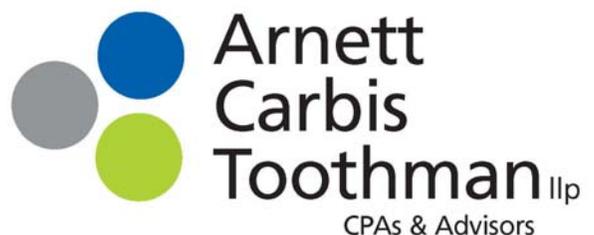




***Consolidated Financial Statements and
Supplemental Information
December 31, 2017***



CONTENTS

INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS:	
Consolidated balance sheets	3
Consolidated statements of operations	4
Consolidated statements of changes in net assets	5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7 – 43
SUPPLEMENTARY INFORMATION:	
Consolidated schedule – balance sheet information – 2017	44 - 45
Consolidating schedule – operating information – 2017	46
Consolidated schedule – balance sheet information – 2016	47 – 48
Consolidating schedule – operating information – 2016	49



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Valley Health System and Subsidiaries
Winchester, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Valley Health System and its subsidiaries 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 financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Amett Carbis Toothman LLP

Charleston, West Virginia
March 21, 2018

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

	2017	2016
	(In Thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 80,067	\$ 110,006
Investments	390,160	326,810
Assets limited as to use	11,473	11,132
Patient accounts receivable, net of estimated uncollectibles of \$54,700 in 2017 and \$69,491 in 2016	98,632	92,953
Inventory of supplies	18,685	17,597
Other current assets	27,857	16,934
Total current assets	626,874	575,432
Assets limited as to use, net of amount required to meet current liabilities	182,270	152,428
Property and equipment, net	650,437	648,396
Other assets		
Goodwill	4,400	4,400
Other investments	24,043	35,043
Other assets	-	8
Total other assets	28,443	39,451
Total assets	\$ 1,488,024	\$ 1,415,707
LIABILITIES AND NET ASSETS		
Current liabilities		
Current installments of long-term debt	\$ 7,500	\$ 7,220
Accounts payable and accrued expenses	45,449	51,617
Accrued salaries and wages	35,264	32,167
Third-party settlements	4,832	2,736
Other current liabilities	198	664
Total current liabilities	93,243	94,404
Long-term debt, excluding current installments	391,658	399,620
Accrued pension and postretirement obligations	83,935	85,066
Other liabilities	40,518	41,542
Total liabilities	609,354	620,632
Net assets		
Unrestricted	852,358	771,727
Temporarily restricted	20,145	17,301
Permanently restricted	6,167	6,047
Total net assets	878,670	795,075
Total liabilities and net assets	\$ 1,488,024	\$ 1,415,707

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2017 and 2016

	2017	2016
	(In Thousands)	
Unrestricted revenue, gains and other support		
Patient service revenue (net of contractual allowances and discounts)	\$ 896,913	\$ 864,146
Provision for bad debts	(64,835)	(64,909)
Net patient service revenue less provision for bad debts	832,078	799,237
Other operating revenue	38,571	35,786
Investment income	4,931	7,614
Net assets released from restrictions	914	946
Total revenue, gains and other support	876,494	843,583
Expenses		
Salaries and wages	346,852	327,470
Payroll taxes and benefits	76,018	75,084
Supplies and other	339,494	320,760
Depreciation and amortization	63,867	58,904
Interest expense	13,500	12,925
Total expenses	839,731	795,143
Excess of operating revenue over operating expenses	36,763	48,440
Nonoperating revenue		
Other nonoperating revenue	-	3,657
Gain on sale of fixed assets	8,623	(132)
Excess of revenue over expenses	45,386	51,965
Other changes in net assets		
Net unrealized gain on investments	50,455	12,331
Net assets released from restrictions used for acquisition of fixed assets	-	11,513
Change in value of derivatives	2,441	528
Change in pension plan funded status	(17,651)	(4,697)
Other changes in net assets	-	(13)
Increase in unrestricted net assets	\$ 80,631	\$ 71,627

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	<u>(In Thousands)</u>	
Unrestricted net assets		
Excess of revenue over expenses	\$ 45,386	\$ 51,965
Net unrealized gain on investments	50,455	12,331
Net assets released from restrictions used for acquisition of fixed assets	-	11,513
Change in value of derivatives	2,441	528
Change in pension plan funded status	(17,651)	(4,697)
Other changes in net assets	-	(13)
Increase in unrestricted net assets	<u>80,631</u>	<u>71,627</u>
Temporarily restricted net assets		
Contributions	1,193	5,422
Net assets released from restrictions	(921)	(12,459)
Net realized and unrealized gain on investments	2,572	960
Increase (decrease) in temporarily restricted net assets	<u>2,844</u>	<u>(6,077)</u>
Permanently restricted net assets		
Transfers and adjustments	35	-
Net realized and unrealized gain (loss) on investments	85	(2)
Increase (decrease) in permanently restricted net assets	<u>120</u>	<u>(2)</u>
Increase in net assets	<u>83,595</u>	<u>65,548</u>
Net assets, beginning of year	<u>795,075</u>	<u>729,527</u>
Net assets, end of year	<u>\$ 878,670</u>	<u>\$ 795,075</u>

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	<u>(In Thousands)</u>	
Cash flows from operating activities		
Change in net assets	\$ 83,595	\$ 65,548
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Accretion of bond premium	(563)	(563)
Amortization of deferred financing costs	104	104
Depreciation and amortization	63,867	58,904
Net realized and unrealized (gains) on investments	(52,121)	(19,529)
Unrealized (gains) on derivatives	(2,441)	(528)
Provision for uncollectible accounts	64,835	64,909
(Gain) loss on sale of property and equipment	(8,623)	132
(Increase) decrease in:		
Patient accounts receivable, net	(70,514)	(71,637)
Inventory of supplies	(1,088)	(1,420)
Other current assets	(11,212)	(5,305)
Other assets	11,008	(10,581)
Increase (decrease) in:		
Accounts payable and accrued expenses	(6,168)	9,297
Accrued salaries and wages	3,097	2,309
Accrued pension and postretirement benefits	(1,131)	(3,983)
Third-party settlements	2,096	(3,666)
Other current liabilities	(466)	463
Other liabilities	1,417	(1,578)
Net cash provided by operating activities	<u>75,692</u>	<u>82,876</u>
Cash flows from investing activities		
Purchase of property and equipment	(69,509)	(67,705)
Proceeds from sale of property and equipment	12,513	-
Proceeds from sale of investments	55,006	114,024
Purchases of investments	(96,418)	(126,430)
Net cash used in investing activities	<u>(98,408)</u>	<u>(80,111)</u>
Cash flows from financing activities		
Principal payments on long-term debt	(7,223)	(7,243)
Proceeds from the issuance of long-term debt	-	7,909
Net cash provided by (used in) financing activities	<u>(7,223)</u>	<u>666</u>
Net increase (decrease) in cash and cash equivalents	<u>(29,939)</u>	<u>3,431</u>
Cash and cash equivalents, beginning of year	<u>110,006</u>	<u>106,575</u>
Cash and cash equivalents, end of year	<u>\$ 80,067</u>	<u>\$ 110,006</u>
Supplemental disclosure of cash flow information		
Cash paid for interest, net of \$0 thousand and \$30 thousand capitalized in 2017 and 2016, respectively	<u>\$ 11,627</u>	<u>\$ 10,369</u>

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization: Valley Health System (VHS) was incorporated on November 4, 1983 as a not-for-profit holding company organized exclusively for charitable, benevolent, educational and scientific purposes to support and encourage health care and related services through providing financial, management and other assistance to its affiliates and other organizations. Subsidiaries of VHS, all of which are wholly owned, are as follows:

- Winchester Medical Center, Inc. (the Medical Center) — a 455 bed not-for-profit acute care hospital located in Winchester, Virginia.
- Winchester Medical Center Foundation (the Winchester Foundation) — an independent, not-for-profit non-stock corporation. The purpose of the Winchester Foundation is to fund educational, scientific, and charitable endeavors. The Medical Center is the sole corporate member of the Winchester Foundation. The accounts and activity of the Winchester Foundation are consolidated with those of the Medical Center.
- Warren Memorial Hospital, Inc. (Warren) — a not-for-profit corporation that owns and operates a 60 bed general short-term acute care hospital including a 120 bed long-term care facility located in Front Royal, Virginia.
- Warren Memorial Hospital Foundation (the Warren Foundation) — an independent, not-for-profit non-stock corporation. The purpose of the Warren Foundation is to fund educational, scientific, and charitable endeavors. Warren is the sole corporate member of the Warren Foundation. The accounts and activity of the Warren Foundation are consolidated with those of Warren.
- Shenandoah Memorial Hospital, Inc. (Shenandoah) — a not-for-profit corporation that owns and operates a 25 bed critical access hospital in Woodstock, Virginia.
- Shenandoah Memorial Hospital Foundation (the Shenandoah Foundation) — an independent, not-for-profit non-stock corporation. The purpose of the Shenandoah Foundation is to fund educational, scientific, and charitable endeavors. Shenandoah is the sole corporate member of the Shenandoah Foundation. The accounts and activity of the Shenandoah Foundation are consolidated with those of Shenandoah.
- Valley Regional Enterprises, Inc. (Valley Regional) — a for-profit organization which manages a home health care agency, operates an ambulance service, an urgent care center, a retail pharmacy and billing services for non-affiliated ambulance providers.
- East Mountain Health Advantage, Inc. (East Mountain) — a not-for-profit corporation that was organized on February 2, 2007, with VHS as its sole corporate member. East Mountain was organized for the primary purpose of owning and operating healthcare facilities in West Virginia, including Hampshire and War.
- Hampshire Memorial Hospital, Inc. (Hampshire) — a not-for-profit corporation that owns and operates a 14-bed critical access hospital including a 30-bed skilled nursing facility in Romney, West Virginia.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Hampshire Wellness Center, Inc. – On January 19, 2008, East Mountain Health Advantage entered into a long-term lease agreement to lease and operate a 60,000 square foot wellness center. The lease agreement with the Hampshire County Development Authority is for a period of 20 years.

In 2008, Hampshire Wellness Center, Inc., a not-for-profit corporation, was established to operate the wellness center and assume responsibility for the lease. East Mountain Health Advantage is the sole corporate member of Hampshire Wellness Center, Inc.

- War Memorial Hospital, Inc. (War) – a not-for-profit corporation that owns and operates a 25-bed critical access hospital and a 16-bed skilled nursing facility in Berkeley Springs, West Virginia.
- Page Memorial Hospital, Inc. (Page) – a not-for-profit corporation that owns and operates a 25-bed critical access hospital in Luray, Virginia.
- Valley Partners, LLC – a not-for-profit limited liability corporation organized in 2014 for the development of an accountable care organization to address population health of the communities served by VHS.
- Valley Physician Enterprise, Inc. (VPE) – a not-for-profit corporation formed for the purpose of employing physicians and providing office management services to non-employed physicians in the communities served by VHS.
- Northern WV Home Health, LLC – a not-for-profit limited liability corporation providing home health services owned one third each by the Medical Center, Hampshire and War.

Principles of Consolidation: The consolidated financial statements include the accounts of Valley Health System and its subsidiaries (collectively referred to as VHS in the accompanying footnotes). All significant intercompany balances and transactions are eliminated in consolidation.

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

Cash and Cash Equivalents: Cash and cash equivalents are highly liquid interest-bearing bank deposits and repurchase agreements. The carrying amount of cash and cash equivalents approximates fair market value. For purposes of the statement of cash flows, VHS considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. In evaluating the collectability of accounts receivable, VHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectability. Management also reviews troubled, aged accounts to determine collection potential. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), VHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received.

VHS's allowance for doubtful accounts for self-pay patients decreased from 92 percent of self-pay accounts receivable at December 31, 2016, to 83 percent of self-pay accounts receivable at December 31, 2017. In addition, VHS's self-pay write offs were approximately \$65 million for fiscal year 2016 and 2017. VHS uninsured discount policy is 30% for patients with no third-party coverage and who did not qualify for charity care. VHS does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors.

In 2017, VHS entered into an agreement with a financing company to assist patients in setting up payment plans for self-pay balances. Payment plans are between the financing company and the patient. Once a payment plan is established with a patient, VHS transfers the outstanding self-pay balances to the financing company in exchange for upfront cash at approximately \$6.2 million. A recourse payment to the financing company could result for those accounts that were not collected. An estimated recourse reserve is made based on past history and industry experience regrading self-pay collectability. The estimated recourse reserve is included in patient accounts receivable and is approximately \$1.4 million at December 31, 2017 .

Pledges Receivable: Pledges receivable represent unconditional promises to give and are carried at the original pledge less an estimate made for doubtful or uncollectible accounts. In evaluating the collectability of pledges receivable, VHS analyzed past history and industry experience regarding outstanding pledge balances. VHS's pledges receivable was \$1.6 million and \$2.5 million at December 31, 2017 and 2016, respectively. VHS's allowance for doubtful accounts of pledges receivable was \$124 thousand and \$246 thousand at December 31, 2017 and 2016, respectively. The carrying value of the pledges receivable approximates fair value.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities. VHS does not require collateral to secure its investments.

Assets Limited as to Use: Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of VHS have been reclassified in the balance sheets at December 31, 2017 and 2016.

Inventory of Supplies: The inventory of supplies is maintained on a first-in, first-out basis and is stated at the lower of cost or market.

Property and Equipment: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Estimated useful lives of the assets are as follows:

Buildings	20 to 50 years
Fixed equipment	10 to 20 years
Major moveable equipment	5 to 10 years
Software	3 to 7 years

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs: Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method, which is not materially different than the effective interest method. Amortization expense related to the deferred financing costs was \$104 thousand and \$104 thousand for 2017 and 2016, respectively. Deferred financing fees have been netted against long-term debt in accordance with authoritative guidance.

Goodwill: VHS records as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. The FASB codification Topic 350, Accounting Standards Update No. 2011-08, *Goodwill and Other Intangible Assets*, permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. VHS elected to perform its annual analysis during the fourth quarter of each fiscal year. VHS determined based upon qualitative factors that it was more likely than not that the fair value of the operations exceeded the carrying value. Therefore, VHS did not perform the two-step goodwill impairment test.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use by VHS 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 VHS in perpetuity.

Excess of Revenues over Expenses: The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on derivatives and investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, changes in pension funding status and 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).

Net Patient Service Revenue: VHS has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care: VHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because VHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Mission Support: During 2017, VHS agreed to partner with and support a local nonprofit corporation, which mission is to provide healthcare services to West Virginia residents. VHS is not liable for any operating losses associated with the nonprofit corporation. Total mission support was \$2.6 million in 2017 and is included in supplies and other expenses in the consolidated statement of operations.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Donor – Restricted Gifts: Unconditional promises to give cash and other assets to VHS are reported at fair value at the date the 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. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted gifts and bequests in the accompanying financial statements.

Income Taxes: VHS and its subsidiaries have been recognized by the Internal Revenue Service (IRS) as not-for-profit corporations as described in Section 501(c)(3) and Section 501(a), respectively, of the Internal Revenue Code (IRC), and similar sections of state statutes, and are exempt from Federal and State income taxes, except for Valley Regional, which is a for-profit corporation subject to income taxes at the statutory Federal and State rates.

VHS is subject to routine audits by taxing jurisdictions. Management of VHS believes it is no longer subject to income tax examinations for years prior to the fiscal year ended December 31, 2014.

Derivative Instruments and Hedging Activities: VHS utilizes derivative financial instruments to reduce interest rate risk. VHS does not hold or issue derivative financial instruments for trading purposes. VHS recognizes all derivatives as either assets or liabilities and measures those instruments at fair value. The changes in the fair value of VHS derivative instruments are recorded as changes in net assets as they qualify for hedge accounting.

Subsequent Events: VHS has evaluated subsequent events through March 21, 2018, the date on which the financial statements were available to be issued.

New or Recent Accounting Standards Updates: VHS is currently evaluating the impact that adoption of these ASU's will have on its consolidated financial statements. Management has not yet determined the effect of this guidance on VHS's ongoing financial reporting.

Revenue Recognition: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, in May 2014. This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and requires certain qualitative and quantitative disclosures regarding revenue arising from contracts with customers. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for fiscal years beginning after December 15, 2017. VHS will implement the provisions of ASU 2014-09 as of January 1, 2018.

Leases: In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. This guidance is effective for fiscal years beginning after December 15, 2018. VHS is required to adopt ASU No. 2016-02 as of December 31, 2019.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial Instruments: On January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU requires certain equity securities to be reported at fair value with changes in fair value recognized within the net income, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018. VHS is required to adopt ASU No. 2016-01 as of December 31, 2019.

Not-for-Profit Entities: On August 2016, the FASB issued Accounting Standards Update No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments of this ASU change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The amendments include qualitative and quantitative requirements in the financial statement presentation and disclosures regarding net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The requirements of this ASU are effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017. VHS will implement the provisions of ASU 2014-09 as of January 1, 2018.

Statement of Cash Flow: On November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. These amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents and should be applied using a retrospective transition method to each period presented. These amendments are effective fiscal years beginning after December 15, 2018. VHS is required to adopt ASU No. 2016-18 as of December 31, 2019.

Net Periodic Pension and Postretirement Benefit Cost: In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost on the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2018. VHS is required to adopt ASU 2014-09 as of December 31, 2019.

Note 2. Net Patient Service Revenue and Charity Care Benefit

VHS has agreements with third-party payors that provide for reimbursement to VHS at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between VHS billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Medical Center, Warren, Shenandoah, Hampshire, Page and War

- **Medicare**

The Medical Center and Warren are reimbursed by Medicare under a prospective payment system (PPS). Under this methodology, inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The majority of outpatient services are paid at prospectively determined rates per medical procedure. Classification of patients under the Medicare program and the appropriateness of their admission are subjected to an independent review by a peer review organization under contract.

Shenandoah, Hampshire, Page and War are licensed as Critical Access Hospitals. Inpatient services and most outpatient services rendered to Medicare program beneficiaries at Shenandoah, Hampshire, Page and War are paid based on a cost reimbursement methodology at 101% of allowable cost. Other outpatient services are paid based on fee schedules.

- **Medicaid**

Reimbursement for inpatients is based entirely on prospectively determined rates per discharge based on primary diagnosis code. The majority of outpatient services are paid at prospectively determined rates per medical procedure. Hampshire and War are located in West Virginia and are reimbursed for inpatient and most outpatient services under a cost reimbursement methodology.

- **Anthem**

Inpatient services are reimbursed based on a prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are reimbursed by percentage of charges or fee schedule based on diagnosis and are not subject to retroactive adjustment.

- **Managed Care and Other Commercial**

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

Valley Regional

Valley Regional is reimbursed under agreements with Medicare, Medicaid, and Anthem at prospectively determined rates for each procedure or service rendered.

Concentrations

Revenue from the Medicare and Medicaid programs accounted for approximately 65 percent and 60 percent, respectively, of VHS's gross patient revenue, for the years ended December 31, 2017 and 2016. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2017 and 2016 net patient service revenue increased approximately \$2.4 million and \$4 million, respectively, due to changes in previously recorded estimates.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2017	2016
Medicare	28%	31%
Medicaid	6%	8%
Anthem	27%	27%
Commercial and other	28%	29%
Self-pay	11%	5%
	100%	100%

Charity Care

VHS provides charity care to patients who are financially unable to pay for the health care services they receive. VHS's policy is not to pursue collection of amounts determined to qualify as charity care if the patient qualifies (up to 200% of the Federal Poverty Guidelines). A sliding scale discount is applied for those patients that qualify between 200% and 300% of the Federal Poverty Guidelines. Accordingly, VHS does not report these amounts in patient accounts receivable or net patient service revenue or in the allowance for doubtful accounts. VHS maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. VHS determined the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies, and other operating expenses, based on data from its cost accounting system. The costs of caring for charity care patients for the years ended December 31, 2017 and 2016 were approximately \$22.5 million and \$18.7 million, respectively.

Net Patient Service Revenue

A summary of gross and net patient service revenue for all of VHS's payors for the years ended December 31, 2017 and 2016 follows (in thousands):

	2017	2016
Gross patient service revenue	\$ 2,058,260	\$ 1,992,859
Less provision for:		
Contractual adjustments	1,106,129	1,081,877
Provision for bad debts	64,835	64,909
Charity care (charges forgone based on established rates)	55,218	46,836
Net patient service revenue	\$ 832,078	\$ 799,237

VHS recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, VHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of VHS's uninsured patients will be unable or unwilling to pay for the services provided. Thus VHS records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the years ended December 31, 2017 and 2016 from these major payor sources, is as follows (in thousands):

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2017	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 857,439	\$ 39,474	\$ 896,913

2016	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 823,857	\$ 40,289	\$ 864,146

Note 3. Cash Concentrations

VHS maintains cash and cash equivalents on deposit with financial institutions. At times the balance in these accounts may be in excess of Federally insured limits. However, management believes these financial institutions are financially sound and these concentrations do not present a significant risk to VHS.

Note 4. Investments, Commitments and Subsequent Event

The composition of the investments classified as unrestricted current assets as of December 31 are summarized as follows (in thousands):

	2017	2016
Current unrestricted investments		
Pooled investments	\$ 382,692	\$ 319,792
Common stock	7,468	7,018
Total	\$ 390,160	\$ 326,810

Assets Limited as to Use

The composition of assets limited as to use at December 31, the majority of which are included in the pooled investments, is as follows (in thousands):

	2017	2016
By Board for capital improvements		
Pooled investments	\$ 149,223	\$ 122,180
Restricted by Donors		
Pooled investment funds - WMC	11,873	10,945
Pooled investment funds - WMH	1,651	1,482
Pooled investment funds - SMH	3,342	2,999
Total	16,866	15,426
Total pooled investments	166,089	137,606

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2017	2016
Held by trustee under indenture agreements		
Cash and cash equivalents	12,092	11,958
Total	12,092	11,958
Endowment Fund		
Beneficial interest in trusts – cash and cash equivalents	146	85
Beneficial interest in trusts – mutual funds	3,697	3,670
Total	3,843	3,755
Deferred Compensation plans		
Cash surrender value – life insurance	5,302	5,293
Cash and cash equivalents	5,466	3,933
Mutual funds	951	1,015
Total	11,719	10,241
Total assets limited as to use	193,743	163,560
Less assets limited as to use that are required for current liabilities	(11,473)	(11,132)
Noncurrent assets limited as to use	\$ 182,270	\$ 152,428

Pooled Investments: VHS has investments in pooled investment funds, investments held by a trustee under existing debt agreements, investments held by financial institutions and individual investments in entities that provide related healthcare services.

The Medical Center, Warren, Shenandoah and their respective foundations, combine their investments in an investment pool which includes cash and cash equivalents, unrestricted investments and assets limited as to use. The pooled investment funds are allocated to these categories based upon an allocation formula approved by the Board of Trustees. The investments in the pool, are stated at fair value at December 31 and are summarized as follows (in thousands):

	2017	2016
Unrestricted investments	\$ 382,692	\$ 319,792
Assets limited as to use	166,089	137,606
Total Pooled Investments	\$ 548,781	\$ 457,398

The composition of investments held in the investment pool at December 31 at fair value, is as follows (in thousands):

	2017	2016
Cash and cash equivalents	\$ 4,506	\$ 23,099
Mutual funds	57,377	48,100
Alternative investments	486,898	386,199
	\$ 548,781	\$ 457,398

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

VHS had an agreement with its external investment advisor to provide discretionary investment advisory services for its operating and pension plan investments. This allowed the advisor full investment authority and discretion to allocate and rebalance assets at such times as it deems appropriate and without prior consultation from VHS, subject to investment policies and guidelines established by VHS. Effective December 2017, VHS entered into an agreement to change its external investment advisor. Due to the transition, a significant portion of the VHS's investments were reinvested in new funds after year-end, which resulted in approximately \$53 million of previously recorded unrealized gains were realized. The new advisor will also provide discretionary investment advisory services for its operating and pension plan investments.

Other Investments

Other investments at December 31, 2017 and 2016 include (in thousands):

	2017	2016
Investments recorded on equity method	\$ 18,854	\$ 29,824
Investments recorded on cost basis	5,189	5,219
	<u>\$ 24,043</u>	<u>\$ 35,043</u>

Investments recorded on the equity method include \$9.2 million and \$19.9 million at December 31, 2017 and 2016, respectively, related to VHS's investment in Virginia Solution SPC LTD (the Captive) (Note 19). VHS is accounting for its investment in the Captive, a 69% owned affiliate as of December 31, 2017, by the equity method of accounting under which VHS's share of the net income of the Captive is recognized as income in VHS's statement of operations and added to the investment account, and dividends received, if any, from the Captive are treated as a reduction of the investment account. During 2017, VHS received \$6.9 million in dividends from the Captive and recorded a \$7.3 million receivable for dividends declared but not received. VHS's majority interest in the Captive does not give it the ability to exercise control. Condensed, unaudited, financial information of the Captive for the years ending December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
Cash and investments	\$ 61,177	\$ 61,994
Receivables and other assets	\$ 6,058	\$ 6,606
Unearned premiums	\$ (2,010)	\$ (1,932)
Claims reserve	\$ (28,912)	\$ (28,569)
Accounts payable and other accrued liabilities	\$ (21,832)	\$ (10,956)
Shareholder's (equity)	\$ (14,481)	\$ (27,143)
Net income	\$ 2,384	\$ 8,191

Premier

The Medical Center has an investment in a group purchasing organization, Premier, L.P. (Premier). In October 2013, Premier converted from a privately held organization to publicly traded company. The ownership of Premier LP is divided between Class A and Class B common units, equaling the number of shares of Class A and Class B stock respectively outstanding. The Class B common units, held by member owners in relationship to each member owner's Premier capital balance, are exchangeable over seven years on a 1-for-1 basis for shares of Class A common stock and the right to receive certain tax receivable payments. As a result of the conversion, the Medical Center received 438,792 Class B common units. In both 2017 and 2016, WMC converted one-seventh of the units to Class A common stock. The common stock has a value of \$7.3 million and \$5.7 million at December 31, 2017 and 2016, respectively. The income from the exchange was recognized as a credit within supplies and other in the accompanying statement of operations, consistent with industry practice.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment Income

Investment income and gains and losses for investments, cash equivalents and assets limited as to use are comprised of the following for the years ending December 31 (in thousands):

	2017	2016
Income		
Investment income	\$ 3,265	\$ 416
Net realized gain on sale of securities	1,666	7,198
	<u>\$ 4,931</u>	<u>\$ 7,614</u>

Other Changes in Unrestricted Net Assets

Net unrealized gains (losses) on other than trading securities	<u>\$ 50,455</u>	<u>\$ 12,331</u>
--	------------------	------------------

Interest and investment income is shown net of investment manager fees of \$854 and \$614 thousand at December 31, 2017 and 2016, respectively.

Purchase Commitment

Investment agreements with TIFF Realty and Resources II, GMO Renewable Resources, MIT Private Equity Fund, Oaktree Private Investment Fund 2010, Oaktree Private Investment Fund 2012, PIMCO Bravo, Solace Capital, Carlyle Energy Mezzanine and Property Holdings IV contain investment commitments of \$10.2 million, \$10 million, \$3.1 million, \$7 million, \$7 million, \$7 million, \$5 million, \$5 million, and \$4 million, respectively, of which approximately \$13.6 million is outstanding at December 31, 2017. Future increases in the investments will be made as requested by the manager of these funds and is based upon planned acquisitions of investment properties.

Impairment

Impairment is evaluated using numerous factors, and their relative significance varies case to case. Factors considered included length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss would be recognized in the statement of operations. At December 31, 2017 and 2016, VHS determined that no write-downs were necessary.

Note 5. Fair Value Disclosures

Fair Value Measurements

The *Fair Value Measurements and Disclosures* Topic 820 of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the FASB's authoritative guidance on fair value measurements, fair value is 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. In determining fair value, VHS uses various methods including market, income and cost approaches. Based on these approaches, VHS often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. VHS utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques VHS is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair value. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The following is a description of the valuation methodologies used for instruments measured at fair value.

Equity Securities

The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Mutual and Other Funds

Valued at the quoted net asset value (NAV) of shares held at year end.

U.S. Government Obligations

Valuation inputs utilized by the independent pricing service for those U.S. Government securities under Level 2 include benchmark yields, reporting trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data including market research publications. Also included are data from the vendor trading platform.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alternative Investments

Alternative investments are recorded under the equity method of accounting using net asset value (NAV). The NAV of alternative investments is based on valuations provided by the administrators of the specific financial instrument. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments themselves are subject to various risks, including market, credit, liquidity, and foreign exchange risk. VHS believes the NAV is a reasonable estimate of its ownership interest in the alternative investments. VHS's risk of alternative investments is limited to its carrying value. Alternative investments can be divested only at specific times in accordance with terms of the subscription agreements. The financial statements of all VHS's alternative investments are audited annually. The underlying holdings of real estate investments are periodically valued by appraisers considering current market conditions. Because these financial instruments are not readily marketable, the estimated carrying value is subject to uncertainty, and, therefore, may differ from the value that would have been used had a market for such financial instruments existed.

Derivative Instruments

Derivatives are fair valued according to their classification as over-the-counter ("OTC"). OTC derivatives consist of interest rate swaps. These derivatives are fair valued under Level 2 using third-party services. Observable market inputs include yield curves (the LIBOR swap curve and applicable basis swap curves), foreign exchange rates, commodity prices, option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or VHS as appropriate to the total expected exposure of the derivative.

Fair Value on a Recurring Basis

The tables below present the recorded amount of assets measured at fair value on a recurring basis (in thousands).

	Total at December 31, 2017	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Investments and Assets Limited as to Use				
Cash and cash equivalents	\$ 22,210	\$ 22,210	\$ -	\$ -
Common stock	7,468	7,468	-	-
Mutual and other funds				
Complementary strategies	121	121	-	-
Mutual equity funds	4,485	4,485	-	-
Balanced funds	57,376	57,376	-	-
Real estate funds	43	43	-	-
	62,025	62,025	-	-
Total assets in the fair value hierarchy	91,703	91,703	-	-
Investments measured at NAV	486,898			
Total investments at fair value	\$ 578,601	\$ 91,703	\$ -	\$ -
Investments not at fair value	5,302			
Total investments and assets limited as to use	\$ 583,903			
Liabilities:				
Derivative Financial Instruments	\$ (29,888)	\$ -	\$ (29,888)	\$ -

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ASSETS	Total at December 31, 2016	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments and Assets Limited as to Use				
Cash and cash equivalents	\$ 39,075	\$ 39,075	\$ -	\$ -
Common stock	7,018	7,018	-	-
Mutual and other funds				
Complementary strategies	223	223	-	-
Mutual equity funds	4,410	4,410	-	-
Balanced funds	48,105	48,105	-	-
Real estate funds	47	47	-	-
	52,785	52,785	-	-
Total assets in the fair value hierarchy	98,878	98,878	-	-
Investments measured at NAV	386,199	-	-	-
Total investments at fair value	\$ 485,077	\$ 98,878	\$ -	\$ -
Investments not at fair value	5,293			
Total investments and assets limited as to use	\$ 490,370			
Liabilities:				
Derivative Financial Instruments	\$ (32,329)	\$ -	\$ (32,329)	\$ -

Assets Recorded at Fair Value on a Nonrecurring Basis

VHS has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

The following methods and assumptions were used by VHS in estimating the fair value of each class of its financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: The carrying amount approximates fair value because of the short-term maturity of those instruments.

Patient accounts receivable: The carrying amount approximates fair value.

Estimated third-party payor settlement: The carrying amount approximates fair value.

Long-term debt: The fair values of bonds payable are based on quoted market prices for the same or similar issues.

Derivative financial instruments: The carrying amount of derivative financial instruments, interest rate swap agreements, are reported at fair value and recorded in other long-term liabilities.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents estimated fair values of VHS's financial instruments at December 31, 2017 and 2016 (in thousands).

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 80,067	\$ 80,067	\$ 110,006	\$ 110,006
Patient accounts receivable	\$ 98,632	\$ 98,632	\$ 92,953	\$ 92,953
Other current assets	\$ 27,857	\$ 27,857	\$ 16,934	\$ 16,934
Investments and assets limited as to use	\$ 583,903	\$ 583,903	\$ 490,828	\$ 490,828
Third party settlements	\$ (4,832)	\$ (4,832)	\$ (2,736)	\$ (2,736)
Long-term debt	\$ (386,894)	\$ (408,947)	\$ (394,115)	\$ (411,249)
Derivative financial instruments	\$ (29,888)	\$ (29,888)	\$ (32,329)	\$ (32,329)

Fair Value of Investments that Calculate Net Asset Value

The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of December 31 2017 and 2016, respectively.

December 31, 2017	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Fixed income fund (a)	\$ 89,199	\$ -	Daily	By 2:00pm of redemption date
Equity fund (b)	\$ 204,993	\$ -	Daily	By 2:00pm of redemption date
Inflation hedge fund (c)	\$ 42,694	\$ -	Daily	By 2:00pm of redemption date
Direct hedged equity fund (d)	\$ 47,809	\$ -	Quarterly	100 days
Managed hedge fund (e)	\$ 44,402	\$ -	Semiannual	90 days
Property income fund (g)	\$ 27,807	\$ -	Quarterly	60 days
Other funds (h)	\$ 29,994	\$ 13,552	n/a	n/a
Total	\$ 486,898	\$ 13,552		

December 31, 2016	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Fixed income fund (a)	\$ 65,216	\$ -	Daily	By 2:00pm of redemption date
Equity fund (b)	\$ 171,356	\$ -	Daily	By 2:00pm of redemption date
Inflation hedge fund (c)	\$ 29,377	\$ -	Daily	By 2:00pm of redemption date
Direct hedged equity fund (d)	\$ 24,570	\$ -	Quarterly	100 days
Managed hedge fund (e)	\$ 38,262	\$ -	Semiannual	90 days
Strategic hedge fund (f)	\$ 1,969	\$ -	Quarterly	65 days
Property income fund (g)	\$ 26,593	\$ -	Quarterly	60 days
Other funds (h)	\$ 28,856	\$ 19,929	n/a	n/a
Total	\$ 386,199	\$ 19,929		

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (a) Fixed income fund is a multi-manager investment vehicle designed to provide exposure to a diversified portfolio of fixed income securities. The underlying manager's primary focus is on adding value through the selection of securities and spread sectors that offer incremental yield and total return in comparison to the Fund's primary benchmark, the Barclays U.S. Aggregate Index. The fund has daily liquidity.
- (b) Equity fund is designed to provide long-term capital growth with improved risk-adjusted performance relative to the MSCI All Country World Index over rolling five year periods. The fund will maintain allocations to both domestic and non-U.S. equity managers through direct investments in separate accounts and pooled investment vehicles. The fund has daily liquidity.
- (c) Inflation hedges fund is designed to provide a partial hedge against inflation through a basket of inflation-sensitive assets. Strategic allocations to commodities, commodity-linked equities, TIPS, and infrastructure provide a diversified approach to protecting portfolios from long-term inflationary pressures. The fund has daily liquidity.
- (d) Direct hedged equity fund is a diversified, multi-strategy hedge fund-of-funds. The strategy is designed to provide long-term equity-like returns with reduced volatility and correlation to traditional markets. The strategy will allocate to all major strategy types including equity hedge, event driven, credit, relative value, and macro. The fund has quarterly liquidity with 100 days notice.
- (e) Managed hedge fund is a hedge fund of funds with a concentrated bias to long/short hedge funds, but will also make opportunistic investments when opportunities arise. The fund has semiannual liquidity with 90 days notice.
- (f) Strategic hedge fund is an absolute return oriented hedge fund of funds. It employs various strategies such as long/short equity, event driven, and relative value. The fund has quarterly liquidity with 65 days notice.
- (g) Property income fund is an open-ended commercial real estate strategy where participating mortgages constitute the majority of investments, along with wholly owned properties. The fund has quarterly liquidity with 60 days notice.
- (h) Other funds are 10 separate funds that invest in a variety of strategies. Strategies include in commercial and residential real estate, oil and natural gas exploration and production, timberland, venture, leveraged buyout, middle market, international private equity funds, distressed debt, distressed for control situations, energy related companies and bank capital. The funds have terms from 8 year to 20 years.

Note 6. Temporarily Restricted and Permanently Restricted Net Assets and Endowments

Temporarily restricted net assets are available for the following purposes at December 31 (in thousands):

	2017	2016
Healthcare services		
Indigent/charity care	\$ 1,843	\$ 1,503
Programs/equipment	14,814	12,881
Education	3,488	2,917
	<u>\$ 20,145</u>	<u>\$ 17,301</u>

Net assets released from restrictions by incurring expenses satisfying the restricted purposes of indigent care, equipment purchases and health education was \$917 thousand and \$12.5 million for 2017 and 2016, respectively.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Permanently restricted net assets at December 31, 2017 and 2016 are restricted to (in thousands):

	2017	2016
Investments to be held in perpetuity, the income from which is expendable to support indigent care, equipment purchases and health education	<u>\$ 6,167</u>	<u>\$ 6,047</u>

Topic 958-205 of the FASB Standards Codification (formerly FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations - Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds.

The endowments include 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 VHS has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, VHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, VHS considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

VHS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that VHS must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. 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. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, VHS 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). VHS 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.

Changes in endowment funds for the fiscal year ended December 31, 2017 and 2016 are immaterial and therefore not disclosed.

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 VHS to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred 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 which are reported in unrestricted net assets as of December 31, 2017 and 2016.

Note 7. Property and Equipment and Commitments

A summary of property and equipment at December 31 follows (in thousands):

	2017	2016
Land	\$ 20,590	\$ 16,860
Land improvements	44,381	45,033
Buildings and leasehold improvements	641,736	635,105
Fixed equipment	174,707	172,556
Major movable equipment	422,329	396,788
	<u>1,303,743</u>	<u>1,266,342</u>
Less accumulated depreciation and amortization	682,797	629,133
	<u>620,946</u>	<u>637,209</u>
Land held for future construction	3,552	3,552
Construction in progress	25,939	7,635
	<u>650,437</u>	<u>648,396</u>
Property and equipment, net	\$ 650,437	\$ 648,396

Non-Cash Contribution

VHS received a contribution of a building improvement during 2016 to assist in the completion of the Winchester Medical Center Cancer Center. The asset is valued at \$513 thousand, which is the fair value of the goods and services received. There are no remaining restrictions on the contributed asset. VHS did not receive non-cash contributions in the current year.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Construction in Progress

Estimated costs to complete construction projects that have been in progress are approximately \$60.8 million as of December 31, 2017.

Sale of Property

In August 2017, VHS sold a building and land located in the City of Winchester for \$12.4 million cash. The realized net gain from the sale for the year ending December 31, 2017 was \$8.8 million. The assets were considered available for sale and carried at net value of \$3.7 million at December 31, 2016. VHS has reported the related land, land improvements, and building improvements in property and equipment at December 31, 2016.

Note 8. Long-Term Debt

A summary of long-term debt as of December 31, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
2015 Series Bonds, Hospital Revenue Refunding Bonds See terms below – Medical Center, Warren, Shenandoah, and Hampshire	\$ 119,604	\$ 119,730
2014 Series Bonds, Hospital Revenue Refunding Bonds See terms below – Hampshire	18,255	18,676
2014A Series Bonds, Hospital Revenue Refunding Bonds See terms below – Medical Center	41,610	42,375
2014B Series Bonds, Hospital Revenue Bonds See terms below – Shenandoah	12,000	12,000
2013A Series Bonds, Hospital Revenue Bonds See terms below – Page	33,105	33,805
2013B Series Bonds, Hospital Revenue Bonds See terms below – Medical Center	63,575	66,900
2009 Series Bonds, Hospital Revenue Bonds See terms below – Medical Center	98,625	99,325
2007 Series Bonds, Hospital Revenue Bonds See terms below – Medical Center, Warren, and Shenandoah	-	1,184
	<u>386,774</u>	<u>393,995</u>
Add bond premium	15,017	15,582
Less deferred financing costs	(2,633)	(2,737)
Less current portion	<u>(7,500)</u>	<u>(7,220)</u>
Long-term debt	<u>\$ 391,658</u>	<u>\$ 399,620</u>

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aggregate maturities of long-term obligations are as follows:

Year Ending December 31,	Long-Term Debt
2018	\$ 7,500
2019	7,799
2020	8,091
2021	8,406
2022	8,807
Thereafter	<u>346,171</u>
	<u>\$ 386,774</u>

A detail description of the bond indebtedness follows:

2015 Series Bonds, Hospital Revenue Refunding Bonds

In July 2015, the West Virginia Hospital Finance Authority (the Authority) issued \$5.24 million Hospital Revenue Refunding Bonds, Series 2015. The bonds were issued for the purpose of refinancing a portion of the Series 2009 bonds. In accordance with the trust indenture, the Authority assigned the promissory notes and the payment thereon to the Bond Trustee. Payments of principal and interest are made directly to the Bond trustees for the account of the Authority. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986.

In July 2015, The Economic Development Authority of The City of Winchester (the Winchester Authority) issued \$114,925 million Hospital Revenue Refunding Bonds, Series 2015. The bonds were issued for the purpose of refinancing a portion of the Series 2007 bonds related to Winchester Medical Center, Shenandoah Memorial Hospital and Warren Memorial Hospital as well as well as refinancing the remaining balance of the 2009E bonds. In accordance with the trust indenture, the Winchester Authority assigned the promissory notes and the payment thereon to the Bond Trustee. Payments of principal and interest are made directly to the Bond trustees for the account of the Authority. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986.

At December 31, 2017 the rates for the 2015 bonds were 3% to 5%.

2014 Series Bonds, Hospital Revenue Refunding Bonds

In October 2014, the West Virginia Hospital Finance Authority (the West Virginia Authority) issued \$19.1 million Hospital Revenue Refunding Bonds, Series 2014. The bonds were issued for the purpose of refinancing a portion of the Series 2009 bonds. In accordance with the trust indenture, the West Virginia Authority assigned the promissory notes and the payment thereon to the Bond Trustee. Payments of principal and interest are made directly to the Bond trustees for the account of the Authority. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. At December 31, 2017, the rates for the 2014 bonds were 4% to 5%.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2014A Series Bonds, Hospital Revenue Refunding Bonds

In October 2014, the Economic Development Authority of the City of Winchester (the Winchester Authority) issued \$43.1 million Economic Development Authority of the City of Winchester Hospital Revenue Refunding Bonds, Series 2014A. The bonds were issued for the purpose of refinancing a portion of the Series 2009E bonds. In accordance with the trust indenture, the Winchester Authority assigned the promissory notes and the payment thereon to the Bond Trustee. Payments of principal and interest are made directly to the Bond trustees for the account of the Authority. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. At December 31, 2017, the rates for the 2014A bonds were 4% to 5%.

2014B Series Bonds, Hospital Revenue Bonds

In October 2014, the Economic Development Authority of the City of Winchester (the Winchester Authority) issued \$12.1 million Economic Development Authority of the City of Winchester Hospital Revenue Bonds, Series 2014B. The bonds were issued for the purpose of building a medical office building at Shenandoah Memorial Hospital, Woodstock, VA. Total proceeds were not issued at the time of closing. Distribution is based on receipt of bond requisition for the funds. In accordance with the trust indenture, the Winchester Authority assigned the promissory notes and the payment thereon to the Bond Trustee. Payments of principal and interest are made directly to the Bond trustees for the account of the Authority. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. The 2014B bonds bear interest at a variable rate, which resets to market weekly. The rates for the 2014B bonds was 1.80% at December 31, 2017.

In November 2017, a first supplemental tax certificate and agreement between the Economic Development Authority of the city of Winchester (Issuer) and Shenandoah Memorial Hospital (Borrower) reissued Series 2014B (\$12 million). This reissuance changed bank investors, reduced interest rates and extended the mandatory purchase date of the bonds (5 year or longer).

2013A Series Bonds, Hospital Revenue Bonds

In December 2013, the Economic Development Authority of the City of Winchester (the Winchester Authority) issued \$35.1 million Economic Development Authority of the City of Winchester Hospital Revenue Bonds, Series 2013A. The Series 2013A bonds were issued for the construction of a new hospital in Page County. Total proceeds were not issued at the time of closing. Distribution is based on receipt of bond requisition for the funds. In accordance with the trust indenture, the Winchester Authority assigned the promissory notes and the payment thereon to the Bond Trustee. Payments of principal and interest are made directly to the Bond holder for the account of the Authority. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. Page is now part of the Obligated Group. The 2013A bonds bear interest at a variable rate, which resets to market weekly. The rate for the Series 2013A bonds was 1.65% at December 31, 2017.

In December 2017, a first supplemental tax certificate and agreement between the Economic Development Authority of the City of Winchester (Issuer) and the Winchester Medical Center (Borrower) and Page Memorial Hospital (Borrower) reissued Series 2013A (\$35.135 million). This reissuance changed bank investors, reduced interest rates and extended the mandatory purchase date of the bonds (5 year or longer).

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2013B Series Bonds, Hospital Revenue Bonds

In December 2013, the Economic Development Authority of the City of Winchester (the Winchester Authority) issued \$70.1 million Economic Development Authority of the City of Winchester Hospital Revenue Bonds, Series 2013B. The bonds were issued for the purpose of refinancing the Series 2000 bonds. In accordance with the trust indenture, the Winchester Authority assigned the promissory notes and the payment thereon to the Bond Trustee. Payments of principal and interest are made directly to the Bond trustees for the account of the Authority. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. The 2013B bonds bear interest at a variable rate, which resets to market weekly. The rate for the Series 2013B bonds was 1.66% at December 31, 2017.

In December 2017, a first supplemental tax certificate and agreement between the Economic Development Authority of the City of Winchester (Issuer) and the Winchester Medical Center (Borrower) and Page Memorial Hospital (Borrower) reissued Series 2013A Series 2013B (\$70.53 million). This reissuance changed bank investors, reduced interest rates and extended the mandatory purchase date of the bonds (5 year or longer).

2009 Series Bonds, Hospital Revenue Bonds

In November and December 2009, the Industrial Development Authority of the City of Winchester (the Winchester Authority) issued \$175 million Industrial Development Authority of the City of Winchester Hospital Revenue Bonds, Series 2009. In December 2009, the West Virginia Hospital Finance Authority (the West Virginia Authority) issued \$25 million Hospital Revenue Bonds, Series 2009. The Series 2009 Bonds were used for the purposes of financing certain capital needs of the Winchester Medical Center, Shenandoah Memorial Hospital, Warren Memorial Hospital, and for construction of a new facility at Hampshire Memorial Hospital, (collectively the Obligated Group), and to reimburse the Obligated Group for certain past capital expenditures. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. Each member of the Obligated Group has recorded their respective portion of the obligation. The bonds are secured by a pledge of payment pursuant to Loan Agreements between the Obligated Group, the Winchester Authority and the West Virginia Authority, respectively. In accordance with the respective trust indentures, the Winchester Authority and the West Virginia Authority assigned the promissory notes and the payment thereon to the Bond Trustees. Payments of principal and interest are made directly to the Bond trustees for the account of the Authorities. The 2009 bonds bear interest at rates of 1.40% to 2.08%.

In December 2017, a fourth supplemental tax certificate and agreement between the Economic Development Authority of The City of Winchester (Issuer) and the Winchester Medical Center (Borrower) reissued Series 2009A (\$25 million), Series 2009B (\$25 million), Series 2009C (\$25 million) and Series 2009D (\$25 million). These reissuances changed bank investors, reduced interest rates and extended the mandatory purchase date of the bonds (5 year or longer).

2007 Series Bonds, Hospital Revenue Bonds – redeemed July 2017

On January 30, 2007, the Industrial Development Authority of the City of Winchester (the Winchester Authority) issued \$88.3 million Industrial Development Authority of the City of Winchester Hospital Revenue Bonds, Series 2007. The Series 2007 bonds were issued for the purpose of financing and refinancing certain capital needs of the Medical Center, Warren and Shenandoah (the Obligated Group). The bonds were limited obligations of the Winchester Authority and were payable solely from the Obligated Group. The bonds were secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. A portion of the proceeds were used to refinance Warren's Series 2003 bonds and Shenandoah's Series 2003 bonds. Each member of the Obligated Group had recorded their respective portion of the obligation.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt Covenants

The trust indentures include various restrictive covenants, one of which requires the Medical Center to maintain a debt service coverage ratio of 1.1 to 1.0 (defined in the indentures as the ratio of income available for debt service to annual debt service commitments). The Series 2009 Bonds include additional covenants, including a debt services coverage ratio of 1.25 to 1, a debt to capitalization ratio of not greater than .65, and requires the day's cash on hand to be not less than 100 days. Upon the occurrence of events of noncompliance with such covenants, the principal of the bonds could be declared due and payable immediately by the Bond Trustees. As of and for the year ended, December 31, 2017 and 2016, Valley Health System was in compliance with such covenants.

Note 9. Other Current Assets

Other current assets consist of the following at December 31, 2017 and 2016 (in thousands):

	2017	2016
Prepaid service contracts	\$ 8,747	\$ 7,569
Security deposits	545	545
Prepaid insurance	299	716
Rent receivable	37	33
Other non-patient receivables	7,989	5,785
Deferred tax asset	319	316
Captive dividend receivable	7,331	-
Other	2,590	1,970
Total other current assets	\$ 27,857	\$ 16,934

Note 10. Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following at December 31, 2017 and 2016 (in thousands):

	2017	2016
Interest rate swap agreements	\$ 29,888	\$ 32,329
Deferred compensation – attending faculty plan (Note 18)	8,969	7,259
Deferred tax liability	608	754
Other	1,053	1,200
Total other noncurrent liabilities	\$ 40,518	\$ 41,542

Note 11. Interest Rate Risk Management and Contingency

Medical Center, Shenandoah, Warren and East Mountain Health Advantage (the Hospitals)

The Hospitals have interest rate related derivative instruments to manage interest rate exposure on their debt instruments. The Hospitals do not enter into derivative instruments for any purpose other than interest rate management purposes. That is, the Hospitals do not speculate using derivative instruments.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

By using derivative financial instruments to hedge exposures to changes in interest rates, the Hospitals expose themselves to credit risk and market risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the Hospitals, which creates credit risk for the Hospitals. When the fair value of a derivative contract is negative, the Hospitals owe the counter-party and, therefore, it does not possess credit risk. The Hospitals minimize the credit risk in derivative instruments by entering into transactions with high-quality counter-parties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Hospitals use variable-rate debt to finance their operational and capital needs. The debt obligations expose the Hospitals to variability in interest payments due to changes in interest rates. Conversely, fixed-rate debt obligations can be more expensive to the Hospitals in times of declining interest rates. Management believes it is prudent to monitor and manage its cost of capital on a regular basis. To meet this objective, management from time to time may enter into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

The Hospitals have entered into interest rate swap agreements in the notional amount of approximately \$191.8 million related to the Series 2009, 2014 and 2015 bonds. The purpose of the swaps was to convert the variable-rate cash flow exposure on the debt obligations to fixed rate cash flows. Under the terms of the interest rate swaps, the Hospitals receive a variable interest rate payment based on the Bond Rate, or if certain triggering events occur, an alternative floating rate in exchange for making fixed interest rate payments to the swap counter-party, thereby creating the equivalent of fixed-rate debt.

In November 2006, the Medical Center entered into an interest rate swap agreement in the notional amount of \$91.8 million related to the Series 2014 and 2015 bonds. Current notional amounts as of December 31, 2017 and 2016 were \$79.7 million and \$81.6 million, respectively. Under the terms of the interest rate swap, the Medical Center receives a floating interest rate payment monthly based on the BMA Municipal Bond Index, or if this index is no longer published, Merrill Lynch will set the rate based on prevailing rates, or if certain triggering events occur, an alternative floating rate of 67% of 3 month LIBOR plus .33%. As of December 31, 2017 and 2016, a \$1.3 million unrealized gain and \$1.4 million unrealized loss was recorded, respectively. In 2017 and 2016, the Medical Center received \$260 thousand and \$339 thousand, respectively, for this swap.

On February 7, 2008, the Medical Center entered into an interest rate swap agreement in the notional amount of \$100 million related to the financing arrangements incurred in 2009. Current notional amounts as of December 31, 2017 and 2016 were \$98.6 million and \$99.3 million, respectively. Under the terms of the interest rate swap, the Medical Center will receive a floating interest rate payment based on 67% of 1 month LIBOR. The purpose of this swap was to lock into current bond rates for the 2009 Bonds (Note 9). As of December 31, 2017 and 2016, unrealized gains of \$1.1 million and \$1.9 million, respectively, were recorded. For 2017 and 2016, the Medical Center paid \$2.7 million and \$3.1 million, respectively, for this swap.

Fair Value of Derivative Instruments designated as hedging instruments are as follows (in thousands):

Balance Sheet Location	Fair Value	
	2017	2016
<u>Cash Flow Hedges:</u>		
Interest rate contracts - other long-term liabilities	\$ (29,888)	\$ (32,329)
Total derivative designated as hedging instruments	\$ (29,888)	\$ (32,329)

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the effect of Derivative Instruments on the Statement of Changes in Net Assets for the years ended December 31, 2017 and 2016 (in thousands).

Derivatives designated as Hedging Instruments for the Year Ending December 31	Location of Gain Recognized in Income	Amount of Gain Recognized in Other Changes in Net Assets (Effective Portion)	
		2017	2016

Cash Flow Hedges:

Interest rate contracts	Change in value of derivatives	\$	2,441	\$	528
-------------------------	--------------------------------	----	--------------	----	------------

For the years ended December 31, 2017 and 2016, no amounts related to derivative financial instruments were recorded in excess of revenues over expenses, and no amounts were moved out of other changes in net assets and reclassified into excess of revenues over expenses.

Note 12. Pension Plans

Defined Benefit Pension Plans:

Valley Health System Plan

VHS has a defined benefit pension plan covering substantially all of its employees and the employees of its subsidiaries. Benefits under the pension equity formula are expressed in terms of a lump sum based on final average earnings and pension credits earned for years of service. Some employees' benefits are grandfathered using a prior formula that based annuity amounts on final average earnings and service. The pension plan has been amended to allow for supplemental pension benefits under a one-time early retirement program (the Program) for employees meeting certain age and length of service requirements. VHS makes annual contributions to the Valley Health System Employees Retirement Plan (the Plan) in accordance with funding requirements determined by an actuary. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Contributions of \$12.8 million and \$5.3 million were made in 2017 and 2016, respectively.

Effective January 1, 2011, Valley Health System elected to soft-freeze the Valley Health System Employees Retirement Plan. Participation is frozen such that there shall be no new participants in the Plan after January 2, 2011. Participants as of January 1, 2011 will continue to participate with no change to the years of services rules or the benefits calculation. The System elected to hard-freeze the Valley Health System Employees Retirement Plan effective January 1, 2014. The Valley Health System contributory 403(b) plan will remain in place.

The reconciliation of the Plan's funded status to amounts recognized in VHS's consolidated financial statements at December 31 is as follows (in thousands):

Obligations and funded status:

	2017	2016
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 303,871	\$ 307,482
Interest cost	12,762	12,925
Actuarial (gain) loss	28,196	(23)
Benefits paid	(19,552)	(16,513)
Benefit obligation at end of year	325,277	303,871

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2017	2016
Change in plan assets:		
Fair value of plan assets at beginning of year	225,141	225,002
Actual return on plan assets	28,098	11,402
Employer contributions	12,784	5,250
Benefits paid	(19,552)	(16,513)
Fair value of plan assets at end of year	246,471	225,141
Funded status at end of year	\$ (78,806)	\$ (78,730)

Amounts recognized on balance sheet consist of:

	2017	2016
Noncurrent liabilities	\$ (78,806)	\$ (78,730)
	\$ (78,806)	\$ (78,730)

Amounts recognized in other changes in net assets:

	2017	2016
Net actuarial loss	\$ 113,068	\$ 95,932
	\$ 113,068	\$ 95,932

The accumulated benefit obligation was \$325.3 million and \$303.9 million at December 31, 2017 and 2016, respectively. The balance sheet amount also includes the noncurrent liability for Shenandoah Memorial Hospital.

Net periodic benefit cost and other amounts recognized in other changes in net assets (in thousands):

	2017	2016
Components of net periodic pension cost:		
Interest cost	\$ 12,762	\$ 12,925
Expected return on plan assets	(18,502)	(18,408)
Amortization of actuarial loss	1,463	3,535
Net periodic benefit cost	(4,277)	(1,948)
Other changes in amounts recognized in other changes in net assets:		
Net loss (gain) added during year	18,600	6,983
Amortization of (gain) loss	(1,464)	(3,535)
Total change in unrestricted net assets at end of current year	17,136	3,448
Total recognized in net periodic benefit cost and other changes in net assets	\$ 12,859	\$ 1,500

Estimated net loss of \$2.4 million and prior service cost of \$0 for the defined benefit pension plan will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional Information - Assumptions

The assumptions used to determine benefit obligations in the actuarial valuations were as follows:

	2017	2016
Discount rate	3.75%	4.25%
Rate of increase in compensation levels	N/A	N/A

The assumptions used to determine net periodic pension cost were as follows:

	2017	2016
Discount rate	4.25%	4.25%
Expected long-term rate of return on assets	7.75%	7.75%
Rate of increase in compensation levels	N/A	N/A

The SOA RP-2014 Mortality Tables with mortality probability increased by 40% using Scale MP-2017 were utilized to determine the financial disclosure information for the year ended December 31, 2017.

The long-term rate of return on plan assets of 7.75% is based upon management's estimate of future long-term rates of return on similar assets and is consistent with historical returns on such assets.

Plan Assets

Valley Health System's overall investment strategy is to generate a return, which is sufficient to meet its current and expected future financial requirements. The Plan Assets will be structured in a manner that most efficiently matches Valley's investment risk and return characteristics with the long-term objectives. Short-term uncertainties of investment results are recognizable risks, and will be managed appropriately through specific asset allocation strategies and diversification based upon the Plan's investment time horizon. The Plan Asset's target return will be based upon the fund's actuarial review which calculates the "minimum required return" for Valley Health System's and Shenandoah's pension portfolio as well as its investment time horizon.

Cash flows - Contributions

VHS expects to contribute \$7.8 million to its pension plan in 2018.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Pension Benefits
2018	\$ 9,000
2019	\$ 9,946
2020	\$ 10,537
2021	\$ 11,153
2022	\$ 11,815
Years 2023 - 2027	\$ 68,339

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tax Sheltered Annuity Plan

In addition, VHS also offers an option allowing employees to contribute to a tax sheltered annuity plan (the Annuity Plan) under Internal Revenue Code section 403(b). Under the Annuity Plan, VHS match is based on years of service as follows:

- 1 – 7 years of service 25% salary deferral of up to 4% of base compensation
- 8 – 14 years of service 50% salary deferral of up to 4% of base compensation
- 15+ years of service 75% salary deferral of up to 4% of base compensation

In addition, all employees who have satisfied the initial eligibility requirements receive a flat 3% employer contribution regardless of whether they are participants in either of the frozen defined benefit plans. VHS's contributions to the Annuity Plan totaled \$11.2 million and \$10.5 million for the years ended 2017 and 2016, respectively.

Shenandoah Memorial Hospital Plan

Defined Benefit Retirement Plan

Shenandoah has a noncontributory defined benefit retirement plan. Effective January 1, 2003, the Plan was frozen. Participation in the Plan was frozen such that there shall be no new participants in the Plan after December 31, 2002. Shenandoah elected to hard-freeze the Plan effective January 1, 2014. New employees were eligible to participate in the Valley Health System plans. The Plan was amended effective January 1, 1991 to pay benefits based upon the last five highest year's salary out of the last ten years of service. Prior to this change, benefits were based upon employees' years of service and compensation. Shenandoah makes annual contributions to the Plan in accordance with funding requirements determined by an actuary.

The reconciliation of the Plan's funded status to amounts recognized in Shenandoah's financial statements as of December 31 is as follows (in thousands):

Obligations and funded status:

	2017	2016
Fair value of plan assets	\$ 18,298	\$ 16,633
Benefit obligations	23,427	22,969
Funded status	<u>(5,129)</u>	<u>(6,336)</u>
Funded status at end of year	\$ (5,129)	\$ (6,336)

Amounts recognized on balance sheet consist of:

	2017	2016
Noncurrent liabilities	\$ (5,129)	\$ (6,336)
	<u>\$ (5,129)</u>	<u>\$ (6,336)</u>

Amounts recognized in other changes in net assets:

	2017	2016
Net actuarial loss	\$ 5,619	\$ 5,105
	<u>\$ 5,619</u>	<u>\$ 5,105</u>

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accumulated benefit obligation was \$23.4 million and \$23 million at December 31, 2017 and 2016, respectively.

Net periodic benefit cost and other amounts recognized in other changes in net assets in thousands:

	2017	2016
Net periodic benefit cost	\$ (134)	\$ (279)
Other changes in amounts recognized in other changes in net assets:		
Net loss (gain) during the year	829	1,319
Settlement recognition	(245)	-
Amortization of (gain) loss	(70)	(70)
Total change in unrestricted net assets at the end of the current year	<u>514</u>	<u>1,249</u>
Total recognized in net periodic benefit cost and other changes in net assets	<u>\$ 380</u>	<u>\$ 970</u>

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year are \$135 thousand and \$0, respectively.

Additional Information - Assumptions

The assumptions used to determine benefit obligations in the actuarial valuations were as follows:

	2017	2016
Discount rate	3.50%	4.00%
Rate of increase in compensation levels	N/A	N/A

The assumptions used to determine net periodic pension cost were as follows:

	2017	2016
Discount rate	4.00%	4.25%
Expected long-term rate of return on plan assets	7.75%	7.75%
Rate of increase in compensation levels	N/A	N/A

The long-term rate of return on plan assets of 7.75% is based upon management's estimate of future long-term rates of return on similar assets and is consistent with historical returns on such assets.

Contributions of \$1.6 million and \$1.2 million were made in 2017 and 2016, respectively. SMH plans to contribute \$960 thousand to the Plan in 2018.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Pension Benefits
2018	\$ 955
2019	\$ 1,027
2020	\$ 1,113
2021	\$ 1,136
2022	\$ 1,185
Years 2023 - 2027	\$ 6,487

The following table sets forth by level with the fair value hierarchy, pension plan assets of VHS and SMH at their fair value as of December 31, 2017 and 2016 (in thousands):

Plan Asset	Fair Value Measurements Using:			
	Total at December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 2,204	\$ 2,204	\$ -	\$ -
Mutual and other funds:				
Balanced funds	27,045	27,045	-	-
Total assets in the fair value Hierarchy	29,249	29,249	-	-
Investments measured at NAV	235,520	-	-	-
Total investments at fair value	\$ 264,769	\$ 29,249	\$ -	\$ -

Plan Asset	Fair Value Measurements Using:			
	Total at December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 13,203	\$ 13,203	\$ -	\$ -
Mutual and other funds:				
Balanced funds	24,965	24,965	-	-
Total assets in the fair value Hierarchy	38,168	38,168	-	-
Investments measured at NAV	203,606	-	-	-
Total investments at fair value	\$ 241,774	\$ 38,168	\$ -	\$ -

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Investments that Calculate Net Asset Value

The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of December 31, 2017 and 2016, respectively.

December 31, 2017	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Managed hedge fund (a)	\$ 27,902	\$ -	Semiannual	90 days
Property income fund (c)	\$ 18,198	\$ -	Quarterly	60 days
Fixed income fund (d)	\$ 40,474	\$ -	Daily	By 2:00pm of redemption date
Equity fund (e)	\$ 95,190	\$ -	Daily	By 2:00pm of redemption date
Inflation hedge fund (f)	\$ 20,683	\$ -	Daily	By 2:00pm of redemption date
Direct hedged equity fund (g)	\$ 20,452	\$ -	Quarterly	100 days
Other funds (h)	\$ 12,621	\$ 5,523	n/a	n/a
Total	\$ 235,520	\$ 5,523		

December 31, 2016	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Managed hedge fund (a)	\$ 24,110	\$ -	Semiannual	90 days
Strategic hedge fund (b)	\$ 985	\$ -	Quarterly	65 days
Property income fund (c)	\$ 17,405	\$ -	Quarterly	60 days
Fixed income fund (d)	\$ 89,355	\$ -	Daily	By 2:00pm of redemption date
Equity fund (e)	\$ 35,069	\$ -	Daily	By 2:00pm of redemption date
Inflation hedge fund (f)	\$ 15,313	\$ -	Daily	By 2:00pm of redemption date
Direct hedged equity fund (g)	\$ 9,660	\$ -	Quarterly	100 days
Other funds (h)	\$ 11,709	\$ 5,715	n/a	n/a
Total	\$ 203,606	\$ 5,715		

- (a) Managed hedge fund is a hedge fund of funds with a concentrated bias to long/short hedge funds, but will also make opportunistic investments when opportunities arise. The fund has semiannual liquidity with 90 days notice.
- (b) Strategic hedge fund is an absolute return oriented hedge fund of funds. It employs various strategies such as long/short equity, event driven, and relative value. The fund has quarterly liquidity with 65 days notice.
- (c) Property income fund is an open-ended commercial real estate strategy where participating mortgages constitute the majority of investments, along with wholly owned properties. The fund has quarterly liquidity with 60 days notice.
- (d) Fixed income fund is a multi-manager investment vehicle designed to provide exposure to a diversified portfolio of fixed income securities. The underlying manager's primary focus is on adding value through the selection of securities and spread sectors that offer incremental yield and total return in comparison to the Fund's primary benchmark, the Barclays U.S. Aggregate Index. The fund has daily liquidity.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (e) Equity fund is designed to provide long-term capital growth with improved risk-adjusted performance relative to the MSCI All Country World Index over rolling five year periods. The fund will maintain allocations to both domestic and non-U.S. equity managers through direct investments in separate accounts and pooled investment vehicles. The fund has daily liquidity.
- (f) Inflation hedges fund is designed to provide a partial hedge against inflation through a basket of inflation-sensitive assets. Strategic allocations to commodities, commodity-linked equities, TIPS, and infrastructure provide a diversified approach to protecting portfolios from long-term inflationary pressures. The fund has daily liquidity.
- (g) Hedged equity fund is a diversified, multi-strategy hedge fund-of-funds. The strategy is designed to provide long-term equity-like returns with reduced volatility and correlation to traditional markets. The strategy will allocate to all major strategy types including equity hedge, event driven, credit, relative value, and macro. The fund has quarterly liquidity with 100 days notice.
- (h) The other funds are 7 funds that invest in variety of strategies including timber, distressed debt, distressed control situations, commercial real estate debt and equity, residential real estate debt and equity, bank capital, and energy related companies. The funds have a term of 8-20 years.

Note 13. Functional Expenses

VHS provides general health care services to residents within its geographic location. Expenses related to providing these services by functional category are as follows (in thousands):

	Healthcare Services	Fund Raising	Administrative and General Services	Total
2017	\$ 594,874	\$ 1,185	\$ 243,672	\$ 839,731
2016	\$ 558,080	\$ 1,475	\$ 235,588	\$ 795,143

Note 14. Lessor Leasing Activities and Sale of Rental Space

VHS leases space under operating leases with remaining terms of one to eight years. Rental income recognized from leases was \$2.9 million and \$3.3 million in 2017 and 2016, respectively. Future minimum rental income is as follows (in thousands):

2018	\$ 1,922
2019	1,485
2020	1,360
2021	1,343
2022	1,293
Thereafter	<u>3,982</u>
Total future minimum rental income	<u>\$ 11,385</u>

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Lessee Lease Commitment and Total Rental Expense

VHS leases office and medical space under long-term operating lease arrangements that expire at various dates. Total rental expense for all operating leases was \$4.3 million and \$4.0 million for 2017 and 2016, respectively. VHS is obligated under the operating leases, that have initial or remaining lease terms in excess of one year, to make future minimum lease payments as follows for the year ended December 31, 2017 (in thousands):

2018	\$	4,012
2019		2,723
2020		1,521
2021		1,395
2022		1,300
Thereafter		<u>9,232</u>
Total future minimum lease payments	\$	<u>20,183</u>

Note 16. Related Party Transactions

Medical Circle, LLC

VHS is a 51% member of Medical Circle, LLC t/a Valley Open MRI, a company formed to provide imaging services. Valley Health System is accounting for its investment under the equity method of accounting. Valley Health System's interest in the Company was \$603 thousand and \$696 thousand, at December 31, 2017 and 2016, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately \$1,037 thousand and \$872 thousand for the years ended December 31, 2017 and 2016, respectively. Total cash distributions received from the investment by VHS in 2017 and 2016 were approximately \$1,130 thousand and \$857 thousand, respectively. Medical Circle's financial statements were not consolidated in the financial statements of VHS due to immateriality.

Winchester Open MRI, LLC

VHS is a member, owning a 50% interest, in Winchester Open MRI, LLC (Open MRI), a company formed to benefit the community by providing more accessible imaging services. Valley Health System is accounting for its investment under the equity method of accounting. Valley Health System's interest in Open MRI was \$1,071 and \$969 thousand at December 31, 2017 and 2016, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately \$4.6 million and \$4.2 million for the years ended December 31, 2017 and 2016, respectively. Total cash distributions received from the investment by VHS in 2017 and 2016 were approximately \$4.5 million and \$4.1 million, respectively. Open MRI's financial statements were not consolidated in the financial statements of VHS due to immateriality.

Winchester Endoscopy Services, LLC

VHS is a member, owning a 51% interest, in Winchester Endoscopy, LLC, a company formed to provide outpatient endoscopy services. Valley Health System is accounting for its investment under the equity method of accounting. Valley Health System's interest in Winchester Endoscopy was \$459 thousand and \$446 thousand, at December 31, 2017 and 2016, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately \$2.0 million and \$1.5 million for the years ended December 31, 2017 and 2016, respectively. Total cash distributions received from the investment by VHS in 2017 and 2016 were approximately \$2.0 million and

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$1.9 million, respectively. Winchester Endoscopy's financial statements were not consolidated in the financial statements of VHS due to immateriality.

Tri-State Surgical Center, LLC

Valley Regional is a member in Tri-State Surgical Center, LLC (Tri-State). A 34% interest was purchased for \$2.9 million. Tri-State is an ambulatory surgical facility in Martinsburg, West Virginia. Valley Health System is accounting for its investment under the equity method of accounting. Valley Health System's interest in Tri State was \$3.3 million and \$3.2 million for the years ended December 31, 2017 and 2016. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately \$256 thousand and \$234 thousand for the years ended December 31, 2017 and 2016, respectively. Total cash distributions received from the investment by VHS in 2017 and 2016 were approximately \$136 thousand and \$204 thousand.

Gateway Home Care, LLC

Valley Regional was a member, owning a 50% interest, in Gateway Home Care, LLC (Gateway), a company formed to provide access to durable medical equipment in West Virginia. Valley Health System was accounting for its investment under the equity method of accounting. Valley Health System's interest in Gateway was \$0 thousand at December 31, 2016. Effective May 31, 2016, Valley Regional sold their membership interest in Gateway Home Care, LLC for \$1.8 million. Valley Regional has recognized a \$1.3 million gain in nonoperating revenue related to the sale for the year ending December 31, 2016. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately \$114 thousand for the years ended December 31, 2016.

Valley Home Care and Advanced Home Care, Inc.

During 2016, Valley Regional distributed its business Valley Home Care to VHS for a gain of \$3.9 million, which is included in nonoperating revenue. Effective June 1, 2016, Valley Health sold the assets of Valley Home Care for a 2.769% membership interest in Advanced Home Care, Inc. Advanced Home Care, Inc. is a North Carolina nonprofit that provides health care services to patients in their homes. Advanced Home Care, Inc. will continue to provide the same services to the community that Valley Health previously provided as Valley Home Care. As a result of the transaction, Valley Health has an investment under the cost method of accounting in Advanced Home Care, Inc. of approximately \$5 million at December 31, 2017 and 2016. Included in other operating revenue in the Consolidated Statement of Operations are membership distributions of \$91 thousand and \$28 thousand for the years ended December 31, 2017 and 2016, respectively. Advanced Home Care, Inc.'s fair market value is not readily ascertainable and VHS based the initial investment in Advanced Home Care, Inc. on independent valuation information. Management will review the investment on an annual basis for potential impairment. No impairment was identified during the years ended December 31, 2017 and 2016.

Valley Health Surgery Center, LLC

VHS is a member, owning a majority interest, in Valley Health Surgery Center, LLC, a company formed in 2016 to benefit the community by providing more access to ambulatory surgery services. Valley Health System is accounting for its investment under the equity method of accounting. Valley Health System's interest in Valley Health Surgery Center, LLC was \$2.3 million and \$2.6 million at December 31, 2017 and 2016, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity loss on the investment of approximately \$363 thousand and \$0 for the years ended December 31, 2017 and 2016, respectively. VHS made cash contribution to the investment valued at \$2.6 million during 2016. Valley Health Surgery Center, LLC's financial statements were not consolidated in the financial statements of VHS due to immateriality. The project was completed in the fourth quarter of 2017.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Botanical ASC Real Estate, LLC

VHS is a minority member in Botanical ASC Real Estate, LLC. The company was formed in 2016 to construct and hold a facility to serve as the Valley Health Surgery Center. Valley Health System is accounting for its investment under the equity method of accounting. Valley Health System's interest in Botanical ASC Real Estate, LLC was \$102 thousand at December 31, 2017 and 2016 based upon the land donated at its historical cost basis. There were no equity earnings in Botanical ASC Real Estate, LLC at December 31, 2016 and 2017.

Note 19. Commitments and Contingencies

Malpractice Insurance

VHS and other healthcare organizations participate in Virginia Solutions SPC LTD (the Captive), an insurance company located in the Cayman Islands. The Captive qualifies as a captive insurance company in the domicile where it operates and provides certain insurance coverage to its members. The Captive has established trusts for professional and general liability insurance. Under this program, the Captive retains the first \$750 thousand per claim up to the per claim limit of the policy, which is currently \$2.25 million. The Captive has purchased reinsurance contracts to provide for claims in excess of \$750 thousand. VHS is charged periodic premiums by the Captive. Premiums are determined based on actuarial calculations, and information provided by risk managers, legal counsel and past experience.

Litigation

VHS is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against VHS and are currently in various stages of litigation. It is the opinion of management, however, that estimated malpractice costs accrued at December 31, 2017 are adequate to provide for potential losses resulting from pending or threatened litigation as well as claims arising from unknown incidents from services provided to patients that may be asserted.

Medical Staff Deferred Compensation Plan

VHS has a nonqualified deferred compensation plan under Internal Revenue Service Code Section 457 and 409(a), to provide compensation for unassigned call services provided by participating physicians at the Medical Center. VHS, as the Plan sponsor, is responsible for funding the Plan based upon predetermined levels of payment which was \$3.5 million in 2017 and \$3.7 million in 2016. VHS is also responsible for maintaining a trust in which the contributions to the Plan will be maintained and from which qualifying disbursements will be made. Contributions to the Plan vest to the benefit of the participating physicians under various methods based upon years in the Plan and/or age. VHS recognizes, for financial reporting purposes, the related trust assets and a corresponding liability. The Plan allows VHS to modify future payments to the Plan based on a variety of operating factors at the discretion of the Board of VHS.

Asset Retirement Obligation

The *Asset Retirement and Environmental Obligations* Topic 410 of the FASB Accounting Standards Codification, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered this Topic, specifically as it relates to its legal obligations to perform asset retirement activities, such as asbestos removal, on its existing properties. Management of VHS believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which VHS may settle the obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate a liability related to these potential asset retirement activities. However, management does not believe that remediation of such obligations will have a material effect on the consolidated financial statements.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Cash Surrender Value – Life Insurance

VHS has recorded an asset of \$3.6 million and \$3.2 million at December 31, 2017 and 2016, respectively, equal to the cash surrender value of a policy which is included within assets limited as to use in the accompanying balance sheets. The difference between the cash surrender value and the plan balance has been included in the accompanying statements of operations.

Note 19. Alliance Agreement

Valley Health System and Inova Health System Foundation (Inova) entered into an Alliance Agreement (the Agreement) on May 31, 2013. VHS and Inova have entered into this collaborative alliance as preferred strategic partners whereby they will work together to advance their joint commitment to improving the continuity of care to the patients they serve, through closer operational, technological and clinical integration. As part of the Agreement, Inova is allowing VHS to access and implement Inova's EpicCare (electronic medical records) software.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS)
December 31, 2017

	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Valley Partners	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
ASSETS						
Current assets						
Cash and cash equivalents	\$ 13,968	\$ 35,486	\$ 754	\$ -	\$ 4,730	\$ 4,677
Investments	-	346,343	-	-	25,939	17,878
Assets limited as to use	-	9,733	-	-	-	-
Patient accounts receivable, net	-	70,165	5,147	-	7,539	6,379
Due from related entities	21,567	6,800	-	-	-	900
Inventory of supplies	1,652	12,761	533	-	1,366	1,065
Other current assets	21,573	4,091	947	-	132	268
Total current assets	58,760	485,379	7,381	-	39,706	31,167
Assets limited as to use, noncurrent	5,091	171,415	-	-	1,661	3,625
Property and equipment, net	-	430,504	12,276	-	44,471	48,418
Other assets						
Goodwill	-	-	-	-	-	-
Investments	18,742	789	3,340	-	-	-
Investments in wholly owned subsidiaries	857,769	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total other assets	876,511	789	3,340	-	-	-
Total assets	\$ 940,362	\$ 1,088,087	\$ 22,997	\$ -	\$ 85,838	\$ 83,210

East Mountain Health Advantage and Subsidiaries	Hampshire Memorial Hospital	War Memorial Hospital	Page Memorial Hospital	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ 75	\$ 7,007	\$ 9,849	\$ 2,598	\$ 923	\$ 80,067	\$ -	\$ 80,067
-	-	-	-	-	390,160	-	390,160
-	989	-	751	-	11,473	-	11,473
-	2,887	2,353	2,360	1,802	98,632	-	98,632
-	-	-	-	-	29,267	(29,267)	-
3	515	432	358	-	18,685	-	18,685
15	114	112	496	109	27,857	-	27,857
93	11,512	12,746	6,563	2,834	656,141	(29,267)	626,874
-	-	210	268	-	182,270	-	182,270
6,623	29,633	30,815	43,599	4,098	650,437	-	650,437
-	4,400	-	-	-	4,400	-	4,400
-	586	586	-	-	24,043	-	24,043
-	-	-	-	-	857,769	(857,769)	-
-	-	-	-	-	-	-	-
-	4,986	586	-	-	886,212	(857,769)	28,443
\$ 6,716	\$ 46,131	\$ 44,357	\$ 50,430	\$ 6,932	\$ 2,375,060	\$ (887,036)	\$ 1,488,024

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS), Continued
December 31, 2017

LIABILITIES AND NET ASSETS	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Valley Partners	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Current liabilities						
Current installments of long-term debt	\$ -	\$ 5,936	\$ 3,550	\$ -	\$ 288	\$ 115
Accounts payable and accrued expenses	25,832	13,839	624	-	1,007	850
Accrued salaries and wages	35,264	-	-	-	-	-
Third-party settlements	-	3,955	-	347	839	(733)
Due to related entities	-	10,549	601	2,650	3,104	2,245
Other current liabilities	170	-	-	-	-	-
Total current liabilities	61,266	34,279	4,775	2,997	5,238	2,477
Long-term debt, excluding current installments	-	288,431	-	-	24,592	21,887
Accrued pension and post retirement obligations	-	78,806	-	-	-	5,129
Other liabilities	426	39,268	634	-	(82)	137
Total liabilities	61,692	440,784	5,409	2,997	29,748	29,630
Net assets:						
Unrestricted	852,358	627,089	17,588	(2,997)	54,299	50,237
Temporarily restricted	20,145	14,173	-	-	1,781	3,277
Permanently restricted	6,167	6,041	-	-	10	66
Total net assets	878,670	647,303	17,588	(2,997)	56,090	53,580
Total liabilities and net assets	\$ 940,362	\$ 1,088,087	\$ 22,997	\$ -	\$ 85,838	\$ 83,210

East Mountain Health Advantage and Subsidiaries	Hampshire Memorial Hospital	War Memorial Hospital	Page Memorial Hospital	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ -	\$ 435	\$ -	\$ 725	\$ -	\$ 11,049	\$ (3,549)	\$ 7,500
17	1,036	550	422	1,272	45,449	-	45,449
-	-	-	-	-	35,264	-	35,264
-	1,553	1,522	(2,651)	-	4,832	-	4,832
382	762	612	2,202	2,611	25,718	(25,718)	-
28	-	-	-	-	198	-	198
427	3,786	2,684	698	3,883	122,510	(29,267)	93,243
-	24,478	-	32,270	-	391,658	-	391,658
-	-	-	-	-	83,935	-	83,935
5	-	46	84	-	40,518	-	40,518
432	28,264	2,730	33,052	3,883	638,621	(29,267)	609,354
6,284	17,694	41,374	16,840	3,049	1,683,815	(831,457)	852,358
-	173	253	488	-	40,290	(20,145)	20,145
-	-	-	50	-	12,334	(6,167)	6,167
6,284	17,867	41,627	17,378	3,049	1,736,439	(857,769)	878,670
\$ 6,716	\$ 46,131	\$ 44,357	\$ 50,430	\$ 6,932	\$ 2,375,060	\$ (887,036)	\$ 1,488,024

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – OPERATING INFORMATION (IN THOUSANDS)
Year Ended December 31, 2017

	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Valley Partners	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Unrestricted revenue, gains and other support						
Patient service revenue, gross and charity care	\$ -	\$ 1,514,274	\$ 60,015	\$ -	\$ 156,441	\$ 128,682
Charity care	-	(38,163)	(1,432)	-	(6,405)	(4,994)
Contractual adjustments	-	(847,321)	(25,507)	(1,418)	(77,031)	(62,621)
Provision for uncollectible accounts	-	(36,338)	(2,062)	-	(9,727)	(7,429)
Net patient service revenue	-	592,452	31,014	(1,418)	63,278	53,638
Other operating revenue	130,453	11,923	652	114	1,689	657
Investment income, net	584	4,090	1	-	262	233
Net assets released from restrictions	-	548	-	-	45	121
Total revenues, gains and other support	131,037	609,013	31,667	(1,304)	65,274	54,649
Expenses						
Salaries and wages	53,971	170,219	13,086	1,127	25,033	23,124
Payroll taxes and benefits	14,123	36,915	2,772	255	5,995	4,969
Supplies and other	49,126	212,261	11,413	392	23,292	17,897
Corporate management fees	-	76,938	2,770	-	8,366	6,017
VPE allocation	-	10,831	-	-	3,037	2,743
Depreciation and amortization	-	47,529	1,769	-	3,643	3,967
Interest expense	-	10,286	170	-	1,062	589
Total expenses	117,220	564,979	31,980	1,774	70,428	59,306
Excess (deficit) of operating revenue over operating expenses	13,817	44,034	(313)	(3,078)	(5,154)	(4,657)
Nonoperating revenue (expense)						
Other nonoperating revenue (expense)	-	-	-	-	-	-
Gain (loss) on sale of fixed assets	-	8,854	(2)	-	(12)	(33)
Excess of revenue over expenses	13,817	52,888	(315)	(3,078)	(5,166)	(4,690)
Other changes in net assets						
Intercompany transfers, net	(5,039)	(11,903)	7,366	2,369	(3,963)	1,743
Net unrealized loss on investments	-	46,306	-	-	2,373	1,776
Net assets released from restrictions used for acquisition of fixed assets	-	-	-	-	-	-
Change in value of derivatives	-	1,998	-	-	315	128
Change in pension plan funded status	-	(17,137)	-	-	-	(514)
Earnings in equity of wholly-owned subsidiaries	71,853	-	-	-	-	-
Other changes	-	-	-	-	-	0
Increase (decrease) in unrestricted net assets	\$ 80,631	\$ 72,152	\$ 7,051	\$ (709)	\$ (6,441)	\$ (1,557)

East Mountain Health Advantage and Subsidiaries	Hampshire Memorial Hospital	War Memorial Hospital	Page Memorial Hospital	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ -	\$ 54,173	\$ 46,504	\$ 58,283	\$ 39,888	\$ 2,058,260	\$ -	\$ 2,058,260
-	(549)	(396)	(2,446)	(833)	(55,218)	-	(55,218)
-	(25,725)	(20,863)	(25,270)	(20,373)	(1,106,129)	-	(1,106,129)
-	(1,777)	(1,037)	(5,527)	(938)	(64,835)	-	(64,835)
-	26,122	24,208	25,040	17,744	832,078	-	832,078
678	647	696	2,093	23,245	172,847	(134,276)	38,571
-	27	1	(98)	1	5,101	(170)	4,931
-	-	40	160	-	914	-	914
678	26,796	24,945	27,195	40,990	1,010,940	(134,446)	876,494
440	10,028	9,589	14,212	26,023	346,852	-	346,852
104	2,161	2,160	2,860	3,704	76,018	-	76,018
2,991	8,267	8,334	7,826	8,418	350,217	(10,723)	339,494
-	2,686	2,447	3,250	2,916	105,390	(105,390)	-
-	278	306	965	-	18,160	(18,160)	-
252	1,641	1,684	2,539	843	63,867	-	63,867
-	1,053	-	513	-	13,673	(173)	13,500
3,787	26,114	24,520	32,165	41,904	974,177	(134,446)	839,731
(3,109)	682	425	(4,970)	(914)	36,763	-	36,763
-	-	-	-	-	-	-	-
-	(1)	(175)	(8)	-	8,623	-	8,623
(3,109)	681	250	(4,978)	(914)	45,386	-	45,386
9,304	(1,722)	(6,694)	8,443	96	-	-	-
-	-	-	-	-	50,455	-	50,455
-	-	-	-	-	2,441	-	2,441
-	-	-	-	-	(17,651)	-	(17,651)
-	-	-	-	-	-	-	-
-	-	-	-	-	71,853	(71,853)	-
-	-	-	-	-	-	-	-
\$ 6,195	\$ (1,041)	\$ (6,444)	\$ 3,465	\$ (818)	\$ 152,484	\$ (71,853)	\$ 80,631

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS)
December 31, 2016

	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Valley Partners	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
ASSETS						
Current assets						
Cash and cash equivalents	\$ 9,034	\$ 44,098	\$ 1,275	\$ -	\$ 17,880	\$ 11,168
Investments	-	287,634	-	-	23,278	15,898
Assets limited as to use	-	9,418	-	-	-	-
Patient accounts receivable, net	-	64,099	5,055	-	7,089	5,951
Due from related entities	22,907	11,740	-	-	-	1,249
Inventory of supplies	1,620	12,110	531	-	1,225	1,056
Other current assets	9,676	5,351	834	-	157	353
Total current assets	43,237	434,450	7,695	-	49,629	35,675
Assets limited as to use, noncurrent	5,252	141,714	-	-	1,573	3,467
Property and equipment, net	-	437,509	10,127	-	40,944	50,045
Other assets						
Goodwill	-	-	-	-	-	-
Investments	29,810	773	3,220	-	-	-
Investments in wholly owned subsidiaries	782,952	-	-	-	-	-
Other assets	-	-	8	-	-	-
Total other assets	812,762	773	3,228	-	-	-
Total assets	\$ 861,251	\$ 1,014,446	\$ 21,050	\$ -	\$ 92,146	\$ 89,187

East Mountain Health Advantage and Subsidiaries	Hampshire Memorial Hospital	War Memorial Hospital	Page Memorial Hospital	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ 86	\$ 8,205	\$ 15,944	\$ 1,593	\$ 723	\$ 110,006	\$ -	\$ 110,006
-	-	-	-	-	326,810	-	326,810
-	980	-	734	-	11,132	-	11,132
-	3,002	2,665	3,262	1,830	92,953	-	92,953
-	-	-	-	-	35,896	(35,896)	-
2	332	357	364	-	17,597	-	17,597
6	65	107	184	201	16,934	-	16,934
94	12,584	19,073	6,137	2,754	611,328	(35,896)	575,432
-	-	145	277	-	152,428	-	152,428
811	30,062	30,702	43,860	4,336	648,396	-	648,396
-	4,400	-	-	-	4,400	-	4,400
-	620	620	-	-	35,043	-	35,043
-	-	-	-	-	782,952	(782,952)	-
-	-	-	-	-	8	-	8
-	5,020	620	-	-	822,403	(782,952)	39,451
\$ 905	\$ 47,666	\$ 50,540	\$ 50,274	\$ 7,090	\$ 2,234,555	\$ (818,848)	\$ 1,415,707

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS), Continued
December 31, 2016

LIABILITIES AND NET ASSETS	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Valley Partners	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Current liabilities						
Current installments of long-term debt	\$ -	\$ 5,478	\$ 3,700	\$ -	\$ 443	\$ 179
Accounts payable and accrued expenses	33,459	10,704	1,396	33	1,066	1,694
Accrued salaries and wages	32,167	-	-	-	-	-
Third-party settlements	-	42	-	561	855	150
Due to related entities	-	12,106	4,623	1,694	2,254	3,510
Other current liabilities	139	500	(3)	-	-	-
Total current liabilities	65,765	28,830	9,716	2,288	4,618	5,533
Long-term debt, excluding current installments	-	294,780	-	-	24,881	21,999
Accrued pension and post retirement obligations	-	78,730	-	-	-	6,336
Other liabilities	411	39,628	797	-	318	277
Total liabilities	66,176	441,968	10,513	2,288	29,817	34,145
Net assets:						
Unrestricted	771,727	554,937	10,537	(2,288)	60,740	51,794
Temporarily restricted	17,301	11,803	-	-	1,579	2,999
Permanently restricted	6,047	5,738	-	-	10	249
Total net assets	795,075	572,478	10,537	(2,288)	62,329	55,042
Total liabilities and net assets	\$ 861,251	\$ 1,014,446	\$ 21,050	\$ -	\$ 92,146	\$ 89,187

East Mountain Health Advantage and Subsidiaries	Hampshire Memorial Hospital	War Memorial Hospital	Page Memorial Hospital	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ -	\$ 420	\$ -	\$ 700	\$ -	\$ 10,920	\$ (3,700)	\$ 7,220
13	870	333	314	1,735	51,617	-	51,617
-	-	-	-	-	32,167	-	32,167
-	1,638	1,445	(1,955)	-	2,736	-	2,736
775	890	675	4,181	1,488	32,196	(32,196)	-
28	-	-	-	-	664	-	664
816	3,818	2,453	3,240	3,223	130,300	(35,896)	94,404
-	24,968	-	32,992	-	399,620	-	399,620
-	-	-	-	-	85,066	-	85,066
-	-	16	95	-	41,542	-	41,542
816	28,786	2,469	36,327	3,223	656,528	(35,896)	620,632
89	18,735	47,818	13,375	3,867	1,531,331	(759,604)	771,727
-	145	253	522	-	34,602	(17,301)	17,301
-	-	-	50	-	12,094	(6,047)	6,047
89	18,880	48,071	13,947	3,867	1,578,027	(782,952)	795,075
\$ 905	\$ 47,666	\$ 50,540	\$ 50,274	\$ 7,090	\$ 2,234,555	\$ (818,848)	\$ 1,415,707

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – OPERATING INFORMATION (IN THOUSANDS)

Year Ended December 31, 2016

	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Valley Partners	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Unrestricted revenue, gains and other support						
Patient service revenue, gross and charity care	\$ -	\$ 1,474,423	\$ 60,013	\$ -	\$ 151,206	\$ 116,072
Charity care	-	(31,048)	(1,374)	-	(5,943)	(4,211)
Contractual adjustments	-	(834,448)	(25,018)	(562)	(75,625)	(58,632)
Provision for uncollectible accounts	-	(38,259)	(1,955)	-	(9,223)	(7,285)
Net patient service revenue	-	570,668	31,666	(562)	60,415	45,944
Other operating revenue	117,457	12,034	650	-	2,104	1,067
Investment income, net	(291)	7,261	1	-	465	351
Net assets released from restrictions	-	548	-	-	36	127
Total revenue, gains and other support	117,166	590,511	32,317	(562)	63,020	47,489
Expenses						
Salaries and wages	47,898	164,907	13,326	992	24,504	17,678
Payroll taxes and benefits	13,181	38,123	2,975	200	5,866	3,898
Supplies and other	50,034	195,140	14,299	122	22,415	17,202
Corporate management fees	-	69,868	3,071	-	7,890	5,369
VPE allocation	-	10,311	-	-	3,083	3,750
Depreciation and amortization	-	43,723	1,400	-	3,317	3,164
Interest expense	-	9,984	177	-	1,027	486
Total expenses	111,113	532,056	35,248	1,314	68,102	51,547
Excess (deficit) of operating revenues over operating expenses	6,053	58,455	(2,931)	(1,876)	(5,082)	(4,058)
Nonoperating revenue (expense)						
Other nonoperating revenue (expense)	-	(1,500)	5,157	-	-	-
Gain (loss) on sale of fixed assets	-	(39)	-	-	(10)	(66)
Excess of revenue over expenses	6,053	56,916	2,226	(1,876)	(5,092)	(4,124)
Other changes in net assets						
Intercompany transfers, net	1,087	(22,265)	(2,730)	-	9,001	7,777
Net unrealized loss on investments	-	11,104	-	-	722	505
Net assets released from restrictions used for acquisition of fixed assets	-	10,013	-	-	-	1,500
Change in value of derivatives	-	1,092	-	-	(401)	(163)
Change in pension plan funded status	-	(3,448)	-	-	-	(1,249)
Earnings in equity of wholly-owned subsidiaries	64,487	-	-	-	-	-
Other changes	-	(12)	-	-	-	(1)
Increase (decrease) in unrestricted net assets	\$ 71,627	\$ 53,400	\$ (504)	\$ (1,876)	\$ 4,230	\$ 4,245

East Mountain Health Advantage and Subsidiaries	Hampshire Memorial Hospital	War Memorial Hospital	Page Memorial Hospital	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ -	\$ 50,308	\$ 42,565	\$ 58,489	\$ 39,783	\$ 1,992,859	\$ -	\$ 1,992,859
-	(401)	(287)	(2,667)	(905)	(46,836)	-	(46,836)
-	(23,179)	(18,494)	(26,272)	(19,647)	(1,081,877)	-	(1,081,877)
-	(1,646)	(1,193)	(4,334)	(1,014)	(64,909)	-	(64,909)
-	25,082	22,591	25,216	18,217	799,237	-	799,237
547	889	863	1,415	23,002	160,028	(124,242)	35,786
-	28	2	(27)	1	7,791	(177)	7,614
-	-	7	228	-	946	-	946
547	25,999	23,463	26,832	41,220	968,002	(124,419)	843,583
427	9,241	9,097	13,796	25,604	327,470	-	327,470
98	2,066	1,991	2,838	3,848	75,084	-	75,084
338	8,489	7,244	7,870	8,513	331,666	(10,906)	320,760
-	2,345	2,109	2,952	2,423	96,027	(96,027)	-
-	-	-	165	-	17,309	(17,309)	-
13	1,672	1,689	2,216	1,710	58,904	-	58,904
-	1,058	-	370	-	13,102	(177)	12,925
876	24,871	22,130	30,207	42,098	919,562	(124,419)	795,143
(329)	1,128	1,333	(3,375)	(878)	48,440	-	48,440
-	-	-	-	-	3,657	-	3,657
-	(17)	-	-	-	(132)	-	(132)
(329)	1,111	1,333	(3,375)	(878)	51,965	-	51,965
327	1,758	1,582	2,379	1,084	-	-	-
-	-	-	-	-	12,331	-	12,331
-	-	-	-	-	11,513	-	11,513
-	-	-	-	-	528	-	528
-	-	-	-	-	(4,697)	-	(4,697)
-	-	-	-	-	64,487	(64,487)	-
-	-	-	-	-	(13)	-	(13)
\$ (2)	\$ 2,869	\$ 2,915	\$ (996)	\$ 206	\$ 136,114	\$ (64,487)	\$ 71,627