

# **West Virginia University Health System and Controlled Entities**

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**Consolidated Financial Statements and  
Consolidating Supplementary Information**

**Years Ended December 31, 2018 and 2017**



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## **Independent Auditors' Report**

Board of Directors  
West Virginia University Health System and Controlled Entities  
Morgantown, West Virginia

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of West Virginia University Health System, Inc. and controlled entities (the System), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statement of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Augusta Insurance Company, Ltd., a wholly-owned subsidiary, whose statements reflect total assets constituting 2 percent of consolidated total assets at December 31, 2018. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Augusta Insurance Company, Ltd., is based solely on the report of the other auditors. We conducted our audit 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 of 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, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



### ***Change in Accounting Principles***

As described in Note 3 to the consolidated financial statements, the System adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance on revenue recognition and related disclosure using the modified retrospective method in 2018. Additionally, as described in Note 2 to the consolidated financial statements, the System retrospectively adopted ASU 2016-18 *Statement of Cash Flows (Topic 230)*, which requires the statement of cash flows to display the change in total cash and cash equivalents, including restricted cash and cash equivalents. Our opinion is not modified with respect to these matters.

### ***Prior Period Consolidated Financial Statements***

The consolidated financial statements of the System as of and for the year ended December 31, 2017, were audited by other auditors whose report dated April 19, 2018, expressed an unmodified opinion on those statements. As discussed in Note 2 to the consolidated financial statements, the System has adjusted its 2017 financial statements to retrospectively apply the change in accounting related to the adoption of ASU 2016-18, *Statement of Cash Flows (Topic 230)*. The other auditors reported on the consolidated financial statements before the retrospective adjustment.

As part of our audit of the 2018 consolidated financial statements, we also audited the adjustments to the 2017 consolidated statement of cash flows to retrospectively apply the change in accounting to the presentation of the consolidated statement of cash flows as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the System’s 2017 consolidated financial statements other than with respect to these adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2017 consolidated financial statements as a whole.

### ***Report On Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the 2018 consolidated financial statements as a whole. The 2018 supplementary information on pages 42 through 45 and 50 through 53 is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities 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, which insofar as it relates to Augusta Insurance Company, Ltd., is based on the report of other auditors, such consolidating information is fairly stated in all material respects in relation to the 2018 consolidated financial statements as a whole. The 2017 supplementary information on pages 46 through 49 and 54 through 57 was subjected to the auditing procedures applied in the 2017 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2017 consolidated financial statements as a whole.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
April 18, 2019**

**West Virginia University Health System and Controlled Entities**  
**Consolidated Balance Sheets**  
**December 31, 2018 and 2017**  
**(in thousands)**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 176,287	\$ 121,635
Current portion of assets whose use is limited	17,153	20,209
Accounts receivable:		
Patients, net of estimated allowance for doubtful accounts of \$70,451 in 2017	339,824	301,793
Other	50,898	36,441
Inventories of supplies	45,054	39,272
Estimated third-party payor settlements	22,630	18,697
Prepaid expenses and other current assets	26,572	13,504
	<u>678,418</u>	<u>551,551</u>
Total current assets		
Assets Whose Use is Limited:		
Board-designated funds:		
Funded depreciation	622,840	735,314
Strategic initiatives	12,791	25,704
Malpractice self-insurance	-	35,676
Under trust indenture, held by trustee	253,359	55,064
Malpractice self-insurance, held by trustee	-	23,310
Malpractice investments	54,318	-
Foundation investments	21,866	44,403
	<u>965,174</u>	<u>919,471</u>
Noncurrent portion of assets whose use is limited		
Property and Equipment, Net	1,315,952	1,235,159
Restricted Assets Held by Third-Parties	21,702	18,588
Other Assets, Net	97,832	88,429
	<u>97,832</u>	<u>88,429</u>
Total assets	<u>\$ 3,079,078</u>	<u>\$ 2,813,198</u>

**West Virginia University Health System and Controlled Entities**  
**Consolidated Balance Sheets**  
**December 31, 2018 and 2017**  
**(in thousands)**

**(Continued)**

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Line of credit	\$ 4,467	\$ 11,928
Current maturities of long-term debt	25,948	25,108
Accounts payable and accrued expenses	145,441	136,662
Estimated third-party payor settlements	11,823	8,150
Salaries and benefits payable	115,340	108,788
Accrued interest payable	3,207	1,646
Current portion of malpractice costs	9,703	13,638
	<u>315,929</u>	<u>305,920</u>
Total current liabilities	315,929	305,920
Long-Term Debt, net	1,345,357	1,080,812
Malpractice Costs	32,683	39,858
Derivative Financial Instruments	32,024	39,704
Pension Liability	11,440	7,147
Other Liabilities	7,883	5,009
	<u>1,745,316</u>	<u>1,478,450</u>
Total liabilities	1,745,316	1,478,450
Net Assets:		
Without donor restrictions		
Controlling interest	1,301,687	1,306,066
Noncontrolling interest	3,514	3,574
	<u>1,305,201</u>	<u>1,309,640</u>
Net assets without donor restrictions	1,305,201	1,309,640
Net assets with donor restrictions	28,561	25,108
	<u>1,333,762</u>	<u>1,334,748</u>
Total net assets	1,333,762	1,334,748
Total liabilities and net assets	<u>\$ 3,079,078</u>	<u>\$ 2,813,198</u>

**West Virginia University Health System and Controlled Entities**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2018 and 2017**  
**(in thousands)**

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Patient service revenues		\$ 2,076,830
Provision for bad debts		(69,918)
Net patient service revenues	\$ 2,218,754	2,006,912
Other revenues	<u>190,875</u>	<u>165,816</u>
Total operating revenues	<u>2,409,629</u>	<u>2,172,728</u>
Operating expenses:		
Salaries and wages	825,899	767,701
Employee benefits	243,081	220,839
Supplies	497,632	432,389
Physician support	231,496	190,610
Professional fees	118,456	103,682
Depreciation and amortization	138,915	126,644
Interest	47,870	41,714
Other	<u>261,520</u>	<u>255,504</u>
Total operating expenses	<u>2,364,869</u>	<u>2,139,083</u>
Operating income	<u>44,760</u>	<u>33,645</u>
Nonoperating income (loss):		
Investment (loss) income	(30,346)	110,595
Change in fair value of derivative financial instruments	7,536	4,519
Other, net	(15,403)	(2,563)
Loss on refinancing	<u>(251)</u>	<u>-</u>
Total nonoperating (loss) income	<u>(38,464)</u>	<u>112,551</u>
Revenues in excess of expenses	6,296	146,196
Less noncontrolling interest	<u>390</u>	<u>-</u>
Revenues in excess of expenses attributable to controlling interest	5,906	146,196
Pension liability adjustment	8,409	(24)
Transfers to the School of Medicine	(18,513)	(16,045)
Other	<u>(181)</u>	<u>(32)</u>
Change in net assets without donor restrictions, controlling interest	<u>\$ (4,379)</u>	<u>\$ 130,095</u>

See notes to consolidated financial statements.

**West Virginia University Health System and Controlled Entities**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2018 and 2017**  
**(in thousands)**

	<u>2018</u>	<u>2017</u>
Changes in net assets without donor restrictions, controlling interest:		
Revenues in excess of expenses	\$ 5,906	\$ 146,196
Pension liability adjustment	8,409	(24)
Transfers to the School of Medicine	(18,513)	(16,045)
Other	(181)	(32)
	<u>(4,379)</u>	<u>130,095</u>
Change in net assets without donor restrictions, controlling interest		
Changes in net assets without donor restrictions, noncontrolling interest:		
Revenues in excess of expenses	390	-
Distributions of capital	(450)	-
	<u>(60)</u>	<u>-</u>
Change in net assets without donor restrictions, noncontrolling interest		
Changes in net assets with donor restrictions:		
Increase in restricted assets held by West Virginia University Foundation	3,650	1,853
Contributions and grants	630	611
Valuation (loss) gain	(580)	474
Change in value of split-interest agreements	25	101
Net assets released from restrictions	(272)	(566)
	<u>3,453</u>	<u>2,473</u>
Change in net assets with donor restrictions		
Change in net assets	(986)	132,568
Net assets, beginning of year	<u>1,334,748</u>	<u>1,202,180</u>
Net assets, end of year	<u>\$ 1,333,762</u>	<u>\$ 1,334,748</u>

**West Virginia University Health System and Controlled Entities**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**  
**(in thousands)**

	<u>2018</u>	<u>2017</u>
		<b>As Adjusted</b>
Cash flows from operating activities:		
Change in net assets	\$ (986)	\$ 132,568
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for doubtful collections	-	69,918
Depreciation and amortization	138,915	126,644
Amortization of debt issuance costs included in interest expense	(1,503)	603
Net realized and unrealized losses (gains) on investments	42,584	(94,703)
Change in fair value of derivative financial instruments	(7,536)	(4,662)
Pension liability adjustment	(8,409)	24
Loss on refinancing	251	-
Change in value of restricted assets held by third parties	(2,644)	(1,193)
Changes in assets and liabilities:		
Patient accounts receivable	(38,031)	(150,154)
Other receivables	(14,457)	(7,385)
Estimated third-party payor settlements	(260)	(20,602)
Inventories of supplies, prepaid expenses and other assets	(20,571)	(1,909)
Accounts payable and accrued expenses	8,779	19,374
Salaries and benefits payable	6,552	13,861
Malpractice costs	(11,110)	(7,434)
Other liabilities	17,137	(4,350)
Net cash provided by operating activities	<u>108,711</u>	<u>70,600</u>
Cash flows from investing activities:		
Purchases of property and equipment	(215,198)	(224,455)
Sales (purchases) of assets limited as to use	120,315	(17,034)
Purchase of equity method investment	-	(5,000)
Proceeds from the sale of property and equipment	1,000	1,097
Net cash used in investing activities	<u>(93,883)</u>	<u>(245,392)</u>
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	637,148	194,616
Repayment of long-term debt	(366,285)	(24,294)
Payment of financing costs	(4,370)	(1,735)
Net proceeds from line of credit	(7,461)	(8)
Net cash provided by financing activities	<u>259,032</u>	<u>168,579</u>
Increase (decrease) in cash, cash equivalents and restricted cash	<u>273,860</u>	<u>(6,213)</u>
Cash, cash equivalents and restricted cash, beginning	<u>210,191</u>	<u>216,404</u>
Cash, cash equivalents and restricted cash, ending	<u>\$ 484,051</u>	<u>\$ 210,191</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	<u>\$ 51,172</u>	<u>\$ 44,140</u>
Capital lease for purchase of property and equipment	<u>\$ -</u>	<u>\$ 317</u>

## **Notes to Consolidated Financial Statements**

### **1. Organizational Structure and Nature of Operations**

West Virginia United Health System, Inc. d/b/a West Virginia University Health System ("WVUHS") is a not-for-profit corporation formed to serve as part of an integrated health science and healthcare delivery system. WVUHS serves as the parent corporation to an affiliated group of healthcare providing entities which includes West Virginia University Hospitals, Inc. and controlled entities, United Hospital Center, Inc. and controlled entities, Camden-Clark Health Services, Inc. and controlled entities, Allied Health Services, Inc., United Physicians Care, Inc., and West Virginia United Insurance Services, Inc.

West Virginia University (the "University") commenced operations of a tertiary care teaching hospital in 1960 as a component of the Medical Center of the University. In 1984, the West Virginia legislature adopted legislation which authorized separation of the hospital operations from the University and establishment of a separate corporate entity. At that time, West Virginia University Hospitals, Inc. ("WVUH") was incorporated as a not-for-profit corporation to operate one or more hospitals in order to provide patient care, including specialized services not widely available in West Virginia, and to facilitate clinical education and research. WVUH currently operates Ruby Memorial Hospital, which is located in Morgantown, West Virginia. Ruby Memorial Hospital serves as a major statewide and regional healthcare referral center and provides the principal clinical education and research for the University.

On January 1, 2005, WVUH became the sole member of West Virginia University Hospitals - East, Inc. d/b/a University Healthcare ("University Healthcare"), a not-for-profit corporation formed to serve as part of an integrated health science and healthcare delivery system. University Healthcare serves as the parent corporation to an affiliated group of healthcare providing entities which includes City Hospital, Inc. d/b/a Berkeley Medical Center ("BMC"), The Charles Town General Hospital d/b/a Jefferson Medical Center ("JMC") and University Healthcare Foundation, Inc. ("UHCF").

BMC is a not-for-profit acute care hospital located in Martinsburg, West Virginia. BMC provides inpatient, outpatient, and emergency care services for residents of the eastern panhandle of West Virginia and the surrounding communities.

JMC is a not-for-profit acute care critical access hospital located in Ranson, West Virginia. JMC provides inpatient, outpatient, and emergency care services to the residents of the eastern panhandle of West Virginia and the surrounding communities. JMC was designated as a critical access hospital by the Centers for Medicare and Medicaid Services effective December 15, 2005.

UHCF is a not-for-profit corporation formed for the purpose of performing fund raising and other activities that benefit University Healthcare and its controlled entities.

On February 28, 2014, WVUH became the sole member of Potomac Valley Hospital of W. Va., Inc. ("PVH"), a for-profit acute care critical access hospital located in Keyser, West Virginia. Immediately following the transaction, PVH was converted to a not-for-profit corporation.

On October 1, 2016, WVUH became the sole member of Reynolds Memorial Hospital, Inc. ("RMH"), a not-for-profit acute care hospital located in Glen Dale, West Virginia. RMH is the sole member of Reynolds Memorial Foundation, Inc. ("RMF"). No consideration was exchanged and no goodwill or other intangible assets were recognized as a result of this transaction. The System recorded a contribution totaling \$13,041,000 in 2016, which represents the excess of the fair value of assets acquired over the fair value of liabilities assumed from the transaction.

United Hospital Center, Inc. ("UHC") is a not-for-profit acute care hospital located in Bridgeport, West Virginia. UHC provides inpatient, outpatient, psychiatric, and skilled nursing services for residents of its primary service area, which includes Harrison County, West Virginia and north central West Virginia. UHC is a major referral center in north central West Virginia. UHC is the sole member of United Health Foundation, Inc. ("UHF").

## **West Virginia University Health System and Controlled Entities**

### **Notes to Consolidated Financial Statements**

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UHF is a not-for-profit corporation formed for the purpose of performing support activities, including fundraising, that primarily benefit UHC.

On October 1, 2015, UHC became the sole member of St. Joseph's Hospital of Buckhannon, Inc. ("SJH"), a not-for-profit acute care critical access hospital located in Buckhannon, West Virginia. This acquisition allows SJH and UHC to operate in an integrated fashion, promoting health in their respective communities through more efficient operations, quality enhancement and more cost effective use of resources, as well as enhanced access to care. SJH is the sole member of St. Joseph's Foundation of Buckhannon, Inc. ("SJF"). SJH was designated as a critical access hospital by the Centers for Medicare and Medicaid Services effective April 1, 2014.

On March 1, 2011, WVUHS became the sole member of Camden Clark Health Services, Inc. ("CCHS"), a not-for-profit corporation formed to serve as part of an integrated health science and healthcare delivery system. CCHS serves as the parent corporation to an affiliated group of healthcare providing entities which includes Camden Clark Medical Center ("CCMC"), Camden Clark Foundation ("CCF") and Camden Clark Physician Corporation ("CCPC").

CCMC is a not-for-profit acute care hospital located in Parkersburg, West Virginia. CCMC provides inpatient, outpatient, and emergency services for the residents of Wood County and the surrounding communities.

CCF is a not-for-profit corporation formed for the purpose of performing fundraising and other activities that benefit CCMC.

CCPC is a not-for-profit corporation that operates physician practices in Wood County.

Allied Health Services, Inc. ("AHS") is a for-profit corporation engaged in the business of providing laboratory, laundry services and contracted specialty pharmacy services.

United Physicians Care, Inc. ("UPC") is a not-for-profit corporation that operates family practice clinics in north central West Virginia.

West Virginia United Insurance Services, Inc. ("WVUIS"), formerly HPN Services, Inc., is a for-profit corporation formed for the purposes of providing services to Health Partners Network, Inc., a physician-hospital organization, negotiating managed care contracts for WVUHS affiliates, and providing other property-casualty-accident and health insurance services for WVUHS affiliates.

Gateway Home Care, LLC ("GHC") is a West Virginia limited liability company jointly owned by BMC and AHS. GHC provides durable medical equipment in Berkeley County and Jefferson County, West Virginia.

Effective January 1, 2018, the System formed Augusta Insurance Company, Ltd. ("Augusta"), a wholly owned captive insurance company incorporated as an exempted company under the Companies Law of the Cayman Islands. Augusta facilitates the structuring of a unified insurance program for the System, while remaining flexible to meet unique needs that may vary across the System. See Note 12 for more information.

On July 5, 2018, WVUH became the sole member of United Summit Center, Inc. ("USC"). Prior to July 5, 2018, UHC was the sole member of USC. USC is a not-for-profit corporation formed for the purpose of providing community mental health and related services to residents of Harrison, Braxton, Doddridge, Lewis, Gilmer, Preston and Marion counties in West Virginia.

## **West Virginia University Health System and Controlled Entities**

### **Notes to Consolidated Financial Statements**

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In 2017, WVUH entered into a management and operating agreement with Recovery, LLC (Recovery), an unrelated third party, to operate and manage a 40 unit detox and addiction recovery treatment program (the Program) in a facility to be designed, financed and constructed by Recovery. WVUH has no ownership or control over Recovery, but the operation of the Program is jointly controlled and operated by both entities. Additionally, both parties share in the risks and rewards of the Program. Based on the joint control and sharing of risks and rewards of the Program, this transaction is recorded as a collaborative arrangement. As of December 31, 2018, the construction of the facility was still in process, Construction of the facility was completed and operations of the Program commenced on March 4, 2019. WVUH guaranteed the debt service commitment of the Program for the first two years of operation which approximates \$1,600,000.

## **2. Significant Accounting Policies**

### ***Principles of consolidation***

The accompanying consolidated financial statements include the accounts of WVUHS and its controlled entities, (collectively, the "System"). All significant intercompany transactions and balances have been eliminated in consolidation.

### ***Subsequent events***

The System evaluated subsequent events for recognition or disclosure through April 18, 2019, the date the consolidated financial statements were issued.

### ***Reclassifications***

Certain reclassifications were made to the 2017 consolidated financial statements to conform with the 2018 presentation. Such reclassifications had no impact in the previously reported revenues in excess of expenses.

### ***Use of estimates***

The preparation of consolidated 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 consolidated 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 include certain investments in highly liquid debt instruments purchased with a maturity of three months or less, excluding assets whose use is limited. The carrying amount of cash and cash equivalents approximates fair value.

The System maintains cash and cash equivalent accounts which may at times exceed federally insured limits. The System has not experienced any losses from maintaining these accounts in excess of federally insured limits. Management believes it is not subject to significant risks associated with these accounts.

During 2018, the System adopted Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230)*, which requires that the statement of cash flows display the change during the period in total cash and cash equivalents, including restricted cash and cash equivalents. Upon adoption the restricted cash and cash equivalent amounts are included in reconciling the beginning and end-of-period amounts show on the statements of cash flows. This standard has been adopted on a retrospective basis and the accompanying 2017 consolidated statement of cash flows has been updated to reflect the provisions of this standard.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

Following is a reconciliation of cash, cash equivalents and restricted cash as presented in the accompanying consolidated statements of cash flows as of December 31 (in thousands):

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 176,287	\$ 121,635
Restricted cash and cash equivalents held in assets whose use is limited	295,960	77,222
Restricted cash and cash equivalents in restricted assets held by third-parties	<u>11,804</u>	<u>11,334</u>
Total cash, cash equivalents and restricted cash shown in the accompanying consolidated statements of cash flows	<u>\$ 484,051</u>	<u>\$ 210,191</u>

Amounts included in restricted cash held in assets whose use is limited represent those set aside by the Board of Directors (the "Board") for future capital improvements or strategic initiatives over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by trustees under debt agreements where the restriction will lapse when the related debt is paid off; and assets designated for the malpractice programs. Amounts included in restricted cash within restricted assets held by third parties represent those held by foundations and restricted as to use by donor restriction.

***Assets whose use is limited***

Assets whose use is limited include assets set aside by the Board for future capital improvements or strategic initiatives over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by trustees under debt agreements; assets designated for malpractice programs; and assets held by the foundations. Amounts required to meet current maturities of certain debt and the current portion of malpractice costs have been classified as current in the consolidated balance sheet.

***Patient accounts receivable***

Patient accounts receivable are reported at net realizable value. For receivables associated with services provided to patients who have third-party coverage, the System estimates net realizable value based on the estimated contractual reimbursement percentage, which in turn is based on current contract provisions and historical paid claims by payor. For self-pay accounts, including uninsured and patient responsibility accounts, the net realizable value is determined using historical collection experience, adjusted for estimated conversions of patient responsibility portions, expected recoveries and changes in trends to estimate implicit price concessions in 2018 or the provision for bad debts in 2017. Management continually reviews the estimated net realizable value of accounts receivable by monitoring cash collections, economic conditions and trends, changes in payor mix, changes in federal or state healthcare coverage and other matters.

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements, primarily with Medicare, Medicaid, and various commercial insurance companies. The System records accounts receivable net of estimated price concessions in 2018 and allowances for bad debts in 2017 and such amounts have historically been within management's expectations. The mix of accounts receivable at December 31, 2018 and 2017, from patients and third-party payors is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	29%	29%
Medicaid	18%	14%
Blue Cross	24%	21%
Commercial, managed care and other	26%	32%
Patients	<u>3%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

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***Inventories***

Inventories are recorded at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis.

***Investments and investment risk***

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Investments in hedge funds, private equity funds, and other limited partnerships representing less than 3% ownership are recorded at cost. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law.

The System's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the accompanying consolidated balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

The System has an agreement with the West Virginia University Foundation, Inc. ("WVU Foundation"), an affiliate of the University, to manage the board-designated funds. Some of the System's and WVU Foundation's investments are jointly managed in commingled funds. The investment income and realized and unrealized gains and losses are allocated to the System based upon its relative ownership of each fund.

***Restricted assets held by third-parties***

WVU Foundation holds cash and securities which are available for WVUH's purposes, subject to donor restrictions. Restricted assets are those whose use has been limited by donors to a specific time period or purpose, primarily for capital expenditures, or are required to be maintained in perpetuity.

JMC is a beneficiary of several perpetual income trusts held by third parties. JMC has an irrevocable right to receive its portion, designated by the trust agreements, of the income from the trusts' assets, which are held in perpetuity. JMC has valued its portion of the trusts based on the pro-rata share of the fair value of the assets held in each trust, which represents a proxy for the present value of future cash flows. Income received from the trusts, the use of which has not been restricted by the donors, is included in investment income. Valuation gains and losses are classified as increases or decreases in net assets with donor restrictions.

***Other investments***

Other assets include the System's investment in several entities in which the System has a financial interest. Where the System has the ability to influence management, or has a twenty percent but not more than fifty percent interest in the entity, the investment is recorded using the equity method and adjusted for the System's proportionate share of the entity's undistributed earnings or losses. All other investments in such entities are recorded at cost.

***Property and equipment***

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis. Such lives, in the opinion of management, are adequate to allocate asset costs over their productive lives. Maintenance, repairs, and minor improvements are expensed as incurred. Equipment under capital leases is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Depreciation expense, including amortization of equipment under capital leases, was \$138,915,000 in 2018 and \$126,644,000 in 2017.

Interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Interest costs capitalized were \$4,864,000 in 2018 and \$1,369,000 in 2017.

## **West Virginia University Health System and Controlled Entities**

### **Notes to Consolidated Financial Statements**

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Gifts of long-lived assets such as land, buildings or equipment are recorded at fair value and reported as increases in net assets without donor restrictions 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 increases in net assets with donor restrictions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### ***Impairment of property and equipment***

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets and reported in the non-operating section of the consolidated statement of operations.

#### ***Goodwill***

Goodwill represents the excess of the amount paid to acquire certain businesses over the fair value of the net assets purchased. In 2018, the System recognized \$30,000 of goodwill related to the acquisition of several physician practices. In 2017, the System recognized \$1,365,000 of goodwill related to the acquisition of Gateway Home Care LLC and several physician practices. Goodwill of \$41,763,000 at December 31, 2018 and \$41,733,000 at December 31, 2017 is included in non-current other assets in the accompanying consolidated balance sheets.

The System evaluates goodwill on an annual basis or more frequently if management believes indicators of impairment exist. The System first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a two-step quantitative goodwill impairment test. The System's evaluation of goodwill resulted in no impairment losses in 2018 and 2017.

#### ***Estimated malpractice costs***

The provision for estimated medical malpractice costs includes estimates of the ultimate gross costs for both reported claims and claims incurred but not reported. Anticipated insurance recoveries, if any, associated with reported claims are recorded separately in the accompanying consolidated balance sheets at net realizable value.

#### ***Debt issuance costs***

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the debt using the straight-line method, which approximates the effective interest method. Such costs are reflected as a reduction of long-term debt in the accompanying consolidated balance sheets. Amortization of debt issuance costs was \$677,000 in 2018 and \$603,000 in 2017.

#### ***Advertising costs***

Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2018 and 2017 were approximately \$4,432,000 and \$3,607,000, respectively.

#### ***Noncontrolling interest***

The consolidated financial statements include all assets, liabilities, revenues, and expenses of entities that are controlled by the System and therefore consolidated. Noncontrolling interest in the accompanying consolidated balance sheets represents the portion of net assets owned by entities outside the System, for those entities in which the System's ownership interest is less than 100%.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

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***Net assets***

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor 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 restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

*Net Assets With Donor Restrictions* – net assets subject to donor 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. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

***Measure of operations***

The accompanying consolidated statements of operations reflect operating income, which includes all operating revenues and expenses that are an integral part of the System's healthcare services and supporting activities and net assets released from donor restrictions to support operating expenditures. Changes in revenues in excess of expenses that are excluded from operating income, consistent with industry practice, include investment income (including realized and unrealized gains and losses on investments, interest, dividends, and investment expenses), changes in net unrealized gains and losses on derivative financial instruments, inherent contributions recognized from acquisitions, and losses on refinancing of long-term debt.

***Revenues in excess of expenses***

The consolidated statement of operations includes the determination of revenues in excess of expenses. Changes in net assets without donor restrictions which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, adjustments to pension obligations, 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 revenues***

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted, as necessary, in future periods as tentative and final settlements are received. It is reasonably possible that the estimates used could change in the near term.

For uninsured patients, the System recognizes revenues on the basis of its standard rates, discounted in accordance with the System's policy. On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System estimates an implicit price concession related to uninsured patients in the period the services are provided. Prior to January 1, 2018, the System would use similar information to estimate a provision for bad debts.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

Patient service revenues, net of explicit and implicit price concessions in 2018 and contractual allowances and the provision for bad debts in 2017 from these major payor sources, are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Third-party government payors	\$ 1,227,100	\$ 1,183,738
Third-party commercial payors	968,207	805,586
Self-pay	<u>23,447</u>	<u>17,588</u>
Total	<u>\$ 2,218,754</u>	<u>\$ 2,006,912</u>

***Capitation payments***

The System has agreements with various managed care organizations to provide medical services to subscribing participants. Under these agreements, the System receives monthly capitation payments based on the number of participants, regardless of services actually performed.

***Charity care***

The System provides care to patients who meet certain criteria under its patient financial assistance policy without charge or at amounts less than its established rates. Because the System does not pursue collections of amounts determined to qualify as charity care, they are not reported as patient service revenues. The costs associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care. The level of charity care provided by the System was approximately \$17,074,000 in 2018 and \$20,330,000 in 2017.

***Contributions***

Unconditional promises to give cash and other assets to the System 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.

***Medicaid provider tax***

The West Virginia Broad Based Health Care Related Tax of 1993 assesses a tax on net patient service revenues at rates ranging from 1.75% to 5.50%, depending on the type of services provided. Additionally, the West Virginia Department of Tax and Revenue assesses a tax on net patient service revenues related to the Directed Payment Program (“DPP”), formerly known as the Upper Payment Limit (“UPL”) program (Note 3). The System incurred related taxes of \$51,751,000 in 2018 and \$46,390,000 in 2017 which is included in other operating expenses in the accompanying consolidated statements of operations.

***Federal and state income taxes***

WVUHS, WVUH, PVH, CCHS, CCMC, CCF, CCPC, University Healthcare, BMC, JMC, UHCF, UHC, USC, UHF, UPC, SJH, SJF, RMH and RMF are tax-exempt organizations and not subject to federal or state income taxes in accordance with Section 501(c)(3) of the Internal Revenue Code. On such basis, they will not incur any liability for income taxes, except for possible unrelated business income. AHS, WVUIS and GHC are organizations subject to federal and/or state income taxes. The System does not have any material uncertain tax positions as of December 31, 2018 and 2017.

***Health insurance benefits***

The System self-funds its employee health insurance coverages and accrues the estimated costs of incurred and reported and incurred but not reported claims, after consideration of its individual and aggregate stop-loss insurance coverages, based upon data provided by the third-party administrators of the programs and its historical claims experience.

***New accounting pronouncements***

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the System's leasing activities. The System will be required to retrospectively adopt the guidance in ASU No. 2016-02 for its year ending December 31, 2019. The System is currently assessing the effect that the adoption of ASU No. 2016-02 will have on its consolidated financial statements. Accordingly, the impact upon adoption is currently unknown.

**3. Net Patient Service Revenues**

Effective January 1, 2018, the System adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, using the modified retrospective method (ASC 606). The information in the prior year comparative period has not been restated and continues to be reported under the accounting standards in effect for that period. The overall impact of adoption was not material to the accompanying consolidated financial statements, with the primary changes related to presentation of certain information, as described below, and expanded disclosures in this note related to revenue recognition principles, disaggregation of revenues, and other matters.

As a result of the adoption of ASC 606, estimated uncollectible amounts from patients that were previously presented as the provision for bad debts in the consolidated statement of operations is now considered implicit price concessions (as defined in ASC 606) and, therefore, included in net patient service revenues in 2018. Such implicit price concessions reflected in net patient service revenues in the accompanying consolidated financial statements for the year ended December 31, 2018 were \$87,380,000. Prior to January 1, 2018, the provision for bad debts was presented consistent with the previous revenue recognition standards separately as a component of patient service revenue. Upon adoption of ASC 606, the allowance for doubtful accounts of \$70,451,000 at January 1, 2018, was reclassified as a direct reduction of patient accounts receivable. Such implicit price concessions continue to be presented as a direct reduction of patient accounts receivable.

Management has determined that the System has an unconditional right to payment only subject to the passage of time for services provided to date based on just the need to either finalize billing for such services (i.e., charge lag) or to discharge the patient and bill for such services for patients who are still receiving inpatient care in the System's facilities at the balance sheet date. Accordingly, the System accrues revenues and the related accounts receivables for services performed but not yet billed at the balance sheet date for in-house patients. Thus, management has determined that the System does not have any amounts that should be reflected separately as contract assets.

As part of the adoption of ASC 606, the System elected certain available practical expedients under the standard. First, the System elected the practical expedient that allows nonrecognition of the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System'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, the System does, in certain 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. Additionally, the System has applied the practical expedient whereby all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the System otherwise would have recognized is one year or less in duration.

## West Virginia University Health System and Controlled Entities Notes to Consolidated Financial Statements

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Patient care service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurer and government programs) and others. This also includes variable consideration for retroactive revenue adjustments due to settlement of audit, reviews and investigations by third-party payors. Generally, the System bills patients and third-party payors several days after 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 the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. The System measures the performance obligation from admission to the hospital to the point when the hospital is no longer required to provide services to that patient, which is generally the time of discharge. Revenue for performance obligations satisfied at a point in time generally relate to patients receiving outpatient services or patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods or services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in current applicable accounting standards and, therefore, is not required to disclose the aggregate amount of the transaction price 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 patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System 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 the System's policy and implicit price concessions provided to uninsured patients. The System determines its estimates of explicit price concessions for contractual adjustments based on contractual agreements, or discount policies and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Management believes that the financial effects of using this practical expedient are not materially different from an individual contract approach.

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. A significant portion of the System's net patient service revenues are derived from the following third-party payor programs. Revenues received under third-party arrangements are subject to audit and retroactive adjustment. A summary of the payment arrangements with major third-party payors follows:

### ***Medicare***

The majority of the System's inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits, which are subject to retroactive audit and adjustment. Physician services are paid based upon established fee schedules. The System's critical access hospitals are reimbursed based on allowable costs for all services rendered to Medicare and Medicaid beneficiaries. Revenues from Medicare were approximately 34% in 2018 and 35% in 2017 of total net patient service revenues.

The Medicare cost reports for the various hospitals within the System have been settled by the Medicare fiscal intermediary through various years ranging from 2009 to 2014.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

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***Medicaid***

Inpatient acute care services rendered to Medicaid 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. Outpatient services are paid on a published fee schedule. Revenues from Medicaid were approximately 17% in 2018 and 19% in 2017 of total net patient service revenues.

The State of West Virginia's disproportionate share plan reimburses hospitals in the State that provide Medicaid services and meet other eligibility criteria. Under the disproportionate share program, the System received \$13,283,000 in 2018 and \$11,909,000 in 2017, which is included in patient service revenues in the accompanying consolidated statements of operations.

The State of West Virginia increases Medicaid reimbursement to qualified hospitals for services to Medicaid-eligible patients. Supplemental payments may be received in an amount up to the difference between current reimbursement and the maximum permissible payments under DPP (formerly known as UPL) regulations. The first payment was made in April 2004 and periodic payments have been made subsequent to that date. The DPP payments are recorded in the period in which they are earned. The System earned DPP revenue of approximately \$69,669,000 in 2018 and \$76,598,000 in 2017, which is included in patient service revenues in the accompanying consolidated statements of operations.

The laws and regulations governing DPP reimbursement are complex and subject to interpretation. DPP reimbursement is funded by a portion of the Medicaid Provider Tax (Note 2). There is risk that federal policy may change in the future in a way that might limit or eliminate the DPP payments but maintain the Provider Tax.

***Blue Cross***

Inpatient and outpatient services rendered to Blue Cross subscribers are paid at either prospectively determined rates per case or discounts from established charges. Revenues from Blue Cross were approximately 31% in 2018 and 29% in 2017 of total net patient service revenues.

***Other payors***

The System has also entered into payment agreements with certain commercial insurance carriers, managed care organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, capitation payments 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, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which in some instances, have resulting 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 the System'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 the System. The results of such governmental review could include fines, penalties and exclusion from participation in the Medicare and Medicaid programs. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with payor, correspondence from the payor and the System'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, review and investigations. Adjustments arising from a change in the transaction price increased net patient service revenue approximately \$3,668,000 and \$14,429,000 for the years ended December 31, 2018 and 2017, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System 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 discounts and price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. 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.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

The System has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines and method of reimbursement.

The System's revenues from third-party payors and others (including uninsured patients) for the years ended December 31, 2018 and 2017, and by primary hospitals and all other facilities are summarized in the following tables (in thousands):

	2018						Ratio
	WVUH	UHC	CCMC	BMC	All Others	Total	
Medicare & Medicare Managed care	\$ 350,474	\$ 155,959	\$ 103,786	\$ 64,014	\$ 89,190	\$ 763,423	34.5%
Medicaid & Medicaid Managed care	190,237	45,296	41,809	39,963	60,791	378,096	17.0%
Commercial Insurers	534,538	164,350	106,346	103,566	97,268	1,006,068	45.3%
Other	38,984	2,613	6,929	8,298	14,343	71,167	3.2%
Revenues	<u>\$ 1,114,233</u>	<u>\$ 368,218</u>	<u>\$ 258,870</u>	<u>\$ 215,841</u>	<u>\$ 261,592</u>	<u>\$ 2,218,754</u>	<u>100.0%</u>

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

	2017						Ratio
	WVUH	UHC	CCMC	BMC	All Others	Total	
Medicare & Medicare Managed care	\$ 314,804	\$ 136,953	\$ 100,642	\$ 62,333	\$ 77,873	\$ 692,605	34.6%
Medicaid & Medicaid Managed care	191,479	50,831	47,069	44,729	55,997	390,105	19.4%
Commercial Insurers	454,601	139,788	91,027	91,824	78,663	855,903	42.6%
Other	<u>37,774</u>	<u>4,013</u>	<u>8,501</u>	<u>5,996</u>	<u>12,015</u>	<u>68,299</u>	<u>3.4%</u>
Revenues	<u>\$ 998,658</u>	<u>\$ 331,585</u>	<u>\$ 247,239</u>	<u>\$ 204,882</u>	<u>\$ 224,548</u>	<u>\$ 2,006,912</u>	<u>100.0%</u>

Revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

**Assets Whose Use is Limited**

The composition of assets whose use is limited at December 31, 2018 and 2017 is as follows (in thousands):

	2018	2017
Cash and cash equivalents	\$ 295,960	\$ 77,222
Marketable equity securities	16,255	38,007
Marketable debt securities	3,303	3,425
Mutual funds:		
Domestic equity	48,144	33,693
International equity	111,423	213,786
Domestic fixed income	114,429	116,124
Global bonds	9,071	14,951
Natural resources	10,425	-
Exchange traded funds, domestic equity	181,484	275,638
Exchange traded funds, domestic fixed income	48,845	32,085
Alternative investments	40,390	32,461
Alternative investments accounted for under cost method	<u>102,598</u>	<u>102,288</u>
Total assets whose use is limited	982,327	939,680
Less current portion of assets whose use is limited	<u>17,153</u>	<u>20,209</u>
Noncurrent portion of assets whose use is limited	<u>\$ 965,174</u>	<u>\$ 919,471</u>

The System has commitments for the additional purchase of ownership in limited partnerships (private equity and venture capital funds), which are classified as alternative investments in the table above. Total unfunded commitments at December 31, 2018 were \$120,921,000, and are due over approximately the next ten years. Funding for these commitments is expected to come from board-designated funded depreciation assets.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

Investment income, gains, and losses included in net assets without donor restrictions are comprised of the following in 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Investment income:		
Interest and dividend income	\$ 17,164	\$ 20,662
Fees	(4,926)	(4,770)
Net realized and unrealized (losses) gains on investments	(41,832)	94,703
Write-downs of the cost basis of investments due to an other-than-temporary decline in fair value	<u>(752)</u>	<u>-</u>
Total	<u>\$ (30,346)</u>	<u>\$ 110,595</u>

**5. Fair Value Measurements and Financial Instruments**

The System measures its assets whose use is limited, restricted assets held by third-parties and derivative financial instruments on a recurring basis in accordance with accounting principles generally accepted in the United States. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the same term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

The fair value of financial instruments listed below was determined using the following valuation hierarchy at December 31, 2018 (in thousands):

	<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>	<u>NAV (1)</u>	<u>Total</u>
Assets - recurring fair value measurements:					
Assets whose use is limited:					
Cash and cash equivalents	\$ 295,960	\$ -	\$ -	\$ -	\$ 295,960
Marketable equity securities	16,255	-	-	-	16,255
Marketable debt securities	3,303	-	-	-	3,303
Mutual funds:					
Domestic equity	33,239	14,905	-	-	48,144
International equity	72,038	6,593	-	32,792	111,423
Domestic fixed income	92,957	-	-	21,472	114,429
Global bonds	2,615	-	-	6,456	9,071
Natural resources	-	10,425	-	-	10,425
Exchange traded funds, domestic equity	181,484	-	-	-	181,484
Exchange traded funds, domestic fixed income	48,845	-	-	-	48,845
Alternative investments	-	-	-	40,390	40,390
Investments at fair value	<u>\$ 746,696</u>	<u>\$ 31,923</u>	<u>\$ -</u>	<u>\$ 101,110</u>	879,729
Cost method investments (2)					<u>102,598</u>
Total assets whose use is limited					<u>\$ 982,327</u>
Restricted assets held by third-parties	<u>\$ 16,497</u>	<u>\$ -</u>	<u>\$ 5,205</u>	<u>\$ -</u>	<u>\$ 21,702</u>
Liabilities - recurring fair value measurements:					
Derivative financial instruments	<u>\$ -</u>	<u>\$ 32,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,024</u>
Assets disclosed at fair value:					
Cash and cash equivalents	<u>\$ 176,287</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176,287</u>
Liabilities disclosed at fair value:					
Long-term debt, with a carrying value of \$1,371,305	<u>\$ -</u>	<u>\$ 1,048,800</u>	<u>\$ 360,217</u>	<u>\$ -</u>	<u>\$ 1,409,017</u>

1. Certain investments that are measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheets.
2. Certain investments in hedge funds, private equity funds, and other limited partnerships are recorded at cost. These investments are not classified in the fair value hierarchy and the amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheets.

**West Virginia University Health System and Controlled Entities**  
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The fair value of financial instruments listed below was determined using the following valuation hierarchy at December 31, 2017 (in thousands):

	<b>Quoted Prices In Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>NAV (1)</b>	<b>Total</b>
Assets - recurring fair value measurements:					
Assets whose use is limited:					
Cash and cash equivalents	\$ 77,222	\$ -	\$ -	\$ -	\$ 77,222
Marketable equity securities	38,007	-	-	-	38,007
Marketable debt securities	-	3,425	-	-	3,425
Mutual funds:					
Domestic equity	33,693	-	-	-	33,693
International equity	174,095	-	-	39,691	213,786
Domestic fixed income	81,881	-	-	34,243	116,124
Global bonds	6,061	-	-	8,890	14,951
Exchange traded funds, domestic equity	275,638	-	-	-	275,638
Exchange traded funds, domestic fixed income	32,085	-	-	-	32,085
Alternative investments	-	-	-	32,461	32,461
Investments at fair value	<u>\$ 718,682</u>	<u>\$ 3,425</u>	<u>\$ -</u>	<u>\$ 115,285</u>	837,392
Cost method investments (2)					<u>102,288</u>
Total assets whose use is limited					<u>\$ 939,680</u>
Restricted assets held by third- parties	<u>\$ 12,803</u>	<u>\$ -</u>	<u>\$ 5,785</u>	<u>\$ -</u>	<u>\$ 18,588</u>
Liabilities - recurring fair value measurements:					
Derivative financial instruments	<u>\$ -</u>	<u>\$ 39,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,704</u>
Assets disclosed at fair value:					
Cash and cash equivalents	<u>\$ 121,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,635</u>
Liabilities disclosed at fair value:					
Long-term debt, with a carrying value of \$1,105,920	<u>\$ -</u>	<u>\$ 708,278</u>	<u>\$ 443,169</u>	<u>\$ -</u>	<u>\$ 1,151,447</u>

1. Certain investments that are measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheets.
2. Certain investments in hedge funds, private equity funds, and other limited partnerships are recorded at cost. These investments are not classified in the fair value hierarchy and the amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheets.

**West Virginia University Health System and Controlled Entities**  
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The following table presents the nature and risk of investments reported at NAV as of December 31, 2018 and 2017 (in thousands):

<u>Name of Fund</u>	<u>Fair Value at 12/31/2018</u>	<u>Fair Value at 12/31/2017</u>	<u>Investment Strategy</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
IR&M Core Bond Fund II	\$ 21,472	\$ 34,243	Seeks to outperform the Barclays U.S. Aggregate index by investing primarily in investment-grade fixed income securities.	N/A	Weekly	5 business days
Sanderson International Value Fund	21,880	27,238	Seeks to achieve long-term growth by investing in a diversified portfolio of shares (or other similar instruments) issued by companies located outside the United States and Canada.	N/A	Monthly	10 days prior to "dealing day" or 1st day of the month
Brandywine Global Fixed Income Fund	6,456	8,890	Seeks to capture interest income and generate principal growth through capital appreciation. Invests in the sovereign debt and currencies of countries in the Citigroup World Government Bond Index, as well as investment-grade fixed income securities in those countries.	N/A	Monthly	10 business days
Frontier Small Cap Value Fund	5,097	6,076	Seeks long-term capital appreciation by owning small capitalization stocks identified through fundamental research and considered mispriced relative to their intrinsic value. Invest in micro, small, and medium-cap U.S. equities.	N/A	Monthly	5 business days prior to month end
New Horizon	5,815	6,377	Fund seeks long-term capital growth by investing in Indian equity and debt securities, in a highly concentrated portfolio, with a growth tilt.	N/A	Rolling 3 years	90 days

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

(continued)

<u>Name of Fund</u>	<u>Fair Value at 12/31/2018</u>	<u>Fair Value at 12/31/2017</u>	<u>Redemption Investment Strategy</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Notice Period</u>
Universa BSPP Equity & Fixed Income Fund	\$ 7,357	\$ 7,681	Tail risk hedge strategy that seeks to fully protect a limited partnership's notional amount if the S&P 500 index decreases 20% or more during a particular month.	N/A	Monthly	Same day notice, one month to fully process
Other limited partnerships	<u>33,033</u>	<u>24,780</u>	(A)	(A)	N/A	N/A
Total	<u>\$ 101,110</u>	<u>\$ 115,285</u>				

(A) Private limited partnerships seek to realize long-term compounded returns in excess of those available through conventional investments in the public markets through asset class based strategies. Private equity limited partnerships typically acquire controlling stakes of mature companies with the goal of creating additional value. Venture capital limited partnerships typically invest in minority stakes of startup to mid-growth companies seeking higher exit realizations. Distressed debt limited partnerships typically invest in financially stressed or distressed company liabilities to rescue or restructure the company. Natural resources limited partnerships typically invest in natural resources such as oil and gas, infrastructure, timber, etc. for income and creating additional value. There are total unfunded commitments of \$120,921,000 (see Note 4) at December 31, 2018, related to the limited partnerships reported at NAV in the table above.

Beneficial interests in perpetual trusts, which are included in restricted assets held by third-parties, are measured at fair value based on the trusts' underlying investments using unobservable inputs (Level 3). The following is a reconciliation of the opening and closing balances during the period ended December 31, 2018 and 2017:

Balance at December 31, 2016	\$ 5,343
Valuation gain	<u>442</u>
Balance at December 31, 2017	5,785
Valuation loss	<u>(580)</u>
<b>Balance at December 31, 2018</b>	<b><u>\$ 5,205</u></b>

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value and for financial instruments disclosed at fair value. There have been no changes in methodologies used at December 31, 2018 and 2017.

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these financial instruments.

U.S. government and agency obligations and marketable debt securities: Valued based on spreads of published interest rate curves.

Marketable equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Exchange traded funds: Valued at the quoted NAV of shares (basis for trade) held by the System at year end.

Mutual funds: Mutual funds include investments in individual mutual funds and commingled funds (fund of funds). The individual mutual funds are valued at the quoted NAV of shares (basis for trade) held by the System at year end and are considered Level 1. The System has access to a detailed listing of the underlying assets of the commingled funds, the majority of which are publicly traded, but shares of the commingled funds themselves are not publicly traded. The System is provided a NAV per share for these

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

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funds that has been calculated in accordance with investment company rules, which among other requirements indicates that the underlying investments be measured at fair value.

Alternative investments: Alternative investments are comprised of private equity and venture capital funds that are limited partnerships and not publicly traded. The fair values of these investments are estimated using the NAV provided by the general partner as a practical expedient. Redemptions are not permitted during the life of the partnerships. Partnership lives are generally 10 to 15 years with an option to extend an additional 2 to 3 years.

Restricted assets held by third-parties: Assets consist primarily of cash and cash equivalents and mutual funds. Beneficial interests in perpetual trusts are valued based on the fair value of the trusts' underlying assets, which represents a proxy for discounted present value of future cash flows.

Derivative financial instruments: Valued based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments and was estimated using the zero-coupon discounting method. This method calculates the future payments required by the derivative financial instruments, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the System would pay to terminate the agreements.

Long-term debt: Valued based on current rates offered for similar issues with similar securities terms and maturities, or estimated using a discount rate that a market participant would demand.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## 6. Property and Equipment

Property and equipment and related accumulated depreciation consist of the following at December 31, 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Land	\$ 45,664	\$ 32,510
Land improvements	51,745	50,883
Buildings and building improvements	1,068,337	998,965
Equipment (including equipment under capital lease)	1,188,040	1,070,219
Leasehold improvements	<u>11,271</u>	<u>15,280</u>
Total	<b>2,365,057</b>	2,167,857
Less accumulated depreciation	<u>1,146,422</u>	<u>1,021,043</u>
	<b>1,218,635</b>	1,146,814
Construction in progress	<u>97,317</u>	<u>88,345</u>
Property and equipment, net	<u><b>\$ 1,315,952</b></u>	<u><b>\$ 1,235,159</b></u>

**West Virginia University Health System and Controlled Entities**  
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Construction in progress consists primarily of major renovation and expansion projects. Purchase commitments related to these projects were approximately \$71,375,000 and \$42,299,000 at December 31, 2018 and 2017, respectively.

**7. Revolving Line of Credit**

WVUHS maintains an unsecured revolving line of credit in the amount of \$50,000,000. There were borrowings outstanding of \$3,000,000 and \$10,465,000 at December 31, 2018 and 2017, respectively. Borrowings under the agreement bear interest at a variable rate determined by adding 65 basis points to the Daily One Month LIBOR (3.28% at December 31, 2018).

RMH maintains a revolving line of credit in the amount of \$1,500,000. There were borrowings outstanding of \$1,467,000 at December 31, 2018 and \$1,463,000 at December 31, 2017. Borrowings under the agreement bear interest at a variable rate equal to the prime rate plus one percent (6.5% December 31, 2018). The line of credit is secured by the assets of RMH.

**8. Long-Term Debt**

A summary of long-term debt at December 31, 2018 and 2017 is as follows (in thousands):

	<u>2018</u>	<u>2017</u>
West Virginia Hospital Finance Authority Bonds:		
2018 Series - WVUH, UHC, CCMC, BMC, JMC	\$ 567,870	\$ -
2017 Series - WVUH, UHC	185,320	185,320
2016 Series - WVUH, UHC, CCMC, BMC	249,395	254,945
2015 Series - UHC, SJH, PVH	33,860	33,860
2013 Series - WVUH, CCMC	201,305	204,055
2012 Series - WVUH, UHC, CCMC, BMC, JMC, UHCF	17,405	154,610
2011 Series - WVUH, CCMC, BMC	16,509	49,038
2004 Series - CCMC	-	63,050
Other notes payable	80,118	140,244
Capital lease obligations	<u>1,445</u>	<u>2,359</u>
Total long-term debt	<b>1,353,227</b>	1,087,481
Net unamortized bond premium	30,813	27,732
Debt issuance costs	(12,735)	(9,293)
Current maturities of long-term debt	<u>(25,948)</u>	<u>(25,108)</u>
Long-term debt	<u>\$ 1,345,357</u>	<u>\$ 1,080,812</u>

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

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The scheduled principal repayments as of December 31, 2018 are as follows (in thousands):

<b>Years ending December 31:</b>	
2019	\$ 25,948
2020	25,905
2021	24,665
2022	23,409
2023	25,811
Thereafter	<u>1,227,489</u>
Total	<u>\$ 1,353,227</u>

***Obligated group***

The Obligated Group consists of WVUHS, WVUH, UHC, CCMC, BMC, JMC, and UHCF. All members of the Obligated Group are jointly and severally liable for all outstanding obligations of the Obligated Group. Payments of principal and interest are collateralized by a pledge of revenues of the Obligated Group.

The Obligated Group is required to maintain certain financial ratios, maintain adequate insurance coverage, maintain net revenue requirements, maintain average annual debt service requirements, comply with certain limitations on additional debt, and comply with annual reporting requirements.

***2018 Series – Hospital Revenue Improvement Bonds***

In July 2018, the Authority issued \$567,870,000 of Hospital Revenue Refunding and Improvement Bonds (the “2018 Bonds”) on behalf of the Obligated Group. The proceeds of the 2018 Bonds were used to advance refund the 2013 Term Loan, 2015 Taxable Term Loan, Series 2012A, Series 2012B, Series 2012D, Series 2012E, Series 2011B, Series 2011C, Series 2004B, Series 2004C, reimburse the costs of various capital improvements and equipment for WVUH, and pay for the costs of issuance.

The 2018 Bonds include fixed rate tax-exempt term bonds of \$218,550,000 maturing in 2051 and 2052 with interest rates ranging from 4.00% to 5.00%; fixed rate taxable term bonds of \$210,850,000 maturing in 2048 with an interest rate of 4.9%, variable rate bonds of \$138,470,000 maturing in 2033, 2034 and 2041 with an interest rates ranging from 1.6% to 1.9%.

***2017 Series – Hospital Revenue Improvement Bonds***

In March 2017, the West Virginia Hospital Finance Authority (the “Authority”) issued \$185,320,000 of Hospital Revenue Improvement Bonds (the “2017 Bonds”) on behalf of the Obligated Group. The proceeds of the 2017 Bonds were used to complete the construction and equipping of the SouthEast Tower at WVUH; construct and equip the Heart and Vascular Institute in the SouthEast Tower at WVUH; construct, equip, and/or expand existing space at WVUH; and pay for the costs of issuance.

The 2017 Bonds include fixed rate serial bonds of \$46,135,000 maturing in 2027 through 2037 with interest rates ranging from 3.375% to 5.000%; and fixed rate term bonds of \$139,185,000 maturing in 2042 and 2047 with interest rates ranging from 4.25% to 5.00%.

***2016 Series – Hospital Revenue Refunding Bonds***

In May 2016, the Authority issued \$260,890,000 of Hospital Revenue Refunding Bonds (the “2016 Bonds”) on behalf of the Obligated Group. The proceeds of the 2016 Bonds were used to advance refund Series 2003D, 2006A, 2007A, 2008E and 2009C Bonds and pay for the costs of issuance.

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The 2016 Bonds include fixed rate serial bonds of \$217,455,000 maturing in 2018 through 2036 with interest rates ranging from 2.50% to 5.00%; and fixed rate term bonds of \$37,490,000 maturing in 2039 and 2041 with interest rates ranging from 3.25% to 4.00%.

### ***2015 Series - Hospital Revenue Bonds***

In August 2015 and October 2015, the Authority issued \$33,860,000 of Hospital Revenue Bonds (the "2015 Bonds") on behalf of the Obligated Group, PVH and SJH. The proceeds of the 2015 Bonds were used to refund the existing PVH debt, reimburse the costs of various capital improvements and equipment for PVH, finance the acquisition of SJH, refund the existing SJH debt, and pay for the costs of issuance.

The 2015 Bonds include variable rate bonds of \$33,860,000 maturing in 2027 through 2044 with interest rates ranging from 2.03% to 3.19% at December 31, 2018.

### ***2013 Series - Hospital Revenue Refunding and Improvement Bonds***

In September 2013, the Authority issued \$210,675,000 of Hospital Revenue Refunding and Improvement Bonds (the "2013 Bonds") on behalf of the Obligated Group. The proceeds of the 2013 Bonds were used to refund Series 2004A Bonds, reimburse the costs of various capital improvements and equipment for WVUH and CCMC, and pay for the costs of issuance.

The 2013 Bonds include fixed rate serial bonds of \$4,055,000 maturing in 2018 and 2019 with interest rates ranging from 4.00% to 5.00%; and fixed rate term bonds of \$200,000,000 maturing in 2038 and 2044 with interest rates ranging from 5.375% to 5.5%.

### ***2012 Series - Hospital Refunding Bonds***

In August 2012 and October 2012, the Authority issued \$178,000,000 of Hospital Refunding Bonds (the "2012 Bonds") on behalf of the Obligated Group. The proceeds of the 2012 Bonds were used to refund Series 2008A, 2008D, 2009A, 2009B and 2011A Bonds, reimburse the costs of various capital improvements and equipment for WVUH, CCMC and BMC, and pay for the costs of issuance. Series 2012A, 2012B, 2012D, and 2012E were legally defeased in 2018 using proceeds from the 2018 Bonds.

At December 31, 2018, only the 2012C series remains and includes bonds of \$17,405,000 maturing through 2030 with an interest rate of 2.85% at December 31, 2018.

### ***2011 Series - Hospital Revenue and Hospital Refunding Bonds***

In March 2011 and June 2011, the Authority issued \$144,865,000 of Hospital Revenue and Hospital Refunding Bonds (the "2011 Bonds") on behalf of the Obligated Group. The proceeds of the 2011 Bonds were used to finance the acquisition of St. Joseph's Memorial Hospital, refund Series 1998 Bonds, reimburse the costs of various capital improvements and equipment for WVUH, CCMC and BMC, and pay for the costs of issuance.

In November 2014, the Obligated Group prepaid \$16,345,000 of the 2011 Bonds using the unspent proceeds of the original issuance due to unanticipated changes in the WVUH capital projects intended to be funded by the original proceeds. Simultaneously, the Obligated Group entered into a \$10,372,000 taxable term loan.

In 2018, the Series 2011B and 2011C bonds were legally defeased using the proceeds of the 2018 Bonds.

The 2011D and 2011E Bonds remaining at December 31, 2018 include fixed rate bonds of \$19,240,000 maturing in 2022 and 2026 with interest rates ranging from 3.12% to 3.54% at December 31, 2018.

### ***2004 Series - Hospital Revenue Refunding and Improvement Bonds***

In June 2004, the Authority issued \$96,250,000 of Hospital Revenue Refunding and Improvement Bonds (the "2004 Bonds") on behalf of CCMC. The proceeds of the 2004 Bonds were used to refund all of the Wood County Building Commission Revenue Bonds, finance the costs of acquisition of certain equipment including capitalized interest

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**Notes to Consolidated Financial Statements**

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thereon, fund a debt service reserve fund, and pay for the costs of issuance. In 2018, the 2004 Bonds were legally defeased using the proceeds of the 2018 Bonds.

In conjunction with the affiliation with WVUHS on March 1, 2011, the 2004 bonds were amended to include CCMC within the Obligated Group. The 2004 Bonds included auction rate certificates of \$51,550,000 and \$11,500,000 maturing in 2034 with interest payable based upon 35-day auction periods. Interest rates as determined by these auctions are subject to various risks including changes in the credit markets, re-marketing mechanisms, and the potential for failed auctions. The default interest rate for the 2004 Bonds is based upon a formulaic maximum rate which approximates 1.68% to 1.75%. The 2004 Bonds were insured by Assured Guaranty Municipal Corp.

***Other notes payable and capital lease obligations***

In December 2018, the System converted the majority of the outstanding line of credit balance to a term loan ("2018 Term Loan") in the amount of \$28,500,000. Equal principal payments of \$237,500 are due monthly beginning January 2, 2019 with a balloon payment for the remaining balance due in December 2023. Interest is payable monthly at a variable rate equal to one month LIBOR plus 0.65%.

In October 2015, SJH entered into a \$10,749,000 promissory note with Pallottine Health Services, Inc. to pay off existing amounts owed by SJH. Principal payments are due monthly and the loan matures in October 2020. The loan bears no interest. The principal balance of this note was \$3,989,000 at December 31, 2018 and \$6,107,000 at December 31, 2017.

In March 2015, the System obtained a \$43,360,000 taxable term loan ("2015 Taxable Term Loan") to retire the 2008B Bonds. Principal payments are due in varying installments on June 1 each year, with a final lump sum payment due in March 2025. This taxable loan was repaid in 2018 with the 2018 Bonds. Interest was payable monthly at a variable rate equal to one-month LIBOR plus 0.92% The principal balance of this loan was \$40,785,000 at December 31, 2017.

In November 2014, the System obtained a \$10,372,000 taxable term loan to finance various WVUH capital improvements. Interest only payments are due monthly through December 2018. Monthly interest and principal payments are due thereafter and the loan matures in June 2021. The loan bears interest at a fixed interest rate of 4.63% per annum.

In August 2014, WVUH purchased a parcel of land and office building for a purchase price of \$21,547,000. WVUH paid \$3,715,500 in cash at closing and financed the remaining purchase price with a 20 year promissory note. Principal and interest payments are due monthly and the note bears interest at a fixed rate of 6.50% per annum. The principal balance of this note was \$15,561,000 at December 31, 2018 and \$16,125,000 at December 31, 2017.

In September 2013, the System obtained a \$50,000,000 draw-down term loan (the "2013 Term Loan") from a commercial bank to finance and reimburse the costs of various capital improvements and equipment for WVUH and pay for the costs related to the loan. The 2013 Term Loan was repaid in 2018 using proceeds from the 2018 Bonds. Interest only payments were due monthly. The loan bore interest at a variable rate equal to one-month LIBOR plus 1.15%.

Other notes payable and capital leases consist of bank loan agreements and capital leases that are secured by equipment and property with various expiration dates and require monthly principal and interest payments.

**9. Derivative Financial Instruments**

The System's primary objective for holding derivative financial instruments is to manage interest rate risk. The System does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes. The derivative financial instruments are recorded at fair value based upon information supplied by the counterparty as described in Note 5.

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### Notes to Consolidated Financial Statements

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In 2003, the System entered into two interest rate swap agreements (the “2003 Agreements”) in connection with the 2003 Bonds. The first agreement had a notional value of \$4,700,000 and terminated on June 1, 2016. The second agreement, which has transferred to the 2012 Bonds, has a notional value of \$41,000,000 and terminates on June 1, 2033. The 2003 Agreements require the System to pay a fixed rate while receiving variable interest rates based upon 70% of LIBOR. The fair value of the 2003 Agreements was \$6,460,000 at December 31, 2018 and \$7,993,000 at December 31, 2017.

In 2004, CCHS entered into an interest rate swap agreement (the “2004 Agreement”) in connection with the 2004 Bonds. In conjunction with the affiliation with WVUHS on March 1, 2011, the swap agreement was amended to include the Obligated Group. Further, the 2004 Agreement was amended and restated effective March 13, 2014. The 2004 Agreement, which transferred to the 2018 Bonds, has a notional value of \$51,550,000 and terminates on February 15, 2034. The 2004 Agreement requires the System to pay a fixed rate while receiving a variable interest rate based upon 67% of LIBOR. The fair value of the 2004 Agreement was \$8,386,000 at December 31, 2018 and \$10,195,000 at December 31, 2017.

In 2005, the System entered into an interest rate swap agreement (the “2005 Agreement”) in connection with the 2005 Bonds. The 2005 Agreement, which has transferred to the 2012 Bonds, has a notional value of \$13,475,000 and terminates on June 1, 2030. The 2005 Agreement requires the System to pay a fixed rate while receiving a variable interest rate of 70% of LIBOR. The fair value of the 2005 Agreement was \$1,281,000 at December 31, 2018 and \$1,669,000 at December 31, 2017.

In 2006, the System entered into two interest rate swap agreements (the “2006 Agreements”) in connection with the 2006 Bonds, which were most recently amended and restated effective March 13, 2014. The first agreement, which has transferred to the 2012 Bonds, has a notional value of \$23,225,000 and terminates on June 1, 2041. The second agreement has a notional value of \$39,500,000 and terminates on June 1, 2041. The 2006 Agreements require the System to pay a fixed rate while receiving variable interest rates based upon 70% of LIBOR. The fair value of the 2006 Agreements was \$13,719,000 at December 31, 2018 and \$16,335,000 at December 31, 2017.

In 2007, CCHS entered into an interest rate swap agreement (the “2007 Agreement”) in connection with the 2007 Bonds. In conjunction with the affiliation with WVUHS on March 1, 2011, the swap agreement was amended to include the Obligated Group. Further, the 2007 Agreement was amended and restated effective March 13, 2014. The 2007 Agreement has a notional value of \$18,725,000 and terminates on February 15, 2034. The 2007 Agreement requires the System to pay a fixed rate while receiving a variable interest rate based upon 67% of LIBOR. The fair value of the 2007 Agreement was \$2,845,000 at December 31, 2018 and \$3,512,000 at December 31, 2017.

The System recognizes gains and losses from changes in fair values of interest rate swap agreements as non-operating revenue or expense within revenues in excess of expenses in the consolidated statement of operations. The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense. No termination payments would be required if the swap agreements are held to maturity.

Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates. The notional amounts of the swap agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote.

## **10. Pension Plans**

### ***Defined contribution plans***

WVUH and University Healthcare provide various defined contribution plans which cover substantially all full-time employees. Employees are eligible to contribute, and WVUH and University Healthcare will match a percentage of their base compensation up to a limit depending on the employee's years of service. Both employee and employer contributions are 100% vested upon entry into the plan for WVUH. Employee contributions are 100% vested upon entry into the plan and employer contributions are vested over a five year period for the University Healthcare plan.

Approximately 1% of WVUH's employees continue to be paid by the State of West Virginia. Those employees also participate in a defined contribution pension plan for State employees. WVUH reimburses the State for all costs of these employees, including salaries and wages, pension expense, and other related fringe benefits.

UHC and UPC provide defined contribution pension plans covering substantially all employees. Contributions to the plans are based on a variable percentage, ranging from 2.75% to 9.75% of the participating employees' compensation.

UHC and UPC provide Tax Sheltered Annuity Thrift Plans (the "TSA Plans"), which are deferred compensation plans under Section 403(b) of the Internal Revenue Code. All full-time employees are eligible to participate in the TSA Plans. All employee elective deferrals made on behalf of such participants shall be invested in a tax deferred annuity contract or custodial account at the employee's direction and vest immediately. UHC and UPC do not contribute to the TSA Plans.

CCMC provides a defined contribution plan covering substantially all employees. Employees are eligible to contribute, and CCMC makes matching contributions to the plan based on a variable percentage, ranging from 2% to 6% of the participating employees' compensation. Employee contributions are 100% vested upon entry into the plan and employer contributions are vested over a three year period.

RMH provides a defined contribution plan covering substantially all employees. Employees are eligible to contribute, and RMH makes contributions to the plan based on a percentage, determined annually, of each eligible employee's annual compensation.

The System's expense related to these plans was \$22,348,000 in 2018 and \$19,618,000 in 2017.

### ***Defined benefit plans***

During 2018, the System implemented Accounting Standard Update 2017-07, *Compensation-Retirement Benefits (Subtopic 715); Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this update require the service cost component of net benefit cost be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. There is no service cost associated with the System's defined benefit plans as they are frozen. The other components of net periodic pension cost are required to be presented in the statement of operations separately from the service cost component and outside the subtotal operating income. Prior to the adoption of ASU 2017-07, the System reported net benefit cost in benefits expense within operating expenses in the consolidated statement of operations. As a result of the adoption of ASU 2017-07, the net benefit cost for the year ended December 31, 2018 of \$12,744,000, has been presented with other nonoperating expenses in the accompanying consolidated statements of operations. The System did not make a retroactive change to reclassify the net periodic pension cost presented for 2017 as such amount was immaterial.

CCMC maintains a noncontributory defined benefit pension plan that covers substantially all of its employees who were employed on or before June 30, 2012, at which time the plan was frozen to new entrants. Accrued benefits were also frozen as of that date.

**West Virginia University Health System and Controlled Entities**  
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Effective September 1, 2018, a resolution was passed by the CCMC Board of Directors to terminate the plan and accordingly, the plan was amended and restated to include such termination. Substantial settlement related to the termination began with cash distributions in December 2018 with the remaining amounts due to participants to be settled with an annuity option as funding becomes available over the next several years. As a result, a settlement charge of approximately \$15,860,000 was recorded as a component of net benefit cost within other nonoperating expenses in the accompanying consolidated statements of operations for the year ended December 31, 2018.

SJH maintains a noncontributory defined benefit pension plan that covers substantially all of its employees who were employed on or before December 31, 2013, at which time the plan was frozen to new entrants. Accrued benefits were also frozen as of that date.

The following table sets forth the change in benefit obligation, the fair value of plan assets, and the amounts recognized in the accompanying consolidated balance sheets at December 31, 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 56,517	\$ 54,264
Interest cost	1,967	2,162
Actuarial loss	(837)	3,722
Benefits paid	(1,344)	(1,337)
Settlement accrual	2,502	-
Settlement	<u>(27,878)</u>	<u>(2,294)</u>
Projected benefit obligation, end of year	\$ 30,927	\$ 56,517
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ 49,370	\$ 42,881
Actual return on plan assets (net of expense)	(3,205)	5,389
Employer contributions	2,544	4,731
Benefits paid	(1,344)	(1,337)
Settlement	<u>(27,878)</u>	<u>(2,294)</u>
Fair value of plan assets, end of year	<u>19,487</u>	<u>49,370</u>
Funded status at end of year	<u>\$ (11,440)</u>	<u>\$ (7,147)</u>
Accumulated benefit obligation	<u>\$ 28,425</u>	<u>\$ 56,517</u>

The following table sets forth the components of net periodic pension costs in 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Interest cost	\$ 1,966	\$ 2,162
Expected return on plan assets	(3,108)	(2,993)
Amortization of actuarial loss	528	477
Settlement charge	<u>15,860</u>	<u>825</u>
Net periodic pension cost	<u>\$ 15,246</u>	<u>\$ 471</u>

A net actuarial loss of \$11,787,000 at December 31, 2018 and \$20,197,000 at December 31, 2017, represents the unrecognized component of net periodic pension cost included in net assets without donor restrictions.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

Estimated amortization of the net loss of \$415,000 is expected to be recognized in net periodic pension cost in the next fiscal year.

The following assumptions were used to determine benefit obligations at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Discount rate:		
CCMC plan	4.03%	3.49%
SJH plan	4.25%	3.65%

The weighted-average assumptions used in the measurement of net periodic benefit cost for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate:		
CCMC plan	3.49%	4.03%
SJH plan	3.65%	4.25%
Expected long-term return on plan assets:		
CCMC plan	6.00%	6.00%
SJH plan	6.75%	6.75%

The basis for determining the overall expected long-term rate of return on assets has been based on the assumption that future real returns will approximate historic long-term rates of return experienced for each asset class in the investment policy statement. Based on this analysis, it was determined that the long-term rate of return should be consistently applied.

When determining an appropriate risk tolerance, the System examines the financial ability to accept risk within the investment program and the willingness to accept return volatility. Based on these factors, a range of investment percentages has been established, by asset type, to which the mix of assets should be generally maintained. When necessary, the portfolio will be rebalanced within the target allocations.

Actual allocation and targeted percentages as of December 31, 2018 and 2017 are as follows:

	<u>Actual Percentage</u>		<u>Targeted Percentage</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	2%	1%	-%	-%
Equity securities	22%	29%	45%	45%
Fixed income securities	76%	70%	55%	55%

The following table summarizes the plans' assets measured at fair value on a recurring basis at December 31, 2018 and 2017 (in thousands):

	<u>December 31, 2018</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Assets at Fair Value</u>
Cash and cash equivalents	\$ 425	\$ -	\$ 425
Marketable equity securities	4,312	-	4,312
Mutual funds, fixed income	14,750	-	14,750
Total	<u>\$ 19,487</u>	<u>\$ -</u>	<u>\$ 19,487</u>

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

	<b>December 31, 2017</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Assets at Fair Value</b>
Cash and cash equivalents	\$ 661	\$ -	\$ 661
U.S. government and agency obligations	-	950	950
Marketable equity securities	2,469	-	2,469
Marketable debt securities	-	554	554
Mutual funds, fixed income	33,179	-	33,179
Mutual funds, equity:			
Domestic funds	3,240	-	3,240
International funds	6,817	-	6,817
Exchange traded funds, domestic equity	1,500	-	1,500
<b>Total</b>	<b>\$ 47,866</b>	<b>\$ 1,504</b>	<b>\$ 49,370</b>

There were no Level 3 investments at December 31, 2018 and 2017.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2018 and 2017.

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these financial instruments.

U.S. government and agency obligations and marketable debt securities: Valued based on spreads of published interest rate curves.

Marketable equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds and exchange traded funds: Valued at the quoted net asset value of shares (basis for trade) held by the System at year end.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The System expects to contribute approximately \$1,200,000 to the defined benefit plans in 2019.

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

**Years ending  
December 31:**

2019	\$ 1,541
2020	\$ 1,412
2021	\$ 1,660
2022	\$ 1,472
2023	\$ 1,533
2024 – 2027	\$ 8,303

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

**11. Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes at December 31, 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purposes:		
Pediatric care	\$ 7,363	\$ 8,190
Purchases of property and equipment	6,018	2,679
Various healthcare related activities	2,810	2,501
Other	<u>2,866</u>	<u>2,682</u>
Total subject to expenditure for specified purposes	<b>19,057</b>	16,052
Endowment funds - income expendable to support various healthcare services and purchase equipment	<b>4,299</b>	3,271
Perpetual income trusts - income expendable to support charity care and other healthcare services	<u>5,205</u>	<u>5,785</u>
Total net assets with donor restrictions	<u><b>\$ 28,561</b></u>	<u>\$ 25,108</u>

**12. Medical Malpractice Claims Coverage**

Historically, the System maintained various self-funded programs for medical malpractice and general liability that covered WVUH, UHC and its subsidiaries, UPC, University Healthcare, PVH and CCMC. These self-funded programs required these entities to deposit funds either into trust funds or other investment accounts, based upon actuarial calculations, sufficient to cover estimated claims. These programs were funded on an occurrence basis and included coverage for both hospital (with the exception of CCMC which was covered under a separate insurance policy) and employee physician general and professional liability. SJH previously maintained insurance coverage with Community Hospital Alternative for Risk Transfer. The self-funded programs were supplemented with various excess insurance coverages ranging from \$10 million to \$20 million per claim, subject to certain attachment points and annual aggregates up to \$30 million.

Effective January 1, 2018, the System formed Augusta Insurance Company, Ltd. ("Augusta"), a wholly owned captive insurance company incorporated as an exempted company under the Companies Law of the Cayman Islands. Augusta facilitates the structuring of a unified insurance program for the System, while remaining flexible to meet unique needs that may vary across the System. In conjunction with the formation of Augusta, the System terminated the existing self-funded programs (discussed above) and transferred approximately \$73,000,000 in assets and approximately \$53,000,000 in liabilities from the self-funded malpractice trusts to Augusta. The System recognized an actuarial gain related to the change in the estimate of the medical practice liability associated with the termination of the old program of \$6,456,000 for the year ended December 31, 2018, which is reflected as a reduction of other expenses in the accompanying consolidated statement of operations. Ongoing operations of Augusta are funded by premiums paid by the System entities. The operations of Augusta are included in the System's 2018 consolidated financial statements.

Augusta provides claims made primary liability general and professional liability coverage to WVUHS and its controlled entities. Augusta accepted loss portfolio transfer of remaining liabilities on pre-2018 reported claims from the prior self-funded programs. Additionally, the System has obtained excess claims made coverage policies with four different third-party commercial insurance companies.

## West Virginia University Health System and Controlled Entities Notes to Consolidated Financial Statements

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A summary of primary and excess coverage is summarized below:

Augusta Insurance Company, Ltd.	\$10 million per related loss event \$20 million aggregate
Other Third-Party Commercial General	\$80 million per occurrence
Liability Companies	\$90 million aggregate (combined)

Management estimates the provision for malpractice losses using an actuarial reserve analysis prepared by its independent actuaries. The recorded estimated malpractice obligation reflected in the consolidated financial statements is discounted using a 3.5% discount rate is \$42,387,000 and \$53,496,000 at December 31, 2018 and 2017, respectively. The undiscounted amount of the reserve is \$46,686,000 and \$57,673,000 at December 31, 2018 and 2017, respectively. The actuarial estimates are based on the historical data of the program blended together with relevant insurance industry loss development statistics. Management believes that the estimated malpractice reserves are reasonable in all material respects.

Medical malpractice and general liability claims are managed by the System's legal staff. Specialized experts and outside attorneys are utilized when such expertise is considered necessary. The System believes it has adequate insurance coverages and accruals for all asserted claims and it has no knowledge of unasserted claims which would exceed its self-insurance and insurance coverages and accruals. However, because of the extended period over which losses are settled and the general uncertainty surrounding the estimates, the ultimate settlement costs could vary, and these differences could be material. The estimate is continually reviewed and, as adjustments to the liability become necessary, the adjustments are reflected in current operations.

In management's opinion, the assets of Augusta are sufficient to meet its obligations as of December 31, 2018. If the financial condition of Augusta were to materially deteriorate in the future, and Augusta was unable to pay its claim obligations, the responsibility to pay those claims would return to WVUHS and its controlled entities. Additionally, in the event that other third-party commercial general liability companies were unable to meet their obligations under the insurance agreements, the responsibility to pay those claims would return to WVUHS and its controlled entities.

### 13. Related-Party Transactions

WVUH has entered into a Joint Operating Agreement ("JOA") with West Virginia University Medical Corporation d/b/a University Health Associates ("UHA") and the University in order to further integrate their mission and purpose, management, clinical activities, and economic and financial activities. WVUH and UHA will function as a single strategic and economic unit while retaining their separate corporate identities. The JOA, as amended, requires an equalization of the operating margin between WVUH and UHA on a three to one basis, respectively. WVUH recorded approximately \$124,423,000 and \$95,297,000 for the periods ending December 31, 2018 and 2017, respectively associated with these support payments. These amounts have been recorded as physician support in the consolidated statement of operations. Amounts payable to UHA related to the JOA was \$12,840,000 and \$10,856,000 at December 31, 2018 and 2017, respectively, and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Additionally, the JOA, as amended, requires a transfer of excess funds from WVUH to the University's School of Medicine ("SOM"). In 2018, \$23,888,000 was transferred to the SOM, with WVUH responsible for funding \$18,513,000 and UHA responsible for funding \$5,375,000. In 2017 total required transfers were \$18,493,000, with WVUH responsible for funding \$16,045,000 and UHA responsible for funding \$2,448,000. These contributions are included in transfers to the School of Medicine in the accompanying consolidated statements of changes in net assets. Amounts payable to the University associated with this required transfer was \$4,756,000 and \$2,006,000 at December 31, 2018 and 2017, respectively, and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

## West Virginia University Health System and Controlled Entities

### Notes to Consolidated Financial Statements

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WVUHS and UHA agree to finance the University's resident and intern program and provide clinical teaching subsidies. Total support of \$23,370,000 for the period ending December 31, 2018, with WVUHS responsible for funding \$9,527,000 and UHA responsible for funding \$13,843,000, is recorded as operating expenses within the accompanying consolidated statements of operations. Total support for the period ending December 31, 2017 was \$22,796,000 which was funded by WVUHS (\$9,172,000) and UHA (\$13,624,000). WVUH also pays the University for other expenses such as state employee salaries, certain utilities, and rents. Other payments made to the University throughout operations were \$37,775,000 and \$34,767,000 for the periods ending December 31, 2018 and 2017, respectively.

WVUHS provides certain information technology services on behalf of UHA, for which approximately \$11,127,000 and \$7,589,000 was recorded for the periods ending December 31, 2018 and 2017, respectively. WVUHS also performs other services on behalf of UHA. Approximately \$2,213,000 and \$1,000,000 was recorded for the periods ending December 31, 2018 and 2017. These amounts have been included within other revenues in the accompanying consolidated statements of operations. The total amount receivable from UHA is \$2,360,000 and \$1,992,000 at December 31, 2018 and 2017, respectively, and is recorded in other accounts receivable in the accompanying consolidated balance sheets.

UHA provides various medical director services and other medical service support to WVUH, BMC, and JMC. Payments for these services were \$7,397,000 in 2018 and \$11,283,000 in 2017, and the associated expenses are included in physician support and purchased services in the accompanying consolidated statements of operations. The total amount payable to UHA for these services was \$2,020,000 and \$1,981,000 at December 31, 2018 and 2017, respectively, and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Effective January 1, 2013, University Healthcare entered into a Mission Support Agreement ("MSA") with University Healthcare Physicians ("UHP"). The MSA ensures UHP operating losses are funded by University Healthcare on a monthly basis. Break even operations are calculated on a monthly basis for UHP and any losses are recorded by BMC and JMC as mission support. Total mission support was \$15,776,000 in 2018 and \$14,342,000 in 2017, and is included in physician support in the accompanying consolidated statements of operations. The total amount payable to UHP for these support payments was \$2,021,000 and \$3,501,000 at December 31, 2018 and 2017, respectively, and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

WVUH, Charleston Area Medical Center, and Cabell Huntington Hospital are members of HealthNet, Inc. ("HNET"), an aeromedical transport service company. Each member's ownership percentage is 33 1/3%. HNET is a West Virginia nonprofit corporation, which the Internal Revenue Service has determined is recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. HNET's members are required to support HNET to the extent that expenses exceed revenues. HNET had total assets of \$26,153,000 and total liabilities of \$26,123,000 and total equity of \$30,000 as of December 31, 2018. Amounts due from HNET were \$5,849,000 at December 31, 2018 and \$6,300,000 at December 31, 2017, and are included in other assets, net in the accompanying consolidated balance sheets. WVUH also agreed to guarantee certain capital equipment loans for HNET. The outstanding balance for these equipment loans was approximately \$3,957,000 and \$3,734,000 as of December 31, 2018 and 2017, respectively. The two loan terms are scheduled to end in February 2020 and September 2023. WVUH is obligated to pay the amounts due under the loans in the event of a default. There are no known events of default on these loans as of December 31, 2018.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

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**14. Operating Leases**

The System leases certain equipment and office buildings under the terms of non-cancellable operating leases.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2018, that have initial or remaining lease terms in excess of one year (in thousands):

<b><u>Years ending December 31:</u></b>	<b><u>Affiliate</u></b>	<b><u>3rd Party</u></b>	<b><u>Total</u></b>
2019	\$ 38,100	\$ 7,954,921	\$ 7,993,021
2020	147,450	6,997,543	7,144,993
2021	110,550	5,805,155	5,915,705
2022	110,550	4,648,461	4,759,011
2023	109,350	4,067,420	4,176,770
Thereafter	<u>109,350</u>	<u>6,521,983</u>	<u>6,631,333</u>
	<u>\$ 625,350</u>	<u>\$ 35,995,483</u>	<u>\$ 36,620,833</u>

Rental expense for all operating leases was \$23,614,000 in 2018 and \$19,389,000 in 2017.

**15. Commitments and Contingencies**

***Workers' compensation claims coverage***

The System maintains insurance policies with a stated per occurrence deductible and a stated deductible aggregate for workers' compensation claims. The policies provide statutory workers' compensation limits of liability. The System was required to establish loss funds and provide letters of credit to secure the deductible obligations. The letters of credit total \$5,485,000 at December 31, 2018, and are automatically renewed by the issuing bank every July 1st unless notified 90 days prior to the renewal date.

***Asbestos***

Certain facilities owned by the System, which were constructed prior to the passage of the Clean Air Act, contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe fashion prior to the demolition and renovation of these buildings. The fair value of the liability for such asbestos removal cannot be reasonably estimated at this time. Management does not believe that remediation of such items will have a material effect on the consolidated financial statements.

***Disproportionate Share Hospital State Plan***

The State of West Virginia Disproportionate Share Hospital ("DSH") State Plan was amended to provide for a settlement process among participating hospitals. Beginning with 2011, the state is completing a final settlement and redistribution process. In early 2019, the audits for 2011, 2012 and 2013 were finalized and funding was redistributed based on the results of the audit in February 2019. The Bureau for Medical Services of the State of West Virginia Department of Health and Human Resources has contracted with a third-party vendor to assist with the audit settlement process for DSH. The laws and regulations governing the DSH settlement process are complex, involving statistical data from all participating hospitals, and subject to interpretation. Accordingly, the System is not able to estimate the possible loss or gain that could arise upon completion of the DSH settlement process. The results of the resolution of the settlement process could materially impact the System's future results of operations or cash flows in a particular period.

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

**Healthcare industry**

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying consolidated financial statements; however, the possible future financial effects of this matter on the System, if any, are not presently determinable.

**16. Liquidity and Availability**

As of December 31, 2018 and 2017, the System has a working capital of approximately \$362,489,000 and \$245,631,000 and average days (based on normal expenditures) cash on hand of 133 and 160 days, respectively.

Financial assets available for general expenditure within one year of the balance sheet date consist of the following at December 31 (in thousands):

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 176,287	\$ 121,634
Accounts receivable, net	339,824	301,794
Other receivables	50,898	36,441
Estimated third-party payor settlements	10,807	10,547
Assets whose use is limited	<u>17,153</u>	<u>20,209</u>
Total	<u>\$ 594,969</u>	<u>\$ 490,625</u>

In addition to the assets in the table above, the System has other assets whose use is limited for specified purposes and because they are not available for general expenditure within one year are not reflected in the amounts above. The System does, however, have certain long term assets whose use is limited by board designation and could be made available for general expenditure within one year, if necessary.

Additionally, the System maintains a \$50,000,000 (\$30,000,000 at December 31, 2017) revolving line of credit (Note 7). As of December 31, 2018 and 2017, approximately \$47,000,000 and \$19,000,000, respectively, remained available on the System's line of credit for use in the normal course of operations if needed.

**Functional Expenses**

The System provides general health care and related services to individuals within its geographic region. Expenses related to providing these services for the years ended December 31, 2018 and 2017 are as follows (in thousands):

	<u>2018</u>			
	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 689,948	\$ 135,874	\$ 77	\$ 825,899
Employee benefits	185,726	57,344	11	243,081
Supplies	497,617	15	-	497,632
Physician support	223,519	7,977	-	231,496
Professional fees	87,950	30,484	22	118,456
Depreciation and amortization	88,318	50,597	-	138,915
Interest	34,151	13,719	-	47,870
Other	<u>132,510</u>	<u>122,110</u>	<u>786</u>	<u>255,406</u>
Total	<u>\$ 1,939,739</u>	<u>\$ 418,120</u>	<u>\$ 896</u>	<u>\$ 2,358,755</u>

**West Virginia University Health System and Controlled Entities**  
**Notes to Consolidated Financial Statements**

	2017			
	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 629,302	\$ 138,316	\$ 83	\$ 767,701
Employee benefits	160,722	60,105	12	220,839
Supplies	432,209	180	-	432,389
Physician support	190,356	254	-	190,610
Professional fees	72,415	31,249	18	103,682
Depreciation and amortization	81,835	44,809	-	126,644
Interest	29,046	12,668	-	41,714
Other	123,056	131,959	489	255,504
Total	<u>\$ 1,718,941</u>	<u>\$ 419,540</u>	<u>\$ 602</u>	<u>\$ 2,139,083</u>

The consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs, are allocated to a function based on a square footage basis.

**18. Subsequent Events**

On January 1, 2019, WVUH became the sole member of Braxton County Memorial Hospital (“BCMh”) a not-for-profit critical access hospital located in Gassaway, WV. No consideration was exchanged and no goodwill was recognized as a result of this acquisition. The provisional fair value of assets and liabilities assumed as part of this transaction were \$8,470,000 and \$5,970,000, respectively. In 2019, WVUH recorded an inherent contribution totaling \$2,500,000 which represents the excess fair value of assets acquired over the fair value of liabilities assumed from the acquisition. Such amounts are subject to adjustment based on completion of the BCMH financial statement audit and finalization of the purchase accounting for the BCMH transaction.

In December 2018, West Virginia Health Care Cooperative Inc. (“WVHCC”) a not-for-profit corporation with its sole membership held by WVUH, entered into a lease agreement with Summersville Regional Medical Center (“SRMC”) and City of Summersville Building Commission, to form a lease agreement, with a 50 year lease term, to operate SRMC. SRMC is a not-for-profit hospital located in Summersville and has annual operating revenue of approximately \$40,900,000, total assets of approximately \$19,500,000 and total liabilities of approximately \$15,800,000. Based on gaining control of SRMC through the lease agreement, the assets and liabilities will be consolidated within the WVUHS financial statements upon its effective date, which is dependent on the satisfaction of certain conditions. The effective date of the lease agreement is contingent upon SRMC receiving Critical Assess Hospital Status and the transaction gaining Certificate of Need approval from the West Virginia Health Care Authority, both of which occurred in March 2019. The transaction will go into effect upon the completion of due diligence which is expected to be completed July 1, 2019.

In January, 2019, WVUHS and WVUH entered into a letter of intent with Jackson General Hospital (“JGH”), whereby WVUH would become the sole member of JGH. JGH is a not-for-profit critical access hospital located in Ripley, WV. JGH has annual operating revenue of approximately \$30,900,000, total assets of approximately \$11,600,000, and total liabilities of approximately \$7,600,000. The proposed transaction will require the approval of a Certificate of Need from the West Virginia Health Care Authority before closing.

***Consolidating Supplementary Information***

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Balance Sheet Information  
 December 31, 2018  
 (in thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Augusta	Non-Obligated Group	Eliminations	Total Consolidated
<b>ASSETS</b>													
Current assets:													
Cash and cash equivalents	\$ 21,079	\$ 32,847	\$ 15,651	\$ 8,952	\$ 22,077	\$ 856	\$ 35,095	\$ -	\$ 136,547	\$ 7,082	\$ 32,659	\$ -	\$ 176,287
Current portion of assets whose use is limited	5,064	9,032	1,248	1,068	-	-	741	-	17,153	9,079	-	(9,679)	17,183
Accounts receivable:													
Patients, net	188,613	56,280	33,452	25,390	6,271	-	6,576	-	308,006	-	31,818	-	339,824
Other	18,614	3,374	887	6,533	81	120	6,976	-	35,985	-	13,796	-	50,898
Athletes	71,709	20,148	(14,594)	12,899	1,427	68	(6,264)	(28,403)	56,990	-	(6,924)	(50,065)	45,054
Inventories of supplies	25,402	5,381	5,281	2,384	836	-	5	-	39,289	-	5,765	-	22,630
Estimated third-party payor settlements	6,789	2,829	6,724	5,182	-	-	-	-	21,524	-	1,106	-	22,630
Prepaid expenses and other current assets	6,460	6,184	3,724	83	20	134	5,275	-	21,880	157	4,910	(375)	26,572
<b>Total current assets</b>	<b>341,730</b>	<b>138,075</b>	<b>52,173</b>	<b>62,491</b>	<b>30,712</b>	<b>1,178</b>	<b>41,418</b>	<b>(28,403)</b>	<b>637,374</b>	<b>16,918</b>	<b>83,129</b>	<b>(59,003)</b>	<b>678,418</b>
Assets whose use is limited:													
Board-designated funds:													
Funded depreciation	353,970	200,683	10,391	27,671	12,437	12,110	-	-	617,262	-	5,578	-	622,840
Strategic initiatives	12,791	-	-	-	-	-	-	-	12,791	-	-	-	12,791
Major practice self-insurance	252,918	-	-	378	61	2	-	-	253,359	-	-	-	253,359
Under trust indenture, held by trustee	34,263	15,326	6,076	4,726	-	-	1,092	-	61,483	54,318	-	(61,483)	54,318
Major practice self-insurance investments	12,791	-	-	-	-	-	-	-	12,791	-	9,078	-	21,869
Foundation investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Noncurrent portion of assets whose use is limited	666,733	216,009	16,467	32,775	12,498	12,112	1,092	-	957,688	54,318	14,653	(61,483)	965,174
Property and equipment, net	634,059	282,825	140,513	69,131	15,740	20,436	93,167	-	1,255,871	-	60,081	-	1,315,952
Restricted assets held by third-parties	16,432	-	-	11	5,580	26	-	(347)	21,702	-	-	-	21,702
Due from affiliates	16,890	-	-	-	-	-	-	-	16,890	-	-	(16,890)	-
Other assets, net	46,652	4,347	10,994	4,658	282	984	5,928	-	73,845	-	24,655	(678)	97,832
<b>Total assets</b>	<b>\$ 1,722,296</b>	<b>\$ 639,256</b>	<b>\$ 220,147</b>	<b>\$ 169,066</b>	<b>\$ 64,812</b>	<b>\$ 34,736</b>	<b>\$ 141,605</b>	<b>\$ (28,750)</b>	<b>\$ 2,963,168</b>	<b>\$ 71,236</b>	<b>\$ 182,528</b>	<b>\$ (137,654)</b>	<b>\$ 3,079,078</b>

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Balance Sheet Information  
 December 31, 2018  
 (in thousands)

(Continued)

LIABILITIES AND NET ASSETS	West Virginia University Hospital		United Hospital Center		Camden Clark Medical Center		Berkeley Medical Center		Jefferson Medical Center		University Healthcare Foundation		West Virginia University Health System		Eliminations		Total Obligated Group		Non-Obligated Group		Eliminations		Total Consolidated	
		\$		\$		\$		\$		\$		\$		\$		\$		\$		\$		\$		\$
Current liabilities:																								
Line of credit																								
Current maturities of long-term debt	8,202		5,577		3,655		3,665		831		328		3,000				2,258		1,467				4,467	
Accounts payable and accrued expenses	61,583		11,129		10,078		12,384		3,176		(27)		33,388				131,919		13,138				25,946	
Due to affiliates	12,738		6,505		8,596		8,123		1,394		195		1,215		(28,403)		10,243		39,700		(50,043)		145,441	
Estimated third-party payor settlements	-		-		-		-		5,378		-		-		-		5,378		6,445		-		11,623	
Salaries and benefits payable	46,996		20,557		9,777		11,712		2,666		13		11,632		-		103,353		11,987		-		115,340	
Accrued interest payable	3,316		1,260		(1,653)		150		95		15		741		-		3,183		24		-		3,207	
Current portion of malpractice costs	5,064		1,622		1,184		1,068		-		-		-		-		9,679		24		(9,679)		9,703	
Total current liabilities	137,919		46,650		31,595		37,312		13,540		524		49,976		(28,403)		289,113		76,475		(59,722)		315,929	
Long-term debt, net	826,885		204,883		211,986		42,670		7,911		7,760		-		-		1,302,195		43,162		-		1,345,357	
Malpractice costs	15,082		7,004		3,617		3,042		-		-		3,963		-		32,708		(10)		(32,723)		32,683	
Derivative financial instruments	6,460		13,719		10,570		1,117		158		-		-		-		32,024		-		-		32,024	
Due to affiliates	-		-		-		-		-		-		-		-		-		16,713		(16,713)		-	
Pension liability	-		-		3,659		-		-		-		-		-		3,659		7,781		-		11,440	
Other liabilities	1,193		453		1,204		-		-		68		4,587		-		7,505		378		-		7,883	
Total liabilities	987,639		272,709		282,631		84,141		21,609		8,352		58,526		(28,403)		1,667,204		144,499		(109,159)		1,745,316	
Net assets (deficit):																								
Without donor restrictions	718,225		366,547		(45,988)		84,914		37,622		25,993		83,079		1,270,382		1,270,382		31,536		(28,696)		1,301,687	
Controlling interest	-		-		3,514		-		-		-		83,079		3,514		1,273,896		31,536		(28,696)		3,514	
Noncontrolling interest	718,225		366,547		(42,484)		84,914		37,622		25,993		83,079		1,273,896		1,273,896		31,536		(28,696)		1,305,201	
Net assets with donor restrictions	16,432		-		-		11		5,981		391		-		(347)		22,068		6,493		-		28,561	
Total net assets	734,657		366,547		(42,484)		84,925		43,203		26,384		83,079		(347)		1,295,964		38,029		(28,696)		1,333,782	
Total liabilities and net assets	\$ 1,722,296		\$ 639,256		\$ 220,147		\$ 169,066		\$ 64,812		\$ 34,736		\$ 141,605		\$ (28,750)		\$ 2,963,168		\$ 182,528		\$ (137,854)		\$ 3,079,078	

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Operations  
 Year Ended December 31, 2018  
 (In thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	OVASC	Eliminations	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Avulata	Non-Obligated Group	Eliminations	Total Consolidated
Operating revenues:																
Patient service revenues (net of contractual allowances and discounts)	\$ 1,146,304	\$ 394,787	\$ 267,919	\$ 4,514	\$ -	\$ 272,493	\$ 228,401	\$ 59,243	\$ -	\$ -	\$ (1,012)	\$ 2,087,228	\$ -	\$ 218,808	\$ -	\$ 2,306,134
Provision for bad debts	(32,071)	(16,519)	(13,623)	4,514	-	(13,623)	(10,980)	(2,705)	-	-	-	(75,539)	-	(1,841)	-	(67,380)
Net patient service revenues	1,114,233	388,218	254,356	4,514	-	258,970	215,841	55,537	-	-	(1,012)	2,011,687	-	207,067	-	2,218,754
Other revenues	79,669	12,960	7,634	-	-	7,634	8,010	258	3,099	165,142	(120,945)	155,827	6,922	158,490	(130,364)	190,875
Total operating revenues	1,193,902	381,178	261,990	4,514	-	266,604	223,851	55,795	3,099	165,142	(121,957)	2,167,514	6,922	385,557	(130,364)	2,409,629
Operating expenses:																
Salaries and wages	343,044	127,620	74,140	1,206	-	75,346	66,096	15,950	622	64,333	-	693,011	-	132,888	-	825,899
Employee benefits	106,065	35,327	25,170	281	-	25,451	19,774	5,652	174	18,566	-	211,009	-	51,237	(19,165)	243,081
Supplies	283,691	65,632	48,547	983	-	47,530	36,852	4,888	1	11	-	48,420	-	59,409	(92,982)	247,632
Professional support	222,672	39,603	55,545	105	-	55,545	51,031	14,851	76	13,283	(17,740)	266,450	-	27,976	(32,982)	231,496
Professional fees	71,724	21,208	15,009	46	-	15,955	9,304	2,323	1,004	12,147	(2,389)	132,265	-	6,550	(9,053)	138,915
Depreciation and amortization	25,472	8,709	9,477	-	-	9,477	2,053	419	329	30	-	46,489	-	2,021	(640)	47,870
Interest	84,814	30,854	24,387	853	(701)	24,539	18,782	4,678	915	71,214	(1,832)	233,944	6,584	29,556	(6,586)	261,520
Other	1,187,238	339,693	270,492	3,474	(701)	273,265	272,720	53,482	3,070	178,606	(121,957)	2,126,895	6,584	382,678	(130,986)	2,364,869
Total operating expenses	6,166	41,485	(8,502)	1,040	701	(6,751)	11,131	2,333	29	(13,464)	-	40,919	338	2,881	622	44,760
Operating income (loss)	(6,166)	(10,013)	(440)	-	-	(440)	(914)	(235)	29	(107)	-	(28,428)	(2,123)	(1,407)	1,610	(30,348)
Nonoperating income (loss):																
Investment income	1,400	2,616	3,135	-	-	3,135	357	48	(23)	-	-	7,759	-	7,536	-	15,336
Change in fair value of derivative financial instruments	(165)	-	(14,543)	-	-	(14,543)	(47)	(39)	-	-	-	(15,581)	-	(346)	-	(15,927)
Other, net	(65)	-	-	-	-	-	(27)	(39)	-	-	-	(851)	-	-	-	(936)
Loss on refinancing	(15,310)	(7,180)	(12,247)	-	-	(12,247)	(682)	(287)	(368)	(106)	-	(36,199)	(2,123)	(1,753)	1,610	(38,464)
Total nonoperating income	(9,144)	34,305	(20,749)	1,040	701	(19,008)	10,449	2,046	(357)	(13,570)	-	4,721	(1,785)	1,128	2,232	6,286
Revenues in excess of (less than) expenses	-	-	-	390	-	390	-	-	-	-	-	390	-	-	-	390
Less noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revenues in excess of expenses attributable to controlling interest	(9,144)	34,305	(20,749)	650	701	(19,398)	10,449	2,046	(357)	(13,570)	-	4,331	(1,785)	1,128	2,232	5,908
Pension liability adjustment	-	-	8,195	-	-	8,195	-	-	-	-	-	8,195	-	214	-	8,409
Transfers to the School of Medicine and Strategic Initiatives	(18,513)	-	-	(749)	-	(749)	-	-	-	(3,705)	-	(18,513)	-	-	-	(18,513)
Other	2,181	-	-	-	-	-	-	1,271	-	31,436	-	(1,002)	-	821	-	(181)
Transfers (to) from affiliates	(14,350)	(5,254)	(4,094)	-	-	(4,094)	-	(106)	-	-	-	7,632	-	-	-	(7,632)
Change in net assets without donor restrictions, controlling interest	\$ (39,626)	\$ 29,081	\$ (16,648)	\$ (89)	\$ 701	\$ (16,048)	\$ 10,449	\$ 3,211	\$ (357)	\$ 14,161	\$ -	\$ 643	\$ (1,785)	\$ (5,469)	\$ 2,232	\$ (4,379)

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Changes in Net Assets  
 Year Ended December 31, 2018  
 (in thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Augusta	Non-Obligated Group	Eliminations	Total Consolidated
Changes in net assets without donor restrictions, controlling interest:													
Revenues in excess of (less than) expenses	\$ (9,144)	\$ 34,305	\$ (19,398)	\$ 10,449	\$ 2,046	\$ (357)	\$ (13,570)	\$ -	\$ 4,331	\$ (1,785)	\$ 1,128	\$ 2,232	\$ 5,906
Pension liability adjustment	(18,513)	-	8,195	-	-	-	-	-	8,195	-	214	-	8,409
Transfers to the School of Medicine and strategic initiatives	2,181	-	(749)	-	1,271	-	(3,705)	-	(18,513)	-	-	-	(18,513)
Other	(14,350)	(5,254)	(4,094)	-	(106)	-	31,436	-	7,632	30,250	(7,632)	(30,250)	-
Transfers (to) from affiliates													
Change in net assets without donor restrictions, controlling interest	(39,826)	29,051	(16,046)	10,449	3,211	(357)	14,161	-	643	28,465	(5,469)	(28,018)	(4,379)
Changes in net assets without donor restrictions, noncontrolling interest:													
Revenues in excess of (less than) expenses	-	-	390	-	-	-	-	-	390	-	-	-	390
Distribution of capital	-	-	(450)	-	-	-	-	-	(450)	-	-	-	(450)
Change in net assets without donor restrictions, noncontrolling interest	-	-	(60)	-	-	-	-	-	(60)	-	-	-	(60)
Changes in net assets with donor restrictions:													
Increase in restricted assets held by WVU Foundation	3,665	-	-	-	40	-	-	-	3,705	-	(65)	-	3,660
Contributions and grants	-	-	-	-	-	-	-	-	-	-	630	-	630
Valuation gain	-	-	-	-	(590)	-	-	-	(590)	-	-	-	(590)
Change in value of split-interest agreements	-	-	-	-	5	25	-	-	25	-	-	-	25
Decrease in restricted assets held by affiliated foundation	-	-	-	(18)	-	-	-	-	-	-	(272)	-	(272)
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in net assets with donor restrictions	3,665	-	-	(18)	(535)	25	-	13	3,150	-	303	-	3,453
Change in net assets	(36,161)	29,051	(16,106)	10,431	2,676	(332)	14,161	13	3,733	28,465	(5,166)	(28,018)	(986)
Net assets (deficit), beginning	770,818	337,496	(26,378)	74,494	40,527	26,716	68,918	(360)	1,292,231	-	43,195	(678)	1,334,748
Net assets (deficit), ending	\$ 734,657	\$ 366,547	\$ (42,484)	\$ 84,925	\$ 43,203	\$ 26,384	\$ 83,079	\$ (347)	\$ 1,295,964	\$ 28,465	\$ 38,029	\$ (28,696)	\$ 1,333,762

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Balance Sheet Information  
 December 31, 2017  
 (in thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
<b>ASSETS</b>												
Current assets:												
Cash and cash equivalents	\$ 6,209	\$ 45,156	\$ 2,637	\$ 19,819	\$ 18,791	\$ 1,188	\$ 6,562	\$ -	\$ 100,362	\$ 21,273	\$ -	\$ 121,635
Current portion of assets whose use is limited	6,167	9,894	3,093	828	247	-	-	-	20,209	-	-	20,209
Accounts receivable:												
Patients, net	173,123	45,606	30,846	22,749	6,588	-	-	-	278,912	22,881	-	301,793
Other	14,731	1,237	608	8,158	281	118	3,648	-	28,781	7,660	-	36,441
Affiliates	22,249	12,305	5,384	7,367	966	(88)	23,994	-	25,457	11,824	(37,281)	-
Inventories of supplies	21,298	4,973	5,255	2,164	807	-	-	-	34,497	4,775	-	39,272
Estimated third-party payor settlements	4,529	3,937	5,829	4,402	-	-	-	-	18,697	-	-	18,697
Prepaid expenses and other current assets	438	2,831	1,492	164	8	116	6,702	-	11,751	1,753	-	13,504
<b>Total current assets</b>	<b>248,744</b>	<b>125,929</b>	<b>55,134</b>	<b>65,651</b>	<b>27,688</b>	<b>1,336</b>	<b>40,908</b>	<b>(46,722)</b>	<b>518,666</b>	<b>70,166</b>	<b>(37,281)</b>	<b>551,551</b>
Assets whose use is limited:												
Board-designated funds:												
Funded depreciation	457,514	195,016	22,748	28,539	12,828	12,459	-	-	729,104	6,210	-	735,314
Strategic initiatives	25,704	-	-	-	-	-	-	-	25,704	-	-	25,704
Malpractice self-insurance	35,676	-	-	-	-	-	-	-	35,676	-	-	35,676
Under trust indenture, held by trustee	35,303	12,990	6,528	207	36	2	-	-	55,064	-	-	55,064
Malpractice self-insurance, held by trustee	-	13,177	5,605	2,579	1,122	-	-	-	22,483	827	-	23,310
Foundation investments	25,704	-	-	-	-	-	-	-	25,704	18,699	-	44,403
<b>Noncurrent portion of assets whose use is limited</b>	<b>579,901</b>	<b>221,183</b>	<b>34,879</b>	<b>31,325</b>	<b>13,986</b>	<b>12,461</b>	<b>-</b>	<b>-</b>	<b>893,735</b>	<b>25,736</b>	<b>-</b>	<b>919,471</b>
Property and equipment, net	592,073	286,205	139,386	63,156	15,597	20,646	61,400	-	1,178,463	56,696	-	1,235,159
Restricted assets held by third-parties	12,767	-	-	29	6,116	36	-	(360)	18,588	-	-	18,588
Due from affiliates	17,752	-	-	-	-	-	-	-	17,752	898	(18,650)	-
Other assets, net	36,946	4,483	10,880	2,854	267	1,154	8,351	-	64,935	24,172	(678)	88,429
<b>Total assets</b>	<b>\$ 1,488,183</b>	<b>\$ 637,800</b>	<b>\$ 240,279</b>	<b>\$ 163,015</b>	<b>\$ 63,654</b>	<b>\$ 35,633</b>	<b>\$ 110,657</b>	<b>\$ (47,082)</b>	<b>\$ 2,692,139</b>	<b>\$ 177,668</b>	<b>\$ (56,609)</b>	<b>\$ 2,813,198</b>

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Balance Sheet Information  
 December 31, 2017  
 (in thousands)

(Continued)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
<b>LIABILITIES AND NET ASSETS</b>												
Current liabilities:												
Line of credit	\$ -	\$ -	\$ 9,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,550	\$ 2,378	\$ -	\$ 11,928
Current maturities of long-term debt	7,186	6,013	4,215	2,894	683	317	-	-	21,308	3,800	-	25,108
Accounts payable and accrued expenses	54,065	14,306	11,772	15,713	3,610	35	19,756	-	119,257	17,405	-	136,662
Due to affiliates	8,429	9,957	15,980	7,801	2,371	349	13,659	(46,722)	11,824	25,457	(37,281)	-
Estimated third-party payor settlements	-	-	-	-	3,677	-	-	-	3,677	4,473	-	8,150
Salaries and benefits payable	48,726	18,099	9,815	11,010	2,591	21	6,365	-	96,627	12,161	-	108,788
Accrued interest payable	1,929	779	(1,343)	55	132	35	-	-	1,587	59	-	1,646
Current portion of malpractice costs	5,655	3,166	2,997	828	247	-	-	-	12,893	745	-	13,638
<b>Total current liabilities</b>	125,990	52,320	52,986	36,301	13,311	757	39,780	(46,722)	276,723	66,478	(37,281)	305,920
Long-term debt, net	560,422	224,106	194,877	45,684	8,692	8,088	-	-	1,041,869	38,943	-	1,080,812
Malpractice costs	20,919	7,209	5,969	3,074	917	-	-	-	38,088	1,770	-	39,858
Derivative financial instruments	7,993	16,335	13,707	1,462	207	-	-	-	39,704	-	-	39,704
Due to affiliates	898	-	-	-	-	-	-	-	898	17,752	(18,650)	-
Pension liability	-	-	(2,008)	-	-	-	-	-	(2,008)	9,155	-	7,147
Other liabilities	1,143	334	1,126	-	-	72	1,959	-	4,634	375	-	5,009
<b>Total liabilities</b>	717,365	300,304	266,657	88,521	23,127	8,917	41,739	(46,722)	1,399,908	134,473	(56,931)	1,478,450
Net assets (deficit):												
Without donor restrictions	758,051	337,496	(29,952)	74,465	34,411	26,350	68,918	-	1,269,739	37,005	(678)	1,306,066
Controlling interest	-	-	3,574	-	-	-	-	-	3,574	-	-	3,574
Noncontrolling interest	758,051	337,496	(26,378)	74,465	34,411	26,350	68,918	-	1,273,313	37,005	(678)	1,309,940
Net assets without donor restrictions	12,767	-	-	29	6,116	366	-	(360)	18,918	6,190	-	25,108
<b>Total net assets</b>	770,818	337,496	(26,378)	74,494	40,527	26,716	68,918	(360)	1,292,231	43,195	(678)	1,334,748
<b>Total liabilities and net assets</b>	\$ 1,488,183	\$ 637,800	\$ 240,279	\$ 163,015	\$ 63,654	\$ 35,633	\$ 110,657	\$ (47,082)	\$ 2,692,139	\$ 177,668	\$ (56,609)	\$ 2,813,198

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Operations  
 Year Ended December 31, 2017  
 (in thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	West University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
Operating revenues:												
Patient service revenues (net of contractual allowances and discounts)	\$ 1,022,085	\$ 345,952	\$ 257,054	\$ 213,297	\$ 53,553	\$ -	\$ -	\$ (833)	\$ 1,892,308	\$ 184,522	\$ -	\$ 2,076,830
Provision for bad debts	(24,027)	(14,367)	(10,415)	(6,415)	(2,688)	-	-	-	(59,892)	(10,026)	-	(69,918)
Net patient service revenues	998,658	331,585	247,239	204,882	50,865	-	-	(833)	1,832,416	174,496	-	2,006,912
Other revenues	72,977	12,622	4,763	9,099	245	2,366	127,880	(98,177)	131,775	117,937	(83,896)	165,816
Total operating revenues	1,071,635	344,207	252,002	213,981	51,130	2,366	127,880	(99,010)	1,964,191	292,433	(83,896)	2,172,728
Operating expenses:												
Salaries and wages	327,724	123,658	72,121	61,125	15,934	526	47,452	-	648,540	119,161	-	767,701
Employee benefits	102,799	32,005	23,599	15,905	3,928	148	14,953	-	193,337	27,502	-	220,839
Supplies	244,508	58,744	45,243	35,130	4,517	1	16	-	388,159	44,230	-	432,389
Physician support	177,405	33,429	46,483	43,435	14,984	-	-	(96,851)	220,885	46,257	(76,532)	190,610
Professional fees	36,218	13,080	17,987	10,017	3,935	48	8,953	(1,117)	89,121	7,052	(6,491)	103,682
Depreciation and amortization	65,842	22,421	15,169	8,127	2,425	857	4,569	-	119,410	7,234	-	126,644
Interest	20,686	7,812	8,746	1,918	406	333	20	-	39,921	1,793	-	41,714
Other	82,520	32,089	30,456	16,797	4,077	853	59,485	(1,042)	225,235	31,142	(873)	255,504
Total operating expenses	1,057,702	323,238	259,804	194,454	50,206	2,766	135,448	(99,010)	1,924,608	298,371	(83,896)	2,139,083
Operating income (loss)	13,933	20,969	(7,802)	19,527	924	(400)	(7,568)	-	39,583	(6,938)	-	33,645
Nonoperating income (loss):												
Investment income	72,341	22,560	5,223	3,583	1,957	1,942	269	-	107,875	2,720	-	110,595
Change in fair value of derivative financial instruments	1,018	1,430	1,737	293	41	-	-	-	4,519	-	-	4,519
Other net	(3,134)	229	444	(100)	(32)	(4)	(12)	-	(2,809)	46	-	(2,563)
Total nonoperating income	70,225	24,219	7,404	3,778	1,966	1,938	257	-	109,785	2,766	-	112,551
Revenues in excess of (less than) expenses	84,158	45,188	(398)	23,303	2,890	1,538	(7,311)	-	149,368	(3,172)	-	146,196
Pension liability adjustment	-	-	1,365	-	-	-	-	-	1,365	(1,389)	-	(24)
Transfers to the School of Medicine and strategic initiatives	(16,045)	-	-	-	-	-	-	-	(16,045)	-	-	(16,045)
Other	282	-	(402)	37	51	-	-	-	(32)	-	-	(32)
Transfers (to) from affiliates	(12,614)	(12,345)	(9,068)	-	-	-	42,079	-	8,052	(8,052)	-	-
Change in net assets without donor restrictions	\$ 55,781	\$ 32,843	\$ (6,503)	\$ 23,340	\$ 2,941	\$ 1,538	\$ 34,768	\$ -	\$ 142,708	\$ (12,613)	\$ -	\$ 130,095

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Changes in Net Assets  
 Year Ended December 31, 2017  
 (in thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
Changes in net assets without donor restrictions:												
Revenues in excess of (less than) expenses	\$ 84,158	\$ 45,188	\$ (398)	\$ 23,303	\$ 2,890	\$ 1,538	\$ (7,311)	\$ -	\$ 149,368	\$ (3,172)	\$ -	\$ 146,196
Pension liability adjustment	-	-	1,365	-	-	-	-	-	1,365	(1,389)	-	(24)
Transfers to the School of Medicine and strategic initiatives	(16,045)	-	(402)	37	51	-	(32)	-	(16,045)	-	-	(16,045)
Other	282	-	(9,068)	-	-	-	42,079	-	8,052	(8,052)	-	(32)
Transfers (to) from affiliates	(12,614)	(12,345)	-	-	-	-	-	-	-	-	-	-
Change in net assets without donor restrictions	55,781	32,843	(8,503)	23,340	2,941	1,538	34,768	-	142,708	(12,613)	-	130,095
Changes in net assets with donor restrictions:												
Increase in restricted assets held by WVU Foundation	1,853	-	-	-	-	-	-	-	1,853	-	-	1,853
Contributions and grants	-	-	-	-	442	57	-	-	57	554	-	611
Valuation gain	-	-	-	-	-	(2)	-	-	442	32	-	474
Change in value of split-interest agreements	-	-	-	(26)	(4)	(79)	-	-	(2)	103	-	101
Decrease in restricted assets held by affiliated foundation	-	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	(79)	-	-	(79)	(487)	-	(566)
Change in net assets with donor restrictions	1,853	-	-	(26)	438	(24)	-	30	2,271	202	-	2,473
Change in net assets	57,634	32,843	(8,503)	23,314	3,379	1,514	34,768	30	144,979	(12,411)	-	132,568
Net assets (deficit), beginning	713,184	304,653	(17,875)	51,180	37,148	28,202	34,150	(390)	1,147,252	55,606	(678)	1,202,180
Net assets (deficit), ending	\$ 770,818	\$ 337,496	\$ (26,378)	\$ 74,494	\$ 40,527	\$ 26,716	\$ 68,918	\$ (360)	\$ 1,292,231	\$ 43,195	\$ (678)	\$ 1,334,748

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Balance Sheet Information - Non-Oligated Group  
 December 31, 2018  
 (in thousands)

	Non-Oligated Consolidated	Eliminations	PVH	University Healthcare	CCPC	CCF	AMS	UPC	WVUS	UHF	USC	SHH	SHF	RMH	GATEWAY
<b>ASSETS</b>															
Current assets:															
Cash and cash equivalents	\$ 32,658	\$ -	\$ 622	\$ 983	\$ 937	\$ 444	\$ 4,579	\$ 4,601	\$ 509	\$ 9,086	\$ 1,346	\$ 7,954	\$ 364	\$ 1,070	\$ 163
Accounts receivable:															
Patients, net	31,818	-	3,527	59	3,308	-	543	4,652	49	233	2,328	6,543	-	10,409	510
Other	13,796	-	436	69	286	-	7,209	3,815	1,863	246	1,863	246	-	(230)	16
Alliances	(9,924)	(216)	(3,197)	5,853	(6)	(2)	1,061	834	18	-	246	(1,232)	(319)	(9,986)	(6)
Inventories of supplies	5,765	-	610	-	-	-	2,406	-	-	-	-	1,386	-	1,383	-
Estimated third-party payor settlements	1,106	-	-	-	181	2	1,931	218	7	-	-	-	-	1,106	-
Prepaid expenses and other current assets	4,910	-	308	1,397	-	-	-	-	-	-	-	611	-	233	32
Total current assets	83,129	(216)	2,308	8,312	4,716	444	17,729	14,120	583	9,319	5,807	15,286	45	3,965	713
Assets whose use is limited:															
Board-designated funds:	5,578	-	-	-	-	-	-	-	-	-	4,410	855	-	313	-
Funded depreciation	9,075	-	-	-	-	1,941	-	-	-	-	-	-	-	7,134	-
Foundation investments	14,653	-	-	-	-	1,941	-	-	-	-	4,410	855	-	7,447	-
Noncurrent portion of assets whose use is limited	60,081	-	17,492	775	188	150	8,501	678	28	55	1,864	15,921	-	13,708	723
Property and equipment, net	24,685	-	4,878	155	2	12	-	3,119	90	2,574	18	11,364	(198)	19	2,630
Other assets, net															
Total assets	\$ 182,528	\$ (216)	\$ 24,678	\$ 9,242	\$ 4,904	\$ 2,547	\$ 26,230	\$ 17,917	\$ 701	\$ 11,948	\$ 12,099	\$ 43,428	\$ (151)	\$ 25,139	\$ 4,086



West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Operations - Non-Obligated Group  
 Year Ended December 31, 2018  
 (In thousands)

	Obligated Consolidated	Eliminations	PVH	University Healthcare	CCPC	CCF	AHS	UPC	WVUHS	UHF	USC	SIH	SIHF	RMH	GATEWAY
Operating revenues:															
Patient service revenues (net of contractual allowances and discounts)	\$ 218,908	\$ -	\$ 26,174	\$ -	\$ 26,047	\$ -	\$ 5,253	\$ 31,684	\$ -	\$ -	\$ 17,104	\$ 56,007	\$ -	\$ 52,132	\$ 2,597
Provision for bad debts	(11,841)	-	(1,338)	-	(780)	-	(30)	(2,410)	-	-	(671)	(2,983)	-	(3,491)	(329)
Net patient service revenues	207,067	-	24,836	-	27,267	-	5,223	29,444	-	-	16,433	53,024	-	48,641	2,179
Other revenues	158,480	(384)	371	52,872	17,213	111	53,321	22,783	2,679	1,251	4,695	2,229	24	1,329	6
Total operating revenues	365,557	(384)	25,207	52,872	44,500	111	58,544	52,227	2,679	1,251	21,128	55,253	24	49,970	2,185
Operating expenses:															
Salaries and wages	132,888	-	10,987	8,381	25,922	91	5,785	19,911	1,810	165	14,105	20,727	-	24,088	906
Employee benefits	51,237	-	2,264	21,704	3,615	13	1,637	5,347	513	46	4,605	5,783	-	5,456	234
Supplies	59,409	-	2,100	2	1,181	13	40,544	2,201	-	-	64	6,181	-	5,570	566
Physician support	57,978	(211)	4,172	18,797	6,973	13	309	18,630	54	-	1,035	4,515	-	4,090	-
Professional fees	22,935	(169)	1,355	1,232	4,524	13	3,636	2,027	18	15	637	5,048	-	4,129	270
Depreciation and amortization	6,630	-	1,272	658	140	-	972	198	6	19	520	1,522	-	1,248	95
Interest	2,021	-	518	175	-	-	888	-	-	-	-	271	-	469	-
Other	29,558	(14)	2,492	1,926	2,546	21	1,861	3,669	209	485	3,388	5,923	334	6,453	488
Total operating expenses	362,676	(384)	25,170	52,869	44,501	138	55,332	52,000	2,610	730	24,334	49,970	334	52,503	2,579
Operating income (loss)	2,881	-	37	3	(1)	(27)	3,212	227	69	521	(3,206)	5,283	(310)	(2,533)	(394)
Nonoperating income (loss):															
Investment income	(1,407)	-	1	(4)	-	3	118	-	(5)	(889)	(138)	(296)	(10)	(187)	-
Other, net	(346)	-	-	-	-	-	(141)	-	-	-	-	(304)	99	-	-
Total nonoperating income	(1,753)	-	1	(4)	-	3	(23)	-	(5)	(889)	(138)	(600)	89	(187)	-
Revenues in excess of (less than) expenses	1,128	-	38	(1)	(1)	(24)	3,189	227	64	(368)	(3,344)	4,683	(221)	(2,720)	(394)
Pension liability adjustment	214	-	-	-	-	-	-	-	-	-	-	214	-	-	-
Other	821	-	86	-	-	-	-	10	-	-	-	-	-	725	-
Transfers (to) from affiliates	(7,632)	-	(649)	(3,401)	1,510	117	-	-	-	(240)	-	(98)	-	(4,871)	-
Change in net assets without donor restrictions	\$ (5,489)	\$ -	\$ (525)	\$ (3,402)	\$ 1,509	\$ 93	\$ 3,189	\$ 237	\$ 64	\$ (608)	\$ (3,344)	\$ 4,799	\$ (221)	\$ (6,866)	\$ (394)

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Changes in Net Assets - Non-Obligated Group  
 Year Ended December 31, 2018  
 (in thousands)

	Non-Obligated Consolidated	Eliminations	PVH	University Healthcare	CCPC	CCF	AHS	UPC	WVUIS	UHF	USC	SJH	SJHF	RMH	GATEWAY
Changes in net assets without donor restrictions:															
Revenues in excess of (less than) expenses	\$ 1,128	\$ -	\$ 38	\$ (1)	\$ (1)	\$ (24)	\$ 3,189	\$ 227	\$ 64	\$ (368)	\$ (3,344)	\$ 4,683	\$ (221)	\$ (2,720)	\$ (394)
Pension liability adjustment	214	-	-	-	-	-	-	10	-	-	-	214	-	725	-
Other	821	-	86	-	-	17	-	-	-	(240)	-	(98)	-	(4,871)	-
Transfers (to) from affiliates	(7,632)	-	(649)	(3,401)	1,510	-	-	-	-	-	-	-	-	-	-
Change in net assets without donor restrictions	(5,469)	-	(525)	(3,402)	1,509	93	3,189	237	64	(608)	(3,344)	4,799	(221)	(6,866)	(394)
Changes in net assets with donor restrictions:															
Increase in restricted assets held by WVU Foundation	(55)	-	-	-	-	-	-	-	-	-	-	-	-	(55)	-
Contributions and grants	630	-	-	-	-	353	-	-	-	277	-	-	-	-	-
Net assets released from restrictions	(272)	-	-	-	-	(272)	-	-	-	-	-	-	-	-	-
Change in net assets with donor restrictions	303	-	-	-	-	81	-	-	-	277	-	-	-	(55)	-
Change in net assets	(5,166)	-	(525)	(3,402)	1,509	174	3,189	237	64	(331)	(3,344)	4,799	(221)	(6,921)	(394)
Net assets (deficit), beginning	43,195	-	1,511	(2,644)	225	2,369	(4,466)	4,866	31	12,231	11,593	8,012	70	6,394	3,183
Net assets (deficit), ending	\$ 38,029	\$ -	\$ 986	\$ (6,046)	\$ 1,734	\$ 2,543	\$ (1,277)	\$ 4,923	\$ 95	\$ 11,900	\$ 8,249	\$ 12,811	\$ (151)	\$ (527)	\$ 2,789

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Balance Sheet Information - Non-Oligated Group  
 December 31, 2017  
 (in thousands)

	Non-Oligated Consolidated	Eliminations	PVH	University Healthcare	CCFC	CCF	AHS	UPC	WVUHS	UHF	USC	SIH	SIHF	RMH	GATEWAY
<b>ASSETS</b>															
Current assets:															
Cash and cash equivalents	\$ 21,273	\$ -	\$ 1,487	\$ 1,312	\$ 573	\$ 207	\$ 998	\$ 3,910	\$ 261	\$ 124	\$ 3,892	\$ 6,711	\$ 207	\$ 1,069	\$ 402
Accounts receivable:															
Patients, net	22,881	-	2,672	-	1,890	-	625	3,645	-	-	2,969	5,658	-	5,206	426
Other	7,680	-	422	21	1	-	4,141	1,233	94	92	1,023	70	-	541	-
Other	11,924	519	(314)	8,393	-	-	1,262	1,414	184	-	-	267	(1)	-	-
Assets	4,775	-	464	-	-	-	1,546	1,414	7	-	-	816	-	783	1,143
Inventories of supplies	1,753	-	106	54	223	2	290	170	-	-	124	228	-	524	23
Prepaid expenses and other current assets															
Total current assets	70,166	519	4,857	9,730	2,489	209	8,964	10,393	546	216	8,000	13,750	206	8,123	1,994
Assets whose use is limited:															
Board-designated funds:															
Funded depreciation	6,210	-	-	-	-	-	-	408	-	-	4,571	855	-	376	-
Malpractice self-insurance, held by trustee	827	-	-	-	-	-	-	-	-	-	827	-	-	-	-
Foundation investments	18,699	-	-	-	-	1,938	-	-	-	9,377	-	-	-	7,384	-
Noncurrent portion of assets whose use is limited	25,736	-	-	-	-	1,938	-	408	-	9,377	5,398	855	-	7,760	-
Property and equipment, net	56,696	-	17,225	1,377	227	150	8,801	539	26	74	2,189	15,248	-	11,475	(635)
Due from affiliates	898	-	898	-	-	-	-	-	-	-	-	-	-	-	-
Other assets, net	24,172	-	4,878	166	15	12	-	3,113	64	2,641	28	10,799	(198)	19	2,633
Total assets	\$ 177,668	\$ 519	\$ 27,858	\$ 11,323	\$ 2,731	\$ 2,369	\$ 17,765	\$ 14,453	\$ 636	\$ 12,308	\$ 15,615	\$ 40,652	\$ 70	\$ 27,377	\$ 3,992



West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Operations - Non-Obligated Group  
 Year Ended December 31, 2017  
 (In thousands)

	Obligated Consolidated	Eliminations	PVH	University Healthcare	CCPC	CCF	AHS	UPC	WVUHS	UHF	USC	SIH	SIHF	RMH	GATEWAY
Operating revenues:															
Patient service revenues (net of contractual allowances and discounts)	\$ 184,622	\$ -	\$ 23,338	\$ -	\$ 22,536	\$ -	\$ 5,422	\$ 23,900	\$ -	\$ -	\$ 20,553	\$ 47,619	\$ -	\$ 38,644	\$ 2,511
Provision for bad debts	(10,029)	-	(1,278)	-	(461)	-	68	(1,331)	-	-	(647)	(2,829)	-	(2,632)	(692)
Net patient service revenues	174,496	-	22,060	-	22,054	-	5,490	22,569	-	-	19,906	44,660	-	35,809	1,948
Other revenues	117,937	(333)	344	33,350	16,228	58	40,960	16,758	2,784	258	4,895	1,445	60	1,130	-
Total operating revenues	292,433	(333)	22,404	33,350	38,282	58	46,450	39,327	2,784	258	24,801	46,105	60	36,939	1,948
Operating expenses:															
Salaries and wages	119,161	-	9,245	8,619	22,895	99	4,681	15,860	1,870	181	14,907	19,335	-	20,625	644
Employee benefits	27,502	-	1,991	2,742	2,963	15	1,292	4,245	527	47	4,640	5,378	-	3,625	237
Supplies	44,230	-	2,240	2	765	-	31,985	1,484	-	-	59	4,688	-	2,359	648
Physician support	46,297	(314)	4,178	16,737	6,838	-	171	13,132	20	-	1,145	3,416	-	2,081	-
Professional fees	21,052	-	1,510	1,308	3,116	16	4,001	1,356	21	10	-	3,855	-	4,360	354
Depreciation and amortization	7,234	-	1,148	1,976	105	-	914	96	8	19	504	1,423	-	978	63
Interest	1,793	-	451	196	-	-	552	5	-	-	-	271	-	318	-
Other	31,142	(287)	2,388	1,790	2,001	27	3,089	3,125	227	432	3,788	6,086	57	8,290	139
Total operating expenses	298,371	(601)	23,161	33,370	38,281	157	46,885	39,303	2,673	689	28,023	44,452	57	42,838	2,285
Operating income (loss)	(5,938)	288	(757)	(20)	1	(99)	(235)	24	111	(431)	(222)	1,653	3	(5,897)	(337)
Nonoperating income (loss):															
Investment income	2,720	-	3	23	-	200	73	-	6	869	599	189	18	740	-
Other, net	46	-	-	(2)	-	-	(1)	-	-	-	-	49	-	-	-
Total nonoperating income	2,766	-	3	21	-	200	72	-	6	869	599	238	18	740	-
Revenues in excess of (less than) expenses	(3,172)	288	(754)	1	1	101	(63)	24	117	438	377	1,891	21	(5,157)	(337)
Pension liability adjustment	(1,389)	-	-	-	-	-	-	-	-	-	-	(1,389)	-	-	-
Transfers (to) from affiliates	(8,052)	19	(1,339)	(3,637)	(1,619)	116	5	-	6	-	-	(1,597)	-	-	-
Change in net assets without donor restrictions	\$ (12,613)	\$ 287	\$ (2,093)	\$ (3,636)	\$ (1,618)	\$ 217	\$ (158)	\$ 24	\$ 117	\$ 438	\$ 377	\$ (1,095)	\$ 21	\$ (5,157)	\$ (337)

West Virginia University Health System and Controlled Entities  
 Consolidating Schedule of Changes in Net Assets - Non-Obligated Group  
 Year Ended December 31, 2017  
 (in thousands)

	Non-Obligated Consolidated	Eliminations	PVH	University Healthcare	CCPC	CCF	AHS	UPC	WVUIS	UHF	USC	SJH	SJHF	RMH	GATEWAY
Changes in net assets without donor restrictions:															
Revenues in excess of (less than) expenses	\$ (3,172)	\$ 288	\$ (754)	\$ 1	\$ 1	\$ 101	\$ (163)	\$ 24	\$ 117	\$ 438	\$ 377	\$ 1,891	\$ 21	\$ (5,157)	\$ (337)
Pension liability adjustment	(1,389)	-	-	-	-	-	-	-	-	-	-	(1,389)	-	-	-
Transfers to the School of Medicine and strategic initiatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers (to) from affiliates	(8,052)	19	(1,339)	(3,637)	(1,619)	116	5	-	-	-	-	(1,597)	-	-	-
Change in net assets without donor restrictions	(12,613)	287	(2,093)	(3,636)	(1,618)	217	(158)	24	117	438	377	(1,095)	21	(5,157)	(337)
Changes in net assets with donor restrictions:															
Contributions and grants	554	-	-	-	-	310	-	-	-	244	-	-	-	-	-
Valuation gain	32	-	-	-	-	-	-	-	-	-	-	-	-	32	-
Change in value of split-interest agreements	103	-	-	-	-	-	-	-	-	103	-	-	-	-	-
Increase in restricted assets held by affiliated foundation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	(487)	-	-	-	-	(237)	-	-	-	(250)	-	-	-	-	-
Change in net assets with donor restrictions	202	-	-	-	-	73	-	-	-	97	-	-	-	32	-
Change in net assets	(12,411)	287	(2,093)	(3,636)	(1,618)	290	(158)	24	117	535	377	(1,095)	21	(5,125)	(337)
Net assets (deficit), beginning	55,606	(287)	3,604	992	1,843	2,079	(4,308)	4,662	(86)	11,686	11,216	9,107	49	11,519	3,520
Net assets (deficit), ending	\$ 43,195	\$ -	\$ 1,511	\$ (2,644)	\$ 225	\$ 2,369	\$ (4,466)	\$ 4,686	\$ 31	\$ 12,231	\$ 11,593	\$ 8,012	\$ 70	\$ 6,394	\$ 3,183

**DHG**