for these programs is \$954 and \$1,007 as of December 31, 2017 and 2016, respectively. The current portion of the obligation recorded in accrued expenses for workers' compensation was \$733 and \$664 as of December 31, 2017 and 2016, respectively. Beginning, January 1, 2012, all System members became insured for workers' compensation. Self-insured workers' compensation obligations are reserved for claims prior to the effective date of January 1, 2012, including incurred but not reported claims. Claims, beginning on January 1, 2012, are administered under a deductible insured program with limits of \$1,000 per occurrence and \$3,000 annual aggregate.

Prior to 2012, the System was subject to risk pools (security and guaranty) for the benefit of self-insured employers in West Virginia. The risk pools were utilized to fund the claims payments of default and bankrupt self-insured employers. The System maintains a required \$750 letter of credit in favor of the West Virginia Insurance Commission to secure claims with dates of injury on or prior to June 30, 2004. The System and other pool participants are required to pay annual guaranty pool assessments until the guaranty pool contains the sum of \$30,000 or 5% of the estimated total claims liability of all self-insured employers. In the event that actual claim defaults exceed the amounts of defaulted claim reserves, additional amounts may be assessed to the self-insured employers to fund the guaranty pool. The System's contributions to the guaranty pool were \$0 for 2017 and 2016, respectively. The amount of the System's liability in respect to potential assessments cannot be estimated. Accordingly, no accrual for such liability has been reflected in the consolidated financial statements.

## **9. RETIREMENT OBLIGATIONS**

**Supplemental Executive Retirement Program (SERP)**—The System has adopted several SERPs for the benefit of corporate officers. The SERPs, when combined with the retirement savings plan, are intended to provide corporate officers with a retirement benefit from all System sources (including 50% of social security benefits) ranging from approximately 55% to 60% of the officer's average compensation during his or her final five years of employment with an assumed normal retirement age of 60. Generally, an officer may become fully vested in SERPs' benefits at age 60 with at least 30 years of service. Partial vesting in these benefits begins at age 55 with at least five years of service. Benefit payments under these plans generally do not commence until 24 months after termination of employment. The SERPs are nonqualified plans.

The table below sets forth the change in the benefit obligation of the SERPs for the years ended December 31, 2017 and 2016, using a December 31 valuation date:

<b>Change in Projected Benefit Obligation</b>	<b>2017</b>	<b>2016</b>
Benefit obligation at beginning of year	\$11,538	\$10,914
Service cost	593	596
Interest cost	361	392
Actuarial (loss) gain	(663)	733
Benefits paid	(3,493)	(1,806)
Plan amendments	<u>-</u>	<u>709</u>
Projected benefit obligation (underfunded status) at end of year	<u>\$ 8,336</u>	<u>\$11,538</u>

The accumulated benefit obligation for the SERPs was \$6,959 and \$9,419 as of December 31, 2017 and 2016, respectively.

Included in unrestricted net assets as of December 31, 2017 and 2016, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of \$1,348 and \$2,812, respectively, and unrecognized net prior service cost of \$1,436 and \$1,633, respectively.

Certain assets approximating \$3,170 as of December 31, 2016, were maintained in a separate account to fund benefits under the SERPs and were recorded in assets limited as to use in the consolidated balance sheets. Contributions of \$0 and \$143 were made into this account in 2017 and 2016, respectively. Such assets were subject to general creditors of the System. The SERP benefits to which these assets relate to vested in May 2017, and were paid out in June 2017.

The benefit payments, which reflect expected future service, as appropriate, expected to be paid by the SERPs during the years ending December 31 are as follows:

**December 31**

2018	\$ 379
2019	3,473
2020	-
2021	527
2022	979
Thereafter	5,782

The components of net periodic benefit cost for SERP plans for the years ended December 31, 2017 and 2016, are as follows:

	<b>2017</b>	<b>2016</b>
Service cost	\$ 593	\$ 596
Interest cost	361	392
Settlement charge	565	440
Actuarial loss	235	241
Amortization of prior service cost	<u>197</u>	<u>158</u>
Net periodic benefit cost	<u>\$1,951</u>	<u>\$1,827</u>

Actuarial plan assumptions for the years ended December 31, 2017 and 2016, are as follows:

	<b>2017</b>	<b>2016</b>
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	3.30 %	3.55 %
Expected rate of compensation increase	3.00	4.00
Weighted-average assumptions used to determine benefit obligations as of December 31:		
Discount rate	3.30 %	3.55 %
Expected rate of compensation increase	3.00	4.00
Lump-sum interest rate	1.50	1.25

**Postretirement Benefits Other than Pensions**—The System provides certain other postretirement benefits (OPEBs) to a grandfathered group of participants. Such benefits are primarily related to life insurance, sick day buyout benefits, and medical. OPEB benefits for current employees and retirees except for the grandfathered group were ceased in years prior to 2006.

The table below sets forth the change in the benefit obligation of the postretirement benefits for the years ended December 31, 2017 and 2016, using a December 31 valuation date:

<b>Change in Projected Benefit Obligation</b>	<b>2017</b>	<b>2016</b>
Benefit obligation—beginning of year	\$2,237	\$2,559
Service cost	22	24
Interest cost	76	90
Actuarial gain	(204)	(232)
Contributions	5	3
Benefits paid	<u>(176)</u>	<u>(207)</u>
Benefit obligation (underfunded status)—end of year	<u>\$1,960</u>	<u>\$2,237</u>

The postretirement benefits are not funded.

A summary of projected benefit payments for the years ending December 31 is as follows:

2018	\$ 226
2019	206
2020	185
2021	181
2022	179
Thereafter	620

The postretirement benefit expense for the years ended December 31, 2017 and 2016, was as follows:

	<b>2017</b>	<b>2016</b>
Service cost of benefits earned	\$ 22	\$ 24
Interest cost	76	89
Net prior-period service costs	-	-
Actuarial gain	<u>(70)</u>	<u>(33)</u>
Net periodic postretirement expense	<u>\$ 28</u>	<u>\$ 80</u>

For measurement purposes, there is an annual rate of increase in the per capita cost of covered health care benefits of 6.5% in 2017, reducing 0.25% per year for six years, reaching 5% in 2023 and thereafter.

**Retirement Savings Plan**—Employees of the System are eligible to participate in a retirement savings plan. Employees may contribute from 1% to 100% of their salary to the plan, subject to certain limitations, and the employers will match from 1% to 4% of salary based on the employees' salary deferrals made during the plan year; 100% match on the first 3% deferred, and 50% match on the next 2% with 4% being the maximum. Total employer contributions to the retirement savings plan were \$12,430 and \$12,737 during 2017 and 2016.

## 10. RELATED-PARTY TRANSACTIONS

West Virginia University (WVU) employs physicians who provide medical education and supervision to the resident physicians employed by CAMC. In 2017 and 2016, CAMC provided \$17,767 and \$17,362, respectively, to WVU for the physicians who teach and supervise the resident physicians for call pay, income guarantees, fees for services, and other expenses. The fees paid are included in either professional compensation and fees or supplies and other, depending on the nature of the transaction. CAMC has committed \$17,719 to further support WVU during 2018 for the use of the teaching and supervising physicians.

CAMC, Cabell Huntington Hospital, and WVU Hospital are members of HNET. Each member's legally controlled percentage is 33.3%. HNET is recognized as exempt from federal income tax under Section 501(c)(3) of the Code. Members are required to support HNET to the extent that expenses exceed revenues. For the years ended December 31, 2017 and 2016, HNET expenses exceeded revenues by \$1,472 and \$746, respectively.

Amounts due to HNET included in accounts payable and accrued expenses were \$478 and \$547 as of December 31, 2017 and 2016, respectively.

CAMC has purchased an interest in Charleston Area Radiation Therapy Centers, LLC, which manages the technical component of radiation therapy services offered by CAMC. Alliance Oncology, LLC owns a 50% interest; CAMC owns a 20% interest and Charleston Radiation Therapy Consultants; and PLLC owns a 30% interest in Charleston Area Radiation Therapy Centers, LLC. For the years ended December 31, 2017 and 2016, Charleston Area Radiation Therapy Centers, LLC revenues exceeded expenses by \$2,448 and \$1,395, respectively. Amounts due to Charleston Area Radiation Therapy Centers, LLC included in accounts payable and accrued expenses were \$78 and \$459 as of December 31, 2017 and 2016, respectively.

## 11. FUNCTIONAL EXPENSES

The functional expenses related to the System's operations as of December 31, 2017 and 2016, are as follows:

	<b>2017</b>	<b>2016</b>
Provision of health care and related services	\$ 870,477	\$ 813,826
General and administrative	240,658	227,775
Change in fair value of derivatives	<u>(488)</u>	<u>41</u>
Total	<u>\$ 1,110,647</u>	<u>\$ 1,041,642</u>

## 12. COMMITMENTS, CONTINGENCIES, AND LITIGATION

Entities of the System are party to a number of lawsuits. It is not possible at the present time to estimate the ultimate legal and financial liability, if any, with respect to certain lawsuits. In the opinion of management, after consultation with counsel, adequate insurance and self-insurance reserves exist in the event of any significant financial exposure. Accordingly, in the opinion of management, resolution of those matters is not expected to have a material adverse effect on the System's consolidated financial position. However, depending on the amount and timing of such resolution, an unfavorable resolution of some or all of these matters could materially affect the future consolidated results of operations or cash flows in a particular period.

**Asset Retirement Obligations**—Management, based on its consideration of asset retirement activities, such as asbestos removal on existing properties, does not believe that remediation of such items will have a material effect on the consolidated financial statements.

**Information Technology (IT) Outsourcing**—On April 3, 2015, CAMC signed an agreement (the "Cerner Agreement") with Cerner Corporation ("Cerner") to replace the then-existing revenue cycle software and deliver functionality to meet regulatory requirements. The annual provisions of the Cerner Agreement begin April 1 of each year; the conversion ("Cerner Conversion") was effective as of September 14, 2016.

The Cerner Agreement CAMC to pay \$12,622 over the first two years; then \$6,611 for the next five years; thereafter annually over the seven-year Cerner Agreement for the perpetual license of the underlying software, implementation, and related maintenance and

support. CAMC has the option to renew the Cerner Agreement for an additional three-year period at the end of the seventh year of the Cerner Agreement. CAMC paid \$3,231 and \$6,117 for the years ended December 31, 2017 and 2016, respectively, which represent initial up-front fees, as well as the cost of the underlying software licenses obtained. This amount, along with the \$20,340 of additional costs relating to the Cerner Conversion, has been included in property, equipment, and information systems in the consolidated balance sheets and will be depreciated over the term of the agreement. Cerner Conversion costs expensed were \$18,402 and \$20,271 for the years ended 2017 and 2016, respectively.

### **13. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The System uses a three-level valuation hierarchy for disclosure of fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

**Level 1**—Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2**—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Corporate bonds are valued using pricing models maximizing the use of observable inputs for similar securities. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments.

**Level 3**—Inputs to the valuation methodology are unobservable and significant to the fair value measurement related to notice requirements in order to withdraw from the investment.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The financial instruments carried at fair value as of December 31, 2017, by caption, in the consolidated statements of financial position by the three-level valuation hierarchy defined above are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments:				
Cash equivalents	\$ 70,957	\$ -	\$ -	\$ 70,957
Equity securities	77,974	-	-	77,974
Equity mutual funds	130,403	-	-	130,403
Debt securities issued by US Treasury and other US government corporations and agencies	-	18,344	-	18,344
Debt securities issued by states of the United States and political subdivisions of the states	-	4,155	-	4,155
Corporate debt securities	-	49,166	-	49,166
Fixed-income mutual funds	<u>72,138</u>	<u>-</u>	<u>-</u>	<u>72,138</u>
Total investments at fair value	<u>\$351,472</u>	<u>\$71,665</u>	<u>\$ -</u>	<u>\$423,137</u>
Assets—derivative asset	<u>\$ -</u>	<u>\$ 5,071</u>	<u>\$ -</u>	<u>\$ 5,071</u>
Liabilities—derivative obligation	<u>\$ -</u>	<u>\$25,511</u>	<u>\$ -</u>	<u>\$ 25,511</u>

The financial instruments carried at fair value as of December 31, 2016, by caption, in the consolidated statements of financial position by the three-level valuation hierarchy defined above are as follows:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash equivalents	\$ 59,178	\$ -	\$ -	\$ 59,178
Equity securities	86,013	-	-	86,013
Equity mutual funds	113,083	-	-	113,083
Debt securities issued by US Treasury and other US government corporations and agencies	-	3,680	-	3,680
Debt securities issued by states of the United States and political subdivisions of the states	-	4,155	-	4,155
Corporate debt securities	-	34,574	-	34,574
Fixed-income mutual funds	<u>85,513</u>	<u>-</u>	<u>-</u>	<u>85,513</u>
Total investments at fair value	<u>\$343,787</u>	<u>\$42,409</u>	<u>\$ -</u>	<u>\$386,196</u>
Assets—derivative asset	<u>\$ -</u>	<u>\$ 4,305</u>	<u>\$ -</u>	<u>\$ 4,305</u>
Liabilities—derivative obligation	<u>\$ -</u>	<u>\$25,234</u>	<u>\$ -</u>	<u>\$ 25,234</u>

Following is a description of the System's valuation methodologies for assets and liabilities measured at fair value.

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

**Cash Equivalents**—The carrying amounts reported in the accompanying consolidated balance sheets for cash equivalents approximate their fair value.

**Equity Securities**—Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded and are classified as Level 1 within the fair value hierarchy.

**Equity Mutual Funds and Fixed-Income Mutual Funds**—Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned and are classified as Level 1 within the fair value hierarchy.

**Debt Securities Issued by US Treasury and Other US Government Corporations and Agencies, Debt Securities Issued by States of the United States and Political Subdivisions of the States, and Corporate Debt Securities**—Debt securities are valued using quoted market prices and/or other market data for the same or comparable securities and transactions in establishing the prices, discounted cash flow models, and other pricing methods. These models are primarily industry standard models that consider

various assumptions, including the time value and yield curve, as well as other relevant economic measures. Due to the nature of pricing methods utilized, debt securities are classified as Level 2 within the fair value hierarchy.

**Derivatives**—The fair value of the derivative obligation is based on observable inputs from market sources that aggregate data based upon market transactions (see Note 7). In determining the fair value of the System’s derivative instruments, quoted price can be obtained from a number of dealer counterparties and other independent market sources based on observable interest rates and yield curves for the full term of the asset or liability. In order to determine the risk of nonperformance for derivative instruments, the System determines the credit spread for debt issues by entities with similar credit characteristics to the System. The fair value of the System’s derivative instruments will adjust based on the nonperformance risk of the System when the derivative instrument is a liability position or by each counterparty when the derivative instrument is an asset to the System.

The System is required to assess its credit risk versus its counterparties, this assessment resulted in a decrease in the liability of \$711 and \$1,140, which increased the System’s excess of revenues over expenses for the years ended December 31, 2017 and 2016, respectively.

#### **14. ENDOWMENT—RESTRICTED NET ASSETS**

The System’s endowment is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and consists of approximately 162 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the System has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and accumulations to the permanent endowment required by the donor gift instrument, if applicable. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- a. The duration and preservation of the fund
- b. The purposes of the System and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the System
- g. The investment policies of the System

The System’s investment and spending policies for endowment assets are structured to provide a predictable stream of funding to programs supported by the endowment and maintain purchasing power of the endowment assets. Under this policy, as approved by the

board of trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation, and investment management costs, of at least 5% over the long term. Therefore, the desired minimum rate of return is equal to the consumer price index plus, 600 basis points (6%) on an annualized basis. Actual returns in any given year will vary.

To satisfy its long-term rate of return objectives, the System 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 System targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

The System computes a 12-quarter trailing average market value of each portfolio as of the prior June 30 and makes 5% of that amount available for expenditure. The computed value may be adjusted for large contributions, withdrawals, or market value swings as necessary to produce the desired level of cash. With this policy, the annual dollar amount available for spending will be known at the beginning of the year. If necessary, quarterly transfers of approximately 1.25% are scheduled for transfer to the Foundation's main cash account.

Changes in endowment funds for the year ended December 31, 2017, consisted of the following:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets—beginning of the year	<u>\$34,078</u>	<u>\$23,654</u>	<u>\$57,732</u>
Investment return:			
Investment income	1,352	-	1,352
Net appreciation (realized and unrealized)	<u>6,912</u>	<u>-</u>	<u>6,912</u>
Total investment return	<u>8,264</u>	<u>-</u>	<u>8,264</u>
Contributions	508	574	1,082
Appropriation of endowment assets for expenditure	<u>(1,344)</u>	<u>-</u>	<u>(1,344)</u>
Net assets—end of year	<u>\$41,506</u>	<u>\$24,228</u>	<u>\$65,734</u>

Changes in endowment funds for the year ended December 31, 2016, consisted of the following:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets—beginning of the year	<u>\$30,418</u>	<u>\$23,052</u>	<u>\$53,470</u>
Investment return:			
Investment income	1,014	-	1,014
Net appreciation (realized and unrealized)	<u>3,233</u>	<u>-</u>	<u>3,233</u>
Total investment return	<u>4,247</u>	<u>-</u>	<u>4,247</u>
Contributions	33	602	635
Appropriation of endowment assets for expenditure	<u>(620)</u>	<u>-</u>	<u>(620)</u>
Net assets—end of year	<u>\$34,078</u>	<u>\$23,654</u>	<u>\$57,732</u>

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor or UPMIFA requires the System to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees. There were no significant deficiencies of this nature that are reported in unrestricted net assets as of December 31, 2017 and 2016.

## 15. INTANGIBLE ASSETS

Intangible assets, other than software, which is included in property, equipment, and information systems, are included in other assets. The System's identifiable intangible assets with finite lives are being amortized over their estimated useful lives and are as follows:

	<b>December 31, 2017</b>			
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Amortization Period</b>
Trade name/trademark	\$ 140	\$ (140)	\$ -	5 years
Noncompete	1,396	(1,396)	-	5 years
Noncontract relationships	4,131	(1,446)	2,685	20 years
Intangibles—software	<u>82,450</u>	<u>(51,409)</u>	<u>31,041</u>	7 years
Total	<u>\$88,117</u>	<u>\$(54,391)</u>	<u>\$33,726</u>	

**December 31, 2016**

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Amortization Period</b>
Trade name/trademark	\$ 140	\$ (140)	\$ -	5 years
Noncompete	1,396	(1,396)	-	5 years
Noncontract relationships	4,131	(1,239)	2,892	20 years
Intangibles—software	<u>75,558</u>	<u>(44,413)</u>	<u>31,145</u>	7 years
Total	<u>\$81,225</u>	<u>\$(47,188)</u>	<u>\$34,037</u>	

Amortization expense for finite-lived intangible assets was \$7,203 and \$2,838 for the years ended December 31, 2017 and 2016, respectively. The following is a schedule of estimated future amortization of finite-lived intangible assets as of December 31, 2017:

**Years Ending  
December 31**

2018	\$ 7,248
2019	6,795
2020	6,507
2021	6,094
2022	3,476
Thereafter	<u>3,606</u>
Total	<u>\$33,726</u>

**16. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 27, 2018, the date the consolidated financial statements were available to be issued.

In February 2018, CAMC entered into an agreement (the "Agreement") with a vendor (the "Vendor") to resolve certain claims arising from the performance of the Vendor's products and the withholding of certain payments by CAMC to Vendor. As the conditions surrounding the Agreement existed as of December 31, 2017, the outcome of the Agreement has been reflected in the 2017 consolidated financial statements. Under the terms of the Agreement, CAMC paid \$10,410 to the Vendor, representing approximately half of the payments withheld from the Vendor. Such amounts had been appropriately accrued by CAMC within accounts payable and accrued expenses on the consolidated balance sheet. Additionally, the Vendor agreed to pay \$10,883 to reimburse CAMC for certain third-party costs incurred by the System. The reimbursement was recorded with other receivables within the consolidated balance sheet and as a reduction to supplies and other expenses on the consolidated statement of operations. The Agreement includes an additional Vendor payment of \$10,447 that has been recognized as other revenue on the consolidated statement of operations. As this payment will be received by CAMC via credits against outstanding invoices due to the Vendor, it has been reflected as a decrease to accounts payable and accrued expenses on the consolidated balance sheet. Remaining payments from the Vendor under the Agreement will be recognized in the 2018 consolidated financial statements when such amounts are finalized. The aggregate payments from the Vendor under the Agreement are capped at \$30,000.

**OTHER ADDITIONAL FINANCIAL INFORMATION**

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATING BALANCE SHEET SCHEDULE

AS OF DECEMBER 31, 2017

(In thousands)

	CAMC	Foundation	Reclassifications and Eliminations	Combined Obligated Group	CAMC Health System	Institute	Integrated	Reclassifications and Eliminations	Total
<b>ASSETS</b>									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 40,372	\$ 568	\$ -	\$ 40,940	\$ -	\$ -	\$ -	\$ -	\$ 40,940
Short-term investments	55,860	13,714	-	69,574	-	-	-	-	69,574
Current portion of assets limited as to use	6,200	-	-	6,200	-	-	-	-	6,200
Patient receivables—net of allowances for uncollectible accounts of \$14,020	191,841	-	-	191,841	-	-	-	-	191,841
Other receivables	17,731	303	-	18,034	251	879	-	-	19,164
Estimated amounts due from third-party payors	40,181	-	-	40,181	-	-	-	-	40,181
Affiliate accounts receivable	950	50	(597)	403	2	1,433	-	(1,838)	-
Inventories	19,438	-	-	19,438	-	-	-	-	19,438
Prepaid expenses and other	9,824	8	-	9,832	-	-	-	-	9,832
Total current assets	<u>382,397</u>	<u>14,643</u>	<u>(597)</u>	<u>396,443</u>	<u>253</u>	<u>2,312</u>	<u>-</u>	<u>(1,838)</u>	<u>397,170</u>
ASSETS LIMITED AS TO USE	<u>182,580</u>	<u>223,281</u>	<u>(47,735)</u>	<u>358,126</u>	<u>109</u>	<u>3,734</u>	<u>-</u>	<u>(3,734)</u>	<u>358,235</u>
OTHER INVESTMENTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
PROPERTY, EQUIPMENT, AND INFORMATION SYSTEMS—Net	<u>403,099</u>	<u>7,571</u>	<u>-</u>	<u>410,670</u>	<u>-</u>	<u>654</u>	<u>-</u>	<u>-</u>	<u>411,324</u>
OTHER ASSETS:									
Other assets	4,877	496	-	5,373	2,667	-	-	-	8,040
Investments in subsidiaries:									
CAMC	-	-	-	-	397,369	-	-	(397,369)	-
Foundation	-	-	-	-	193,753	-	-	(193,753)	-
Institute	-	-	-	-	3,728	-	-	(3,728)	-
Integrated	-	-	-	-	-	-	-	-	-
Total other assets	<u>4,877</u>	<u>496</u>	<u>-</u>	<u>5,373</u>	<u>597,517</u>	<u>-</u>	<u>-</u>	<u>(594,850)</u>	<u>8,040</u>
TOTAL	<u>\$972,953</u>	<u>\$245,991</u>	<u>\$(48,332)</u>	<u>\$1,170,612</u>	<u>\$597,879</u>	<u>\$6,700</u>	<u>\$-</u>	<u>\$(600,422)</u>	<u>\$1,174,769</u>

(Continued)

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATING BALANCE SHEET SCHEDULE AS OF DECEMBER 31, 2017 (In thousands)

	CAMC	Foundation	Reclassifications and Eliminations	Combined Obligated Group	CAMC Health System	Institute	Integrated	Reclassifications and Eliminations	Total
<b>LIABILITIES AND NET ASSETS</b>									
CURRENT LIABILITIES:									
Accounts payable and accrued expenses	\$ 84,945	\$ 18	\$ -	\$ 84,963	\$ -	\$ 1,702	\$ -	\$ -	\$ 86,665
Self-insurance reserves	6,200	-	-	6,200	-	-	-	-	6,200
Derivative obligation	25,511	-	-	25,511	-	-	-	-	25,511
Accrued payroll and payroll-related expenses	51,628	51	-	51,679	-	867	-	-	52,546
Estimated amounts due to third-party payors	11,863	-	-	11,863	-	-	-	-	11,863
Affiliate payables	1,338	692	(597)	1,433	2	403	-	(1,838)	-
Current maturities of long-term debt and capital lease obligations	<u>14,266</u>	<u>-</u>	<u>-</u>	<u>14,266</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,266</u>
Total current liabilities	<u>195,751</u>	<u>761</u>	<u>(597)</u>	<u>195,915</u>	<u>2</u>	<u>2,972</u>	<u>-</u>	<u>(1,838)</u>	<u>197,051</u>
LONG-TERM LIABILITIES:									
Long-term debt and lease obligations—less current maturities	353,316	-	-	353,316	-	-	-	-	353,316
Retirement obligations	9,861	-	-	9,861	-	-	-	-	9,861
Self-insurance reserves	24,647	-	-	24,647	-	-	-	-	24,647
Affiliate long-term payables	-	-	-	-	17,169	-	-	(17,169)	-
Other	<u>9,179</u>	<u>8</u>	<u>-</u>	<u>9,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,187</u>
Total long-term liabilities	<u>397,003</u>	<u>8</u>	<u>-</u>	<u>397,011</u>	<u>17,169</u>	<u>-</u>	<u>-</u>	<u>(17,169)</u>	<u>397,011</u>
Total liabilities	<u>592,754</u>	<u>769</u>	<u>(597)</u>	<u>592,926</u>	<u>17,171</u>	<u>2,972</u>	<u>-</u>	<u>(19,007)</u>	<u>594,062</u>
COMMITMENTS AND CONTINGENCIES (Note 12)									
NET ASSETS:									
Unrestricted	349,115	171,503	-	520,618	509,172	(920)	-	(519,891)	508,979
Noncontrolling interest in joint ventures	<u>518</u>	<u>-</u>	<u>-</u>	<u>518</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>518</u>
Unrestricted—total	349,633	171,503	-	521,136	509,172	(920)	-	(519,891)	509,497
Receivable from affiliate	(17,169)	-	-	(17,169)	-	-	-	17,169	-
Temporarily restricted	34,505	49,454	(34,505)	49,454	47,308	3,095	-	(52,875)	46,982
Permanently restricted	<u>13,230</u>	<u>24,265</u>	<u>(13,230)</u>	<u>24,265</u>	<u>24,228</u>	<u>1,553</u>	<u>-</u>	<u>(25,818)</u>	<u>24,228</u>
Total net assets	<u>380,199</u>	<u>245,222</u>	<u>(47,735)</u>	<u>577,686</u>	<u>580,708</u>	<u>3,728</u>	<u>-</u>	<u>(581,415)</u>	<u>580,707</u>
<b>TOTAL</b>	<u>\$ 972,953</u>	<u>\$ 245,991</u>	<u>\$ (48,332)</u>	<u>\$ 1,170,612</u>	<u>\$ 597,879</u>	<u>\$ 6,700</u>	<u>\$ -</u>	<u>\$ (600,422)</u>	<u>\$ 1,174,769</u>

See notes to other additional financial information.

(Concluded)

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATING BALANCE SHEET SCHEDULE AS OF DECEMBER 31, 2016

(In thousands)

	CAMC	Foundation	Reclassifications and Eliminations	Combined Obligated Group	CAMC Health System	Institute	Integrated	Reclassifications and Eliminations	Total
<b>ASSETS</b>									
<b>CURRENT ASSETS:</b>									
Cash and cash equivalents	\$ 35,911	\$ 306	\$ -	\$ 36,217	\$ -	\$ -	\$ -	\$ -	\$ 36,217
Short-term investments	70,534	4,803	-	75,337	-	-	-	-	75,337
Current portion of assets limited as to use	6,200	-	-	6,200	-	-	-	-	6,200
Patient receivables—net of allowances for uncollectible accounts of \$17,507	212,485	-	-	212,485	-	-	570	-	213,055
Other receivables	4,974	474	-	5,448	241	867	421	-	6,977
Estimated amounts due from third-party payors	11,402	-	-	11,402	-	-	-	-	11,402
Affiliate accounts receivable	3,148	49	(1,836)	1,361	-	1,495	195	(3,051)	-
Inventories	24,057	-	-	24,057	-	-	-	-	24,057
Prepaid expenses and other	7,194	9	-	7,203	-	22	71	-	7,296
Total current assets	<u>375,905</u>	<u>5,641</u>	<u>(1,836)</u>	<u>379,710</u>	<u>241</u>	<u>2,384</u>	<u>1,257</u>	<u>(3,051)</u>	<u>380,541</u>
ASSETS LIMITED AS TO USE	<u>167,266</u>	<u>203,223</u>	<u>(41,042)</u>	<u>329,447</u>	<u>109</u>	<u>3,899</u>	<u>250</u>	<u>(3,899)</u>	<u>329,806</u>
OTHER INVESTMENTS	<u>12,534</u>	<u>-</u>	<u>-</u>	<u>12,534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,534</u>
PROPERTY, EQUIPMENT, AND INFORMATION SYSTEMS—Net	<u>413,114</u>	<u>7,639</u>	<u>-</u>	<u>420,753</u>	<u>-</u>	<u>543</u>	<u>-</u>	<u>-</u>	<u>421,296</u>
<b>OTHER ASSETS:</b>									
Other assets	5,274	302	-	5,576	2,919	-	-	-	8,495
Investments in subsidiaries:									
CAMC	-	-	-	-	392,926	-	-	(392,926)	-
Foundation	-	-	-	-	169,758	-	-	(169,758)	-
Institute	-	-	-	-	3,772	-	-	(3,772)	-
Integrated	-	-	-	-	(68)	-	-	68	-
Total other assets	<u>5,274</u>	<u>302</u>	<u>-</u>	<u>5,576</u>	<u>569,307</u>	<u>-</u>	<u>-</u>	<u>(566,388)</u>	<u>8,495</u>
<b>TOTAL</b>	<u>\$974,093</u>	<u>\$216,805</u>	<u>\$(42,878)</u>	<u>\$1,148,020</u>	<u>\$569,657</u>	<u>\$6,826</u>	<u>\$1,507</u>	<u>\$(573,338)</u>	<u>\$1,152,672</u>

(Continued)

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATING BALANCE SHEET SCHEDULE

AS OF DECEMBER 31, 2016

(In thousands)

	CAMC	Foundation	Reclassifications and Eliminations	Combined Obligated Group	CAMC Health System	Institute	Integrated	Reclassifications and Eliminations	Total
<b>LIABILITIES AND NET ASSETS</b>									
CURRENT LIABILITIES:									
Accounts payable and accrued expenses	\$ 76,331	\$ 233	\$ -	\$ 76,564	\$ 1	\$ 1,751	\$ 599	\$ -	\$ 78,915
Self-insurance reserves	6,200	-	-	6,200	-	-	-	-	6,200
Derivative obligation	25,234	-	-	25,234	-	-	-	-	25,234
Accrued payroll and payroll-related expenses	61,693	75	-	61,768	-	918	-	-	62,686
Estimated amounts due to third-party payors	10,276	-	-	10,276	-	-	-	-	10,276
Affiliate payables	1,739	1,787	(1,836)	1,690	-	385	976	(3,051)	-
Current maturities of long-term debt and capital lease obligations	<u>13,769</u>	<u>-</u>	<u>-</u>	<u>13,769</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,769</u>
Total current liabilities	<u>195,242</u>	<u>2,095</u>	<u>(1,836)</u>	<u>195,501</u>	<u>1</u>	<u>3,054</u>	<u>1,575</u>	<u>(3,051)</u>	<u>197,080</u>
LONG-TERM LIABILITIES:									
Long-term debt and lease obligations—less current maturities	366,889	-	-	366,889	-	-	-	-	366,889
Retirement obligations	10,331	-	-	10,331	-	-	-	-	10,331
Self-insurance reserves	17,500	-	-	17,500	-	-	-	-	17,500
Affiliate long-term payables	-	-	-	-	18,068	-	-	(18,068)	-
Other	<u>9,273</u>	<u>11</u>	<u>-</u>	<u>9,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,284</u>
Total long-term liabilities	<u>403,993</u>	<u>11</u>	<u>-</u>	<u>404,004</u>	<u>18,068</u>	<u>-</u>	<u>-</u>	<u>(18,068)</u>	<u>404,004</u>
Total liabilities	<u>599,235</u>	<u>2,106</u>	<u>(1,836)</u>	<u>599,505</u>	<u>18,069</u>	<u>3,054</u>	<u>1,575</u>	<u>(21,119)</u>	<u>601,084</u>
NET ASSETS:									
Unrestricted	351,390	150,153	-	501,543	489,536	(730)	(68)	(500,912)	489,369
Noncontrolling interest in joint ventures	<u>494</u>	<u>-</u>	<u>-</u>	<u>494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>494</u>
COMMITMENTS AND CONTINGENCIES (Note 12)									
Unrestricted—total	351,884	150,153	-	502,037	489,536	(730)	(68)	(500,912)	489,863
Receivable from affiliate	(18,068)	-	-	(18,068)	-	-	-	18,068	-
Temporarily restricted	28,638	40,854	(28,638)	40,854	38,397	2,640	-	(43,820)	38,071
Permanently restricted	<u>12,404</u>	<u>23,692</u>	<u>(12,404)</u>	<u>23,692</u>	<u>23,655</u>	<u>1,862</u>	<u>-</u>	<u>(25,555)</u>	<u>23,654</u>
Total net assets	<u>374,858</u>	<u>214,699</u>	<u>(41,042)</u>	<u>548,515</u>	<u>551,588</u>	<u>3,772</u>	<u>(68)</u>	<u>(552,219)</u>	<u>551,588</u>
TOTAL	<u>\$ 974,093</u>	<u>\$ 216,805</u>	<u>\$(42,878)</u>	<u>\$ 1,148,020</u>	<u>\$ 569,657</u>	<u>\$ 6,826</u>	<u>\$ 1,507</u>	<u>\$(573,338)</u>	<u>\$ 1,152,672</u>

See notes to other additional financial information.

(Concluded)

## CMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATING STATEMENT OF OPERATIONS SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 2017

(In thousands)

	CAMC	Foundation	Reclassifications and Eliminations	Combined Obligated Group	CAMC Health System	Institute	Integrated	Reclassifications and Eliminations	Total
UNRESTRICTED REVENUE AND OTHER SUPPORT:									
Patient service revenue (net of contractual allowance and discounts)	\$ 1,034,982	\$ -	\$ -	\$ 1,034,982	\$ -	\$ -	\$ 2,032	\$ -	\$ 1,037,014
Provisions for bad debts	(24,053)	-	-	(24,053)	-	-	358	-	(23,695)
Net patient service revenues—less provision for bad debts	1,010,929	-	-	1,010,929	-	-	2,390	-	1,013,319
Other revenue	63,688	615	(4,832)	59,471	-	5,755	3,288	(2,810)	65,704
Support from CAMC	-	-	-	-	100	6,497	(264)	(6,333)	-
Investment income—net	21,491	23,997	-	45,488	137	-	-	-	45,625
Increase in net assets of subsidiaries	-	-	-	-	18,978	-	-	(18,978)	-
Net assets released from restrictions	-	1,604	-	1,604	-	1,652	-	-	3,256
Total unrestricted revenue and other support	<u>1,096,108</u>	<u>26,216</u>	<u>(4,832)</u>	<u>1,117,492</u>	<u>19,215</u>	<u>13,904</u>	<u>5,414</u>	<u>(28,121)</u>	<u>1,127,904</u>
EXPENSES:									
Salaries and wages	424,119	501	-	424,620	-	7,323	4,376	12	436,331
Employee benefits	122,667	193	-	122,860	-	1,734	418	239	125,251
Professional compensation and fees	23,401	-	-	23,401	-	171	639	-	24,211
Supplies and other	438,916	4,104	(5,494)	437,526	237	4,676	2,309	(9,438)	435,310
Depreciation and amortization	43,754	68	-	43,822	-	190	-	-	44,012
Medicaid provider tax	30,135	-	-	30,135	-	-	-	-	30,135
Interest and debt expense	15,885	-	-	15,885	-	-	-	-	15,885
Change in fair value of derivatives	(488)	-	-	(488)	-	-	-	-	(488)
Total expenses	<u>1,098,389</u>	<u>4,866</u>	<u>(5,494)</u>	<u>1,097,761</u>	<u>237</u>	<u>14,094</u>	<u>7,742</u>	<u>(9,187)</u>	<u>1,110,647</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(2,281)	21,350	662	19,731	18,978	(190)	(2,328)	(18,934)	17,257
EXCESS OF REVENUES OVER EXPENSES—Noncontrolling interest	157	-	-	157	-	-	-	-	157
TOTAL (DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	<u>\$ (2,124)</u>	<u>\$ 21,350</u>	<u>\$ 662</u>	<u>\$ 19,888</u>	<u>\$ 18,978</u>	<u>\$ (190)</u>	<u>\$ (2,328)</u>	<u>\$ (18,934)</u>	<u>\$ 17,414</u>

See notes to other additional financial information.

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATING STATEMENT OF OPERATIONS SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 2016

(In thousands)

	CAMC	Foundation	Reclassifications and Eliminations	Combined Obligated Group	CAMC Health System	Institute	Integrated	Reclassifications and Eliminations	Total
UNRESTRICTED REVENUE AND OTHER SUPPORT:									
Patient service revenue (net of contractual allowance and discounts)	\$ 988,824	\$ -	\$ -	\$ 988,824	\$ -	\$ -	\$ 3,399	\$ (29)	\$ 992,194
Provisions for bad debts	(30,596)	-	-	(30,596)	-	-	(51)	-	(30,647)
Net patient service revenues—less provision for bad debts	958,228	-	-	958,228	-	-	3,348	(29)	961,547
Other revenue	50,162	637	(4,524)	46,275	-	4,884	2,804	(4,320)	49,643
Support from CAMC	-	-	-	-	151	6,120	3,623	(9,894)	-
Investment income—net	16,023	12,360	-	28,383	148	-	1	-	28,532
Increase in net assets of subsidiaries	-	-	-	-	(783)	-	-	783	-
Net assets released from restrictions	-	1,022	-	1,022	-	830	-	-	1,852
Total unrestricted revenue and other support	<u>1,024,413</u>	<u>14,019</u>	<u>(4,524)</u>	<u>1,033,908</u>	<u>(484)</u>	<u>11,834</u>	<u>9,776</u>	<u>(13,460)</u>	<u>1,041,574</u>
EXPENSES:									
Salaries and wages	396,763	494	6	397,263	-	6,742	6,046	-	410,051
Employee benefits	103,791	192	-	103,983	-	1,351	710	141	106,185
Professional compensation and fees	20,570	-	-	20,570	-	195	844	(2)	21,607
Supplies and other	430,643	4,241	(6,038)	428,846	299	3,552	4,604	(14,453)	422,848
Depreciation and amortization	39,645	39	-	39,684	-	212	35	-	39,931
Medicaid provider tax	25,821	-	-	25,821	-	-	-	-	25,821
Interest and debt expense	15,158	-	-	15,158	-	-	-	-	15,158
Change in fair value of derivatives	41	-	-	41	-	-	-	-	41
Total expenses	<u>1,032,432</u>	<u>4,966</u>	<u>(6,032)</u>	<u>1,031,366</u>	<u>299</u>	<u>12,052</u>	<u>12,239</u>	<u>(14,314)</u>	<u>1,041,642</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(8,019)	9,053	1,508	2,542	(783)	(218)	(2,463)	854	(68)
EXCESS OF REVENUES OVER EXPENSES—Noncontrolling interest	73	-	-	73	-	-	-	-	73
TOTAL (DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	<u>\$ (7,946)</u>	<u>\$ 9,053</u>	<u>\$ 1,508</u>	<u>\$ 2,615</u>	<u>\$ (783)</u>	<u>\$ (218)</u>	<u>\$ (2,463)</u>	<u>\$ 854</u>	<u>\$ 5</u>

See notes to other additional financial information.

## **CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

### **NOTES TO OTHER ADDITIONAL FINANCIAL INFORMATION AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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1. The other additional financial information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This other additional financial information is the responsibility of the System's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Accounting policies applicable to the consolidated financial statements are consistent with those used to prepare the other additional financial information.
2. CAMC Health System records as an investment in subsidiary its direct share of the net assets of CAMC, Foundation, Institute, and Integrated. Certain Foundation assets are held by the Foundation on behalf of CAMC and the Institute. CAMC and the Institute record their direct share of such assets as interest in the Foundation's net assets in the other additional financial information. CAMC Health System records the remaining Foundation net assets as an investment in subsidiary to reflect its direct share of the residual assets of the Foundation.
3. CAMC and the Foundation are members of the Obligated Group in accordance with the provisions of the 1993 restated master trust indenture and are jointly and severally liable for the performance of all covenants and obligations contained in the 1993 restated master trust indenture and in the related notes and guarantees. The 2013 taxable notes, 2008 Series A bonds, 2008 CAMC Teays bonds, 2009 Series A bonds, 2014 Series A bonds, and various notes, lines, and letters of credit are obligations under the 1993 restated master trust indenture. The Foundation's restricted net assets are not available to satisfy obligations of the Obligated Group.
4. Support from CAMC, other revenue, salaries and wages, professional compensation, and supplies include transactions between each of the consolidated entities for affiliate services and support provided, including administrative and physician support. Such amounts are recorded at the estimated cost of the entity providing such support (for example, for shared services) or the amount charged by the providing entity pursuant to contracts between the entities (for example, for certain physician support between CAMC and Integrated). Such amounts are eliminated on consolidation.