

West Virginia University Health System and Controlled Entities

**Consolidated Financial Statements and
Consolidating Supplementary Information**

Years Ended December 31, 2019 and 2018

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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 sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 two percent of consolidated total assets at both December 31, 2019 and 2018. Those statements were audited by other auditors whose reports have 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 reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free 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 audits and the reports 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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 5 to the consolidated financial statements, the System changed its method of accounting for certain investments in 2019 with the adoption of ASU 2016-01, *Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities*. Additionally, as described in Note 14 to the consolidated financial statements, the System changed its method of accounting for leases in 2019 with the adoption of ASU 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to these matters.

Report On Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 45 through 60 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 audits 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 reports of other auditors, such consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

**Charleston, West Virginia
April 16, 2020**

West Virginia University Health System and Controlled Entities
Consolidated Balance Sheets
December 31, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 199,074	\$ 176,287
Current portion of assets whose use is limited	21,062	17,153
Accounts receivable:		
Patients	426,848	339,824
Other	50,716	50,898
Inventories of supplies	51,979	45,054
Estimated third-party payor settlements	23,024	22,630
Prepaid expenses and other current assets	<u>26,790</u>	<u>26,572</u>
Total current assets	<u>799,493</u>	<u>678,418</u>
Assets whose use is limited:		
Board-designated funds:		
Funded depreciation	741,454	622,840
Strategic initiatives	12,791	12,791
Under trust indenture, held by trustee	168,277	253,359
Malpractice investments	58,882	54,318
Foundation investments	<u>21,345</u>	<u>21,866</u>
Noncurrent portion of assets whose use is limited	1,002,749	965,174
Property and equipment, net	1,430,547	1,315,952
Restricted assets held by third-parties	46,566	21,702
Right-of-use operating lease assets	32,913	-
Other investments	20,284	3,969
Other assets, net	<u>113,346</u>	<u>93,863</u>
Total assets	<u>\$ 3,445,898</u>	<u>\$ 3,079,078</u>

West Virginia University Health System and Controlled Entities
Consolidated Balance Sheets
December 31, 2019 and 2018
(in thousands)

(Continued)

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	\$ 5,133	\$ 4,467
Current maturities of long-term debt	29,819	25,948
Accounts payable and accrued expenses	173,167	145,441
Estimated third-party payor settlements	15,729	11,823
Salaries and benefits payable	131,375	115,340
Accrued interest payable	4,538	3,207
Current portion of malpractice costs	14,853	9,703
	<u>374,614</u>	<u>315,929</u>
Total current liabilities	374,614	315,929
Long-term debt, net	1,349,765	1,345,357
Malpractice costs	38,032	32,683
Right-of-use operating lease obligations	19,524	-
Derivative financial instruments	39,664	32,024
Pension liability	12,030	11,440
Other liabilities	8,994	7,883
	<u>1,842,623</u>	<u>1,745,316</u>
Total liabilities	1,842,623	1,745,316
Net assets:		
Without donor restrictions		
Controlling interest	1,546,731	1,301,687
Noncontrolling interest	2,553	3,514
	<u>1,549,284</u>	<u>1,305,201</u>
Net assets without donor restrictions	1,549,284	1,305,201
Net assets with donor restrictions	53,991	28,561
	<u>1,603,275</u>	<u>1,333,762</u>
Total net assets	1,603,275	1,333,762
Total liabilities and net assets	<u>\$ 3,445,898</u>	<u>\$ 3,079,078</u>

West Virginia University Health System and Controlled Entities
Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient service revenues	\$ 2,502,108	\$ 2,218,754
Other revenues	<u>268,055</u>	<u>190,875</u>
Total operating revenues	<u>2,770,163</u>	<u>2,409,629</u>
Operating expenses:		
Salaries and wages	925,439	825,899
Employee benefits	276,416	243,081
Supplies	577,521	497,632
Physician support	247,666	231,496
Professional fees	145,525	118,456
Depreciation and amortization	148,233	138,915
Interest	50,335	47,870
Other	<u>305,326</u>	<u>261,520</u>
Total operating expenses	<u>2,676,461</u>	<u>2,364,869</u>
Operating income	<u>93,702</u>	<u>44,760</u>
Nonoperating income (loss):		
Investment income (loss)	123,601	(30,346)
Inherent contribution	20,901	-
Change in fair value of derivative financial instruments, net	(7,783)	7,536
Other, net	(1,835)	(15,403)
Loss on refinancing	<u>-</u>	<u>(251)</u>
Total nonoperating income (loss)	<u>134,884</u>	<u>(38,464)</u>
Revenues in excess of expenses	<u>228,586</u>	6,296
Less noncontrolling interest	<u>(961)</u>	<u>390</u>
Revenues in excess of expenses attributable to controlling interest	<u>229,547</u>	5,906
Pension liability adjustment	(2,934)	8,409
Transfers to the School of Medicine	(14,060)	(18,513)
Other	<u>1,190</u>	<u>(181)</u>
Change in net assets without donor restrictions, controlling interest	<u>\$ 213,743</u>	<u>\$ (4,379)</u>

West Virginia University Health System and Controlled Entities
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
Changes in net assets without donor restrictions and controlling interest:		
Revenues in excess of expenses	\$ 229,547	\$ 5,906
Pension liability adjustment	(2,934)	8,409
Transfers to the School of Medicine	(14,060)	(18,513)
Other	1,190	(181)
	<u>213,743</u>	<u>(4,379)</u>
Change in net assets without donor restrictions, controlling interest		
Changes in net assets without donor restrictions, noncontrolling interest:		
Revenues in excess of expenses	(961)	390
Distributions of capital	-	(450)
	<u>(961)</u>	<u>(60)</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	24,864	3,650
Contributions and grants	464	630
Restricted inherent contributions	366	-
Valuation loss	-	(580)
Change in value of split-interest agreements	-	25
Net assets released from restrictions	(264)	(272)
	<u>25,430</u>	<u>3,453</u>
Change in net assets with donor restrictions		
Change in net assets	238,212	(986)
Net assets, beginning of year	1,333,762	1,334,748
Cumulative effect of change in accounting principle	31,301	-
Net assets, beginning of year, as adjusted	<u>1,365,063</u>	<u>1,334,748</u>
Net assets, end of year	<u>\$ 1,603,275</u>	<u>\$ 1,333,762</u>

West Virginia University Health System and Controlled Entities
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 238,212	\$ (986)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	148,233	138,915
Amortization of debt issuance costs included in interest expense	(1,474)	(1,503)
Net realized and unrealized losses (gains) on investments	(110,171)	42,584
Impairment of goodwill	2,454	-
Change in fair value of derivative financial instruments	7,783	(7,536)
Pension liability adjustment	2,934	(8,409)
Inherent contribution	(21,267)	-
Loss on refinancing	-	251
Loss (gain) on disposal of assets	8,268	(391)
Change in value of restricted assets held by third parties	2,118	(2,253)
Changes in assets and liabilities:		
Patient accounts receivable	(72,969)	(38,031)
Other amounts	419	(14,457)
Estimated third-party payor settlements	3,235	(260)
Inventories of supplies, prepaid expenses and other assets	(2,845)	(20,571)
Accounts payable and accrued expenses	2,137	8,779
Salaries and benefits payable	13,503	6,552
Malpractice costs	10,499	(11,110)
Other	(20,299)	17,137
Net cash provided by operating activities	<u>210,770</u>	<u>108,711</u>
Cash flows from investing activities:		
Purchases of property and equipment	(226,680)	(215,198)
Net increase of assets limited as to use	12,832	120,315
Cash acquired through acquisition of hospitals	5,377	-
Proceeds from the sale of property and equipment	-	1,000
Net cash used in investing activities	<u>(208,471)</u>	<u>(93,883)</u>
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	2,282	637,148
Repayment of long-term debt	(26,047)	(366,285)
Payment of financing costs	(798)	(4,370)
Net proceeds from line of credit	666	(7,461)
Net cash (used in) provided by financing activities	<u>(23,897)</u>	<u>259,032</u>
(Decrease) increase in cash, cash equivalents and restricted cash	<u>(21,598)</u>	<u>273,860</u>
Cash, cash equivalents and restricted cash, beginning	<u>484,051</u>	<u>210,191</u>
Cash, cash equivalents and restricted cash, ending	<u>\$ 462,453</u>	<u>\$ 484,051</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	<u>\$ 43,897</u>	<u>\$ 51,172</u>
Financing leases for purchase of property and equipment	<u>\$ 20,916</u>	<u>\$ -</u>

See notes to consolidated financial statements.

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 that 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 functions 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 ("CMS") 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").

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

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 CMS 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. (Note 12).

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.

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 an intangible asset of \$400,000 was recognized as a result of this transaction. The System recorded an inherent contribution totaling \$2,489,000 in 2019, which represents the excess of the fair value of assets acquired over the fair value of liabilities assumed from the transaction.

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

On July 1, 2019, 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”), a critical access hospital, and City of Summersville Building Commission, to form a lease agreement, to operate SRMC for 50 years. SRMC is included in the accompanying consolidated financial statement based on the control gained through the lease agreement. Consideration of \$11,000,000 was exchanged and an intangible asset of \$1,300,000 was recognized as a result of this transaction. The System recorded an inherent contribution totaling \$7,163,000 in 2019, which represents the excess of the fair value of assets acquired over the fair value of liabilities assumed from the transaction.

On October 1, 2019, WVUH became the sole member of Jackson General Hospital (“JGH”), a not-for-profit critical access hospital located in Ripley, WV. No consideration was exchanged and an intangible asset of \$1,500,000 was recognized as a result of this transaction. The System recorded an inherent contribution totaling \$11,615,000 in 2019, which represents the excess of the fair value of assets acquired over the fair value of liabilities assumed from the transaction.

WVUH has a management and operating agreement with Recovery Properties, 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. Construction of the facility was complete in early 2019 and operation of the Program began on March 4, 2019. During 2019, the Program realized approximately \$2,330,000 in patient service revenue, which is recorded within net patient service revenue in the accompanying consolidated statements of operations with a corresponding expenses of approximately \$3,536,000 recorded in other operating expenses. As part of this arrangement, WVUH guaranteed the debt service commitment of the Program, which had a total debt balance outstanding of \$12,683,000 as of December 31, 2019.

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.

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 that 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.

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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 199,074	\$ 176,287
Assets whose use is limited	224,637	295,960
Restricted assets held by third-parties	<u>38,742</u>	<u>11,804</u>
 Total cash, cash equivalents and restricted cash shown in the accompanying consolidated statements of cash flows	 <u>\$ 462,453</u>	 <u>\$ 484,051</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 accounts receivable 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. 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 and such amounts have historically been within management's expectations. The mix of accounts receivable at December 31, 2019 and 2018, from patients and third-party payors is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	27%	29%
Medicaid	17%	18%
Blue Cross	24%	24%
Commercial, managed care and other	26%	26%
Patients	<u>6%</u>	<u>3%</u>
 Total	 <u>100%</u>	 <u>100%</u>

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

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 measured at fair value. Investments in hedge funds, private equity funds and other limited partnerships representing less than 3% ownership were recorded at cost in 2018. Investment income or loss (including realized 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, particularly for alternative investments, 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 System's 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 of accounting and adjusted periodically to reflect the System's proportionate share of the entity's undistributed earnings or losses. All other investments in such entities where the System does not have the ability to influence management or has less than twenty percent interest in the entity are recorded at cost.

Property and equipment

Property and equipment acquisitions costing more than \$2,000 individually or \$5,000 in the aggregate and having a useful life longer than two years are capitalized and 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 financing leases (formerly capital leases; hereafter referred to as finance 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 finance leases, was \$148,233,000 in 2019 and \$138,915,000 in 2018.

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Interest costs incurred on borrowed funds, net of income earned, during the period of construction of facilities are capitalized as a component of the cost of those assets. Interest costs capitalized were \$5,386,000 in 2019 and \$4,864,000 in 2018.

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.

Leases

At lease inception, the System determines whether an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use ("ROU") assets, current operating lease liabilities and noncurrent lease liabilities in the accompanying consolidated financial statements. Finance leases are included in property and equipment, other current liabilities and long-term liabilities in the accompanying consolidated financial statements. ROU assets represent the System's right to use leased assets over the term of the lease. Lease liabilities represent the System's contractual obligation to make lease payments over the lease term.

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. The System uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the System uses its incremental borrowing rate at the commencement date of the lease to determine the present value of the lease payments. Operating ROU assets are calculated as the present value of the lease payments plus initial direct costs and any prepayments less any lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates and the presence of factors that would cause a significant economic penalty to the System if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term. The System has elected not to recognize a ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short-term leases is included in lease expense in the accompanying consolidated statements of operations.

For finance leases, after lease commencement, the lease liability is measured on an amortized cost basis and increased to reflect interest on the liability and decreased to reflect the lease payment made during the period. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset is subsequently measured at cost, less any accumulated amortization and any accumulated impairment losses. Amortization on the ROU asset is recognized over the period from the commencement date to the earlier of (1) the end of the useful life of the ROU asset, or (2) the end of the lease term. The discount rate used by the System for finance leases is generally the incremental borrowing rate, as most such leases do not provide a readily determinable implicit interest rate. To the extent a lease arrangement includes both lease and non-lease components, the components are not accounted for separately.

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Goodwill and other non-amortizable intangible assets

Goodwill and other non-amortizable intangible assets represent the excess of the amount paid to acquire certain businesses over the fair value of the net assets purchased and identifiable intangible assets acquired. In 2019, the System recognized \$3,282,000 of goodwill and other non-amortizable intangible assets related to acquisitions. In 2018, the System recognized \$30,000 of goodwill related to the acquisition of several physician practices. Goodwill and other non-amortizable intangible assets of \$42,631,000 at December 31, 2019 and \$41,763,000 at December 31, 2018 is included in non-current other assets, net 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 impairment losses of approximately \$2,454,000 and \$0 in 2019 and 2018, respectively.

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 related 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 \$1,528,000 in 2019 and \$677,000 in 2018.

Advertising costs

Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2019 and 2018 were approximately \$5,728,000 and \$4,432,000, respectively.

Noncontrolling interest

The accompanying 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%.

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

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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 that 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 that 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.

Patient service revenues, net of explicit and implicit price concessions from these major payor sources, are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Third-party government payors	\$ 1,323,640	\$ 1,227,100
Third-party commercial payors	1,148,272	968,207
Self-pay	<u>30,196</u>	<u>23,447</u>
Total	<u>\$ 2,502,108</u>	<u>\$ 2,218,754</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.

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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 estimated cost of charity care provided by the System was approximately \$23,970,000 in 2019 and \$17,074,000 in 2018.

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 \$59,209,000 in 2019 and \$51,751,000 in 2018, which are included in other operating expenses in the accompanying consolidated statements of operations.

Federal and state income taxes

Most of the entities that comprise the System 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, 2019 and 2018.

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 March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-04, *Reference Rate Reform (Topic 848)*. This new standard provides optional guidance to ease the potential burden in accounting for effects of reference rate reform on financial reporting. The amendments in this ASU apply only to hedging relationships that reference LIBOR or another reference rate expected to be discontinued due reference rate reform. The amendments in this ASU are elective and are effective upon issuance. Management is currently evaluating the effect that this accounting standard may have on its financial statements.

Subsequent events

The System evaluated subsequent events for recognition or disclosure through April 16, 2020, the date the consolidated financial statements were issued.

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Reclassifications

Certain reclassifications were made to the 2018 consolidated financial statements to conform with the 2019 presentation. Such reclassifications had no impact on the previously reported revenues in excess of expenses or net assets.

3. Net Patient Service Revenues

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 not 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 and patients with third-party payer arrangements that require a copayment or deductible. The System determines its estimates of explicit price concessions for contractual adjustments based on contractual agreements, or discount policies and historical experience. Estimated uncollectible amounts from patients are considered implicit price concessions and, therefore, included in net patient service revenues. 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.

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.

The System does not recognize 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

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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, 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.

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 35% in 2019 and 34% in 2018 of total net patient service revenues.

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

Medicaid

Inpatient acute care services rendered to the West Virginia 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 16% in 2019 and 17% in 2018 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 \$14,118,000 in 2019 and \$13,283,000 in 2018, 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 \$65,365,000 in 2019 and \$69,669,000 in 2018, 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 30% in 2019 and 31% in 2018 of total net patient service revenues.

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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.

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 each payor, correspondence from such 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 decreased net patient service revenue approximately \$1,609,000 and increased net patient service revenue approximately \$3,668,000 for the years ended December 31, 2019 and 2018, 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 for 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.

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The System's revenues from third-party payors and others (including uninsured patients) for the years ended December 31, 2019 and 2018 and by primary hospitals and all other facilities are summarized in the following tables (in thousands):

	2019						
	WVUH	UHC	CCMC	BMC	All Others	Total	Ratio
Medicare & Medicare Managed care	\$ 379,118	\$ 179,255	\$ 122,150	\$ 77,333	\$ 135,240	\$ 893,096	36%
Medicaid & Medicaid Managed care	195,785	46,140	41,844	36,457	72,695	392,921	16%
Commercial Insurers	634,832	183,003	124,313	114,236	130,068	1,186,452	47%
Other	3,345	4,710	4,433	3,977	13,174	29,639	1%
Revenues	<u>\$ 1,213,080</u>	<u>\$ 413,108</u>	<u>\$ 292,740</u>	<u>\$ 232,003</u>	<u>\$ 351,177</u>	<u>\$ 2,502,108</u>	<u>100.0%</u>

	2018						
	WVUH	UHC	CCMC	BMC	All Others	Total	Ratio
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>

Revenue from payment of deductibles and coinsurance by patients and guarantors are included in the categories presented above based on the primary payor.

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4. Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2019 and 2018 is as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 224,637	\$ 295,960
Marketable equity securities	19,429	16,255
Marketable debt securities	4,150	3,303
Mutual funds:		
Domestic equity	54,096	48,144
International equity	97,190	111,423
Domestic fixed income	125,795	114,429
Global bonds	6,585	9,071
Natural resources	12,305	10,425
Exchange traded funds, domestic equity	244,609	181,484
Exchange traded funds, domestic fixed income	23,565	48,845
Alternative investments	211,450	40,390
Alternative investments accounted for under cost method	-	102,598
	<u>1,023,811</u>	<u>982,327</u>
Total assets whose use is limited		
	<u>1,023,811</u>	<u>982,327</u>
Less current portion of assets whose use is limited	<u>21,062</u>	<u>17,153</u>
	<u>21,062</u>	<u>17,153</u>
Noncurrent portion of assets whose use is limited	<u>\$ 1,002,749</u>	<u>\$ 965,174</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, 2019 and 2018 were approximately \$122,892,491 and \$120,921,000, respectively, and are due over approximately the next ten years. Funding for these commitments is expected to come from board-designated funded depreciation assets.

Investment income, gains and losses included in net assets without donor restrictions are comprised of the following in 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Investment income:		
Interest and dividend income	\$ 18,784	\$ 17,164
Fees	(5,354)	(4,926)
Net realized and unrealized (losses) gains on investments	110,171	(41,832)
Write-downs of the cost basis of investments due to an other-than-temporary decline in fair value	-	(752)
	<u>-</u>	<u>(752)</u>
Total	<u>\$ 123,601</u>	<u>\$ (30,346)</u>

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5. Fair Value Measurements and Financial Instruments

Effective January 1, 2019, the System adopted ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*, (“ASU 2016-01”) using the modified retrospective method of adoption. The System has elected the practical expedient to estimate the fair value of certain alternative investments using the net asset value per share (“NAV”). Prior to the adoption of ASU 2016-01, the System recorded certain alternative investments in hedge funds, private equity funds and other limited partnerships representing less than 3% ownership previously recorded at cost. Additionally, the System had certain other securities that did not qualify for the practical expedient that have been valued based on observable market prices of similar investments with the same issuer. The primary impact of adopting ASU No. 2016-01 was measuring these investments at fair value. As a result of the adoption of ASU No. 2016-01, a cumulative effect adjustment of \$31,301,808 was recorded to increase beginning net assets without donor restrictions and total net assets as of January 1, 2019, as noted below (in thousands):

	<u>Net Assets Without Donor Restrictions</u>	<u>Total Net Assets</u>
As previously reported	\$ 1,305,201	\$ 1,333,762
Cumulative impact of adoption	<u>31,301</u>	<u>31,301</u>
As adjusted	<u>\$ 1,336,502</u>	<u>\$ 1,365,063</u>

Additionally, the System is no longer required to disclose the fair value of financial instruments (e.g., long-term debt) not recognized at fair value on the balance sheet.

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.

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The fair value of financial instruments listed below was determined using the following valuation hierarchy at December 31, 2019 (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	\$ 224,637	\$ -	\$ -	\$ -	\$ 224,637
Marketable equity securities	19,429	-	-	-	19,429
Marketable debt securities	4,150	-	-	-	4,150
Mutual funds:					
Domestic equity	32,466	21,630	-	-	54,096
International equity	64,558	26,140	-	-	90,698
Domestic fixed income	79,733	-	-	-	79,733
Global bonds	2,645	-	-	-	2,645
Natural resources	12,306	-	-	-	12,306
Exchange traded funds, domestic equity	244,609	-	-	-	244,609
Exchange traded funds, domestic fixed income	23,565	-	-	-	23,565
Alternative investments	-	-	-	267,943	267,943
Total assets whose use is limited investments at fair value	<u>\$ 708,098</u>	<u>\$ 47,770</u>	<u>\$ -</u>	<u>\$ 267,943</u>	<u>\$ 1,023,811</u>
Other investments:					
Marketable equity securities	<u>\$ 4,057</u>	<u>\$ 16,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,284</u>
Restricted assets held by third-Parties					
Cash and equivalents	\$ 38,742	\$ -	\$ -	\$ -	\$ 38,742
Other	2,004	-	5,820	-	7,824
	<u>\$ 40,746</u>	<u>\$ -</u>	<u>\$ 5,820</u>	<u>\$ -</u>	<u>\$ 46,566</u>
Liabilities – recurring fair value measurements:					
Derivative financial instruments	<u>\$ -</u>	<u>\$ 39,664</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,664</u>
Assets disclosed at fair value:					
Cash and cash equivalents	<u>\$ 199,074</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199,074</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.

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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	-	-	78,631
Domestic fixed income	92,957	-	-	-	92,957
Global bonds	2,615	-	-	-	2,615
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	-	-	-	101,110	101,110
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>
Other investments:					
Marketable equity securities	<u>\$ 3,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,969</u>
Restricted assets held by third-Parties					
Cash and equivalents	\$ 11,804	\$ -	\$ -	\$ -	\$ 11,804
Other	4,693	-	5,205	-	9,898
	<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>

2. 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.
3. 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.

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The following table presents the nature and risk of investments reported at NAV as of December 31, 2019 and 2018 (in thousands):

<u>Name of Fund</u>	<u>Fair Value at 12/31/ 2019</u>	<u>Fair Value at 12/31/ 2018</u>	<u>Investment Strategy</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
IR&M Core Bond Fund II	\$ 46,061	\$ 21,472	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	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 1 st day of the month
Brandywine Global Fixed Income Fund	3,940	6,456	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	6,492	5,097	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	7,135	5,815	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/ 2019</u>	<u>Fair Value at 12/31/ 2018</u>	<u>Investment Strategy</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Universa BSPP Equity & Fixed Income Fund	\$ 4,184	\$ 7,357	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	\$ 200,131	\$ 33,033	(A)	(A)	N/A	N/A
Total	\$ 267,943	\$ 101,110				

(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.

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, 2019 and 2018:

Balance at December 31, 2017	\$ 5,785
Valuation loss	<u>(580)</u>
Balance at December 31, 2018	5,205
Valuation gain	<u>615</u>
Balance at December 31, 2019	<u>\$ 5,820</u>

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, 2019 and 2018.

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
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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.

As of the date the accompanying consolidated financial statements were issued, the economic uncertainty associated with the COVID-19 pandemic, as more fully described in Note 19, has generally resulted in significant declines in the value of marketable securities in 2020, including many of those held by the System. The System's marketable securities have declined in value by approximately \$46,067,000 subsequent to year-end. The accompanying consolidated financial statements have not been adjusted for the impact of such decline.

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Notes to Consolidated Financial Statements

6. Property and Equipment

Property and equipment and related accumulated depreciation consist of the following at December 31, 2019 and 2018 (in thousands). Buildings and building improvements and equipment include assets classified as financing leases:

	<u>2019</u>	<u>2018</u>
Land	\$ 50,512	\$ 45,664
Land improvements	56,934	51,745
Buildings and building improvements	1,150,117	1,066,817
Equipment	1,251,876	1,180,893
Leasehold improvements	<u>37,483</u>	<u>20,020</u>
Total	2,546,922	2,365,139
Less accumulated depreciation	<u>1,267,155</u>	<u>1,146,423</u>
	1,279,767	1,218,716
Construction in progress	<u>150,780</u>	<u>97,236</u>
Property and equipment, net	<u>\$ 1,430,547</u>	<u>\$ 1,315,952</u>

Construction in progress consists primarily of major renovation and expansion projects. WVUHS has capitalized approximately \$5,106,000 and \$4,370,000 of interest associated with outstanding projects during the period ending December 31, 2019 and 2018, respectively. Purchase commitments related to these and other capital related projects were approximately \$167,597,000 and \$71,375,000 at December 31, 2019 and 2018, 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 approximately \$3,689,000 and \$3,000,000 at December 31, 2019 and 2018, respectively. Borrowings under the agreement bear interest at a variable rate determined by adding 65 basis points to the Daily One Month LIBOR (2.48% and 3.28% at December 31, 2019 and 2018, respectively).

RMH maintains a revolving line of credit in the amount of \$1,500,000. There were borrowings outstanding of approximately \$1,444,000 and \$1,467,000 at December 31, 2019 and 2018, respectively. Borrowings under the agreement bear interest at a variable rate equal to the prime rate plus one percent (5.8% and 6.5% December 31, 2019 and 2018, respectively). The line of credit is secured by the assets of RMH.

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

8. Long-Term Debt

A summary of long-term debt at December 31, 2019 and 2018 is as follows (in thousands):

	<u>2019</u>	<u>2018</u>
West Virginia Hospital Finance Authority Bonds:		
2018 Series – WVUH, UHC, CCMC, BMC, JMC	\$ 562,190	\$ 567,870
2017 Series – WVUH, UHC	185,320	185,320
2016 Series – WVUH, UHC, CCMC, BMC	243,535	249,395
2015 Series – UHC, SJH, PVH	33,860	33,860
2013 Series – WVUH, CCMC	200,000	201,305
2012 Series – WVUH, UHC, CCMC, BMC, JMC, UHCF	16,190	17,405
2011 Series – WVUH, CCMC, BMC	13,093	16,509
Other notes payable	86,446	80,118
Finance lease obligations	<u>21,372</u>	<u>1,445</u>
 Total long-term debt	 1,362,006	 1,353,227
 Net unamortized bond premium	 28,785	 30,813
Debt issuance costs	(11,207)	(12,735)
Current maturities of long-term debt	<u>(29,819)</u>	<u>(25,948)</u>
 Long-term debt	 <u>\$ 1,349,765</u>	 <u>\$ 1,345,357</u>

The scheduled principal repayments as of December 31, 2019 are as follows (in thousands):

<u>Years ending</u> <u>December 31:</u>	
2020	\$ 29,819
2021	26,469
2022	25,249
2023	26,966
2024	24,076
Thereafter	<u>1,229,427</u>
 Total	 <u>\$ 1,362,006</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.

The variable rate demand bonds, while subject to long-term amortization periods, may be put to the System at the option of the bondholders in connection with certain remarketing dates. Such variable rate demand bonds are classified as long-term in the accompanying balance sheets as they are secured by letters of credit or standby bond purchase agreements, totaling \$77,800,000 at December 31, 2019, that do not expire within the next year.

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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 certain then-outstanding debt; 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 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 certain then-outstanding debt and pay for the costs of issuance.

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 2.46% to 3.19% at December 31, 2019.

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 certain then-outstanding debt; 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%.

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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 certain then-outstanding debt; reimburse the costs of various capital improvements and equipment for WVUH, CCMC and BMC; and pay for the costs of issuance.

The outstanding Bonds of \$17,405,000 are scheduled to mature at various times through 2030 with a variable interest rate of 2.35% at December 31, 2019.

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 certain then-existing debt; reimburse the costs of various capital improvements and equipment for WVUH, CCMC and BMC; and pay for the costs of issuance.

In 2019, the Series 2011B and 2011C bonds were legally defeased using the proceeds of the 2018 Bonds.

The 2011 Bonds remaining at December 31, 2019 include fixed rate bonds of \$19,240,000 maturing in 2022 and 2026 with interest rates ranging from 3.87% to 4.39% at December 31, 2019.

Other notes payable and finance lease obligations

In December 2018, the System converted the majority of the then 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 balance of this note was \$1,792,000 at December 31, 2019 and \$3,989,000 at December 31, 2018.

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 \$14,959,000 at December 31, 2019 and \$15,561,000 at December 31, 2018.

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%.

In June 2019, WVHCC obtained a \$10,000,000 term loan from a commercial bank to refinance SRMC existing debt as part of the SRMC acquisition. The loan matures on June 27, 2029 and is guaranteed by the Obligated group.

Other notes payable and finance leases consist of bank loan agreements and finance 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.

In 2003, the System entered into two interest rate swap agreements (the "2003 Agreements") in connection with certain then-existing debt. 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 \$39,100,000 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 \$7,606,220 at December 31, 2019 and \$6,460,000 at December 31, 2018.

In 2004, CCHS entered into an interest rate swap agreement (the "2004 Agreement") in connection with certain then-existing debt. In conjunction with the affiliation with WVUHS on March 1, 2011, the 2004 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 \$9,980,587 at December 31, 2019 and \$8,386,000 at December 31, 2018.

In 2005, the System entered into an interest rate swap agreement (the "2005 Agreement") in connection with certain then-existing debt. The 2005 Agreement, which has transferred to the 2012 Bonds, has a notional value of \$12,550,000 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 \$1,550,125 at December 31, 2019 and \$1,281,000 at December 31, 2018.

In 2006, the System entered into two interest rate swap agreements (the "2006 Agreements") in connection with certain then-existing debt, 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 \$20,800,000 and terminates on June 1, 2041. The second agreement has a notional value of \$38,700,000 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 \$17,135,500 at December 31, 2019 and \$13,719,000 at December 31, 2018.

In 2007, CCHS entered into an interest rate swap agreement (the "2007 Agreement") in connection with certain then-existing debt. In conjunction with the affiliation with WVUHS on March 1, 2011, the 2007 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 \$17,850,000 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 \$3,382,055 at December 31, 2019 and \$2,845,000 at December 31, 2018.

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 accompanying 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

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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 that 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 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 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 \$36,376,000 in 2019 and \$22,414,000 in 2018.

Defined benefit plans

Current financial reporting standards require the service cost component of net benefit cost to 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 as of both December 31, 2019 and 2018. 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. The System's net period benefit costs for the years ended December 31, 2019 and 2018 are presented in nonoperating expenses in the accompanying consolidated statements of operations.

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. 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. In March 2020, CCMC executed an agreement with a third-party to settle the outstanding pension liability for

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approximately \$17,615,000. As a result, a settlement charge of approximately \$663,000 and \$15,860,000 was recorded as a component of net benefit cost in nonoperating expenses in the accompanying consolidated statements of operations for the years ended December 31, 2019 and 2018, respectively.

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, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 30,927	\$ 56,517
Interest cost	1,146	1,967
Actuarial loss	2,686	(837)
Benefits paid	(1,340)	(1,344)
Settlement accrual	662	2,502
Settlement	<u>(487)</u>	<u>(27,878)</u>
Projected benefit obligation, end of year	33,594	30,927
Change in plan assets:		
Fair value of plan assets, beginning of year	19,487	49,370
Actual return on plan assets (net of expense)	2,411	(3,205)
Employer contributions	1,494	2,544
Benefits paid	(1,341)	(1,344)
Settlement	<u>(487)</u>	<u>(27,878)</u>
Fair value of plan assets, end of year	<u>21,564</u>	19,487
Funded status at end of year	<u>\$ (12,030)</u>	<u>\$ (11,440)</u>

The following table sets forth the components of net periodic pension costs in 2019 and 2018, which is recorded in non-operating expense in the accompanying consolidated statements of operations (in thousands):

	<u>2019</u>	<u>2018</u>
Interest cost	\$ 1,146	\$ 1,967
Expected return on plan assets	(1,227)	(3,108)
Amortization of actuarial loss	406	527
Settlement charge	<u>663</u>	<u>15,860</u>
Net periodic pension cost	<u>\$ 988</u>	<u>\$ 15,246</u>

A net actuarial loss of \$14,722,000 at December 31, 2019 and \$11,787,000 at December 31, 2018, represents the unrecognized component of net periodic pension cost included in net assets without donor restrictions.

Estimated amortization of the net loss of \$472,000 is expected to be recognized in net periodic pension cost in the next fiscal year.

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The following assumptions were used to determine benefit obligations at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Discount rate:		
CCMC plan	4.03%	4.03%
SJH plan	3.30%	4.25%

The weighted-average assumptions used in the measurement of net periodic benefit cost for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate:		
CCMC plan	3.49%	3.49%
SJH plan	3.30%	3.65%
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, 2019 and 2018 are as follows:

	<u>Actual Percentage</u>		<u>Targeted Percentage</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	4%	2%	-%	-%
Equity securities	26%	22%	25%	45%
Fixed income securities	71%	76%	75%	55%

The following table summarizes the plans' Level 1 assets measured at fair value on a recurring basis at December 31, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 791	\$ 425
Marketable equity securities	5,570	4,312
Mutual funds, fixed income	15,203	14,750
Total	<u>\$ 21,564</u>	<u>\$ 19,487</u>

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, 2019 and 2018.

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

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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 \$1,500,000 to the plans in 2020.

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

**Years ending
December 31:**

2020	\$	1,450
2021	\$	1,725
2022	\$	1,480
2023	\$	1,536
2024	\$	1,528
2025 – 2028	\$	8,408

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purposes:		
Pediatric care	\$ 8,379	\$ 7,363
Purchases of property and equipment	28,653	6,018
Various healthcare related activities	3,107	2,810
Other	<u>3,521</u>	<u>2,866</u>
Total subject to expenditure for specified purposes	43,660	19,057
Endowment funds – income expendable to support various healthcare services and purchase equipment	4,511	4,299
Perpetual income trusts – income expendable to support charity care and other healthcare services	<u>5,820</u>	<u>5,205</u>
Total net assets with donor restrictions	<u>\$ 53,991</u>	<u>\$ 28,561</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 accompanying 2019 and 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.

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 3.0% discount rate is \$52,385,000 and \$42,387,000 at December 31, 2019 and 2018, respectively. The undiscounted amount of the reserve is \$55,513,759 and \$46,686,000 at December 31, 2019 and 2018, 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 that 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.

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In management's opinion, the assets of Augusta are sufficient to meet its obligations as of December 31, 2019 and 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 \$134,074,000 and \$124,423,000 for the periods ending December 31, 2019 and 2018, 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 were \$13,764,000 and \$12,840,000 at December 31, 2019 and 2018, respectively, and are 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 2019, \$17,946,000 was transferred to the SOM, with WVUH responsible for funding \$14,060,000 and UHA responsible for funding \$3,375,000. In 2018 total required transfers were \$23,888,000, with WVUH responsible for funding \$18,513,000 and UHA responsible for funding \$5,375,000. 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 \$4,256,000 and \$4,756,000 at December 31, 2019 and 2018, respectively, and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

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, 2019 and 2018, with WVUHS responsible for funding \$9,527,000 and UHA responsible for funding \$13,843,000, is recorded as operating expenses in the accompanying consolidated statements of operations. WVUH also pays the University for other expenses such as state employee salaries, certain utilities and rents. Other payments made to the University were \$41,640,000 and \$37,775,000 for the periods ending December 31, 2019 and 2018, respectively, all of which are recorded as operating expense in the accompanying consolidated statements of operations.

WVUHS provides certain information technology services on behalf of UHA, for which approximately \$11,677,000 and \$11,127,000 was recorded for the periods ending December 31, 2019 and 2018, respectively. WVUHS also performs other services on behalf of UHA. Approximately \$1,895,000 and \$2,213,000 was recorded for the periods ending December 31, 2019 and 2018, respectively. These amounts have been included in other revenues in the accompanying consolidated statements of operations. The total amount receivable from UHA is \$2,261,000 and \$2,360,000 at December 31, 2019 and 2018, 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 \$8,018,000 in 2019 and \$7,397,000 in 2018 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 \$2,803,000 and \$2,020,000 at December 31, 2019 and 2018, respectively, and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

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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 \$18,319,000 in 2019 and \$15,776,000 in 2018 and is included in physician support in the accompanying consolidated statements of operations. The total amount payable to UHP for these support payments was \$1,047,000 and \$2,021,000 at December 31, 2019 and 2018, 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 33⅓%. 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 \$23,586,000 and total liabilities of \$23,556,000 and total equity of \$30,000 as of December 31, 2019. Amounts due from HNET were \$7,319,000 at December 31, 2019 and \$5,849,000 at December 31, 2018 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 \$2,563,000 and \$3,957,000 as of December 31, 2019 and 2018, 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, 2019.

14. Leases

Effective January 1, 2019, the System adopted the requirements of ASU 2016-02, *Leases (Topic 842)*. The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance, (*Topic 840*), is the recognition of a right-of-use ("ROU") asset and lease liability on the balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

As part of the transition to the new standard, the System was required to measure and recognize leases that existed at January 1, 2019 using a modified retrospective approach. For leases existing at the effective date, the System elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification and did not reassess what qualifies as an initial direct cost. The adoption of *Topic 842* resulted in the recognition of operating ROU assets and lease liabilities of approximately \$38,943,000. The accounting for finance leases remained substantially unchanged with the adoption of *Topic 842*.

The System leases certain equipment and office buildings under the terms of non-cancellable operating leases. For leases with terms greater than 12 months, the related right-of-use assets and right-of-use obligations are recorded at the present value of lease payments over the term. Many of the leases include rental escalation clauses and renewal options that are factored into the determination of lease payments when appropriate.

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The components of lease expense (and related classification in the accompanying statements of operations) were as follows during 2019 (in thousands):

Operating lease cost (other expense)	\$ 22,765
Finance lease cost:	
Amortization of right-of use assets (depreciation and amortization)	1,230
Interest on lease liabilities (interest expense)	605
Sublease income (other operating income)	<u>(1,423)</u>
Total lease cost	<u>\$ 23,177</u>

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

Cash paid for amounts included in the measurement of lease liabilities for the year ended December 31, 2019 is as follows (in thousands):

Operating cash flows from operating leases	\$ 13,958
Operating cash flows from finance leases	478
Financing cash flows from finance leases	<u>1,020</u>
Total	<u>\$ 15,456</u>

Right-of-use assets obtained in exchange for new lease obligations for the year ended December 31, 2019 are as follows (in thousands):

Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 20,916
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 3,305

The following table presents lease-related assets and liabilities at December 31, 2019 (in thousands):

Operating leases:	
Right-of-use operating lease assets	\$ 32,913
Current operating lease liabilities	\$ 13,814
Noncurrent operating lease liabilities	<u>19,524</u>
Total operating lease liabilities	<u>\$ 33,338</u>

Current operating lease liabilities are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. Noncurrent operating lease liabilities are included in right-of-use operating lease obligations in the accompanying consolidated balance sheets (in thousands):

Finance leases:	
Property and equipment, net	\$ 21,141
Current finance lease liabilities	\$ 2,549
Noncurrent finance lease liabilities	<u>18,823</u>
Total finance lease liabilities	<u>\$ 21,372</u>

Current finance lease liabilities are included in current maturities of long-term debt in the accompanying consolidated balance sheets. Noncurrent finance lease liabilities are included in long-term debt, net, in the accompanying consolidated balance sheets.

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Other information:

Weighted-average remaining lease term – operating leases	4.3 years
Weighted-average remaining lease term – finance leases	13.3 years
Weighted-average discount rate – operating leases	5.21%
Weighted-average discount rate – finance leases	5.22%

The following is a schedule of lease liability maturities related to leases with third-parties for the years ending (in thousands):

	<u>Operating</u>	<u>Finance</u>
2020	\$ 10,690	\$ 2,391
2021	6,776	2,193
2022	4,636	1,925
2023	3,353	1,824
2024	2,408	1,738
Thereafter	<u>4,843</u>	<u>18,178</u>
Total	32,706	28,249
Less: interest	<u>2,984</u>	<u>6,877</u>
Lease liability	<u>\$ 29,722</u>	<u>\$ 21,372</u>

The following is a schedule of lease liability maturities related to leases classified as operating with affiliates for the years ending (in thousands):

2020	\$ 3,377
2021	215
2022	76
2023	29
2024	5
Thereafter	<u>-</u>
Total	3,702
Less: interest	<u>86</u>
Lease liability	<u>\$ 3,616</u>

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 \$2,803,000 at December 31, 2019 and 2018 and are automatically renewed by the issuing bank every July 1 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.

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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 audits for 2014, 2015 and 2016 were finalized in October 2019, but the funding and redistribution has not occurred. 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 a wide range of 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.

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, 2019 and 2018, the System has a working capital of approximately \$441,037,000 and \$362,489,000, respectively, and average days (based on normal expenditures) cash and board designated investments on hand of 133 days and 133 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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 199,074	\$ 176,287
Accounts receivable	426,848	339,824
Other receivables	50,716	50,898
Estimated third-party payor settlements	7,295	10,807
Assets whose use is limited	<u>21,062</u>	<u>17,153</u>
Total	<u>\$ 704,995</u>	<u>\$ 594,969</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 has \$51,500,000 in revolving lines of credit (Note 7). As of December 31, 2019 and 2018, approximately \$46,367,000 and \$19,000,000, respectively, remained available on the System’s lines of credit for use in the normal course of operations if needed.

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17. 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, 2019 and 2018 are as follows (in thousands):

	2019			
	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 750,900	\$ 174,442	\$ 97	\$ 925,439
Employee benefits	207,261	69,141	15	276,416
Supplies	577,499	22	-	577,521
Physician support	243,103	4,562	-	247,666
Professional fees	103,451	42,054	20	145,525
Depreciation and amortization	95,899	52,334	-	148,233
Interest	36,724	13,611	-	50,335
Other	164,249	140,208	869	305,326
Total	<u>\$ 2,179,086</u>	<u>\$ 496,374</u>	<u>\$ 1,001</u>	<u>\$ 2,676,461</u>

	2018			
	Healthcare Services	General and Administrative	Fundraising	Total
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	138,624	122,110	786	261,520
Total	<u>\$ 1,945,853</u>	<u>\$ 418,120</u>	<u>\$ 896</u>	<u>\$ 2,364,869</u>

The accompanying 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 location of the respective assets.

18. Subsequent Events

In December 2019, WVUHS and WVUH entered into a letter of intent with Fayette Regional Health System ("FRHS"), whereby WVUH will manage FRHS through a management agreement expected to be executed during the first half of 2020 and, effective January 1, 2021, WVUH would become the sole member of FRHS. FRHS is comprised of Uniontown Hospital, a not-for-profit community hospital located in Uniontown, PA and its physician practice network, Fayette Physician Network, Inc. The execution of this transaction is subject to completion of due diligence and will require approval from the Pennsylvania Attorney General. Additionally, WVUH and Uniontown Hospital entered into a physician service agreement effective July 1, 2019 for emergency room and inpatient hospitalist coverage. Amounts owed under this agreement will be forgiven as part of the contemplated transaction and, therefore, are being recorded by the System as prepayment consideration. As of December 31, 2019 the total amount owed by Uniontown Hospital to WVUH under the physician service agreement totaled \$5,282,000, which is recorded in other noncurrent assets in the accompanying consolidated balance sheet.

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In January 2020, Wetzel County Hospital, Inc. ("WCH") a not-for-profit corporation with its sole membership held by WVUH, entered into a letter of intent with the County Commission of Wetzel County, a public corporation and governing body of Wetzel County and Wetzel County Hospital Association, a non-profit county hospital, to lease Wetzel County Hospital to WCH under a 50-year term for WCH to operate the hospital. The transaction is subject to receiving Certificate of Need approval from the West Virginia Health Care Authority and completion of due diligence. Closing is expected to occur in July 2020.

19. COVID-19 Pandemic

In response to the global coronavirus disease ("COVID-19") pandemic across the United States, the federal government and a large number of state governments, including West Virginia, have imposed strict measures to curtail aspects of public life in an effort to control further spreading of COVID-19, including closures of schools, non-life essential businesses and stay at home guidelines.

An outbreak of an infectious disease, including the growth in the magnitude or severity of COVID-19 cases in the System's service area, could result in an abnormally high demand for health care services, potentially inundating hospitals with patients in need of intensive care services. The treatment of a highly contagious disease at member Hospitals could also result in a temporary shutdown of areas of the facility or diversion of patients or staffing shortages. Additionally, elective services are being deferred, resulting in reduced patient volumes and operating revenues. Further, the changing global economic conditions or potential global health concerns surrounding the COVID-19 pandemic may also affect the System's partners, suppliers, distributors and payors, potentially disrupting or delaying the System's supply chain and delaying reimbursement by governmental, commercial or private payors, as well as impacting their creditworthiness and ability to pay. At this time, it is not possible to accurately predict the significance of the duration of the COVID-19 pandemic, the impact on operating income, the costs associated with responding to this pandemic, or what federal funds may be available to help recover from this crisis. The System has implemented various cost saving measures to help mitigate any financial impact, including a temporary freeze on hiring and the suspension of employer contributions into the defined contribution plans. The System is also pursuing options for increasing its existing borrowing availability as a proactive measure to further increase cash availability during the coming months given the above-mentioned uncertainty.

In addition to the direct impact to the health care industry, global investment and financial markets have experienced substantial volatility, with significant declines attributed to COVID-19 concerns and associated economic impacts of the curtailment of public life described above. As with nearly all industries and companies operating through the COVID-19 pandemic, the System expects to encounter further volatility and disruption in its operations and in the local, national and global economies.

Although the System has activated plans to address the COVID-19 threat and is operating pursuant to infectious disease protocols and its emergency preparedness plan, the potential impact of the COVID-19 pandemic is difficult to predict and could materially adversely impact the System's financial condition, liquidity and results of operations.

On March 27, 2020, the federal Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law, which is intended to provide economic relief and emergency assistance for individuals, families and businesses affected by COVID-19. Various state governments are also taking action to provide economic relief and emergency assistance. The impact on the System and its operations from these new measures is currently uncertain.

Consolidating Supplementary Information

West Virginia University Health System and Controlled Entities
 Consolidating Schedule of Balance Sheet Information
 December 31, 2019
 (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	Eliminators	Total Obligated Group	Augusta	Non-Obligated Group	Eliminators	Total Consolidated
ASSETS													
Current assets:													
Cash and cash equivalents	\$ 40,532	\$ 52,869	\$ 8,651	\$ 11,801	\$ 11,958	\$ 1,169	\$ 15,683	\$ -	\$ 142,563	\$ 11,059	\$ 45,452	\$ -	\$ 199,074
Current portion of assets whose use is limited	5,064	8,415	1,201	1,068	-	-	741	-	16,489	14,852	-	(10,279)	21,062
Accounts receivable:													
Patients	227,713	59,850	48,655	31,787	8,000	-	-	-	376,005	-	50,843	-	426,848
Other	22,948	1,385	2,253	6,446	86	358	2,830	-	36,306	-	14,418	(8)	50,716
Affiliates	63,074	26,447	(18,752)	(1,660)	(1,316)	94	18,905	(4,935)	81,917	-	(69,398)	(22,519)	-
Inventories of supplies	28,461	5,649	6,024	2,767	939	-	-	-	41,860	-	10,119	-	51,979
Estimated third-party payor settlements	13,104	(19)	5,208	3,936	-	-	-	-	22,229	-	785	-	23,024
Prepaid expenses and other current assets	2,885	3,193	3,802	119	33	30	11,346	-	21,408	215	5,167	-	28,790
Total current assets	401,781	157,789	57,042	56,284	19,600	1,651	49,585	(4,935)	738,777	26,128	67,386	(32,806)	799,493
Assets whose use is limited:													
Board-designated funds:													
Funded depreciation	377,603	260,892	13,202	27,534	27,909	14,415	-	-	721,555	-	19,899	-	741,454
Strategic initiatives	12,791	-	-	-	-	-	-	-	12,791	-	-	-	12,791
Under trust indenture, held by trustee	168,277	-	-	-	-	-	-	-	168,277	-	-	-	168,277
Malpractice self-insurance, investments	39,014	16,449	8,813	6,490	-	-	3,701	-	74,467	58,857	-	(74,442)	58,882
Foundation investments	10,799	-	-	-	-	-	-	-	10,799	-	10,546	-	21,345
Noncurrent portion of assets whose use is limited	608,484	277,341	22,015	34,024	27,909	14,415	3,701	-	987,889	58,857	30,445	(74,442)	1,002,749
Property and equipment, net	687,688	275,478	143,403	71,567	17,247	19,492	130,503	-	1,345,378	-	85,169	-	1,430,547
Restricted assets held by third-parties	40,376	-	-	7	6,150	33	-	-	46,566	-	-	-	46,566
Right-of-use operating lease asset	14,437	3,460	5,161	2,576	108	-	1,320	-	27,062	-	5,851	-	32,913
Due from affiliates	14,857	-	-	-	-	-	-	-	14,857	-	-	(14,857)	-
Other investments	7,661	8,275	3,908	84	356	-	-	-	20,284	-	-	-	20,284
Other assets, net	58,771	2,648	9,403	3,172	38	1,107	7,686	-	82,835	-	32,311	(1,800)	113,346
Total assets	\$ 1,834,055	\$ 724,991	\$ 240,932	\$ 167,714	\$ 71,408	\$ 36,699	\$ 192,785	\$ (4,935)	\$ 3,263,648	\$ 84,993	\$ 221,172	\$ (123,905)	\$ 3,445,898

See independent auditors' report on supplementary information.

West Virginia University Health System and Controlled Entities
 Consolidating Schedule of Balance Sheet Information
 December 31, 2019
 (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	Augusta	Non-Obligated Group	Eliminations	Total Consolidated
LIABILITIES AND NET ASSETS													
Current liabilities:													
Line of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,666	\$ -	\$ 3,666	\$ -	\$ 1,467	\$ -	\$ 5,133
Current maturities of long-term debt	9,872	3,642	5,710	3,112	499	339	1,550	-	24,724	-	5,095	-	29,819
Accounts payable and accrued expenses	81,335	18,703	18,703	14,683	3,650	180	19,028	147	153,027	273	21,664	(1,827)	173,167
Due to affiliates	292	15,301	5,660	1,705	199	193	(666)	(5,082)	2,301	-	18,130	(20,431)	-
Estimated third-party payor settlements	-	-	-	-	6,041	-	-	-	6,041	-	9,688	-	15,729
Salaries and benefits payable	50,032	23,582	13,300	9,254	2,029	13	16,324	-	114,534	-	16,941	-	131,375
Accrued interest payable	2,987	754	381	116	22	4	-	-	4,474	-	64	-	4,538
Current portion of malpractice costs	5,064	2,196	1,184	1,088	-	-	741	-	10,253	14,692	27	(10,279)	14,653
Total current liabilities	149,592	45,475	45,138	29,938	12,440	729	40,643	(4,935)	319,020	15,125	73,006	(32,537)	374,614
Long-term debt, net	816,423	201,166	207,882	40,209	7,739	7,340	17,943	-	1,298,702	-	51,063	-	1,349,765
Malpractice costs	22,120	5,551	3,273	4,997	-	-	6,191	-	42,132	37,533	490	(42,129)	38,032
Right-of-use operating lease obligations	8,477	2,314	3,869	880	-	-	861	-	16,401	-	4,923	(1,800)	19,524
Derivative financial instruments	7,606	17,135	13,383	1,349	191	-	-	-	39,664	-	-	-	39,664
Due to affiliates	-	-	-	-	-	-	-	-	-	-	14,879	(14,879)	-
Pension liability	-	-	4,238	-	-	-	-	-	4,238	-	7,792	-	12,030
Other liabilities	1,608	470	186	-	-	68	5,225	-	7,537	-	1,457	-	8,994
Total liabilities	1,005,826	272,111	277,949	77,373	20,370	8,137	70,863	(4,935)	1,727,694	52,658	153,610	(91,339)	1,842,623
Net assets (deficit):													
Without donor restrictions	787,896	452,890	(39,570)	90,332	44,841	28,221	121,922	-	1,486,522	32,325	60,450	(32,566)	1,546,731
Controlling interest	-	-	2,553	-	-	-	-	-	2,553	-	-	-	2,553
Noncontrolling interest	787,896	452,890	(37,017)	90,332	44,841	28,221	121,922	-	1,489,075	32,325	60,450	(32,566)	1,549,284
Net assets with donor restrictions	40,333	-	-	9	6,197	340	-	-	46,879	-	7,112	-	53,991
Total net assets	828,229	452,890	(37,017)	90,341	51,038	28,561	121,922	-	1,536,954	32,325	67,562	(32,566)	1,603,275
Total liabilities and net assets	\$ 1,834,055	\$ 724,991	\$ 240,932	\$ 167,714	\$ 71,408	\$ 36,698	\$ 192,785	\$ (4,935)	\$ 3,263,648	\$ 84,983	\$ 221,172	\$ (123,895)	\$ 3,445,898

See independent auditors' report on supplementary information.

West Virginia University Health System and Controlled Entities
 Consolidating Schedule of Operations
 Year Ended December 31, 2019
 (in thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	West Virginia University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Augusta	Non-Obligated Group	Eliminations	Total Consolidated
Net patient service revenues	\$ 1,213,080	\$ 413,108	\$ 297,662	\$ 232,003	\$ 62,944	\$ -	\$ -	\$ (1,028)	\$ 2,217,769	\$ 7,041	\$ 284,364	\$ (154,029)	\$ 2,502,108
Other revenues	116,889	16,175	12,316	9,015	223	3,234	240,539	(167,021)	231,350	7,041	183,693	(154,029)	269,055
Total operating revenues	1,329,949	429,283	309,978	241,018	63,167	3,234	240,539	(168,049)	2,449,119	7,041	468,057	(154,054)	2,770,163
Operating expenses:													
Salaries and wages	358,986	136,715	76,508	69,393	16,618	683	102,409	-	761,312	-	164,127	-	925,439
Employee benefits	110,193	35,552	26,046	19,728	5,915	206	32,838	-	230,478	-	66,686	(20,728)	276,416
Supplies	306,990	75,112	56,818	41,808	4,898	5	17	-	465,748	-	91,774	(1)	577,521
Physician support	280,384	55,149	69,609	60,165	17,268	-	-	(161,823)	286,732	-	64,167	(113,273)	247,686
Professional fees	68,221	9,477	18,133	8,437	4,544	37	21,651	(2,663)	127,837	-	28,666	(10,978)	145,525
Depreciation and amortization	73,413	21,936	15,379	9,529	2,211	995	16,650	-	140,113	-	8,120	(464)	148,233
Interest	26,944	8,819	10,164	1,956	344	275	51	-	48,553	-	2,246	(464)	50,335
Other	104,193	32,689	27,259	21,675	4,556	1,106	76,664	(3,563)	264,778	12,759	41,814	(14,025)	305,326
Total operating expenses	1,309,324	375,449	295,915	232,791	56,354	3,307	250,480	(168,049)	2,355,571	12,759	467,600	(159,469)	2,676,461
Operating income (loss)	20,625	53,834	14,063	8,227	6,813	(73)	(9,941)	-	93,548	(5,718)	457	5,415	93,702
Nonoperating income (loss):													
Investment income	66,699	36,844	2,902	5,819	3,616	2,429	1,028	-	119,337	9,578	4,393	(9,707)	123,601
Inherent contribution	(1,280)	(3,416)	(2,813)	(240)	(34)	-	-	-	(7,783)	-	20,901	-	20,901
Change in fair value of derivative financial instruments	(1,752)	59	396	(90)	(44)	(128)	485	-	(1,074)	-	(753)	(8)	(1,835)
Total nonoperating income	63,667	33,487	485	5,489	3,538	2,301	1,513	-	110,480	9,578	24,541	(9,715)	134,884
Revenues in excess of (less than) expenses	84,292	87,321	14,548	13,716	10,351	2,228	(8,428)	-	204,028	3,860	24,998	(4,300)	228,586
Less noncontrolling interest	-	-	(961)	-	-	-	-	-	(961)	-	-	-	(961)
Revenues in excess of expenses attributable to controlling int	84,292	87,321	15,509	13,716	10,351	2,228	(8,428)	-	204,989	3,860	24,998	(4,300)	229,547
Pension liability adjustment	-	-	(1,756)	-	-	-	-	-	(1,756)	-	(1,178)	-	(2,934)
Transfers to the School of Medicine and strategic initiatives	(14,060)	-	-	-	-	-	-	-	(14,060)	-	-	-	(14,060)
Other	17	-	207	8	47	-	(3)	-	276	-	1,174	(260)	1,190
Transfers (to) from affiliates	(20,571)	(8,834)	(10,675)	(8,367)	(3,437)	-	47,274	-	(4,610)	-	3,920	690	-
Change in net assets without donor restrictions	\$ 49,678	\$ 78,487	\$ 3,285	\$ 5,557	\$ 6,961	\$ 2,228	\$ 38,843	\$ -	\$ 194,839	\$ 3,860	\$ 28,914	\$ (3,870)	\$ 213,743

See independent auditors' report on supplementary information.

West Virginia University Health System and Controlled Entities
 Consolidating Schedule of Changes in Net Assets
 Year Ended December 31, 2019
 (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:													
Revenues in excess of (less than) expenses	\$ 84,292	\$ 87,221	\$ 15,509	\$ 13,716	\$ 10,351	\$ 2,228	\$ (8,428)	\$ -	\$ 204,989	\$ 3,860	\$ 24,998	\$ (4,300)	\$ 229,547
Pension liability adjustment	-	-	(1,756)	-	-	-	-	-	(1,756)	-	(1,756)	-	(2,534)
Transfers to the School of Medicine and strategic initiatives	(14,060)	-	-	-	-	-	(3)	-	(14,060)	-	-	(280)	(14,060)
Other	17	-	207	8	47	-	47,274	-	276	-	1,174	(280)	1,190
Transfers (to) from affiliates	(20,571)	(8,834)	(10,675)	(8,367)	(3,437)	-	-	-	(4,610)	-	3,920	690	-
Change in net assets without donor restrictions, controlling interest	49,678	78,487	3,285	5,357	6,961	2,228	38,843	-	184,839	3,860	28,914	(3,870)	213,243
Change in net assets without donor restrictions, noncontrolling interest:													
Revenues in excess of (less than) expenses	-	-	(961)	-	-	-	-	-	(961)	-	-	-	(961)
Distribution of capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in net assets without donor restrictions, noncontrolling interest	-	-	(961)	-	-	-	-	-	(961)	-	-	-	(961)
Changes in net assets with donor restrictions:													
Increase in restricted assets held by WVU Foundation	23,901	-	-	-	616	-	-	347	24,864	-	-	-	24,864
Contributions and grants	-	-	-	-	-	-	-	-	-	-	464	-	464
Restricted inherent contribution	-	-	-	-	-	-	-	-	-	-	366	-	366
Change in restricted assets held by affiliated foundation	-	-	-	(2)	-	(51)	-	-	(53)	-	(211)	-	(264)
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in net assets with donor restrictions	23,901	-	-	(2)	616	(51)	-	347	24,811	-	619	-	25,430
Change in net assets	73,579	78,487	2,324	5,355	7,577	2,177	38,843	347	208,689	3,860	29,533	(3,870)	238,212
Net assets (deficit), beginning	734,657	366,547	(42,484)	84,925	43,203	28,384	83,079	(347)	1,295,964	28,465	38,029	(28,696)	1,333,762
Cumulative effect of adoption of accounting principle	19,993	7,846	3,143	61	258	-	-	-	31,301	-	-	-	31,301
Net assets (deficit), beginning, as adjusted	754,650	374,393	(39,341)	84,986	43,461	28,384	83,079	(347)	1,327,265	28,465	38,029	(28,696)	1,365,063
Net assets (deficit), ending	\$ 828,229	\$ 452,880	\$ (37,017)	\$ 90,341	\$ 51,038	\$ 28,561	\$ 121,922	\$ -	\$ 1,535,954	\$ 32,325	\$ 67,592	\$ (32,586)	\$ 1,603,275

See independent auditors' report on 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	West Virginia University Eliminations	Total Obligated Group	Augusta	Non-Obligated Group	Eliminations	Total Consolidated
ASSETS													
Current assets:													
Cash and cash equivalents	\$ 21,079	\$ 32,947	\$ 15,651	\$ 8,952	\$ 22,077	\$ 856	\$ 35,085	\$ -	\$ 136,547	\$ 7,092	\$ 32,658	\$ -	\$ 176,287
Current portion of assets whose use is limited	5,064	9,032	1,248	1,088	-	-	741	-	17,153	9,679	-	(9,679)	17,153
Accounts receivable:													
Patients	196,613	56,280	33,452	25,390	6,271	-	-	-	308,006	-	31,818	-	339,824
Other	18,614	3,374	687	6,533	81	120	6,576	-	35,985	-	13,796	-	50,888
Affiliates	71,709	20,148	(14,594)	12,899	1,427	68	(6,264)	(28,403)	56,890	-	(6,924)	(50,666)	45,054
Inventories of supplies	25,402	5,381	5,281	2,384	836	-	5	-	39,289	-	5,765	-	45,054
Estimated third-party payor settlements	6,789	2,829	6,174	5,162	-	-	-	-	21,924	-	1,106	-	22,630
Prepaid expenses and other current assets	6,460	6,194	3,174	83	20	134	5,215	-	21,890	157	4,910	(375)	26,572
Total current assets	341,730	136,075	52,173	62,491	30,712	1,178	41,418	(28,403)	637,374	16,918	83,129	(59,003)	678,418
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
Under trust indenture, held by trustee	252,918	-	-	378	61	2	-	-	253,359	-	-	-	253,359
Multipractice self-insurance, investments	34,283	15,326	6,076	4,728	-	-	1,092	-	61,483	54,318	-	(61,483)	54,318
Foundation investments	12,791	-	-	-	-	-	-	-	12,791	-	9,075	-	21,866
Noncurrent portion of assets whose use is limited	686,733	216,009	16,467	32,775	12,498	12,112	1,092	-	957,686	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	28	-	(347)	21,702	-	-	-	21,702
Due from affiliates	16,690	-	-	-	-	-	-	-	16,690	-	-	(16,690)	-
Other investments	1,825	1,294	730	23	97	-	-	-	3,969	-	-	-	3,969
Other assets, net	44,827	3,053	10,264	4,635	185	984	5,928	-	69,876	-	24,665	(678)	93,863
Total assets	\$ 1,722,296	\$ 639,256	\$ 220,147	\$ 169,066	\$ 64,812	\$ 34,738	\$ 141,605	\$ (28,750)	\$ 2,963,168	\$ 71,238	\$ 162,528	\$ (137,854)	\$ 3,079,078

See independent auditors' report on supplementary information.

West Virginia University Health System and Controlled Entities
 Consolidating Schedule of Balance Sheet Information
 December 31, 2018
 (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	Augusta	Non-Obligated Group	Eliminations	Total Consolidated
LIABILITIES AND NET ASSETS													
Current liabilities:													
Line of credit	\$ 8,202	\$ 5,577	\$ 3,655	\$ 3,665	\$ 831	\$ 328	\$ 3,000	\$ -	\$ 3,000	\$ -	\$ 1,467	\$ -	\$ 4,467
Current maturities of long-term debt	-	-	-	-	-	(27)	-	-	22,258	-	3,690	-	25,948
Accounts payable and accrued expenses	61,583	11,129	10,076	12,594	3,176	(27)	33,388	-	131,919	394	13,138	-	145,441
Due to affiliates	12,758	6,505	8,556	8,123	1,394	195	1,215	(28,403)	10,343	-	39,700	(50,043)	-
Estimated third-party payor settlements	-	-	-	-	5,378	-	-	-	5,378	-	6,445	-	11,823
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	1,280	(1,653)	150	95	15	-	-	3,183	-	24	-	3,207
Current portion of malpractice costs	3,064	1,622	1,164	1,068	-	-	741	-	9,679	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	10,063	76,475	(59,722)	315,929
Long-term debt, net	826,985	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	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	262,631	84,141	21,609	8,592	58,526	(28,403)	1,667,204	42,771	144,499	(109,159)	1,745,316
Net assets (deficit):													
Without donor restrictions	718,225	366,547	(45,998)	84,914	37,622	25,993	83,079	-	1,270,382	28,465	31,536	(28,696)	1,301,687
Controlling interest	-	-	3,514	-	-	-	-	-	3,514	-	-	-	3,514
Noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Net assets without donor restrictions	718,225	366,547	(42,484)	84,914	37,622	25,993	83,079	-	1,273,896	28,465	31,536	(28,696)	1,305,201
Net assets with donor restrictions	16,432	-	-	11	5,581	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	28,465	38,029	(28,696)	1,333,762
Total liabilities and net assets	\$ 1,722,286	\$ 639,256	\$ 220,147	\$ 169,066	\$ 64,812	\$ 34,736	\$ 141,605	\$ (28,750)	\$ 2,963,168	\$ 71,236	\$ 182,528	\$ (137,854)	\$ 3,079,078

See independent auditors' report on supplementary information.

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	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
Operating revenues:													
Net patient service revenues	\$ 1,114,233	\$ 366,218	\$ 258,870	\$ 216,841	\$ 55,537	\$ -	\$ -	\$ (1,012)	\$ 2,011,687	\$ 6,922	\$ 207,067	\$ -	\$ 2,218,754
Other revenues	79,689	12,960	7,634	8,010	258	3,099	165,142	(120,945)	155,827	6,922	158,490	(130,364)	190,875
Total operating revenues	1,193,922	381,178	266,504	223,851	55,795	3,099	165,142	(121,957)	2,167,514	6,922	365,557	(130,364)	2,409,629
Operating expenses:													
Salaries and wages	343,044	127,620	75,346	66,096	15,960	622	64,333	-	693,011	-	132,888	-	825,899
Employee benefits	106,065	35,327	25,451	19,774	5,652	174	18,566	-	211,009	-	51,237	(19,165)	243,081
Supplies	283,291	65,652	47,530	36,852	4,886	1	11	-	438,223	-	59,409	-	497,632
Physician support	222,677	39,803	55,845	51,031	14,651	-	13	(117,740)	266,480	-	57,978	(92,862)	231,496
Professional fees	51,149	10,520	20,022	8,848	4,703	25	12,292	(2,385)	105,174	-	22,935	(9,653)	118,456
Depreciation and amortization	71,224	21,208	15,055	9,304	2,323	1,004	12,147	-	132,265	-	6,650	-	138,915
Interest	25,472	8,709	9,477	2,053	419	329	30	-	46,489	-	2,021	(640)	47,870
Other	84,814	30,854	24,539	16,782	4,678	915	71,214	(1,832)	233,944	6,584	29,558	(8,569)	261,520
Total operating expenses	1,187,736	339,693	273,285	212,720	53,462	3,070	178,606	(121,957)	2,126,595	6,584	362,676	(130,989)	2,364,869
Operating income (loss)	6,186	41,485	(6,781)	11,131	2,333	29	(13,464)	-	40,919	338	2,881	622	44,760
Nonoperating income (loss):													
Investment income	(16,354)	(10,013)	(440)	(914)	(235)	(363)	(107)	-	(28,426)	(2,123)	(1,407)	-	(30,346)
Change in fair value of derivative financial instruments	1,400	2,616	3,135	337	48	-	-	-	7,536	-	-	-	7,536
Other, net	(191)	217	(14,942)	(58)	(61)	(23)	1	-	(15,057)	-	(346)	-	(15,403)
Loss on refinancing	(185)	-	-	(47)	(39)	-	-	-	(251)	-	-	-	(251)
Total nonoperating income	(15,310)	(7,189)	(12,247)	(682)	(287)	(366)	(106)	-	(36,198)	(2,123)	(1,753)	-	(38,464)
Revenues in excess of (less than) expenses	(9,144)	34,305	(19,008)	10,449	2,046	(357)	(13,570)	-	4,721	(1,785)	1,128	2,232	6,296
Less noncontrolling interest	-	-	390	-	-	-	-	-	390	-	-	-	390
Revenues in excess of expenses attributable to controlling interest	(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	-	-	8,195	-	-	-	-	-	8,195	-	214	-	8,409
Transfers to the School of Medicine and strategic initiatives	(18,513)	-	-	-	-	-	-	-	(18,513)	-	-	-	(18,513)
Other	2,181	-	(749)	-	1,271	-	(3,705)	-	(1,002)	-	821	-	(181)
Transfers (to) from affiliates	(14,350)	(5,254)	(4,084)	-	(106)	-	31,436	-	7,632	-	(7,632)	-	-
Change in net assets without donor restrictions	\$ (39,826)	\$ 29,051	\$ (16,046)	\$ 10,449	\$ 3,211	\$ (357)	\$ 14,161	\$ -	\$ 643	\$ (1,785)	\$ (5,469)	\$ 2,232	\$ (4,379)

See independent auditors' report on supplementary information.

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:													
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
Personnel liability adjustment	-	-	8,195	-	-	-	-	-	8,195	-	214	-	8,409
Transfers to the School of Medicine and strategic initiatives	(18,513)	-	-	-	-	-	(3,705)	-	(18,513)	-	-	-	(18,513)
Other	2,181	-	(749)	-	1,271	-	31,436	-	(1,002)	-	821	-	(181)
Transfers (to) from affiliates	(14,350)	(5,254)	(4,094)	-	(105)	-	-	-	7,632	30,250	(7,632)	(30,250)	-
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)
Change in net assets without donor restrictions, noncontrolling interest	-	-	390	-	-	-	-	-	390	-	-	-	390
Revenues in excess of (less than) expenses	-	-	(450)	-	-	-	-	-	(450)	-	-	-	(450)
Distribution of capital	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	(55)	-	3,650
Contributions and grants	-	-	-	-	(580)	-	-	-	(580)	-	630	-	630
Valuation gain	-	-	-	-	-	25	-	-	25	-	-	-	(580)
Change in value of split-interest agreements	-	-	-	(18)	5	-	-	-	13	-	-	-	25
Decrease in restricted assets held by affiliated foundation	-	-	-	-	-	-	-	-	-	-	(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)	(966)
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

See independent auditors' report on supplementary information.

West Virginia University Health System and Controlled Entities
 Consolidating Schedule of Balance Sheet Information - Non-Obligated Group
 December 31, 2019
 (in thousands)

	Non-Obligated Consolidated	Eliminations	PVH	University Healthcare	CCPG	CCF	AHS	UPC	WVUHS	UHF	USC	SJM	BOBH	SRMC	JQH	SJH	AHS GPO	RNH	GATEWAY
ASSETS																			
Current assets:																			
Cash and cash equivalents	\$ 45,462	\$ -	\$ 463	\$ 4,463	\$ 657	\$ 431	\$ 1,447	\$ 19,361	\$ 666	\$ 38	\$ 1,081	\$ 4,563	\$ 1,519	\$ 4,778	\$ 1,354	\$ 211	\$ 2,000	\$ 2,115	\$ 305
Accounts receivable:																			
Patient	50,043	-	4,631	-	4,253	-	892	3,823	-	12	3,234	8,307	1,794	6,191	5,540	-	-	11,637	441
Other	5,444	-	830	134	322	11	8,325	2,825	-	12	633	155	16	1,977	141	-	-	400	20
Payables	(69,398)	(97)	(6,200)	(724)	87	(9)	(6,225)	(8,593)	(199)	(25)	(2,252)	(2,315)	(3,207)	(4,398)	141	(14)	-	(18,280)	(25)
Inventories of supplies	10,119	-	684	-	-	-	4,199	-	-	-	-	1,255	481	1,708	306	-	-	1,486	(25)
Estimated fixed-asset/paper settlements	795	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	795
Prepaid expenses and other current assets	5,167	-	117	272	308	2	1,395	78	-	-	11	2,184	36	400	102	-	-	243	20
Total current assets	67,896	(97)	1,895	4,125	5,619	430	1,931	19,922	468	127	2,790	14,192	149	8,956	7,453	197	2,000	11,894	764
Assets whose use is limited:																			
Board-designated funds:	19,889	-	-	-	-	-	-	-	-	10,044	5,141	4,387	-	-	-	-	-	-	317
Malpractice self-insurance, held by trustee	10,946	-	-	-	-	2,381	-	-	-	-	-	-	-	-	-	-	-	-	8,485
Foundation investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Noncurrent portion of assets whose use is limited	30,445	-	-	-	-	2,381	-	-	-	10,044	5,141	4,387	-	-	-	-	-	-	8,482
Property and equipment, net	85,169	-	18,394	417	248	150	8,185	520	24	36	1,405	15,719	4,590	8,351	9,327	-	-	16,818	1,225
Right-of-use operating lease asset	5,651	-	74	482	-	-	440	1,141	2	-	1,910	383	-	8	-	-	-	1,306	145
Due from affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets, net	32,311	-	4,902	215	2	12	5,337	3,119	183	2,834	22	11,377	611	1,331	1,500	-	-	990	178
Total assets	\$ 221,172	\$ (97)	\$ 26,175	\$ 5,219	\$ 5,889	\$ 2,892	\$ 15,953	\$ 23,812	\$ 677	\$ 12,241	\$ 11,238	\$ 48,048	\$ 5,310	\$ 18,646	\$ 18,270	\$ 197	\$ 2,000	\$ 25,302	\$ 2,310

See independent auditors' report on supplementary information.

LIABILITIES AND NET ASSETS	Non-Obligated Consolidated	Eliminations	PVH	University HealthCare	CCPG	CCF	AHS	UPC	WVUS	UHF	USC	SJM	BOHM	SRMG	JGH	SJM	AHS GPO	RNH	GATEWAY	
Current liabilities:																				
Line of credit	\$ 1,467	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current maturities of long-term debt	5,095	(519)	545	828	1,152	1	253	-	19	-	35	1,792	120	500	338	-	-	1,512	-	
Accounts payable and accrued expenses	21,684	(519)	1,274	828	1,152	1	912	2,482	19	-	1,351	3,168	1,015	2,101	828	79	-	6,555	168	
Due to affiliates	9,688	(94)	21	2,454	1	5	14,519	14,519	-	-	122	4,789	673	1,993	1,075	-	-	751	-	
Due to other entities	1,258	-	1,258	-	-	-	464	1,853	271	-	1,382	2,980	778	1,889	1,223	-	-	2,834	59	
Salaries and benefits payable	16,841	-	1,427	313	1,446	-	-	-	-	-	-	21	-	-	-	-	-	-	-	
Accrued interest payable	64	-	43	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Current portion of malpractice costs	27	-	-	-	-	-	-	27	-	-	-	-	-	-	-	-	-	-	-	
Total current liabilities	73,606	(613)	4,606	3,585	2,601	6	1,649	18,691	290	-	2,890	12,870	2,985	6,463	3,468	79	-	13,389	227	
Long-term debt, net	51,063	-	19,281	-	-	-	2,862	(10)	-	-	(35)	7,515	28	9,657	1,879	-	-	9,576	-	
Malpractice costs	400	-	-	-	-	-	-	(10)	-	-	-	-	-	500	-	-	-	-	-	
Right-of-use operating lease obligations	4,623	-	34	137	-	-	-	332	-	-	1,122	127	1,921	(462)	946	-	-	792	74	
Due to affiliates	14,879	-	-	1,289	-	-	8,568	-	-	22	-	-	-	-	-	-	-	5,000	-	
Person liability	7,792	-	-	-	-	-	-	-	-	-	-	7,792	-	-	-	-	-	-	-	
Other liabilities	1,457	-	-	206	-	-	900	82	183	-	-	86	-	-	-	-	-	-	-	
Total liabilities	153,610	(613)	23,921	5,237	2,601	6	13,969	19,095	473	22	3,977	28,190	4,984	16,458	6,193	79	-	28,967	301	
Net assets (deficit)	60,450	516	1,254	(18)	3,288	1,897	1,984	4,717	204	9,309	7,281	17,858	10	2,188	12,077	118	2,000	(5,012)	2,009	
Net assets with donor restrictions	7,112	-	-	-	-	1,380	-	-	3,410	-	-	-	366	-	-	-	-	-	1,847	-
Total net assets	67,892	516	1,254	(18)	3,288	2,978	1,984	4,717	204	12,719	7,281	17,858	376	2,188	12,077	118	2,000	(3,065)	2,009	
Total liabilities and net assets	\$ 221,172	\$ (67)	\$ 25,175	\$ 5,219	\$ 5,889	\$ 2,882	\$ 15,953	\$ 23,812	\$ 677	\$ 12,741	\$ 11,258	\$ 48,048	\$ 5,310	\$ 18,646	\$ 18,270	\$ 197	\$ 2,000	\$ 25,302	\$ 2,310	

See independent auditors' report on supplementary information.

West Virginia University Health System and Controlled Entities
 Consolidating Schedule of Operations - Non-Obligated Group
 Year Ended December 31, 2019
 (in thousands)

	Non-Obligated Consolidated	Eliminations	PVH	University Healthcare	CCPC	CCF	AHS	UPC	WVUS	UHF	UGC	SHH	BCMH	SRMC	JGH	SHF	AHS GPO	RHM	GATEWAY	
Net patient services revenue	\$ 284,304	\$ (4)	\$ 32,940	\$ -	\$ 30,857	\$ -	\$ 5,874	\$ 24,866	\$ -	\$ -	\$ 15,720	\$ 65,371	\$ 10,224	\$ 20,044	\$ 7,384	\$ -	\$ -	\$ 62,333	\$ 2,437	
Other revenue	183,693	(243)	296	59,254	17,823	62	75,650	13,998	3,033	293	4,874	2,798	1,794	1,125	627	36	-	2,404	9	
T total operating revenues	468,047	(247)	32,845	59,254	48,680	62	81,624	38,863	3,033	293	20,594	68,169	17,988	21,169	7,921	36	-	65,337	2,446	
Operating expenses:																				
Salaries and wages	184,127	-	13,688	6,339	27,875	116	6,839	29,856	2,656	168	11,398	22,312	7,196	11,619	2,669	-	-	29,423	982	
Medical supplies	69,666	-	4,422	22,852	3,814	17	2,104	6,102	644	47	6,073	7,316	2,392	3,298	876	-	-	7,468	294	
Supplies	91,774	-	2,778	1	1,327	17	58,109	2,017	1,527	-	90	9,099	2,821	2,739	726	-	-	10,772	695	
Physician support	64,187	(16)	4,469	27,441	8,955	14	1,653	4,794	44	-	1,278	8,314	713	2	-	-	-	6,550	372	
Professional fees	28,666	(213)	1,665	316	4,670	-	3,660	1,644	-	12	602	5,778	2,660	1,224	2,397	-	-	3,945	-	
Depreciation and amortization	8,120	-	1,340	369	196	-	937	218	4	19	511	1,754	620	461	223	-	-	1,397	141	
Intrent	2,246	-	379	320	-	-	194	-	-	-	24	266	39	194	4	-	-	340	-	
Other	43,214	(19)	3,186	2,844	2,643	24	5,321	3,432	212	995	2,821	5,839	2,039	2,639	688	(14)	-	7,891	2,841	
T total operating expenses	487,600	(247)	32,222	59,282	48,680	71	80,107	39,073	2,960	831	22,774	60,504	18,450	22,491	7,620	(14)	-	67,480	5,215	
Operating income (loss)	457	-	622	(28)	-	(109)	1,517	(210)	73	(848)	(2,180)	7,665	(482)	(1,322)	301	50	-	(2,143)	(2,769)	
Nonoperating income (loss)	4,319	-	1	49	-	198	180	-	36	1,477	758	706	5	-	-	(25)	-	1,008	-	
Investment income	20,901	-	-	-	-	(14)	-	-	-	282	-	(844)	-	-	-	48	-	(157)	-	
Inherent contribution	(753)	-	(48)	(20)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
T total nonoperating income	24,541	-	(47)	29	-	184	180	-	36	1,759	758	(138)	2,127	7,169	23	-	-	851	-	
Revenues in excess of (less than) expenses	24,998	-	575	1	-	75	1,697	(210)	109	1,211	(1,422)	7,227	1,666	5,841	11,917	73	-	(1,292)	(2,769)	
Personnel liability adjustment	(1,174)	-	-	-	-	-	-	-	-	-	-	(1,178)	-	-	-	-	-	-	-	
Other	3,920	-	317	-	-	-	-	-	-	(892)	321	-	278	(201)	460	188	-	(205)	-	
Transfer(s) (to) from affiliates	-	516	(624)	6,027	1,534	146	654	4	-	-	133	(1,302)	(1,333)	(3,452)	-	-	1,300	(1,982)	1,989	
Change in net assets without donor restrictions	\$ 29,914	\$ 916	\$ 289	\$ 6,028	\$ 1,534	\$ 271	\$ 2,381	\$ (200)	\$ 109	\$ 819	\$ (898)	\$ 5,947	\$ 10	\$ 2,188	\$ 12,077	\$ 298	\$ 2,000	\$ (2,579)	\$ (780)	

See independent auditors' report on supplementary information.

West Virginia University Health System and Controlled Entities
 Consolidating Schedule of Changes in Net Assets - Non-Obligated Group
 Year Ended December 31, 2019
 (in thousands)

	Non-Obligated Consolidated	Eliminations	PVH	University Healthcare	CCPC	CCF	AHS	UPC	WVUS	UHF	USC	SJH	BOMH	SRMC	JCH	SHF	AHS GPO	RMH	GATEWAY
Change in net assets without donor restrictions:																			
Revenues in excess of (less than) expenses	\$ 24,988	\$ -	\$ 575	\$ 1	\$ -	\$ 75	\$ 1,697	\$ (210)	\$ 109	\$ 1,211	\$ (1,422)	\$ 7,727	\$ 1,665	\$ 5,841	\$ 11,917	\$ 73	\$ -	\$ (1,282)	\$ (2,789)
Transfers to the School of Medicine and strategic initiatives	(1,174)	-	317	-	-	-	-	-	-	-	-	(1,174)	-	-	-	-	-	-	-
Other	1,174	-	-	-	-	-	-	-	-	(392)	321	-	278	(201)	160	196	700	(205)	-
Transfers (to) from affiliates	3,920	516	(624)	6,027	1,534	146	664	4	-	133	(1,302)	-	(3,452)	-	-	1,300	-	(1,082)	1,989
Change in net assets without donor restrictions	28,914	516	268	6,028	1,534	221	2,361	(205)	109	819	(939)	5,047	10	2,188	12,077	289	2,000	(2,579)	(780)
Change in net assets with donor restrictions:																			
Change in restricted assets held by affiliated foundation	-	-	-	-	-	423	-	-	-	-	-	-	-	-	-	-	-	-	41
Contributions and grants	464	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted inherent contribution	366	-	-	-	-	(211)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	(211)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in net assets with donor restrictions	619	-	-	-	-	212	-	-	-	-	-	-	396	-	-	-	-	-	41
Net assets (deficit), beginning	23,533	516	268	6,028	1,534	433	2,361	(200)	109	819	(939)	5,047	376	2,188	12,077	289	2,000	(2,589)	(780)
Net assets (deficit), ending	38,029	-	986	(6,046)	1,234	243	(1,277)	423	95	11,900	8,249	12,811	-	-	-	(151)	-	(527)	2,789
Cumulative effect of adoption of accounting principle	38,029	-	986	(6,046)	1,234	243	(1,277)	423	95	11,900	8,249	12,811	-	-	-	(151)	-	(527)	2,789
Net assets (deficit), ending	\$ 67,692	\$ 516	\$ 1,254	\$ (181)	\$ 3,988	\$ 2,076	\$ 1,094	\$ 4,217	\$ 204	\$ 12,279	\$ 7,281	\$ 17,896	\$ 376	\$ 2,188	\$ 12,077	\$ 118	\$ 2,000	\$ (3,082)	\$ 2,009

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

	Non-Obligated Consolidated	Eliminations	PVH	University Healthcare	CCRC	CCF	ARS	UPC	WVUUS	UHF	USC	SMH	SMH	RMH	GATEWAY
ASSETS															
Current assets:															
Cash and cash equivalents	\$ 32,658	\$ -	\$ 622	\$ 983	\$ 937	\$ 444	\$ 4,579	\$ 4,801	\$ 509	\$ 9,086	\$ 1,346	\$ 7,954	\$ 364	\$ 1,070	\$ 163
Accounts receivable:															
Patents, net	31,818	-	3,527	-	3,308	-	543	4,652	-	-	2,328	6,543	-	10,409	510
Other	13,796	-	458	59	288	-	7,209	3,815	49	233	1,865	24	-	(230)	16
Alliances	(9,324)	(218)	(3,197)	5,883	(0)	(2)	1,001	834	18	-	248	(1,232)	(319)	(9,989)	(8)
Inventories of supplies	5,765	-	610	-	-	-	2,406	-	-	-	-	1,386	-	1,583	-
Estimated third-party payor settlements	1,106	-	-	-	-	2	-	-	-	-	-	-	-	1,106	-
Prepaid expenses and other current assets	4,910	-	308	1,387	181	-	1,931	218	7	-	-	-	-	233	32
Total current assets	83,129	(218)	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:															
Funded depreciation	5,578	-	-	-	-	-	-	-	-	-	4,410	855	-	313	-
Foundation investments	9,075	-	-	-	-	1,941	-	-	-	-	-	-	-	7,134	-
Noncurrent portion of assets whose use is limited	14,653	-	-	-	-	1,941	-	-	-	-	4,410	855	-	7,447	-
Property and equipment, net	60,081	-	17,492	775	188	150	8,501	678	28	55	1,864	15,921	-	13,708	723
Other assets, net	24,665	-	4,878	155	2	12	-	3,119	90	2,574	18	11,964	(198)	19	2,630
Total assets	\$ 182,528	\$ (218)	\$ 24,678	\$ 9,242	\$ 4,904	\$ 2,847	\$ 26,230	\$ 17,917	\$ 701	\$ 11,948	\$ 12,099	\$ 43,428	\$ (151)	\$ 25,139	\$ 4,086

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Continued

LIABILITIES AND NET ASSETS	Non-Obligated														
	Consolidated	Eliminations	PVH	University Healthcare	CCPC	CCF	ARS	UPC	WVUUS	UHF	USC	SMH	SMH	RMH	GATEWAY
Current liabilities:															
Line of credit	\$ 1,467	\$ -	\$ 413	\$ -	\$ -	\$ -	\$ 246	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,467
Current maturities of long-term debt	3,690	-	642	675	1,265	4	1,272	4,380	33	-	474	2,161	2,172	868	-
Accounts payable and accrued expenses	13,138	-	207	12,045	154	-	13,511	7,516	266	-	1,453	1,008	1,008	1,519	99
Due to affiliates	39,700	(216)	1,455	-	-	-	-	-	-	26	218	4,722	4,722	2,595	1,177
Estimated third-party payor settlements	6,445	-	1,179	-	1,756	-	292	1,202	217	-	1,705	2,739	2,739	2,896	-
Salaries and benefits payable	11,967	-	3	-	-	-	-	-	-	-	-	21	21	-	-
Accrued interest payable	24	-	-	-	-	-	-	24	-	-	-	-	-	-	-
Current portion of malpractice costs	24	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	76,475	(216)	3,899	12,720	3,175	4	15,123	12,922	516	26	3,850	13,476	9,293	9,705	1,277
Long-term debt, net	43,162	-	19,793	-	-	-	3,115	-	-	-	-	9,293	-	10,961	-
Malpractice costs	(10)	-	-	-	-	-	-	(10)	-	-	-	-	-	-	-
Due to affiliates	16,713	-	-	2,422	-	-	9,289	-	-	22	-	-	-	5,000	-
Pension liability	7,781	-	-	-	-	-	-	-	-	-	-	7,781	-	-	-
Other liabilities	378	-	-	146	(5)	-	-	82	90	-	-	65	-	-	-
Total liabilities	144,489	(216)	23,692	15,288	3,170	4	27,507	12,994	606	48	3,850	30,615	9,293	25,666	1,277
Net assets (deficit):															
Net assets without donor restrictions	31,536	-	986	(6,046)	1,734	1,366	(1,277)	4,923	95	8,490	8,249	12,811	12,811	(2,433)	2,789
Net assets with donor restrictions	6,483	-	-	-	-	1,177	-	-	-	3,410	-	-	-	1,908	-
Total net assets	38,029	-	986	(6,046)	1,734	2,543	(1,277)	4,923	95	11,900	8,249	12,811	12,811	(527)	2,789
Total liabilities and net 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	\$ 4,066

See independent auditors' report on supplementary information.

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	AMS	UPC	WVUUS	UHF	USC	SMH	SJHF	RMH	GATEWAY
Operating revenues:															
Net patient service revenues	\$ 207,067	\$ -	\$ 24,886	\$ -	\$ 27,287	\$ -	\$ 5,223	\$ 29,444	\$ -	\$ -	\$ 16,433	\$ 53,024	\$ -	\$ 48,641	\$ 2,179
Other revenues	158,490	(384)	371	52,872	17,213	111	53,921	22,783	2,679	1,251	4,895	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	25,822	91	5,785	19,911	1,810	165	14,105	20,727	-	24,088	906
Employee benefits	97,237	-	2,264	21,704	3,613	13	1,637	5,347	513	46	4,605	3,783	-	3,436	284
Supplies	59,409	-	2,100	1,161	1,161	-	40,544	2,201	-	-	64	6,181	-	6,570	566
Physician support	57,978	(211)	4,172	18,791	6,973	13	309	18,630	54	-	1,035	4,819	-	4,090	-
Professional fees	22,935	(169)	1,355	1,232	4,524	13	3,836	2,027	18	15	637	3,046	-	4,129	270
Depreciation and amortization	6,630	-	1,272	658	140	-	972	198	6	19	520	1,322	-	1,248	95
Interest	2,021	-	518	175	-	-	868	-	-	-	-	271	-	469	-
Other	29,558	(14)	2,492	1,976	2,546	21	1,661	3,666	209	485	3,368	5,923	334	6,453	488
Total operating expenses	362,676	(394)	25,170	52,869	44,501	139	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)	(1,407)	-	1	(4)	-	3	118	-	(5)	(889)	(138)	(296)	(10)	(187)	-
Investment income	(346)	-	-	-	-	-	(141)	-	-	-	-	(304)	99	-	-
Other, net	(1,753)	-	1	(4)	-	3	(23)	-	(5)	(889)	(138)	(600)	89	(187)	-
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	(388)	(3,344)	4,683	(221)	(2,720)	(394)
Pension liability adjustment	214	-	-	-	-	-	-	-	-	-	-	214	-	-	-
Other	821	-	86	-	-	-	-	10	-	-	-	-	-	725	-
Transfer(s) (to) from affiliates	(7,632)	-	(649)	(3,401)	1,510	117	-	-	-	(240)	-	(98)	-	(4,871)	-
Change in net assets without donor restrictions	\$ (5,469)	\$ -	\$ (525)	\$ (3,402)	\$ 1,509	\$ 93	\$ 3,189	\$ 237	\$ 64	\$ (603)	\$ (3,344)	\$ 4,799	\$ (221)	\$ (6,665)	\$ (394)

See independent auditors' report on supplementary information.

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	WVUHS	UHF	USC	SIH	SIHF	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	-	-	-
Other	821	-	86	-	-	-	-	-	-	(240)	-	(98)	-	725	-
Transfers (to) from affiliates	(7,632)	-	(649)	(3,401)	1,510	117	-	-	-	-	-	-	-	(4,871)	-
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)	(6,666)	(394)
Changes in net assets with donor restrictions:															
Increase in restricted assets held by affiliated foundation	(55)	-	-	-	-	-	-	-	-	-	-	-	-	(55)	-
Contributions and grants	630	-	-	-	-	333	-	-	-	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)	4,686	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

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DHG