Consolidated Financial Statements and Supplemental Information
December 31, 2018

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Arnett Carbis Toothman LLP

Charleston, West Virginia
March 18, 2019

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
	(In Thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	**$ 53,142**	$ 80,067
Investments	**359,204**	390,160
Assets limited as to use	**13,271**	11,473
Patient accounts receivable	**95,455**	98,632
Inventory of supplies	**20,008**	18,685
Other current assets	**21,772**	27,857
Total current assets	**562,852**	626,874
Assets limited as to use, net of amount required to meet current liabilities	**248,253**	182,270
Property and equipment, net	**655,759**	650,437
Other assets		
Goodwill	**4,627**	4,400
Other investments	**21,501**	24,043
Total other assets	**26,128**	28,443
Total assets	**$ 1,492,992**	$ 1,488,024
LIABILITIES AND NET ASSETS		
Current liabilities		
Current installments of long-term debt	**$ 7,800**	$ 7,500
Accounts payable and accrued expenses	**50,824**	45,449
Accrued salaries and wages	**36,787**	35,264
Third-party settlements	**6,532**	4,832
Other current liabilities	**230**	198
Total current liabilities	**102,173**	93,243
Long-term debt, excluding current installments	**437,112**	391,658
Accrued pension and postretirement obligations	**69,800**	83,935
Other liabilities	**36,668**	40,518
Total liabilities	**645,753**	609,354
Net assets		
Net assets without donor restrictions	**821,348**	852,358
Net assets with donor restrictions	**25,891**	26,312
Total net assets	**847,239**	878,670
Total liabilities and net assets	**$ 1,492,992**	$ 1,488,024

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2018 and 2017

	2018	2017
	(In Thousands)	
Revenue, gains and other support		
Net patient service revenue	**842,086**	832,078
Other operating revenue	**48,148**	38,564
Investment income	**82,069**	4,931
Net assets released from restrictions	**1,131**	921
Total revenue, gains and other support	**973,434**	876,494
Expenses		
Salaries and wages	**369,188**	346,852
Payroll taxes and benefits	**80,103**	76,018
Supplies and other	**367,990**	339,494
Depreciation and amortization	**67,837**	63,867
Interest expense	**14,365**	13,500
Total expenses	**899,483**	839,731
Excess of operating revenue over operating expenses before loss on impairment of long-lived assets	**73,951**	36,763
Loss on impairment of long-lived assets	**(10,479)**	-
Excess of operating revenue over operating expenses after loss on impairment of long-lived assets	**63,472**	36,763
Nonoperating revenue		
Gain on sale of fixed assets	**536**	8,623
Excess of revenue over expenses	**64,008**	45,386
Other changes in net assets without donor restrictions		
Net change in unrealized gain (loss) on investments	**(98,900)**	50,455
Change in value of derivatives	**5,034**	2,441
Change in pension plan funded status	**(1,152)**	(17,651)
Increase (Decrease) in net assets without donor restrictions	**$ (31,010)**	$ 80,631

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2018 and 2017

	2018	2017
	(In Thousands)	
Net assets without donor restrictions		
Excess of revenue over expenses	$ 64,008	$ 45,386
Net change in unrealized gain (loss) on investments	(98,900)	50,455
Change in value of derivatives	5,034	2,441
Change in pension plan funded status	(1,152)	(17,651)
Increase (Decrease) in net assets without donor restrictions	(31,010)	80,631
Net assets with donor restrictions		
Contributions	1,767	1,193
Net assets released from restrictions	(1,131)	(921)
Net realized and unrealized gain (loss) on investments	(1,057)	2,692
Increase (Decrease) in net assets with donor restrictions	(421)	2,964
Increase (Decrease) in net assets	(31,431)	83,595
Net assets, beginning of year	878,670	795,075
Net assets, end of year	$ 847,239	$ 878,670

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
	(In Thousands)	
Cash flows from operating activities		
Change in net assets	$ (31,431)	$ 83,595
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Accretion of bond premium	(568)	(563)
Amortization of deferred financing costs	119	104
Depreciation and amortization	67,837	63,867
Net realized and unrealized (gains) losses on investments	24,815	(52,121)
Unrealized (gains) on derivatives	(5,034)	(2,441)
Change in pension plan funded status	1,152	17,651
(Gain) on sale of property and equipment	(536)	(8,623)
Loss on impairment of long-lived assets	10,479	-
(Increase) decrease in:		
Patient accounts receivable, net	3,177	(5,679)
Inventory of supplies	(1,323)	(1,088)
Other current assets	5,727	(11,212)
Other assets	2,315	11,008
Increase (decrease) in:		
Accounts payable and accrued expenses	5,375	(6,168)
Accrued salaries and wages	1,523	3,097
Accrued pension and postretirement benefits	(15,287)	(18,782)
Third-party settlements	1,700	2,096
Other current liabilities	32	(466)
Other liabilities	1,184	1,417
Net cash provided by operating activities	71,256	75,692
Cash flows from investing activities		
Purchase of property and equipment	(83,754)	(69,509)
Proceeds from sale of property and equipment	1,010	12,513
Proceeds from sale of investments	1,279,396	55,006
Purchases of investments	(1,341,036)	(96,418)
Net cash used in investing activities	(144,384)	(98,408)
Cash flows from financing activities		
Principal payments on long-term debt	(7,500)	(7,223)
Proceeds from the issuance of long-term debt	54,365	-
Premium on issuance of long-term debt	274	-
Deferred financing costs	(936)	-
Net cash provided by (used in) financing activities	46,203	(7,223)
Net (decrease) in cash and cash equivalents	(26,925)	(29,939)
Cash and cash equivalents, beginning of year	80,067	110,006
Cash and cash equivalents, end of year	$ 53,142	$ 80,067
Supplemental disclosure of cash flow information		
Cash paid for interest, net of $930 thousand and $0 thousand capitalized in 2018 and 2017, respectively	$ 11,883	$ 11,627

See accompanying 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, urgent care centers, 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.

- 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 net realizable value based on certain assumptions determined by each payor. In evaluating accounts receivable, VHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the net realizable value. 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 determines implicit price concessions based on its past historical collection experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. Management reviews troubled, aged accounts to determine collection potential. Accounts are written off when all reasonable internal and external collection efforts have been exhausted. Estimated implicit price concessions of $54.7 million for both years ended December 31, 2018 and 2017 have been recorded as reductions to patient accounts receivable.

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. 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 regarding self-pay collectability. The estimated recourse reserve is included in patient accounts receivable and is approximately $1.7 million and $1.4 million at December 31, 2018 and 2017, respectively.

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 $1.1 million and $1.6 million at December 31, 2018 and 2017, respectively. VHS's allowance for doubtful accounts of pledges receivable was $72 thousand and $124 thousand at December 31, 2018 and 2017, 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, 2018 and 2017.

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as increased in net assets without donor restrictions, 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 $119 thousand and $104 thousand for 2018 and 2017, respectively. Deferred financing fees have been netted against long-term debt in accordance with authoritative guidance.

Goodwill: VHS recorded goodwill as the excess of purchase price over the fair value of the identifiable assets acquired for various acquisitions. Authoritative guidance related to goodwill and other intangible assets prescribes the application of a two-step process for impairment testing of goodwill if adverse qualitative factors exist indicating that it is more likely than not that goodwill is impaired. This is performed annually, as well as when an event triggering impairment may have occurred. Upon determination that goodwill is more than likely to be impaired, the two-step process would be applied. The first step tests for impairment while the second step, if necessary, measures impairment. VHS has selected December 31 on which to perform its annual evaluation of goodwill for impairment.

Net Assets: Net assets, revenue, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

- Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Excess of Revenues over Expenses: The statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions 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 plan 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: On January 1, 2018, VHS adopted the new revenue recognition accounting standard issued by the Financial Accounting Standards Board (FASB) using the full retrospective method. The adoption of the new standard did not have an impact on the recognition of new revenues for any periods prior to adoption. Provision for bad debts is no longer presented as a seperate line item in the Consolidated Statements of Operations but included in net patient service revenue as an estimated implicit price concession deduction. Additionally, the estimated allowance for doubtful accounts was relassified as a component of patient accounts receivable and eliminated on the Consolidated Balance Sheets. Because all of its performance obligations relate to contracts with a duration of less than one year, VHS has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(A) and, therefore, is not required to disclose the aggregate amount of the transaction prices allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. VHS has applied the practical expedient and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that VHS otherwise would have recognized is one year or less in duration.

Patient service revenue is reported at the amount that reflects the consideration to which VHS expects to be entitled to in exchange for providing patient care and is recognized as performance obligations are satisfied. These amounts are due from patients, third-party payers (including health insurers and government programs) and others and includes variable consideration for retroactive adjustments due to settlement of audits, reviews and investigations. Generally, VHS bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by VHS. Generally, performance obligations associated with inpatient services are satisfied over time and are recognized based on actual charges incurred in relation to total expected (or actual) charges. VHS measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and VHS does not believe it is required to provide additional goods or services to the patient. Generally, performance obligations associated with outpatient services are satisfied at a point in time.

VHS determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with VHS's policy, and implicit price concessions provided to uninsured patients. VHS determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. VHS determines its estimate of implicit price concessions based on historical collection experience with this class of patients.

VHS has agreements with third-party payers 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 payers.

A summary of the payment arrangements with major third-party payers follows:

- **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.

- **Blue Cross**

  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.

- **Other**

  Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge VHS's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon VHS. In addition, the contracts VHS has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payers for retroactive adjustments due to audits, review or investigations are considered variable consideration and are included in the determination of estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and VHS's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In 2018 and 2017, net patient service revenue increased approximately $2.1 million and $2.4 million, respectively, due to changes in previously recorded estimates.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. VHS provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. VHS estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2018 and 2017 were considered immaterial. Patients who meet VHS's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

VHS has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the VHS's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, VHS does, in rare instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

VHS has determined that nature, amount, timing, and uncertainty of revenue and cash flows are primarily affected by the payor, geography, and service lines. The following tables provide details of these factors.

VHS's net patient service revenue by major payer groups during the years ended December 31, 2018 and 2017 are as follows (in thousands):

	2018		2017	
Medicare	**$ 288,118**	**34%**	$ 279,335	34%
Managed Medicare	**56,766**	**7%**	47,919	9%
Medicaid	**11,160**	**1%**	11,361	1%
Managed Medicaid	**30,729**	**4%**	39,511	5%
Commerical insurers	**439,026**	**52%**	436,997	53%
Uninsured	**16,287**	**2%**	16,955	2%
	$ 842,086	**100%**	$ 832,078	100%

The composition of net patient service revenue based on the locations of VHS' facilities operates in and its lines of business for the years ended December 31, 2018 and 2017 are as follows:

2018	**Virginia**		**West Virginia**		**Total**	
Service lines:						
Hospital – inpatient	**$ 351,654**	**44%**	**$ 13,627**	**27%**	**$ 365,281**	**43%**
Hospital – outpatient	**339,513**	**43%**	**28,847**	**57%**	**368,360**	**44%**
Skilled nursing services	**14,464**	**9%**	**1,288**	**14%**	**15,752**	**9%**
Physician services	**68,036**	**2%**	**7,102**	**2%**	**75,138**	**2%**
Other	**17,555**	**2%**	**-**	**-%**	**17,555**	**2%**
Total	**$ 791,222**	**100%**	**$ 50,864**	**100%**	**$ 842,086**	**100%**

2017	Virginia		West Virginia		Total	
Service lines:						
Hospital – inpatient	$ 356,459	46%	$ 12,035	24%	$ 368,494	44%
Hospital – outpatient	347,909	45%	31,147	62%	379,056	46%
Skilled nursing services	13,633	6%	1,263	12%	14,896	6%
Physician services	44,637	1%	5,884	2%	50,521	2%
Other	19,111	2%	-	-%	19,111	2%
Total	$ 781,749	100%	$ 50,329	100%	$ 832,078	100%

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. 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. VHS uninsured discount policy is 30% for patients with no third-party coverage and who did not qualify for charity care. Accordingly, VHS does not report these amounts in patient accounts receivable or net patient service revenue. 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, 2018 and 2017 were approximately $23.2 million and $22.5 million, respectively.

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 $4.0 million and $2.6 million in 2018 and 2017, respectively and is included in supplies and other expenses in the consolidated statement of operations.

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 with restriction 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), with donor restrictions net assets are reclassified as without donor restrictions 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 consolidated financial statements.

Functional Allocation of Expenses: The costs of program and supporting services activities have been summarized on a functional basis in Note 14. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

Accounting principles generally accepted in the United States of America require VHS to evaluate tax positions taken by VHS and recognized a tax liability or asset if VHS has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). VHS has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements.

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, 2015.

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.

Reclassifications: Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

Subsequent Events: Management has evaluated subsequent events through March 18, 2019, which is the date the consolidated financial statements were issued.

New or Recent Accounting Standards Updates:

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. VHS adopted this guidance during the year ended December 31, 2018. Adoption of this guidance did not have a material impact on the VHS's consolidated financial statements.

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.

In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*. The amendments in this ASU provide entities with an additional (and optional) transition method to adopt the new leases standard. The amendments also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606) and certain criteria are met. The amendments in this Update related to separating components of a contract affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. For entities that have not adopted

Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments in this Update related to separating components of a contract are the same as the effective date and transition requirements in Update 2016-02. The practical expedient may be elected either in the first reporting period following the issuance of this Update or at the original effective date of Topic 842 for that entity. The practical expedient may be applied either retrospectively or prospectively.

In December 2018, the FASB issued ASU 2018-20, *Leases* (Topic 842): *Narrow-Scope Improvements for Lessors.* The amendments in this ASU clarify certain issues experienced by lessor stakeholders including: 1) Sales taxes and other similar taxes collected from lessees; 2) Certain lessor costs; and 3) Recognition of variable payments for contracts with lease and non-lease components. The amendments in this Update affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. The effective date and transition requirements for the amendments in this Update for entities that have not adopted Topic 842 before the issuance of this Update are the same as the effective date and transition requirements in Update 2016-02. All entities, including early adopters, must apply the amendments in this Update to all new and existing leases. VHS is currently evaluating the impact that adoption will have on its December 31, 2019 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. The VHS is currently evaluating the impact that adoption will have on its December 31, 2019 consolidated financial statements.

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 adopted this guidance during the year ended December 31, 2018. Adoption of this guidance did not have a material impact on the VHS's consolidated financial statements.

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. The VHS is currently evaluating the impact that adoption will have on its December 31, 2019 consolidated financial statements.

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. The VHS is currently evaluating the impact that adoption will have on its December 31, 2019 consolidated financial statements.

Not-for-Profit Entities: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations (NFPs) and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The new ASU does not apply to transfers of assets from governments to businesses. VHS is currently evaluating the impact, if any, that adoption will have on its December 31, 2019 consolidated financial statements.

Fair Value Measurement: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this Update modify the disclosure requirements on fair value measurements in *Topic 820, Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. In addition, the amendments eliminate *at a minimum* from the phrase *an entity shall disclose at a minimum* to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level III fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. VHS is currently evaluating the impact, if any, that adoption will have on its December 31, 2020 consolidated financial statements.

Compensation - Retirement Benefits - Defined Benefit Plans - General: In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General* (Subtopic 715-20): *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this Update remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the Board's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement. An entity should apply the amendments in this Update on a retrospective basis to all periods presented. Early adoption is permitted. VHS is currently evaluating the impact, if any, that adoption will have on its December 31, 2022 consolidated financial statements.

Note 2. Patient Accounts Receivable Concentrations

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:

	2018	2017
Medicare	**29%**	28%
Medicaid	**7%**	6%
Blue Cross	**27%**	27%
Commercial and other	**28%**	28%
Self-pay	**9%**	11%
	100%	100%

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 and Commitments

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

	2018	2017
Investments		
Pooled investments	**$ 347,331**	$ 382,692
Common stock	**11,873**	7,468
Total	**$ 359,204**	$ 390,160

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):

	2018	2017
By Board for capital improvements		
Pooled investments	**$ 164,852**	$ 149,223
Restricted by Donors		
Pooled investment funds - WMC	**12,025**	11,873
Pooled investment funds - WMH	**1,591**	1,651
Pooled investment funds - SMH	**2,929**	3,342
Total	**16,545**	16,866
Total pooled investments	**181,397**	166,089

	2018	2017
Held by trustee under indenture agreements		
Cash and cash equivalents	**65,429**	12,092
Total	**65,429**	12,092
Endowment Fund		
Beneficial interest in trusts – cash and cash equivalents	**132**	146
Beneficial interest in trusts – mutual funds	**3,282**	3,697
Total	**3,414**	3,843
Deferred Compensation plans		
Cash surrender value – life insurance	**5,706**	5,302
Cash and cash equivalents	**4,713**	5,466
Mutual funds	**865**	951
Total	**11,284**	11,719
Total assets limited as to use	**261,524**	193,743
Less assets limited as to use that are required for current liabilities	**(13,271)**	(11,473)
Noncurrent assets limited as to use	**$ 248,253**	$ 182,270

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):

	2018	2017
Unrestricted investments	**$ 347,331**	$ 382,692
Assets limited as to use	**181,397**	166,089
Total Pooled Investments	**$ 528,728**	$ 548,781

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

	2018	2017
Cash and cash equivalents	**$ 14,295**	$ 4,506
Common stock	**128,962**	-
Mutual funds	**71,405**	57,377
Fixed income	**76,370**	-
Alternative investments	**237,696**	486,898
	$ 528,728	$ 548,781

Investment Advisor Change

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 in January 2018, which resulted in approximately $53 million of previously recorded unrealized gains were realized. The new advisor has and will continue to provide discretionary investment advisory services for its operating and pension plan investments.

Other Investments

Other investments at December 31, 2018 and 2017 include (in thousands):

	2018	2017
Investments recorded on equity method	**$ 16,381**	$ 18,924
Investments recorded on cost basis	**5,120**	5,119
	$ 21,501	$ 24,043

Investments recorded on the equity method include $8.9 million and $9.2 million at December 31, 2018 and 2017, respectively, related to VHS's investment in Virginia Solution SPC LTD (the Captive) (Note 18). VHS is accounting for its investment in the Captive, a 69% owned affiliate as of December 31, 2018, 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 2018 and 2017, VHS received $9 million and $6.9 million, respectively, in dividends from the Captive and receivable of $0 and $7.3 million were recorded as receivable for dividends declared but not received as of December 31, 2018 and 2017, respectively. 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, 2018 and 2017 is as follows (in thousands):

	2018	2017
Cash and investments	**$ 61,589**	$ 61,177
Receivables and other assets	**$ 5,536**	$ 6,058
Unearned premiums	**$ (2,024)**	$ (2,010)
Claims reserve	**$ (29,428)**	$ (28,912)
Accounts payable and other accrued liabilities	**$ (22,903)**	$ (21,832)
Shareholder's (equity)	**$ (12,770)**	$ (14,481)
Net income	**$ 688**	$ 2,384

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 2018 and 2017, WMC converted one-seventh of the units to Class A common stock. The common stock has a value of $11.7 million and $7.3 million at December 31, 2018 and 2017, 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. In 2018, VHS exercised the termination right of its Group Purchasing Organization Agreement with Premier. By exercising the terminations right, VHS has forfeited its remaining 125,369 Class B common units.

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):

		2018		2017
Income				
Investment income	**$**	**7,984**	$	3,265
Net realized gain on sale of investments		**74,085**		1,666
	$	**82,069**	$	4,931
Other Changes in Net Assets without donor restrictions				
Net change in unrealized gains (loss) on investments	**$**	**(98,900)**	$	50,455

Interest and investment income is shown net of investment manager fees of $1.7 million and $854 thousand at December 31, 2018 and 2017, respectively.

Purchase Commitment

VHS has investment agreements with various venture capital funds, which contain investment commitments. Approximately $52.8 million of investment committements are outstanding at December 31, 2018. Future increases in the investments will be made as requested by the manager of these funds and is based upon planned acquisitions of investment funds.

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, 2018 and 2017, 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.

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.

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 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).

		Fair Value Measurements Using:		
ASSETS	**Total at December 31, 2018**	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	**$ 84,569**	$ 84,569	$ -	$ -
Common stock	**140,835**	140,835	-	-
Fixed income				
Asset-backed securities	**13,347**	-	13,347	-
Collateralized mtg-backed	**4,142**	-	4,142	-
Corporate bonds and notes	**24,431**	-	24,431	-
Government and agencies	**31,069**	-	31,069	-
Municipal bonds	**3,381**	-	3,381	-
	76,370	-	76,370	-
Mutual funds				
International funds	**12,060**	12,060	-	-
Domestic funds	**63,492**	63,492	-	-
	75,552	75,552	-	-
Total assets in the fair value hierarchy	**377,326**	300,956	76,370	-
Investments measured at NAV	**237,696**	-	-	-
Total investments at fair value	**$ 615,022**	$ 300,956	$ 76,370	$ -
Investments not at fair value	**5,706**			
Total investments and assets limited as to use	**$ 620,728**			
Liabilities:				
Derivative Financial Instruments	**$ (24,853)**	$ -	$ (24,853)	$ -

		Fair Value Measurements Using:		
ASSETS	**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)
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)	$ -

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.

The following table presents estimated fair values of VHS's financial instruments at December 31, 2018 and 2017 (in thousands).

	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 53,141**	**$ 53,141**	$ 80,067	$ 80,067
Patient accounts receivable	**$ 95,455**	**$ 95,455**	$ 98,632	$ 98,632
Other current assets	**$ 21,772**	**$ 21,772**	$ 27,857	$ 27,857
Investments and assets limited as to use	**$ 620,728**	**$ 620,728**	$ 583,903	$ 583,903
Third party settlements	**$ (6,532)**	**$ (6,532)**	$ (4,832)	$ (4,832)
Long-term debt	**$ (444,912)**	**$ (445,835)**	$ (399,158)	$ (408,947)
Derivative financial instruments	**$ (24,853)**	**$ (24,853)**	$ (29,888)	$ (29,888)

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, 2018 and 2017, respectively (in thousands).

December 31, 2018	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Equity fund (h)	$ 20,883	$ -	Monthly	7 days
Equity fund (i)	$ 47,431	$ -	Monthly	5 days
Direct hedge funds (j)	$ 8,364	$ -	Monthly	30 days
Direct hedge funds (k)	$ 107,569	$ -	Quarterly	45-90 days
Managed hedge fund (l)	$ 22,051	$ -	Semiannual	90 days
Other funds (m)	$ 31,398	$ 52,827	N/A	N/A
Total	**$ 237,696**	**$ 52,827**		

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 (f)	$ 27,807	$ -	Quarterly	60 days
Other funds (g)	$ 29,994	$ 13,552	N/A	N/A
Total	**$ 486,898**	**$ 13,552**		

(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 fund 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) 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.

(g) 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.

(h) Equity fund is an emerging markets equity fund seeks to invest in high quality companies with an orientation towards absolute returns and capital preservation. The strategy is not focused on managing to an Index. The multi-advisor fund has monthly liquidity with a 7 day notice period.

(i) Equity fund is an international strategy focused on long-term capital cycle, i.e., profitability is inversely proportional to competition. It assesses business strategy in the context of industry and competitive position within industry. The fund has monthly liquidity with a 5 day notice period. daily liquidity.

(j) Direct hedge funds are 2 separate funds. One is a systematic alternative risk premia strategy and the other is a multi-strategy equity fund with a diversified portfolio. Both funds have monthly liquidity with 30 day notice periods.

(k) Direct hedge funds are 14 different hedge funds that invest in a variety of strategies. Strategies include relative value, event-driven, equity long/short, and global macro funds. The funds have quarterly liquidity with notice periods ranging from 45 to 90 days.

(l) 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.

(m) Other funds are 16 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, and international private equity funds. The funds have terms from 8 to 20 years.

Note 6. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods ending December 31:

	2018	2017
Subject to expenditure for specified purposes:		
Indigent care	**$ 2,107**	$ 1,936
Capital purchases	**2,544**	2,532
Health outreach & education	**4,701**	4,609
General fund / equipment	**10,802**	11,067
Total subject to expenditure for specified purposes	**20,154**	20,145
Investments in perpetuity, which once appropriated, is expended to support:		
Indigent care	**563**	629
General fund / equipment	**5,174**	5,538
	5,737	6,167
Total net assets with donor restrictions	**$ $25,891**	$ 26,312

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	2018	2017
Satisfaction of purpose restrictions		
General fund / equipment	**$ 242**	$ 439
Indigent care	**651**	130
Health outreach & education	**238**	167
Capital purchases	**-**	185
Distributions (proceeds are not restricted by donors)	**$ 1,131**	$ 921

Note 7. Property and Equipment and Commitments

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

	2018	2017
Land	**$ 20,992**	$ 20,590
Land improvements	**49,988**	44,381
Buildings and leasehold improvements	**651,625**	641,736
Fixed equipment	**192,043**	174,707
Major movable equipment	**454,411**	422,329
	1,369,059	1,303,743
Less accumulated depreciation and amortization	**757,915**	682,797
	611,144	620,946
Land held for future construction	**3,552**	3,552
Construction in progress	**41,063**	25,939
Property and equipment, net	**$ 655,759**	$ 650,437

Construction in Progress

Estimated costs to complete construction projects that have been in progress are approximately $148.7 million as of December 31, 2018. $93.5 million of the total estimated costs to complete are related to construction of the new Warren Memorial Hospital. The hospital is estimated to be completed in the first quarter 2020.

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.

Impairment of Long-Lived Assets

VHS evaluates the recoverability of long-lived assets and the related estimated remaining lives when indicators of impairment are present. VHS records an impairment charge or changes the useful life if events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. For purposes of impairment analysis, assets are grouped with other assets and liabilities at the lowest level for which cash flows are identifiable.

During 2018, VHS recognized $10.5 in impairment loss for a hospital classified as "Held and Used". A new hospital is being constructed as a replacement for Warren Memorial Hospital and the operations are intended to move in first quarter 2020. Management evaluated the current hospital using discounted cash flows and determined that the fair value is less than the current carrying cost.

Note 8. Long-Term Debt

A summary of long-term debt as of December 31, 2018 and 2017 follows:

	2018	2017
2018 Series Bonds, Hospital Revenue Bonds See terms below – Warren	**$ 54,365**	$ -
2015 Series Bonds, Hospital Revenue Refunding Bonds See terms below – Medical Center, Warren, Shenandoah, and Hampshire	**118,285**	119,604
2014 Series Bonds, Hospital Revenue Refunding Bonds See terms below – Hampshire	**17,820**	18,255
2014A Series Bonds, Hospital Revenue Refunding Bonds See terms below – Medical Center	**40,835**	41,610
2014B Series Bonds, Hospital Revenue Bonds See terms below – Shenandoah	**12,000**	12,000
2013A Series Bonds, Hospital Revenue Bonds See terms below – Page	**32,380**	33,105
2013B Series Bonds, Hospital Revenue Bonds See terms below – Medical Center	**60,050**	63,575
2009 Series Bonds, Hospital Revenue Bonds See terms below – Medical Center	**97,905**	98,625
	433,640	386,774
Add bond premium	**14,725**	15,017
Less deferred financing costs	**(3,453)**	(2,633)
Less current portion	**(7,800)**	(7,500)
Long-term debt	**$ 437,112**	$ 391,658

Aggregate maturities of long-term obligations are as follows:

Year Ending December 31,	Long-Term Debt
2019	$ 7,800
2020	8,091
2021	8,407
2022	8,807
2023	9,183
Thereafter	391,352
	$ 433,640

A detail description of the bond indebtedness follows:

2018 Series Bond, Hospital Revenue Bonds

In July 2018, the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia (The Authority) issued $54.4 million Hospital Revenue Bonds, Series 2018. The bonds were issued to Warren Memorial Hospital (Borrower). Proceeds of the Series 2018 Bonds are to be used by the Borrower to pay a portion of the costs of constructing, equipping, and furnishing a new three story, 175,000 square foot general acute care hospital to be located in the County of Warren, Virginia. The Series 2018 Bonds will be limited obligations of the Authority and will be payable solely from and secured by a pledge of certain payment to be made by the Borrower pursuant to the Loan Agreement and Obligation issues by the Borrower under the Master Trust Indenture Dated as of September 1986, as amended and supplemented. Payments of principal and interest are made directly to the Bond trustees for the account of the Authority. Interest rates are fixed, and the bonds mature January 2046 and January 2050. At December 31, 2018, the rates for the 2018 bonds were 3.75%-4.00%.

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 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. Interest rates are fixed, and the bonds mature January 2019 through January 2044. At December 31, 2018, the rates for the 2015 bonds were 3.00% to 5.00%.

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. Interest rates are fixed, and the bonds mature January 2019 through January 2044. At December 31, 2018, the rates for the 2014 bonds were 4.00% to 5.00%.

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. Interest rates are fixed, and the bonds mature January 2019 through January 2044. At December 31, 2018, the rates for the 2014A bonds were 4.00% to 5.00%.

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, and have a maturity date of January 2047. At December 31, 2018, the rate on the 2014B bonds was 2.58%

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, and have a maturity date of January 2045. The rate for the Series 2013A bonds was 2.62% at December 31, 2018.

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).

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, and have a maturity date of January 2030. The rate for the Series 2013B bonds was 2.78% at December 31, 2018.

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 a variable rate, which resets to market weekly, and have a maturity date of January 2043. The 2009 bonds bear interest at rates of 1.40% to 2.81%.

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).

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, 2018 and 2017, Valley Health System was in compliance with such covenants.

Note 9. Other Current Assets

Other current assets consist of the following at December 31, 2018 and 2017 (in thousands):

	2018	2017
Prepaid service contracts	**$ 7,827**	$ 8,747
Security deposits	**545**	545
Prepaid insurance	**828**	299
Rent receivable	**27**	37
Other non-patient receivables	**8,887**	7,989
Deferred tax asset	**403**	319
Captive dividend receivable	**-**	7,331
Other	**3,255**	2,590
Total other current assets	**$ 21,772**	$ 27,857

Note 10. Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following at December 31, 2018 and 2017 (in thousands):

	2018	2017
Interest rate swap agreements	**$ 24,853**	$ 29,888
Deferred compensation – attending faculty plan (Note 19)	**10,264**	8,969
Deferred tax liability	**608**	608
Other	**943**	1,053
Total other noncurrent liabilities	**$ 36,668**	$ 40,518

Note 11. Interest Rate Risk Management and Contingency

Medical Center, Shenandoah, Warren, Page and Hampshire (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.

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, 2018 and 2017 were $77.7 million and $79.7 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, 2018 and 2017, a $4.95 million unrealized gain and $1.3 million unrealized gain was recorded, respectively. In 2018 and 2017, the Medical Center received $330 thousand and $260 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, 2018 and 2017 were $97.9 million and $98.6 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 8). As of December 31, 2018 and 2017, unrealized gains of $84 thousand and $1.1 million, respectively, were recorded. For 2018 and 2017, the Medical Center paid $2.1 million and $2.7 million, respectively, for this swap.

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

Balance Sheet Location	Fair Value 2018	Fair Value 2017
Cash Flow Hedges:		
Interest rate contracts - other long-term liabilities	**$ (24,853)**	$ (29,888)
Total derivative designated as hedging instruments	**$ (24,853)**	$ (29,888)

The following table summarizes the effect of Derivative Instruments on the Statement of Changes in Net Assets for the years ended December 31, 2018 and 2017 (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) 2018	2017
Cash Flow Hedges:			
Interest rate contracts	Change in value of derivatives	**$ 5,034**	$ 2,441

For the years ended December 31, 2018 and 2017, 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 nets assets and reclassed into excess of revenues over expenses.

Note 12. Liquidity and Availability

As of December 31, 2018, VHS has working capital of approximately $460.7 million, and approximately 253.3 days cash on hand.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at December 31, 2018:

Cash and cash equivalents	$	53,142
Patient accounts receivable, net		95,455
Assets limited as to use:		
Board Designated Funds		65,127
Investments		319,063
Other receivable		8,914
	$	541,701

VHS estimates that approximately 73% of the board designated funds and investments are available for general expenditure within one year in the normal course of operations. VHS has other assets whose use is limited for debt service, for donor-restricted purposes, and deferred compensation plans. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above.

Note 13. 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 $9.1 million and $12.8 million were made in 2018 and 2017, 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:

	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 325,277**	$ 303,871
Interest cost	**12,031**	12,762
Actuarial (gain) loss	**(24,369)**	28,196
Benefits paid	**(8,499)**	(19,552)
Benefit obligation at end of year	**304,440**	325,277
Change in plan assets:		
Fair value of plan assets at beginning of year	**246,471**	225,141
Actual return on plan assets	**(8,890)**	28,098
Employer contributions	**9,100**	12,784
Benefits paid	**(8,499)**	(19,552)
Fair value of plan assets at end of year	**238,182**	246,471
Funded status at end of year	**$ (66,258)**	$ (78,806)

Amounts recognized on balance sheet consist of:

	2018	2017
Noncurrent liabilities	**$ (66,258)**	$ (78,806)
	$ (66,258)	$ (78,806)

Amounts recognized in other changes in net assets:

	2018	2017
Net actuarial loss	**$ 114,376**	$ 113,068
	$ 114,376	$ 113,068

The accumulated benefit obligation was $304.4 million and $325.3 million at December 31, 2018 and 2017, 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):

	2018	2017
Components of net periodic pension cost:		
Interest cost	**$ 12,031**	$ 12,762
Expected return on plan assets	**(19,145)**	(18,502)
Amortization of actuarial loss	**2,359**	1,463
Net periodic benefit cost	**(4,755)**	(4,277)

	2018	2017
Other changes in amounts recognized in other changes in net assets:		
Net loss (gain) added during year	$ 3,666	$ 18,600
Amortization of (gain) loss	(2,359)	(1,464)
Total change in net assets without donor restrictions at end of current year	**1,307**	17,136
Total recognized in net periodic benefit cost and other changes in net assets	**$ (3,448)**	$ 12,859

Estimated net loss of $2.0 million and prior service cost of $0 for the defined benefit pension plan will be amortized from net assets without donor restrictions into periodic benefit cost in the next fiscal year.

Additional Information - Assumptions

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

	2018	2017
Discount rate	**4.25%**	3.75%
Rate of increase in compensation levels	**N/A**	N/A

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

	2018	2017
Discount rate	**3.75%**	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-2018 were utilized to determine the financial disclosure information for the year ended December 31, 2018.

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 $10.1 million to its pension plan in 2019.

Estimated Future Benefit Payments

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

	Pension Benefits
2019	$ 10,149
2020	$ 10,797
2021	$ 11,461
2022	$ 12,137
2023	$ 12,852
Years 2024 - 2028	$ 72,826

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 $12.1 million and $11.2 million for the years ended 2018 and 2017, 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 five highest years' salaries 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:

	2018	2017
Fair value of plan assets	**$ 17,701**	$ 18,298
Benefit obligations	**21,243**	23,427
Funded status	**(3,542)**	(5,129)
Funded status at end of year	**$ (3,542)**	$ (5,129)

Amounts recognized on balance sheet consist of:

	2018	2017
Noncurrent liabilities	**$ (3,542)**	$ (5,129)
	$ (3,542)	$ (5,129)

Amounts recognized in other changes in net assets:

	2018	2017
Net actuarial loss	**$ 5,464**	$ 5,619
	$ 5,464	$ 5,619

The accumulated benefit obligation was $21.2 million and $23.4 million at December 31, 2018 and 2017, respectively.

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

	2018	2017
Net periodic benefit cost	**$ (472)**	$ (134)
Other changes in amounts recognized in other changes in net assets:		
Net loss (gain) during the year	**(20)**	829
Settlement recognition	**-**	(245)
Amortization of (gain) loss	**(135)**	(70)
Total change in net assets without donor restrictions at the end of the current year	**(155)**	514
Total recognized in net periodic benefit cost and other changes in net assets	**$ (627)**	$ 380

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from net assets without donor restrictions into periodic benefit cost over the next fiscal year are $80 thousand and $0, respectively.

Additional Information - Assumptions

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

	2018	2017
Discount rate	**4.25%**	3.50%
Rate of increase in compensation levels	**N/A**	N/A

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

	2018	2017
Discount rate	**3.50%**	4.00%
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 $960 thousand and $1.6 million were made in 2018 and 2017, respectively. SMH plans to contribute $1 million to the Plan in 2019.

Estimated Future Benefit Payments

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

		Pension Benefits
2019	$	1,060
2020	$	1,127
2021	$	1,156
2022	$	1,199
2023	$	1,239
Years 2024 - 2028	$	6,647

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, 2018 and 2017 (in thousands):

		Fair Value Measurements Using:		
Plan Asset	**Total at December 31, 2018**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents	**$ 4,340**	$ 4,340	$ -	$ -
Mutual and other funds:				
Balanced funds	**19,053**	19,053	-	-
Total assets in the fair value Hierarchy	**23,393**	23,393	-	-
Investments measured at NAV	**232,490**	-	-	-
Total investments at fair value	**$ 255,883**	$ 23,393	$ -	$ -

		Fair Value Measurements Using:		
Plan Asset	**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	$ -	$ -

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, 2018 and 2017, respectively.

December 31, 2018	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Equity funds (h)	$ 91,599	$ -	Daily	0-2 days
Fixed income funds (i)	$ 109,868	$ -	Daily	0-1 days
Real estate fund (j)	$ 6,051	$ -	Daily	45 days
Managed hedge fund (k)	$ 13,893	$ -	Daily	90 days
Other funds (l)	$ 11,079	$ 6,381	N/A	N/A
Total	**$ 232,490**	**$ 6,381**		

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 (b)	$ 18,198	$ -	Quarterly	60 days
Fixed income fund (c)	$ 40,474	$ -	Daily	By 2:00pm of redemption date
Equity fund (d)	$ 95,190	$ -	Daily	By 2:00pm of redemption date
Inflation hedge fund (e)	$ 20,683	$ -	Daily	By 2:00pm of redemption date
Direct hedged equity fund (f)	$ 20,452	$ -	Quarterly	100 days
Other funds (g)	$ 12,621	$ 5,523	N/A	N/A
Total	**$ 235,520**	**$ 5,523**		

(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) 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.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

(g) The other funds are 7 funds that invest in a 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.

(h) Equity Funds are 3 commingled funds with exposure to U.S., developed non-U.S., and emerging markets equities. The funds have daily liquidity.

(i) Fixed Income Funds are 3 commingled funds with exposure to U.S. long-term corporate credit, high yield, and long-term government bonds. The funds have daily liquidity.

(j) Real Estate Fund invests indirectly in commercial real estate investments (commingled real estate funds, equity and debt securities, and other real estate related investments, including index derivatives, cash, and cash equivalents). The fund has quarterly liquidity with a 90 day notice period.

(k) 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.

(l) The other funds are 6 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 14. 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):

2018	Healthcare Services	Fund Raising	Administrative and General Services	Total
Salaries	$ 269,985	$ 673	$ 98,530	$ 369,188
Payroll Taxes and Benefits	57,396	162	22,545	80,103
Supplies & Other	244,824	415	122,751	367,990
Depreciation	50,878	-	16,959	67,837

2018	Healthcare Services	Fund Raising	Administrative and General Services	Total
Interest Expense	**10,777**	**-**	**3,588**	**14,365**
Total	**$ 633,860**	**$ 1,250**	**$ 264,373**	**$ 899,483**

2017	Healthcare Services	Fund Raising	Administrative and General Services	Total
Salaries	$ 257,039	$ 646	$ 89,167	$ 346,852
Fringe Benefits	54,406	169	21,443	76,018
Supplies & Other	225,400	371	113,723	339,494
Depreciation	47,900	-	15,967	63,867
Interest Expense	10,129	-	3,371	13,500
Total	$ 594,874	$ 1,186	$ 243,671	$ 839,731

Expenses in the consolidated financial statements that are associated with more than one function require an allocation on a reasonable basis. Costs not directly associated to a specific function, including interest and depreciation and amortization, are allocated to a function based on a square footage basis.

Note 15. 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 $2.2 million and $2.9 million in 2018 and 2017, respectively. Future minimum rental income is as follows (in thousands):

2019	$ 1,899
2020	1,447
2021	1,381
2022	1,297
2023	988
Thereafter	3,175
Total future minimum rental income	$ 10,187

Note 16. 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 $5.0 million and $4.3 million for 2018 and 2017, 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, 2018 (in thousands):

2019	$ 3,883
2020	3,283
2021	2,256
2022	1,506
2023	1,369
Thereafter	12,150
Total future minimum lease payments	$ 24,447

Note 17. 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 $461 thousand and $603 thousand, at December 31, 2018 and 2017, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately $426 thousand and $1,037 thousand for the years ended December 31, 2018 and 2017, respectively. Total cash distributions received from the investment by VHS in 2018 and 2017 were approximately $ 569 thousand and $1,130 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 $425 thousand and $1,071 thousand at December 31, 2018 and 2017, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately $4.5 million and $4.6 million for the years ended December 31, 2018 and 2017, respectively. Total cash distributions received from the investment by VHS in 2018 and 2017 were approximately $4.4 million and $4.5 million, respectively. Open MRI's financial statements were not consolidated in the financial statements of VHS since it does not have a controlling ownership.

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 $265 thousand and $459 thousand, at December 31, 2018 and 2017, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately $2.2 million and $2.0 million for the years ended December 31, 2018 and 2017, respectively. Total cash distributions received from the investment by VHS in 2018 and 2017 were approximately $2.2 million and $2.0 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 $3.4 million and $3.3 million for the years ended December 31, 2018 and 2017. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately $239 thousand and $256 thousand for the years ended December 31, 2018 and 2017, respectively. Total cash distributions received from the investment by VHS in both years ended 2018 and 2017 were approximately $136 thousand.

Advanced Home Care, Inc.

Valley Health has an investment under the cost method of accounting in Advanced Home Care, Inc. of approximately $5 million at December 31, 2018 and 2017. Included in other operating revenue in the Consolidated Statement of Operations are membership distributions of $54 thousand and $91 thousand for the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

Valley Health Surgery Center, LLC

VHS is a member, owning a majority interest, in Valley Health Surgery Center, LLC, a company formed in 2017 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 $1.1 million and $2.3 million at December 31, 2018 and 2017, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity losses on the investment of approximately $1.2 million and $363 thousand for the years ended December 31, 2018 and 2017, respectively. Due to the structure of the board and voting rights, VHS's majority interest in Valley Health Surgery Center, LLC's does not give it the ability to exercise control. Valley Health Surgery Center, LLC's financial statements were not consolidated in the financial statements of VHS.

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 $208 thousand and $102 thousand at December 31, 2018 and 2017, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings in the investment of $165 thousand and $0 at December 31, 2018 and 2017.

Note 18. 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, 2018 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 $2.1 million in 2018 and $3.5 million in 2017. 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.

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, 2018

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 assets						
Cash and cash equivalents	$ 15,536	$ 24,219	$ 418	$ -	$ 2,422	$ 2,292
Investments	-	316,701	-	-	24,987	17,516
Assets limited as to use	-	10,230	-	-	1,220	-
Patient accounts receivable	-	65,405	5,592	-	7,890	5,946
Due from related entities	31,876	5,630	-	-	-	600
Inventory of supplies	1,771	13,628	673	-	1,526	1,049
Other current assets	13,010	5,189	1,147	-	439	297
Total current assets	62,193	441,002	7,830	-	38,484	27,700
Assets limited as to use, noncurrent	4,991	186,480	-	-	53,104	3,171
Property and equipment, net	-	441,938	11,777	-	38,128	47,457
Other assets						
Goodwill	-	-	-	-	-	227
Other investments	16,279	799	3,443	-	-	-
Investments in wholly-owned subsidiaries	828,646	-	-	-	-	-
Total other assets	844,925	799	3,443	-	-	227
Total assets	$ 912,109	$ 1,070,219	$ 23,050	$ -	$ 129,716	$ 78,555

East Mountain Health Advantage and Subsidiaries	Hampshire Memorial Hospital	War Memorial Hospital	Page Memorial Hospital	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
$ 35	$ 1,822	$ 2,398	$ 2,475	$ 1,525	$ 53,142	$ -	$ 53,142
-	-	-	-	-	359,204	-	359,204
-	1,000	-	821	-	13,271	-	13,271
-	2,479	2,640	2,587	2,916	95,455	-	95,455
-	-	-	-	-	38,106	(38,106)	-
2	447	478	434	-	20,008	-	20,008
42	145	940	472	91	21,772	-	21,772
79	5,893	6,456	6,789	4,532	600,958	(38,106)	562,852
-	-	238	269	-	248,253	-	248,253
10,319	28,856	32,073	42,070	3,141	655,759	-	655,759
-	4,400	-	-	-	4,627	-	4,627
-	490	490	-	-	21,501	-	21,501
-	-	-	-	-	828,646	(828,646)	-
-	4,890	490	-	-	854,774	(828,646)	26,128
$ 10,398	$ 39,639	$ 39,257	$ 49,128	$ 7,673	$ 2,359,744	$ (866,752)	$ 1,492,992

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS), Continued
December 31, 2018

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	$ -	$ 6,188	$ 3,440	$ -	$ 291	$ 116
Accounts payable and accrued expenses	27,578	16,585	1,029	-	1,762	900
Accrued salaries and wages	36,787	-	-	-	-	-
Third-party settlements	-	4,744	-	9	627	275
Due to related entities	-	20,393	595	3,849	3,263	2,322
Other current liabilities	198	-	-	-	-	-
Total current liabilities	64,563	47,910	5,064	3,858	5,943	3,611
Long-term debt, excluding current installments	-	281,831	-	-	78,015	21,773
Accrued pension and post retirement obligations	-	66,258	-	-	-	3,542
Other liabilities	307	35,635	616	-	(105)	78
Total liabilities	64,870	431,634	5,680	3,858	83,853	29,006
Net assets:						
Net assets without donor restrictions	821,348	618,987	17,370	(3,858)	43,835	46,382
Net assets with donor restrictions	25,891	19,598	-	-	2,028	3,167
Total net assets	847,239	638,585	17,370	(3,858)	45,863	49,549
Total liabilities and net assets	$ 912,109	$ 1,070,219	$ 23,050	$ -	$ 129,716	$ 78,555

East Mountain Health Advantage and Subsidiaries	Hampshire Memorial Hospital	War Memorial Hospital	Page Memorial Hospital	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
$ -	$ 455	$ -	$ 750	$ -	$ 11,240	$ (3,440)	$ 7,800
386	727	457	297	1,103	50,824	-	50,824
-	-	-	-	-	36,787	-	36,787
-	1,375	1,599	(2,097)	-	6,532	-	6,532
20	1,069	802	960	1,393	34,666	(34,666)	-
32	-	-	-	-	230	-	230
438	3,626	2,858	(90)	2,496	140,279	(38,106)	102,173
-	23,969	-	31,524	-	437,112	-	437,112
-	-	-	-	-	69,800	-	69,800
2	-	72	63	-	36,668	-	36,668
440	27,595	2,930	31,497	2,496	683,859	(38,106)	645,753
9,958	11,846	36,041	17,017	5,177	1,624,103	(802,755)	821,348
-	198	286	614	-	51,782	(25,891)	25,891
9,958	12,044	36,327	17,631	5,177	1,675,885	(828,646)	847,239
$ 10,398	$ 39,639	$ 39,257	$ 49,128	$ 7,673	$ 2,359,744	$ (866,752)	$ 1,492,992

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – OPERATING INFORMATION (IN THOUSANDS)
Year Ended December 31, 2018

	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Valley Partners	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Revenue, gains and other support						
Net patient service revenue	$ -	$ 580,363	$ 31,616	$ 168	$ 66,085	$ 57,810
Other operating revenue	137,678	10,911	1,069	605	1,626	1,955
Investment income, net	254	75,341	1	-	3,911	2,729
Net assets released from restrictions	-	941	-	-	49	131
Total revenues, gains and other support	137,932	667,556	32,686	773	71,671	62,625
Expenses						
Salaries and wages	59,874	177,312	14,362	1,105	26,483	25,675
Payroll taxes and benefits	14,429	39,260	2,921	288	6,515	5,262
Supplies and other	55,026	217,398	12,121	152	24,520	18,140
Corporate management fees	-	77,277	3,043	-	8,829	6,574
VPE allocation	-	17,269	-	-	4,136	1,556
Depreciation and amortization	-	49,917	2,107	-	4,280	4,315
Interest expense	-	10,865	163	-	1,044	684
Total expenses	129,329	589,298	34,717	1,545	75,807	62,206
Excess (deficit) of operating revenue over operating expenses before loss on impairment of long-lived assets	8,603	78,258	(2,031)	(772)	(4,136)	419
Loss on impairment of long-lived assets	-	-	-	-	(10,479)	-
Excess (deficit) of operating revenue over operating expenses after loss on impairment of long-lived assets	8,603	78,258	(2,031)	(772)	(14,615)	419
Nonoperating revenue (expense)						
Gain (loss) on sale of fixed assets	-	628	8	-	(58)	(15)
Excess of revenue over expenses	8,603	78,886	(2,023)	(772)	(14,673)	404
Other changes in net assets						
Intercompany transfers, net	(10,911)	(13)	1,805	(89)	9,050	(1,057)
Net unrealized loss on investments	-	(90,667)	-	-	(4,865)	(3,368)
Net assets released from restrictions used for acquisition of fixed assets	-	-	-	-	-	-
Change in value of derivatives	-	5,000	-	-	24	10
Change in pension plan funded status	-	(1,308)	-	-	-	156
Earnings in equity of wholly-owned subsidiaries	(28,702)	-	-	-	-	-
Increase (decrease) in net assets without donor restrictions	$ (31,010)	$ (8,102)	$ (218)	$ (861)	$ (10,464)	$ (3,855)

East Mountain Health Advantage and Subsidiaries	Hampshire Memorial Hospital	War Memorial Hospital	Page Memorial Hospital	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
$ -	$ 26,685	$ 24,179	$ 29,719	$ 25,461	$ 842,086	$ -	$ 842,086
1,126	767	667	2,666	29,557	188,627	(140,479)	48,148
-	13	3	(19)	2	82,235	(166)	82,069
-	-	3	7	-	1,131	-	1,131
1,126	27,465	24,852	32,373	55,020	1,114,079	(140,645)	973,434
489	10,879	10,204	14,586	28,219	369,188	-	369,188
92	2,397	2,330	3,021	3,888	80,403	(300)	80,103
4,619	8,805	8,127	8,811	19,091	376,810	(8,820)	367,990
-	2,793	2,573	3,211	2,645	106,945	(106,945)	-
-	302	286	865	-	24,414	(24,414)	-
491	1,652	1,679	2,535	861	67,837	-	67,837
-	1,036	-	739	-	14,531	(166)	14,365
5,691	27,864	25,199	33,768	54,704	1,040,128	(140,645)	899,483
(4,565)	(399)	(347)	(1,395)	316	73,951	-	73,951
-	-	-	-	-	(10,479)	-	(10,479)
(4,565)	(399)	(347)	(1,395)	316	63,472	-	63,472
-	(27)	-	-	-	536	-	536
(4,565)	(426)	(347)	(1,395)	316	64,008	-	64,008
8,239	(5,422)	(4,986)	1,572	1,812	-	-	-
-	-	-	-	-	(98,900)	-	(98,900)
-	-	-	-	-	5,034	-	5,034
-	-	-	-	-	(1,152)	-	(1,152)
-	-	-	-	-	-	-	-
-	-	-	-	-	(28,702)	28,702	-
$ 3,674	$ (5,848)	$ (5,333)	$ 177	$ 2,128	$ (59,712)	$ 28,702	$ (31,010)

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

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

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 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	-	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	-	-	-	-	-	-
Other investments	18,742	789	3,340	-	-	-
Investments in wholly owned subsidiaries	857,769	-	-	-	-	-
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:						
Net assets without donor restrictions	852,358	627,089	17,588	(2,997)	54,299	50,237
Net assets with donor restrictions	26,312	20,214	-	-	1,791	3,343
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	538	-	52,624	(26,312)	26,312
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
Revenue, gains and other support						
Net patient service revenue	$ -	$ 592,452	$ 31,014	$ (1,418)	$ 63,278	$ 53,638
Other operating revenue	130,453	11,916	652	114	1,689	657
Investment income, net	584	4,090	1	-	262	233
Net assets released from restrictions	-	555	-	-	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	-	-	-	-	-
Increase (decrease) in net assets without donor restrictions	$ 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
$ -	$ 26,122	$ 24,208	$ 25,040	$ 17,744	$ 832,078	$ -	$ 832,078
678	647	696	2,093	23,245	172,840	(134,276)	38,564
-	27	1	(98)	1	5,101	(170)	4,931
-	-	40	160	-	921	-	921
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