

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

Consolidated Financial Statements and  
Consolidating Supplementary Information

December 31, 2016 and 2015



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# West Virginia University Health System and Controlled Entities

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December 31, 2016 and 2015

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## **Independent Auditors' Report**

Board of Directors  
West Virginia University Health System, Inc.

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

We have audited the accompanying consolidated financial statements of West Virginia University Health System, Inc. and controlled entities, which comprise the consolidated balance sheet as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of West Virginia University Health System, Inc. and controlled entities as of December 31, 2016 and 2015, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

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

*Baker Tilly Virchow Krause, LLP*

Pittsburgh, Pennsylvania  
April 19, 2017

## West Virginia University Health System and Controlled Entities

Consolidated Balance Sheet  
December 31, 2016 and 2015  
(In Thousands)

	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents	\$ 134,188	\$ 118,699	Line of credit	\$ 11,936	\$ 10,465
Current portion of assets whose use is limited	18,659	21,321	Current maturities of long-term debt	25,330	24,912
Accounts receivable:			Accounts payable and accrued expenses	117,290	93,556
Patients, net of estimated allowance for doubtful accounts			Estimated third-party payor settlements	10,055	14,496
of \$61,675 in 2016 and \$54,445 in 2015	221,558	191,539	Salaries and benefits payable	94,925	84,757
Other	29,056	21,697	Accrued interest payable	2,480	5,681
Inventories of supplies	35,237	29,877	Current portion of malpractice costs	14,686	12,130
Prepaid expenses and other current assets	18,621	12,586			
			Total current liabilities	276,702	245,997
Total current assets	457,319	395,719			
			<b>Long-Term Debt, Net</b>	913,278	909,752
<b>Assets Whose Use is Limited</b>			<b>Malpractice Costs</b>	46,244	42,471
Board-designated funds:			<b>Derivative Financial Instruments</b>	44,366	50,296
Funded depreciation	494,160	525,357	<b>Pension Liability</b>	11,383	13,975
Debt repayment	204,387	190,663	<b>Other Liabilities</b>	4,265	3,323
Malpractice self-insurance	30,425	27,965			
Under trust indenture, held by trustee	9,099	85,075	Total liabilities	1,296,238	1,265,814
Malpractice self-insurance, held by trustee	25,359	27,799			
Foundation investments	39,894	24,348	<b>Net Assets</b>		
			Unrestricted	1,179,545	1,081,229
Noncurrent portion of assets whose use is limited	803,324	881,207	Temporarily restricted	14,714	12,024
			Permanently restricted	7,921	5,731
<b>Property and Equipment, Net</b>	1,140,934	999,493	Total net assets	1,202,180	1,098,984
<b>Restricted Assets Held by Third-Parties</b>	16,296	13,699			
<b>Other Assets, Net</b>	80,545	74,680	Total liabilities and net assets	\$ 2,498,418	\$ 2,364,798
Total assets	<u>\$ 2,498,418</u>	<u>\$ 2,364,798</u>			

See notes to consolidated financial statements

## West Virginia University Health System and Controlled Entities

Consolidated Statement of Operations

Years Ended December 31, 2016 and 2015

(In Thousands)

	<u>2016</u>	<u>2015</u>
<b>Unrestricted Revenues</b>		
Patient service revenues (net of contractual allowances and discounts)	\$ 1,807,906	\$ 1,613,402
Provision for bad debts	(59,005)	(53,521)
Net patient service revenues	1,748,901	1,559,881
Other revenues	<u>128,424</u>	<u>91,783</u>
Total unrestricted revenues	<u>1,877,325</u>	<u>1,651,664</u>
<b>Expenses</b>		
Supplies and purchased services	775,295	646,063
Salaries and wages	703,166	648,117
Employee benefits	192,077	157,098
Depreciation and amortization	106,112	101,555
Interest	<u>28,915</u>	<u>35,257</u>
Total expenses	<u>1,805,565</u>	<u>1,588,090</u>
Operating income	71,760	63,574
<b>Other Income (Loss)</b>		
Investment income (loss)	57,562	(3,930)
Change in fair value of derivative financial instruments	5,747	948
Other, net	(2,279)	(2,156)
Contribution from acquisition	11,112	-
Loss on refinancing	(32,460)	-
Asset impairment losses	<u>-</u>	<u>(25,545)</u>
Revenues in excess of expenses	111,442	32,891
<b>Pension Liability Adjustment</b>	(239)	1,852
<b>Transfers to the School of Medicine and Strategic Initiatives</b>	(12,475)	(11,373)
<b>Other</b>	<u>(412)</u>	<u>583</u>
Increase in unrestricted net assets	<u>\$ 98,316</u>	<u>\$ 23,953</u>

See notes to consolidated financial statements

## West Virginia University Health System and Controlled Entities

Consolidated Statement of Changes in Net Assets

Years Ended December 31, 2016 and 2015

(In Thousands)

	<u>2016</u>	<u>2015</u>
<b>Unrestricted Net Assets</b>		
Revenues in excess of expenses	\$ 111,442	\$ 32,891
Pension liability adjustment	(239)	1,852
Transfers to the School of Medicine and Strategic Initiatives	(12,475)	(11,373)
Other	(412)	583
	<u>98,316</u>	<u>23,953</u>
Increase in unrestricted net assets	<u>98,316</u>	<u>23,953</u>
<b>Temporarily Restricted Net Assets</b>		
Increase in temporarily restricted assets held by		
West Virginia University Foundation	2,242	561
Contributions and grants	979	627
Change in value of split-interest agreements	90	363
Net assets released from restrictions	(737)	(935)
Contribution from acquisition	116	-
	<u>2,690</u>	<u>616</u>
Increase in temporarily restricted net assets	<u>2,690</u>	<u>616</u>
<b>Permanently Restricted Net Assets</b>		
Valuation gain (loss)	201	(397)
Increase (decrease) in permanently restricted assets held by		
West Virginia University Foundation	176	(121)
Contribution from acquisition	1,813	-
	<u>2,190</u>	<u>(518)</u>
Increase (decrease) in permanently restricted net assets	<u>2,190</u>	<u>(518)</u>
Change in net assets	103,196	24,051
<b>Net Assets, Beginning of Year</b>	<u>1,098,984</u>	<u>1,074,933</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,202,180</u>	<u>\$ 1,098,984</u>

See notes to consolidated financial statements

## West Virginia University Health System and Controlled Entities

Consolidated Statement of Cash Flows  
 Years Ended December 31, 2016 and 2015  
 (In Thousands)

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 103,196	\$ 24,051
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for doubtful collections	59,005	53,521
Depreciation and amortization	106,112	101,555
Amortization of debt issuance costs included in interest expense	497	812
Change in fair value of derivative financial instruments	(5,930)	(1,188)
Net realized and unrealized (gains) losses on investments	(43,260)	19,772
Pension liability adjustment	239	(1,852)
Loss on refinancing	32,460	-
Contribution from acquisition, net of cash received	(12,306)	-
Asset impairment loss	-	25,545
Other operating activities	(1,876)	2,214
Changes in assets and liabilities:		
Patient accounts receivable	(83,470)	(66,853)
Other receivables	(7,214)	(6,903)
Inventories of supplies, prepaid expenses and other current assets	(8,700)	(2,726)
Accounts payable and accrued expenses	21,985	15,539
Estimated third-party payor settlements	(4,441)	202
Salaries and benefits payable	8,222	8,929
Malpractice costs	5,679	(3,757)
Other liabilities	(5,156)	7,599
	<u>165,042</u>	<u>176,460</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(240,809)	(218,577)
Sales of investments	130,948	50,966
Increase in other assets	(5,938)	(12,554)
Proceeds from the sale of property and equipment	967	119
	<u>(114,832)</u>	<u>(180,046)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from the issuance of long-term debt	11,362	43,186
Repayment of long-term debt	(44,154)	(23,525)
Net proceeds from line of credit	300	17
Payment of financing costs	(2,229)	(820)
	<u>(34,721)</u>	<u>18,858</u>
Net cash (used in) provided by financing activities		
	<u>15,489</u>	<u>15,272</u>
<b>Cash and Cash Equivalents, Beginning</b>	<u>118,699</u>	<u>103,427</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 134,188</u>	<u>\$ 118,699</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid, net of amounts capitalized	<u>\$ 32,528</u>	<u>\$ 33,026</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Long-term debt refinanced	<u>\$ 278,585</u>	<u>\$ 60,320</u>
Capital lease for purchase of property and equipment	<u>\$ 376</u>	<u>\$ 710</u>
Note issued in connection with acquisition (Note 8)	<u>\$ -</u>	<u>\$ 10,749</u>

See notes to consolidated financial statements



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

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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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

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

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

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

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

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

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

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

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

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

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### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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") and United Summit Center, Inc. ("USC").

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

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 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 will allow SJH and UHC to operate in an integrated fashion, promoting health in their respective communities through more efficient operations, quality enhancement and more cost effective use of resources, as well as enhanced access to care. SJH is the sole member of St. Joseph's Foundation of Buckhannon, Inc. ("SJF"). SJH was designated as a critical access hospital by the Centers for Medicare and Medicaid Services effective April 1, 2014.

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

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

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

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

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

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

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

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

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

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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

## **2. Significant Accounting Policies**

### **Principles of Consolidation**

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

### **Subsequent Events**

The System evaluated subsequent events for recognition or disclosure through April 19, 2017, the date the consolidated financial statements were available to be issued.

### **Use of Estimates**

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

### **Cash and Cash Equivalents**

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

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

### **Assets Whose Use is Limited**

Assets whose use is limited include assets set aside by the Board of Directors (the "Board") for future capital improvements, assets held for debt repayment, and assets held for malpractice self-insurance programs, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by trustees under debt agreements; assets held by trustees in connection with other malpractice self-insurance programs; and assets held by the foundations.

### **Patient Accounts Receivable**

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectability of patient accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

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

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## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

For receivables associated with services provided to patients who have third-party coverage the System analyzes contractual amounts due and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, which includes both patients without insurance and insured patients with deductible and copayment balances, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

### **Inventories**

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

### **Investments and Investment Risk**

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

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

WVUH has an agreement with the West Virginia University Foundation, Inc. ("WVU Foundation"), an affiliate of the University, to manage its board-designated funds. Some of WVUH'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 WVUH based upon its relative ownership of each fund.

### **Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis. Such lives, in the opinion of management, are adequate to allocate asset costs over their productive lives. Maintenance, repairs, and minor improvements are expensed as incurred. Equipment under capital leases is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Depreciation expense, including amortization of equipment under capital leases, was \$106,039,000 in 2016 and \$101,555,000 in 2015.

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

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## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Interest costs capitalized were \$6,733,000 in 2016 and \$9,958,000 in 2015.

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

### **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.

In October 2015, CCMC entered into a purchase and sale agreement to sell the property and equipment related to the St. Joseph's of Parkersburg campus for \$500,000. The sale closed on February 1, 2016, therefore CCMC reduced the carrying value of the property and equipment related to the St. Joseph's of Parkersburg campus to the purchase price, which resulted in impairment losses of \$25,545,000 in 2015.

### **Restricted Assets Held by Third Parties**

WVU Foundation holds cash and securities which are available for WVUH's purposes, subject to donor restrictions. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose, primarily for capital expenditures. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. WVU Foundation releases assets from restriction and transfers the amounts to WVUH as amounts are expended according to the donor's intended purposes. Amounts released from restriction are recorded as revenues or an increase in unrestricted net assets restricted for purchases of property and equipment.

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 in the accompanying consolidated statement of operations. Valuation gains and losses are classified as increases or decreases in permanently restricted net assets.

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

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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

## **Other Investments**

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

## **Goodwill**

Goodwill represents the excess of the amount paid to acquire certain businesses over the fair value of the net assets purchased. In 2016, the System recognized \$5,259,000 related to the acquisition of Gateway Home Care LLC and several physician practices. In 2015, the System recognized \$10,356,000 in goodwill related to the acquisition of SJH. Goodwill of \$40,368,000 at December 31, 2016 and \$35,109,000 at December 31, 2015 is included in other assets in the consolidated balance sheet.

The System evaluates goodwill on an annual basis or more frequently if management believes indicators of impairment exist. The System first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a two-step quantitative goodwill impairment test. The System's evaluation of goodwill resulted in no impairment losses in 2016 and 2015.

## **Estimated Malpractice Costs**

The provision for estimated medical malpractice claims 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 consolidated balance sheet at net realizable value.

## **Debt Issuance Costs**

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the debt using the straight-line method, which approximates the effective interest method. Such costs are reflected as a reduction of long-term debt in the accompanying consolidated balance sheet. Amortization of debt issuance costs was \$497,000 in 2016 and \$812,000 in 2015.

## **Temporarily and Permanently Restricted Net Assets**

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

# West Virginia University Health System and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### Revenues in Excess of Expenses

The consolidated statement of operations includes the determination of revenues in excess of expenses. Changes in unrestricted net assets which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, adjustments to pension obligations, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and changes in net unrealized loss on derivative financial instruments designated as cash flow hedges prior to December 31, 2008.

### 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 records a significant provision of bad debts related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision for bad debts), recognized in 2016 and 2015 from these major payor sources, are as follows (in thousands):

	2016			
	<u>Third-Party Government Payors</u>	<u>Third-Party Commercial Payors</u>	<u>Self-Pay</u>	<u>Total</u>
Patient service revenues (net of contractual allowances and discounts)	<u>\$ 1,054,990</u>	<u>\$ 740,280</u>	<u>\$ 12,636</u>	<u>\$ 1,807,906</u>

  

	2015			
	<u>Third-Party Government Payors</u>	<u>Third-Party Commercial Payors</u>	<u>Self-Pay</u>	<u>Total</u>
Patient service revenues (net of contractual allowances and discounts)	<u>\$ 912,029</u>	<u>\$ 675,640</u>	<u>\$ 25,733</u>	<u>\$ 1,613,402</u>

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

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## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### **Capitation Payments**

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

### **Charity Care**

The System provides care to patients who meet certain criteria under its patient financial assistance policy without charge or at amounts less than its established rates. Because the System does not pursue collections of amounts determined to qualify as charity care, they are not reported as patient service revenues. The costs associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care. The level of charity care provided by the System was approximately \$17,273,000 in 2016 and \$14,054,000 in 2015.

### **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. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations.

### **Federal and State Income Taxes**

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

The System accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2016 and 2015. The System's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

### **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 0.35% to 5.00%, 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 Upper Payment Limit ("UPL") program (Note 3). The System incurred related taxes of \$39,582,000 in 2016 and \$37,516,000 in 2015.



# West Virginia University Health System and Controlled Entities

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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

## Health Insurance Benefits

The System self-insures 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

During 2016, the System adopted Accounting Standards Update (“ASU”) 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which required the System to change its method of presenting long-term debt issuance costs. Prior to the issuance of ASU 2015-03, the System presented long-term debt issuance costs as an other asset in the consolidated balance sheet. As required by ASU 2015-03, the System now presents long-term debt issuance costs as a direct reduction of its long-term debt liability. The effects of the required retrospective application of this change in presentation was to decrease debt issuance costs and long-term debt liability by approximately \$11,372,000 and to decrease depreciation and amortization expense and increase interest expense by approximately \$812,000 as of December 31, 2015.

During 2016, the System also adopted ASU 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 was issued to address diversity in practice related to how certain investments measured at net asset value with redemption dates in the future are categorized within the fair value hierarchy. Under ASU 2015-07, investments for which fair value is measured using the net asset value per share as a practical expedient are no longer required to be categorized within the fair value hierarchy. It also removes certain disclosure requirements for investments eligible to be measured using the net asset value per share practical expedient; however, it does not remove such disclosures for investments for which the entity has elected to measure fair value using that practical expedient. The guidance is retrospective and the adoption of this ASU did not have a significant impact on the System, but expanded disclosures related to investments.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09. The System will be required to retrospectively adopt the guidance in ASU 2014-09 for its year ending December 31, 2018; early application is permitted. The System is currently assessing the effect that ASU 2014-09 will have on their consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. The System will be required to retrospectively adopt the guidance in ASU 2016-14 for its year ending December 31, 2018; early application is permitted. The System is currently assessing the effect that the adoption of ASU 2016-14 will have on their consolidated financial statements.

# West Virginia University Health System and Controlled Entities

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## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the System's leasing activities. The System will be required to retrospectively adopt the guidance in ASU 2016-02 for its year ending December 31, 2019; early application is permitted. The System is currently assessing the effect that the adoption of ASU 2016-02 will have on their consolidated financial statements.

### Reclassifications

Certain reclassifications were made to the 2015 consolidated financial statements to conform with the 2016 presentation.

### 3. 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. A significant portion of the System's net patient service revenues are derived from these third-party payor programs. Revenues received under third-party arrangements are subject to audit and retroactive adjustment. A summary of the principal 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 reimbursed based on allowable costs as reported in cost reports, which are subject to retroactive audit and adjustment. The System's critical access hospitals are reimbursed based on allowable costs for all services rendered to Medicare and Medicaid beneficiaries. Revenue from Medicare was approximately 34% in 2016 and 35% in 2015 of total net patient service revenues.

The Medicare cost reports for the various hospitals within the System have been settled by the Medicare fiscal intermediary through various years ranging from 2009 to 2013.

#### Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid on a published fee schedule. Revenue from Medicaid was approximately 19% in 2016 and 17% in 2015 of total net patient service revenues.

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

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### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

The State of West Virginia's disproportionate share plan reimburses hospitals in the state that provide Medicaid services and meet other eligibility criteria. Under the disproportionate share program, the System received \$13,666,000 in 2016 and \$11,323,000 in 2015, which is included in patient service revenues in the consolidated statement 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 UPL regulations. The first payment was made in April 2004 and periodic payments have been made subsequent to that date. The UPL payments are recorded in the period in which they are earned. The System recorded UPL payments of \$37,951,000 in 2016 and \$35,597,000 in 2015, which is included in patient service revenues in the consolidated statement of operations.

The laws and regulations governing the UPL program are complex and subject to interpretation. The UPL program is funded by a portion of the Medicaid Provider Tax (Note 2). There is risk that Congress may change federal policy in the future in a way that might limit or eliminate the UPL 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. Revenue from Blue Cross was approximately 27% in 2016 and 28% in 2015 of total net patient service revenues.

#### **Other Payors**

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance 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, and prospectively determined daily rates.

#### **Health Care Authority**

The Health Care Authority ("HCA") is empowered, by provisions of the West Virginia Code, to regulate the System's gross patient revenue from nongovernment payors and to evaluate financial performance. This is accomplished by issuing rate orders based on facility operating budgets and rate schedules and through evaluating performance and compliance based on reports submitted by the System on a periodic basis. Addition and deletion of services and the execution of nongovernment discount contracts are also subject to HCA approval. The rate setting functions of the HCA were eliminated effective for hospitals with fiscal years beginning after July 1, 2016. The rate review and rate compliance functions of the HCA were eliminated for hospitals effective for fiscal years ending December 31, 2016 and thereafter.

## West Virginia University Health System and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 4. Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2016 and 2015 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 71,262	\$ 105,288
U.S. government and agency obligations	26,676	56,685
Marketable equity securities	26,744	25,703
Marketable debt securities	54,965	55,975
Mutual funds:		
Domestic equity	86,533	78,593
International equity	135,896	155,834
Domestic fixed income	99,895	106,939
Global bonds	16,499	24,637
Exchange traded funds, domestic equity	175,006	168,326
Exchange traded funds, domestic fixed income	22,858	16,320
Alternative investments	19,015	18,817
Alternative investments accounted for under cost method	86,634	89,411
	<u>821,983</u>	<u>902,528</u>
Total assets whose use is limited	821,983	902,528
Less current portion of assets whose use is limited	<u>18,659</u>	<u>21,321</u>
Noncurrent portion of assets whose use is limited	<u>\$ 803,324</u>	<u>\$ 881,207</u>

Unrestricted investment income, gains, and losses are comprised of the following in 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Investment income (loss):		
Interest and dividend income	\$ 19,086	\$ 20,715
Fees	(4,784)	(4,873)
Net realized gains on sales of securities	10,345	47,573
Net unrealized gains (losses) on trading securities	33,081	(63,809)
Write-downs of the cost basis of investments due to an other-than-temporary decline in fair value	<u>(166)</u>	<u>(3,536)</u>
Total	<u>\$ 57,562</u>	<u>\$ (3,930)</u>

# West Virginia University Health System and Controlled Entities

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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

## 5. Fair Value Measurements and Financial Instruments

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

The levels of the fair value hierarchy are as follows:

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

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

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

# West Virginia University Health System and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

The fair value of financial instruments listed below was determined using the following valuation hierarchy at December 31, 2016 and 2015 (in thousands):

	2016				
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV (1)	Total
<b>Assets - recurring fair value measurements:</b>					
Assets whose use is limited:					
Cash and cash equivalents	\$ 71,262	\$ -	\$ -	\$ -	\$ 71,262
U.S. government and agency obligations	-	26,676	-	-	26,676
Marketable equity securities	26,744	-	-	-	26,744
Marketable debt securities	-	54,965	-	-	54,965
Mutual funds:					
Domestic equity	86,533	-	-	-	86,533
International equity	101,502	-	-	34,394	135,896
Domestic fixed income	73,240	-	-	26,655	99,895
Global bonds	6,118	-	-	10,381	16,499
Exchange traded funds, domestic equity	175,006	-	-	-	175,006
Exchange traded funds, domestic fixed income	22,858	-	-	-	22,858
Alternative investments	-	-	-	19,015	19,015
Investments at fair value	<u>\$ 563,263</u>	<u>\$ 81,641</u>	<u>\$ -</u>	<u>\$ 90,445</u>	<u>735,349</u>
Investments not at fair value					<u>86,634</u>
Total assets whose use is limited					<u>\$ 821,983</u>
Restricted assets held by third-parties					
	<u>\$ 10,953</u>	<u>\$ -</u>	<u>\$ 5,343</u>	<u>\$ -</u>	<u>\$ 16,296</u>
<b>Liabilities - recurring fair value measurements:</b>					
Derivative financial instruments	<u>\$ -</u>	<u>\$ 44,366</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,366</u>
<b>Assets disclosed at fair value:</b>					
Cash and cash equivalents	<u>\$ 134,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,188</u>
<b>Liabilities disclosed at fair value:</b>					
Long-term debt, with a carrying value of \$938,608	<u>\$ -</u>	<u>\$ 502,710</u>	<u>\$ 457,328</u>	<u>\$ -</u>	<u>\$ 960,038</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 sheet.

# West Virginia University Health System and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

	2015				
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV (1)	Total
<b>Assets - recurring fair value measurements:</b>					
Assets whose use is limited:					
Cash and cash equivalents	\$ 105,288	\$ -	\$ -	\$ -	\$ 105,288
U.S. government and agency obligations	-	56,685	-	-	56,685
Marketable equity securities	25,703	-	-	-	25,703
Marketable debt securities	-	55,975	-	-	55,975
Mutual funds:					
Domestic equity	78,593	-	-	-	78,593
International equity	133,418	-	-	22,416	155,834
Domestic fixed income	82,197	-	-	24,742	106,939
Global bonds	10,289	-	-	14,348	24,637
Exchange traded funds, domestic equity	168,326	-	-	-	168,326
Exchange traded funds, domestic fixed income	16,320	-	-	-	16,320
Alternative investments	-	-	-	18,817	18,817
Investments at fair value	<u>\$ 620,134</u>	<u>\$ 112,660</u>	<u>\$ -</u>	<u>\$ 80,323</u>	<u>813,117</u>
Investments not at fair value					<u>89,411</u>
Total assets whose use is limited					<u>\$ 902,528</u>
Restricted assets held by third-parties					
	<u>\$ 8,557</u>	<u>\$ -</u>	<u>\$ 5,142</u>	<u>\$ -</u>	<u>\$ 13,699</u>
<b>Liabilities - recurring fair value measurements:</b>					
Derivative financial instruments	<u>\$ -</u>	<u>\$ 50,296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,296</u>
<b>Assets disclosed at fair value:</b>					
Cash and cash equivalents	<u>\$ 118,699</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,699</u>
<b>Liabilities disclosed at fair value:</b>					
Long-term debt, with a carrying value of \$934,664	<u>\$ -</u>	<u>\$ 604,577</u>	<u>\$ 392,729</u>	<u>\$ -</u>	<u>\$ 997,306</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 sheet.

## West Virginia University Health System and Controlled Entities

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Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

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, 2016 and 2015:

Balance at December 31, 2014	\$ 5,539
Valuation loss	<u>(397)</u>
Balance at December 31, 2015	5,142
Valuation gain	<u>201</u>
Balance at December 31, 2016	<u>\$ 5,343</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, 2016 and 2015.

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: 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.

Marketable debt securities: Valued based on spreads of published interest rate curves.

Exchange traded funds: Valued at the quoted net asset value 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 net asset value 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 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.



# West Virginia University Health System and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

The following presents the nature and risk of the investments reported at net asset value and whether they have redemption restrictions as of December 31, 2016 and 2015 (in thousands):

Name of Fund	Fair Value at December 31, 2016	Fair Value at December 31, 2015	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
IR&M Core Bond Fund II	\$ 26,655	\$ 24,742	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	20,104	22,416	Seeks to achieve long-term growth by investing in a diversified portfolio of shares (or other similar instruments) issued by companies located outside the United States and Canada.	N/A	Monthly	10 days prior to "dealing day" or 1st day of the month
Brandywine Global Fixed Income Fund	10,381	14,348	Seeks to capture interest income and generate principal growth through capital appreciation. Invests in the sovereign debt and currencies of countries in the Citigroup World Government Bond Index, as well as investment-grade fixed income securities in those countries.	N/A	Monthly	10 business days
Frontier Small Cap Value Fund	5,347	-	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	4,507	-	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
Burgundy Emerging Markets Fund	4,436	-	Fund seeks long-term capital growth by investing in emerging market equities, in a slightly concentrated benchmark agnostic portfolio, with a value tilt.	N/A	Monthly	90 days
Universa BSPP Equity & Fixed Income Fund	4,108	5,713	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	14,907	13,104	(A)	(A)	N/A	N/A
Total	<u>\$ 90,445</u>	<u>\$ 80,323</u>				

(A) Private limited partnerships seek to realize long-term compounded returns in excess of those available through conventional investments in the public markets through asset class based strategies. Private equity limited partnerships typically acquire controlling stakes of mature companies with the goal of creating additional value. Venture capital limited partnerships typically invest in minority stakes of startup to mid-growth companies seeking higher exit realizations. Distressed debt limited partnerships typically invest in financially stressed or distressed company liabilities to rescue or restructure the company. Natural resources limited partnerships typically invest in natural resources such as oil and gas, infrastructure, timber, etc. for income and creating additional value. There are total unfunded commitments of \$21,215,000 (see Note 17) at December 31, 2016 related to these limited partnerships.

## West Virginia University Health System and Controlled Entities

### Notes to Consolidated Financial Statements

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

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

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

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

## 6. Property and Equipment

Property and equipment and related accumulated depreciation consist of the following at December 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 77,121	\$ 70,966
Buildings and building improvements	841,340	769,345
Equipment (including equipment under capital lease)	901,311	857,826
Leasehold improvements	15,066	11,838
Total	<u>1,834,838</u>	<u>1,709,975</u>
Less accumulated depreciation	<u>908,964</u>	<u>822,010</u>
	925,874	887,965
Construction in progress	<u>215,060</u>	<u>111,528</u>
Property and equipment, net	<u>\$ 1,140,934</u>	<u>\$ 999,493</u>

Construction in progress consists primarily of major renovation and expansion projects. Purchase commitments related to these projects were approximately \$77,458,000 at December 31, 2016.

# West Virginia University Health System and Controlled Entities

Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

## 7. Revolving Line of Credit

WVUHS maintains an unsecured revolving line of credit in the amount of \$30,000,000. There were borrowings outstanding of \$10,465,000 at December 31, 2016 and 2015. Borrowings under the agreement bear interest at a variable rate determined by adding 100 basis points to the Daily One Month LIBOR (1.52% at December 31, 2016).

RMH maintains a revolving line of credit in the amount of \$1,500,000. There were borrowings outstanding of \$1,471,000 at December 31, 2016. Borrowings under the agreement bear interest at a variable rate equal to the prime rate plus one percent (4.75% December 31, 2016). The line of credit is secured by the assets of RMH.

## 8. Long-Term Debt

A summary of long-term debt at December 31, 2016 and 2015 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
West Virginia Hospital Finance Authority Bonds:		
2016 Series - WVUH, UHC, CCMC, BMC	\$ 260,890	\$ -
2015 Series - UHC, SJH, PVH	33,860	33,860
2013 Series - WVUH, CCMC	206,730	206,945
2012 Series - WVUH, UHC, CCMC, BMC, JMC, UHCF	160,920	164,310
2011 Series - WVUH, CCMC, BMC	52,635	56,092
2004 Series - CCMC	63,250	65,650
Other notes payable	143,799	136,078
Capital lease obligations	2,863	2,551
Long-term debt repaid or refinanced in 2016	-	287,565
	<u>924,947</u>	<u>953,051</u>
Total long-term debt	924,947	953,051
Net unamortized bond premium (discount)	21,822	(7,015)
Debt issuance costs	(8,161)	(11,372)
Current maturities of long-term debt	<u>(25,330)</u>	<u>(24,912)</u>
Long-term debt	<u>\$ 913,278</u>	<u>\$ 909,752</u>

The scheduled principal repayments as of December 31, 2016 are as follows (in thousands):

Years ending December 31:	
2017	\$ 25,330
2018	23,801
2019	23,621
2020	25,047
2021	23,663
Thereafter	<u>803,485</u>
Total	<u>\$ 924,947</u>

# West Virginia University Health System and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 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.

### 2016 Series – Hospital Revenue Refunding Bonds

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

The 2016 Bonds include fixed rate serial bonds of \$223,400,000 maturing in 2017 through 2036 with interest rates ranging from 2.00% 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%.

In conjunction with the advance refundings, a loss on refinancing was recognized in the accompanying consolidated statement of operations, which is comprised of the following (in thousands):

Write-off deferred financing costs	\$ 4,943
Write-off unamortized discounts	1,972
Additional funds required to fund escrows	<u>25,545</u>
Total loss on refinancing	<u>\$ 32,460</u>

### 2015 Series - Hospital Revenue Bonds

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

The 2015 Bonds include variable rate bonds of \$33,860,000 maturing in 2027 through 2044 with interest rates ranging from 2.03% to 3.19% at December 31, 2016.

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

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

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

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### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

The 2013 Bonds include fixed rate serial bonds of \$6,730,000 maturing in 2017 through 2019 with interest rates ranging from 3.00% to 5.00%; and fixed rate term bonds of \$200,000,000 maturing in 2038 and 2044 with interest rates ranging from 5.375% to 5.5%.

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

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

The 2012 Bonds include variable rate bonds of \$160,920,000 maturing in 2030 through 2041 with interest rates ranging from 1.48% to 1.84% at December 31, 2016.

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

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

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

The 2011 Bonds include fixed rate bonds of \$21,846,000 maturing in 2022 and 2026 with interest rates ranging from 3.12% to 3.54%; and variable rate bonds of \$30,789,000 maturing in 2021 and 2041 with interest rates ranging from 4.00% to 4.25% at December 31, 2016.

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

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

In conjunction with the affiliation with WVUHS on March 1, 2011, the 2004 bonds were amended to include CCMC within the Obligated Group. The 2004 Bonds include auction rate certificates of \$51,550,000 and \$11,700,000 maturing in 2034 with interest payable based upon 35-day auction periods. Interest rates as determined by these auctions are subject to various risks including changes in the credit markets, re-marketing mechanisms, and the potential for failed auctions. The default interest rate for the 2004 Bonds is based upon a formulaic maximum rate which approximates 1.103% to 1.225%. The 2004 Bonds are insured by Assured Guaranty Municipal Corp.

# West Virginia University Health System and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### Other Notes Payable and Capital Lease Obligations

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.

In March 2015, the System obtained a \$43,360,000 taxable term loan to retire the 2008B Bonds. Principal payments are due in varying installments on June 1 each year, with a final lump sum payment due in March 2025. Interest is payable monthly at a variable rate equal to one-month LIBOR plus 0.92% (1.53% at December 31, 2016).

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.

In September 2013, the System obtained a \$50,000,000 draw-down term loan (the "2013 Term Loan") from BB&T to finance and reimburse the costs of various capital improvements and equipment for WVUH and pay for the costs related to the loan. Interest only payments are due monthly with the outstanding principal due September 2028. The loan bears interest at a variable rate equal to one-month LIBOR plus 1.15% (1.92% at December 31, 2016). WVUH has drawn down all available funds as of December 31, 2016.

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

### 9. Derivative Financial Instruments

The System's primary objective for holding derivative financial instruments is to manage interest rate risk. The derivative financial instruments are recorded at fair value, which is the amount that the System would pay to terminate the respective agreements, based upon information supplied by an independent third party valuation specialist.

The System follows accounting guidance on derivative financial instruments that is based on whether the derivative instrument meets the criteria for designation as cash flow or fair value hedges. The criteria for designating a derivative as a hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. All of the System's derivative financial instruments are interest rate swap agreements without hedge accounting designation. The System does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes.

## West Virginia University Health System and Controlled Entities

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### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Prior to January 1, 2008, certain swap agreements had been designated as cash flow hedges of variable-rate debt with no hedge ineffectiveness; therefore, changes in the fair value of the swap agreements were recorded as changes in unrestricted net assets. Under the cash flow hedge accounting methodology, the gains or losses recorded as changes in unrestricted net assets were to be reclassified into revenues in excess of expenses upon the sale or termination of the swap agreement. Subsequent authoritative guidance related to the accounting for cash flow hedges that are not based on a benchmark interest rate stipulated that interest rates, which are reset through an auction (remarketing) process, do not qualify as a benchmark rate and therefore the swap agreement that previously qualified for hedge accounting no longer qualified. At that time, the System began amortizing the accumulated changes in fair value of the swap agreements to income over the remaining term of the agreements.

In 2003, the System entered into two interest rate swap agreements (the "2003 Agreements") in connection with the 2003 Bonds. The first agreement had a notional value of \$4,700,000 and terminated on June 1, 2016. The second agreement, which has transferred to the 2012 Bonds, has a notional value of \$44,650,000 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 \$9,144,000 at December 31, 2016 and \$10,565,000 at December 31, 2015.

In 2004, CCHS entered into an interest rate swap agreement (the "2004 Agreement") in connection with the 2004 Bonds. In conjunction with the affiliation with WVUHS on March 1, 2011, the swap agreement was amended to include the Obligated Group. The 2004 Agreement 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 \$11,447,000 at December 31, 2016 and \$12,931,000 at December 31, 2015.

In 2005, the System entered into an interest rate swap agreement (the "2005 Agreement") in connection with the 2005 Bonds. The 2005 Agreement, which has transferred to the 2012 Bonds, has a notional value of \$14,870,000 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 \$2,014,000 at December 31, 2016 and \$2,409,000 at December 31, 2015.

In 2006, the System entered into two interest rate swap agreements (the "2006 Agreements") in connection with the 2006 Bonds. The first agreement, which has transferred to 2012 Bonds, has a notional value of \$28,000,000 and terminates on June 1, 2041. The second agreement has a notional value of \$40,800,000 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 \$17,763,000 at December 31, 2016 and \$19,800,000 at December 31, 2015.

In 2007, CCHS entered into an interest rate swap agreement (the "2007 Agreement") in connection with the 2007 Bonds. In conjunction with the affiliation with WVUHS on March 1, 2011, the swap agreement was amended to include the Obligated Group. The 2007 Agreement has a notional value of \$21,125,000 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 \$3,998,000 at December 31, 2016 and \$4,591,000 at December 31, 2015.

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

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### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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

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

### **10. Pension Plans**

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

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

UHC and UPC provide defined contribution pension plans covering substantially all employees. Contributions to the plan 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 \$18,261,000 in 2016 and \$15,584,000 in 2015.



## West Virginia University Health System and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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.

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 consolidated balance sheet at December 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 54,189	\$ 46,732
Interest cost	2,473	1,758
Actuarial loss (gain)	1,958	(4,275)
Benefits paid	(1,392)	(806)
Settlement	(2,964)	(3,352)
Projected benefit obligation related to acquisition	-	14,132
	<u>\$ 54,264</u>	<u>\$ 54,189</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ 40,214	\$ 37,950
Actual return on plan assets (net of expense)	2,833	(1,335)
Employer contributions	4,190	3,240
Benefits paid	(1,392)	(806)
Settlement	(2,964)	(3,352)
Fair value of plan assets related to acquisition	-	4,517
	<u>42,881</u>	<u>40,214</u>
Funded status at end of year	<u>\$ (11,383)</u>	<u>\$ (13,975)</u>
Accumulated benefit obligation	<u>\$ 54,264</u>	<u>\$ 54,189</u>

The following table sets forth the components of net periodic pension costs in 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Interest cost	\$ 2,473	\$ 1,758
Expected return on plan assets	(2,835)	(2,740)
Amortization of actuarial loss	528	323
Settlement charge	1,193	1,329
	<u>\$ 1,359</u>	<u>\$ 670</u>
Net periodic pension cost	<u>\$ 1,359</u>	<u>\$ 670</u>

## West Virginia University Health System and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

A net actuarial loss of \$20,173,000 at December 31, 2016 and \$15,688,000 at December 31, 2015, represents the unrecognized component of net periodic pension cost included in unrestricted net assets.

Estimated amortization of the net loss of \$482,000 is expected to be recognized in net periodic pension cost in the next fiscal year.

The following assumptions were used to determine benefit obligations at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Discount rate:		
CCMC plan	4.03 %	4.22 %
SJH plan	4.25 %	4.40 %

The weighted-average assumptions used in the measurement of net periodic benefit cost for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate:		
CCMC plan	4.22 %	3.82 %
SJH plan	4.40 %	4.50 %
Expected long-term return on plan assets:		
CCMC plan	7.00 %	7.00 %
SJH plan	6.75 %	7.75 %

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, 2016 and 2015 are as follows:

	<u>Actual Percentage</u>		<u>Targeted Percentage</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	2 %	1 %	-	-
Equity securities	45	55	45	52
Fixed income securities	53	44	55	48

## West Virginia University Health System and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

The following table summarizes the plan's assets measured at fair value on a recurring basis at December 31, 2016 and 2015 (in thousands):

	<b>December 31, 2016</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Assets at Fair Value</b>
Cash and cash equivalents	\$ 725	\$ -	\$ 725
U.S. government and agency obligations	-	613	613
Marketable equity securities	1,792	-	1,792
Marketable debt securities	-	719	719
Mutual funds, fixed income	21,552	-	21,552
Mutual funds, equity:			
Domestic funds	10,389	-	10,389
International funds	5,998	-	5,998
Exchange traded funds, domestic equity	1,093	-	1,093
<b>Total</b>	<b>\$ 41,549</b>	<b>\$ 1,332</b>	<b>\$ 42,881</b>

  

	<b>December 31, 2015</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Assets at Fair Value</b>
Cash and cash equivalents	\$ 305	\$ -	\$ 305
U.S. government and agency obligations	-	736	736
Marketable equity securities	2,271	-	2,271
Marketable debt securities	-	664	664
Mutual funds, fixed income	20,932	-	20,932
Mutual funds, equity:			
Domestic funds	9,359	-	9,359
International funds	5,360	-	5,360
Exchange traded funds, domestic equity	587	-	587
<b>Total</b>	<b>\$ 38,814</b>	<b>\$ 1,400</b>	<b>\$ 40,214</b>

There were no Level 3 investments at December 31, 2016 and 2015.

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, 2016 and 2015.

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: 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.

Marketable debt securities: Valued based on spreads of published interest rate curves.

# West Virginia University Health System and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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

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 \$3,240,000 to the defined benefit plans in 2017.

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

Years ending December 31:	
2017	\$ 1,624
2018	1,914
2019	1,997
2020	1,978
2021	2,186
2022 – 2026	13,418

## 11. Net Assets

Temporarily and permanently restricted net assets consist of funds restricted for the following purposes at December 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Temporarily restricted:		
Pediatric care	\$ 7,207	\$ 5,223
Purchases of property and equipment	2,234	2,512
Various healthcare related activities	2,319	1,686
Other	2,954	2,603
	<u>\$ 14,714</u>	<u>\$ 12,024</u>
Permanently restricted:		
Endowment funds - income expendable to support various healthcare services and purchase equipment	\$ 2,578	\$ 589
Perpetual income trusts - income expendable to support charity care and other healthcare services	5,343	5,142
	<u>\$ 7,921</u>	<u>\$ 5,731</u>

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

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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### **12. Medical Malpractice Claims Coverage**

The System entities maintain various self-insurance programs for medical malpractice insurance and general liability insurance. These programs require the System entities to deposit funds either into trust funds or other investment accounts, based upon actuarial calculations, sufficient to cover estimated claims.

The System entities operate self-insurance programs and these programs cover WVUH, UHC and its subsidiaries, UPC, University Healthcare, PVH and CCMC. Medical malpractice and general liability claims are managed by WVUHS and the System entities legal staff. WVUHS and the System entities legal staff utilize specialized experts and outside attorneys where such expertise is considered needed.

The self-insurance programs are funded on an occurrence basis and include coverage for both hospital, with the exception of CCMC, and employed physician general and professional liability. In certain cases, specific prior acts periods are included where operating units had claims-made coverage for all or some portion of their exposures at earlier points.

WVUHS maintains a master excess coverage on a claims-made basis with a prior acts date of August 1, 2007 that provides limits of eighty percent of \$20 million of limit per claim on a shared limit basis, with an attachment point of \$15 million any one claim and \$30 million in the annual aggregate. This coverage applies to WVUH, UHC and its subsidiaries, UPC, University Healthcare and PVH only. The WVUHS master excess policy is with a mutual insurance company and includes a shared savings account. The shared savings account is used to buffer results volatility and is returnable in whole or part to an insured several years after they leave the mutual insurance company.

The self-insurance program for CCMC is also funded on an occurrence basis. CCMC maintains a separate excess coverage on a claims-made basis with a limit of \$10 million and an attachment of \$1 million for general liability and \$5 million for professional liability with prior acts coverage for certain periods of time at varying policy limits and at attachment points that generally increase over time. CCPC maintains separate professional liability coverage for its employed physicians on a claims-made basis with individual limits of liability of \$1 million per claim and \$3 million annual aggregate.

Additionally, SJH maintains primary and excess coverages with Community Hospital Alternative for Risk Transfer ("CHART") under a claims-made policy. CHART was formed as a reciprocal risk retention group to provide liability insurance, reinsurance, and risk management services for its subscribers. RMH maintains coverage with a commercial insurance carrier under a claims-made policy.

The System's estimated future payments of its asserted and unasserted general and medical malpractice claims liabilities under their self-insurance programs were \$60,930,000 at December 31, 2016 and \$54,601,000 at December 31, 2015. These estimates are based upon actuarially determined estimates of the ultimate costs for known reported claims and claims incurred but not reported under the self-insurance programs. The discount rate used in determining the liabilities was 3.5% at December 31, 2016 and 2015.

The System believes it has adequate self-insurance and insurance coverages and accruals for all asserted claims and it has no knowledge of unasserted claims which would exceed its self-insurance and insurance coverages and accruals.

# West Virginia University Health System and Controlled Entities

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## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 13. Workers' Compensation Claims Coverage

The System maintains insurance policies with a stated per occurrence deductible and a stated deductible aggregate for workers' compensation claims. The policies provide statutory workers' compensation limits of liability. The System was required to establish loss funds and provide letters of credit to secure the deductible obligations. The letters of credit total \$5,485,000 at December 31, 2016, and are automatically renewed by the bank every July 1st unless notified 90 days prior to the renewal date.

### 14. Related-Party Transactions

WVUH has an agreement with the University to provide a minimum of \$4,000,000 per year in educational expenses for the University's interns and residents and a clinical teaching subsidy of not less than \$6,000,000 per year. WVUH also pays the University for other expenses such as state employee salaries, certain utilities, and rents. Total payments made to the University, including \$20,678,000 in 2016 and 2015 related to WVUH's contribution of UPL payments, were \$54,348,000 in 2016 and \$55,995,000 in 2015, and the associated expenses are included in supplies and purchased services in the consolidated statement of operations.

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. This resulted in payments from WVUH to UHA of \$64,113,000 in 2016 and \$49,552,000 in 2015, and the associated expenses are included in supplies and purchased services in the consolidated statement of operations. The total amount payable to UHA was \$8,636,000 at December 31, 2016 and \$4,033,000 at December 31, 2015.

Additionally, the JOA, as amended, requires a transfer of excess funds from WVUH to the University's School of Medicine. In 2016, transfers were required at a fixed amount totaling \$10,650,000, with WVUH responsible for funding \$8,025,000 and UHA responsible for funding \$2,625,000. In 2015, the JOA required a transfer of 50% of excess operating margin of WVUH and UHA between 3.0% and 3.5% and 100% of excess operating margin greater than 3.5%, capped at \$2,500,000. Any excess margin over \$2,500,000 was distributed as follows: 1) 10% to the University's School of Medicine; 2) 30% to UHA to support physician incentive compensation; and 3) 60% to support WVUH and UHA strategic initiatives.

The contribution from WVUH to the University's School of Medicine was \$8,025,000 in 2016 and \$9,657,000 in 2015, and is included in transfers to the school of medicine and strategic initiatives in the consolidated statement of changes in net assets. Actual payments totaled \$9,657,000 in 2016 and \$8,547,000 in 2015, with a total amount payable to the University's School of Medicine of \$8,025,000 at December 31, 2016 and \$9,657,000 at December 31, 2015.

Beginning in 2016, WVUHS performs certain information technology services on behalf of UHA. In 2015, WVUH performed these services. Payments for these services were \$5,014,000 in 2016 and \$5,170,000 in 2015. WVUHS also performs other services on behalf of UHA and payments for these other services were \$681,000 in 2016 and \$567,000 in 2015. The total amount receivable from UHA was \$775,000 at December 31, 2016 and \$649,000 at December 31, 2015.

## West Virginia University Health System and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

UHA provides various medical director services and other medical service support to WVUH. Payments for these services were \$7,320,000 in 2016 and \$5,815,000 in 2015, and the associated expenses are included in supplies and purchased services in the consolidated statement of operations.

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 \$9,703,000 in 2016 and \$12,195,000 in 2015, and is included in supplies and purchased services in the consolidated statement of operations.

WVUH, Charleston Area Medical Center, and Cabell Huntington Hospital are members of HealthNet, Inc. ("HNET"), an aeromedical transport service company. Each member's ownership percentage is 33 1/3%. HNET is a West Virginia nonprofit corporation, which the Internal Revenue Service has determined is recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. HNET's members are required to support HNET to the extent that expenses exceed revenues. HNET had net income of \$2,582,000 in 2016 and \$842,000 in 2015. Any excess is distributed to the members during the following fiscal year. WVUH did not receive distributions in 2016 or 2015. Amounts due from HNET were \$2,733,000 at December 31, 2016 and \$3,069,000 at December 31, 2015, and are included in other assets in the consolidated balance sheet.

### 15. Operating Leases

The System leases certain equipment and office buildings under the terms of non-cancellable operating leases. The following is a schedule of future minimum lease payments under operating leases as of December 31, 2016, that have initial or remaining lease terms in excess of one year (in thousands):

Years ending December 31:	
2017	\$ 11,818
2018	9,410
2019	8,137
2020	7,198
2021	6,755
Thereafter	<u>6,062</u>
Total	<u>\$ 49,380</u>

Rental expense for all operating leases was \$16,586,000 in 2016 and \$14,169,000 in 2015.

# West Virginia University Health System and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 16. Concentrations of Credit Risk

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 maintains allowances for potential credit losses and such losses have historically been within management's expectations. The mix of receivables at December 31, 2016 and 2015 from patients and third-party payors is as follows:

	<u>2016</u>	<u>2015</u>
Medicare	31 %	28 %
Medicaid	14	12
Blue Cross	21	25
Commercial/HMO/Other	30	32
Patients	<u>4</u>	<u>3</u>
Total	<u>100 %</u>	<u>100 %</u>

### 17. Commitments and Contingencies

#### Commitments

The System has commitments for the additional purchase of ownership in limited partnerships (private equity and venture capital funds) of \$89,268,000 at December 31, 2016, over approximately the next ten years. Funding for these commitments is expected to come from board-designated funded depreciation assets.

CCMC has commitments for software licensing agreements of \$10,254,000 through 2020.

#### 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.

#### 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.



# West Virginia University Health System and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### Disproportionate Share Hospital State Plan

The State of West Virginia Disproportionate Share Hospital State Plan was amended to provide for a settlement process among participating hospitals. The state has not completed a settlement process for the years subsequent to 1996. 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 the Disproportionate Share Hospital (“DSH”) State Plan. The laws and regulations governing the DSH settlement process are complex, involving statistical data from all participating hospitals, and subject to interpretation. Accordingly, the System is not able to estimate the possible loss or gain that could arise upon completion of the DSH settlement process. The results of the resolution of the settlement process could materially impact the System's future results of operations or cash flows in a particular period.

### 18. Functional Expenses

The System provides general health care and related services to individuals within its geographic region. Expenses related to providing these services in 2016 and 2015 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Healthcare and other related services	\$ 1,430,961	\$ 1,263,385
General and administrative	373,126	323,488
Fundraising	<u>1,478</u>	<u>1,217</u>
Total	<u>\$ 1,805,565</u>	<u>\$ 1,588,090</u>

### 19. Subsequent Events

In March 2017, the West Virginia Hospital Finance 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 will be 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; acquire, construct, and equip UHC’s new Outpatient Ambulatory Center; 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%.

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

Consolidating Schedule of Balance Sheet Information

December 31, 2016

(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non- Obligated Group	Eliminations	Total Consolidated
<b>Assets</b>												
<b>Current Assets</b>												
Cash and cash equivalents	\$ 2,612	\$ 55,698	\$ 6,580	\$ 24,989	\$ 15,911	\$ 2,630	\$ 2,923	\$ -	\$ 111,343	\$ 22,845	\$ -	\$ 134,188
Current portion of assets whose use is limited	6,167	6,990	3,026	2,192	284	-	-	-	18,659	-	-	18,659
Accounts receivable:												
Patients, net	115,270	40,472	24,617	16,543	4,752	-	-	-	201,654	19,904	-	221,558
Other	14,448	973	1,778	5,308	162	103	1,128	-	23,900	5,156	-	29,056
Affiliates	19,226	6,738	2,239	2,851	600	66	21,694	(37,237)	16,177	4,388	(20,565)	-
Inventories of supplies	19,850	3,778	5,374	2,082	792	-	-	-	31,876	3,361	-	35,237
Prepaid expenses and other current assets	3,632	4,666	4,844	258	29	117	1,044	-	14,590	4,031	-	18,621
Total current assets	<u>181,205</u>	<u>119,315</u>	<u>48,458</u>	<u>54,223</u>	<u>22,530</u>	<u>2,916</u>	<u>26,789</u>	<u>(37,237)</u>	<u>418,199</u>	<u>59,685</u>	<u>(20,565)</u>	<u>457,319</u>
<b>Assets Whose Use is Limited</b>												
Board-designated funds:												
Funded depreciation	240,716	174,643	34,926	15,663	11,122	12,205	-	-	489,275	4,885	-	494,160
Debt repayment	203,532	-	-	-	-	-	-	-	203,532	855	-	204,387
Malpractice self-insurance	30,425	-	-	-	-	-	-	-	30,425	-	-	30,425
Under trust indenture, held by trustee	42	-	8,926	107	22	2	-	-	9,099	-	-	9,099
Malpractice self-insurance, held by trustee	-	13,357	6,862	2,632	1,600	-	-	-	24,451	908	-	25,359
Foundation investments	22,494	-	-	-	-	-	-	-	22,494	17,400	-	39,894
Noncurrent portion of assets whose use is limited	497,209	188,000	50,714	18,402	12,744	12,207	-	-	779,276	24,048	-	803,324
<b>Property and Equipment, Net</b>	<b>541,366</b>	<b>279,155</b>	<b>143,623</b>	<b>58,007</b>	<b>15,282</b>	<b>18,169</b>	<b>28,883</b>	<b>-</b>	<b>1,084,485</b>	<b>56,449</b>	<b>-</b>	<b>1,140,934</b>
<b>Restricted Assets Held by Third-Parties</b>	<b>10,915</b>	<b>-</b>	<b>-</b>	<b>55</b>	<b>5,678</b>	<b>38</b>	<b>-</b>	<b>(390)</b>	<b>16,296</b>	<b>-</b>	<b>-</b>	<b>16,296</b>
<b>Due from Affiliates</b>	<b>10,238</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,238</b>	<b>649</b>	<b>(10,887)</b>	<b>-</b>
<b>Other Assets, Net</b>	<b>31,356</b>	<b>4,452</b>	<b>11,051</b>	<b>3,032</b>	<b>216</b>	<b>1,010</b>	<b>7,576</b>	<b>-</b>	<b>58,693</b>	<b>22,530</b>	<b>(678)</b>	<b>80,545</b>
Total assets	<u>\$ 1,272,289</u>	<u>\$ 590,922</u>	<u>\$ 253,846</u>	<u>\$ 133,719</u>	<u>\$ 56,450</u>	<u>\$ 34,340</u>	<u>\$ 63,248</u>	<u>\$ (37,627)</u>	<u>\$ 2,367,187</u>	<u>\$ 163,361</u>	<u>\$ (32,130)</u>	<u>\$ 2,498,418</u>

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

Consolidating Schedule of Balance Sheet Information

December 31, 2016

(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non- Obligated Group	Eliminations	Total Consolidated
<b>Liabilities and Net Assets</b>												
<b>Current Liabilities</b>												
Line of credit	\$ -	\$ -	\$ 9,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,550	\$ 2,386	\$ -	\$ 11,936
Current maturities of long-term debt	7,051	6,077	4,265	1,800	735	306	-	-	20,234	5,096	-	25,330
Accounts payable and accrued expenses	64,255	10,409	7,967	9,340	1,690	30	14,756	-	108,447	8,843	-	117,290
Due to affiliates	11,492	4,387	12,564	3,377	1,748	277	7,780	(37,237)	4,388	16,177	(20,565)	-
Estimated third-party payor settlements	4,906	1,247	(640)	(511)	2,223	-	-	-	7,225	2,830	-	10,055
Salaries and benefits payable	42,087	15,796	8,865	10,049	2,266	42	5,253	-	84,358	10,567	-	94,925
Accrued interest payable	1,299	712	212	178	36	7	-	-	2,444	36	-	2,480
Current portion of malpractice costs	5,655	3,551	2,804	2,192	284	-	-	-	14,486	200	-	14,686
Total current liabilities	136,745	42,179	45,587	26,425	8,982	662	27,789	(37,237)	251,132	46,135	(20,565)	276,702
<b>Long-Term Debt, Net</b>	389,457	218,157	199,066	48,785	9,350	8,404	-	-	873,219	40,059	-	913,278
<b>Malpractice Costs</b>	21,476	8,043	8,228	5,566	721	-	-	-	44,034	2,210	-	46,244
<b>Derivative Financial Instruments</b>	9,145	17,765	15,444	1,763	249	-	-	-	44,366	-	-	44,366
<b>Due to Affiliates</b>	649	-	-	-	-	-	-	-	649	10,238	(10,887)	-
<b>Pension Liability</b>	-	-	2,474	-	-	-	-	-	2,474	8,909	-	11,383
<b>Other Liabilities</b>	1,633	125	922	-	-	72	1,309	-	4,061	204	-	4,265
Total liabilities	559,105	286,269	271,721	82,539	19,302	9,138	29,098	(37,237)	1,219,935	107,755	(31,452)	1,296,238
<b>Net Assets (Deficit)</b>												
Unrestricted	702,270	304,653	(17,875)	51,125	31,470	24,812	34,150	-	1,130,605	49,618	(678)	1,179,545
Temporarily restricted	10,261	-	-	55	335	390	-	(390)	10,651	4,063	-	14,714
Permanently restricted	653	-	-	-	5,343	-	-	-	5,996	1,925	-	7,921
Total net assets	713,184	304,653	(17,875)	51,180	37,148	25,202	34,150	(390)	1,147,252	55,606	(678)	1,202,180
Total liabilities and net assets	\$ 1,272,289	\$ 590,922	\$ 253,846	\$ 133,719	\$ 56,450	\$ 34,340	\$ 63,248	\$ (37,627)	\$ 2,367,187	\$ 163,361	\$ (32,130)	\$ 2,498,418

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

 Consolidating Schedule of Operations  
 Year Ended December 31, 2016  
 (In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non- Obligated Group	Eliminations	Total Consolidated
<b>Unrestricted Revenues</b>												
Patient service revenues (net of contractual allowances and discounts)	\$ 869,163	\$ 319,471	\$ 242,910	\$ 191,658	\$ 51,652	\$ -	\$ -	\$ (773)	\$ 1,674,081	\$ 134,418	\$ (593)	\$ 1,807,906
Provision for bad debts	(15,931)	(12,699)	(14,870)	(7,220)	(2,580)	-	-	-	(53,300)	(5,705)	-	(59,005)
Net patient service revenues	853,232	306,772	228,040	184,438	49,072	-	-	(773)	1,620,781	128,713	(593)	1,748,901
Other revenues	83,369	11,473	7,782	5,644	(487)	2,248	102,384	(82,761)	129,652	48,351	(49,579)	128,424
Total unrestricted revenues	936,601	318,245	235,822	190,082	48,585	2,248	102,384	(83,534)	1,750,433	177,064	(50,172)	1,877,325
<b>Expenses</b>												
Supplies and purchased services	452,473	115,439	104,742	88,473	22,265	832	54,877	(83,057)	756,044	69,270	(50,019)	775,295
Salaries and wages	290,954	115,567	76,782	66,407	18,477	383	36,733	(477)	604,826	98,340	-	703,166
Employee benefits	88,773	31,398	18,775	17,005	3,676	108	10,679	-	170,414	21,836	(173)	192,077
Depreciation and amortization	50,588	23,614	13,513	7,881	2,274	839	933	-	99,642	6,470	-	106,112
Interest	12,826	8,104	7,202	(930)	421	343	3	-	27,969	1,286	(340)	28,915
Total expenses	895,614	294,122	221,014	178,836	47,113	2,505	103,225	(83,534)	1,658,895	197,202	(50,532)	1,805,565
Operating income (loss)	40,987	24,123	14,808	11,246	1,472	(257)	(841)	-	91,538	(20,138)	360	71,760
<b>Other Income (Loss)</b>												
Investment income	37,527	10,939	2,528	3,213	1,129	1,197	94	-	56,627	1,295	(360)	57,562
Change in fair value of derivative financial instruments	1,247	2,035	2,078	339	48	-	-	-	5,747	-	-	5,747
Other, net	(1,569)	169	(368)	(36)	(16)	(19)	-	-	(1,839)	(440)	-	(2,279)
Contribution from acquisition	-	-	-	-	-	-	-	-	-	11,112	-	11,112
Loss on refinancing	(10,740)	(17,713)	(2,077)	(1,930)	-	-	-	-	(32,460)	-	-	(32,460)
Revenues in excess of (less than) expenses	67,452	19,553	16,969	12,832	2,633	921	(747)	-	119,613	(8,171)	-	111,442
<b>Pension Liability Adjustment</b>	-	-	(540)	-	-	-	-	-	(540)	301	-	(239)
<b>Transfers to the School of Medicine and Strategic Initiatives</b>	(12,475)	-	-	-	-	-	-	-	(12,475)	-	-	(12,475)
<b>Other</b>	277	-	(441)	56	55	-	-	-	(53)	(359)	-	(412)
<b>Transfers from (to) Affiliates</b>	(8,549)	(10,367)	(20,877)	(2,129)	(85)	-	19,820	-	(22,187)	22,187	-	-
Increase in unrestricted net assets	\$ 46,705	\$ 9,186	\$ (4,889)	\$ 10,759	\$ 2,603	\$ 921	\$ 19,073	\$ -	\$ 84,358	\$ 13,958	\$ -	\$ 98,316

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

 Consolidating Schedule of Changes in Net Assets  
 Year Ended December 31, 2016  
 (In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non- Obligated Group	Eliminations	Total Consolidated
<b>Unrestricted Net Assets</b>												
Revenues in excess of (less than) expenses	\$ 67,452	\$ 19,553	\$ 16,969	\$ 12,832	\$ 2,633	\$ 921	\$ (747)	\$ -	\$ 119,613	\$ (8,171)	\$ -	\$ 111,442
Pension liability adjustment	-	-	(540)	-	-	-	-	-	(540)	301	-	(239)
Transfers to the School of Medicine and strategic initiatives	(12,475)	-	-	-	-	-	-	-	(12,475)	-	-	(12,475)
Other	277	-	(441)	56	55	-	-	-	(53)	(359)	-	(412)
Transfers from (to) affiliates	(8,549)	(10,367)	(20,877)	(2,129)	(85)	-	19,820	-	(22,187)	22,187	-	-
Increase in unrestricted net assets	46,705	9,186	(4,889)	10,759	2,603	921	19,073	-	84,358	13,958	-	98,316
<b>Temporarily Restricted Net Assets</b>												
Increase in temporarily restricted assets held by WWU Foundation	2,242	-	-	-	-	-	-	-	2,242	-	-	2,242
Contributions and grants	-	-	-	-	-	56	-	-	56	923	-	979
Change in value of split-interest agreements	-	-	-	-	-	(4)	-	-	(4)	94	-	90
Decrease in temporarily restricted assets held by affiliated foundation	-	-	-	(47)	(4)	-	-	51	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	(103)	-	-	(103)	(634)	-	(737)
Contribution from acquisition	-	-	-	-	-	-	-	-	-	116	-	116
Increase (decrease) in temporarily restricted net assets	2,242	-	-	(47)	(4)	(51)	-	51	2,191	499	-	2,690
<b>Permanently Restricted Net Assets</b>												
Valuation gain	-	-	-	-	201	-	-	-	201	-	-	201
Increase in permanently restricted assets held by WWU Foundation	176	-	-	-	-	-	-	-	176	-	-	176
Contribution from acquisition	-	-	-	-	-	-	-	-	-	1,813	-	1,813
Increase in permanently restricted net assets	176	-	-	-	201	-	-	-	377	1,813	-	2,190
Change in net assets	49,123	9,186	(4,889)	10,712	2,800	870	19,073	51	86,926	16,270	-	103,196
<b>Net Assets (Deficit), Beginning</b>	664,061	295,467	(12,986)	40,468	34,348	24,332	15,077	(441)	1,060,326	39,336	(678)	1,098,984
<b>Net Assets (Deficit), Ending</b>	\$ 713,184	\$ 304,653	\$ (17,875)	\$ 51,180	\$ 37,148	\$ 25,202	\$ 34,150	\$ (390)	\$ 1,147,252	\$ 55,606	\$ (678)	\$ 1,202,180

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

Consolidating Schedule of Balance Sheet Information

December 31, 2015

(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	Eliminations	Total Obligated Group	Non- Obligated Group	Eliminations	Total Consolidated
<b>Assets</b>											
<b>Current Assets</b>											
Cash and cash equivalents	\$ 16,435	\$ 38,656	\$ 7,141	\$ 16,285	\$ 15,710	\$ 1,198	\$ -	\$ 95,425	\$ 23,274	\$ -	\$ 118,699
Current portion of assets whose use is limited	6,167	9,052	4,647	1,200	255	-	-	21,321	-	-	21,321
Accounts receivable:											
Patients, net	94,452	34,453	26,284	15,219	4,931	-	-	175,339	16,200	-	191,539
Other	11,921	1,000	889	4,166	963	26	-	18,965	2,732	-	21,697
Affiliates	12,012	3,218	1,596	1,895	408	-	(7,270)	11,859	18,675	(30,534)	-
Inventories of supplies	16,220	3,695	5,190	2,294	553	-	-	27,952	1,925	-	29,877
Prepaid expenses and other current assets	3,680	4,966	6,028	1,002	16	119	-	15,811	(3,225)	-	12,586
<b>Total current assets</b>	<b>160,887</b>	<b>95,040</b>	<b>51,775</b>	<b>42,061</b>	<b>22,836</b>	<b>1,343</b>	<b>(7,270)</b>	<b>366,672</b>	<b>59,581</b>	<b>(30,534)</b>	<b>395,719</b>
<b>Assets Whose Use is Limited</b>											
Board-designated funds:											
Funded depreciation	285,118	165,062	33,027	14,294	10,179	12,648	-	520,328	5,029	-	525,357
Debt repayment	189,808	-	-	-	-	-	-	189,808	855	-	190,663
Malpractice self-insurance	27,965	-	-	-	-	-	-	27,965	-	-	27,965
Under trust indenture, held by trustee	46,261	11,597	27,138	61	16	2	-	85,075	-	-	85,075
Malpractice self-insurance, held by trustee	-	13,049	8,291	4,055	1,475	-	-	26,870	929	-	27,799
Foundation investments	14,428	-	-	-	-	-	-	14,428	9,920	-	24,348
Noncurrent portion of assets whose use is limited	563,580	189,708	68,456	18,410	11,670	12,650	-	864,474	16,733	-	881,207
<b>Property and Equipment, Net</b>	<b>435,016</b>	<b>292,898</b>	<b>131,596</b>	<b>56,595</b>	<b>15,553</b>	<b>18,886</b>	<b>-</b>	<b>950,544</b>	<b>48,949</b>	<b>-</b>	<b>999,493</b>
<b>Restricted Assets Held by Third-Parties</b>	<b>8,497</b>	<b>-</b>	<b>-</b>	<b>102</b>	<b>5,482</b>	<b>59</b>	<b>(441)</b>	<b>13,699</b>	<b>-</b>	<b>-</b>	<b>13,699</b>
<b>Due from Affiliates</b>	<b>8,723</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,723</b>	<b>431</b>	<b>(9,154)</b>	<b>-</b>
<b>Other Assets, Net</b>	<b>29,636</b>	<b>3,773</b>	<b>11,225</b>	<b>3,989</b>	<b>354</b>	<b>1,124</b>	<b>-</b>	<b>50,101</b>	<b>25,257</b>	<b>(678)</b>	<b>74,680</b>
<b>Total assets</b>	<b>\$ 1,206,339</b>	<b>\$ 581,419</b>	<b>\$ 263,052</b>	<b>\$ 121,157</b>	<b>\$ 55,895</b>	<b>\$ 34,062</b>	<b>\$ (7,711)</b>	<b>\$ 2,254,213</b>	<b>\$ 150,951</b>	<b>\$ (40,366)</b>	<b>\$ 2,364,798</b>

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

Consolidating Schedule of Balance Sheet Information

December 31, 2015

(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	Eliminations	Total Obligated Group	Non- Obligated Group	Eliminations	Total Consolidated
<b>Liabilities and Net Assets</b>											
<b>Current Liabilities</b>											
Line of credit	\$ -	\$ -	\$ 9,550	\$ -	\$ -	\$ -	\$ -	\$ 9,550	\$ 915	\$ -	\$ 10,465
Current maturities of long-term debt	7,708	6,201	4,225	2,026	726	298	-	21,184	3,728	-	24,912
Accounts payable and accrued expenses	56,561	8,095	9,514	7,780	2,651	103	-	84,704	8,852	-	93,556
Due to affiliates	7,830	4,882	8,117	3,430	1,353	332	(7,270)	18,674	11,860	(30,534)	-
Estimated third-party payor settlements	9,681	1,801	(1,647)	285	2,275	-	-	12,395	2,101	-	14,496
Salaries and benefits payable	40,203	14,021	8,857	9,473	2,252	-	-	74,806	9,951	-	84,757
Accrued interest payable	1,337	575	735	1,981	803	217	-	5,648	33	-	5,681
Current portion of malpractice costs	5,459	3,459	1,600	1,200	255	-	-	11,973	157	-	12,130
Total current liabilities	128,779	39,034	40,951	26,175	10,315	950	(7,270)	238,934	37,597	(30,534)	245,997
<b>Long-Term Debt, Net</b>	380,203	219,885	204,524	48,331	10,069	8,706	-	871,718	38,034	-	909,752
<b>Malpractice Costs</b>	20,943	7,067	7,873	4,073	865	-	-	40,821	1,650	-	42,471
<b>Derivative Financial Instruments</b>	10,566	19,800	17,522	2,110	298	-	-	50,296	-	-	50,296
<b>Due to Affiliates</b>	431	-	-	-	-	-	-	431	8,723	(9,154)	-
<b>Pension Liability</b>	-	-	4,360	-	-	-	-	4,360	9,615	-	13,975
<b>Other Liabilities</b>	1,356	166	808	-	-	74	-	2,404	919	-	3,323
Total liabilities	542,278	285,952	276,038	80,689	21,547	9,730	(7,270)	1,208,964	96,538	(39,688)	1,265,814
<b>Net Assets (Deficit)</b>											
Unrestricted	655,565	295,467	(12,986)	40,366	28,867	23,891	-	1,031,170	50,737	(678)	1,081,229
Temporarily restricted	8,019	-	-	102	339	441	(441)	8,460	3,564	-	12,024
Permanently restricted	477	-	-	-	5,142	-	-	5,619	112	-	5,731
Total net assets	664,061	295,467	(12,986)	40,468	34,348	24,332	(441)	1,045,249	54,413	(678)	1,098,984
Total liabilities and net assets	\$ 1,206,339	\$ 581,419	\$ 263,052	\$ 121,157	\$ 55,895	\$ 34,062	\$ (7,711)	\$ 2,254,213	\$ 150,951	\$ (40,366)	\$ 2,364,798

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

Consolidating Schedule of Operations

Year Ended December 31, 2015

(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	Eliminations	Total Obligated Group	Non- Obligated Group	Eliminations	Total Consolidated
<b>Unrestricted Revenues</b>											
Patient service revenues (net of contractual allowances and discounts)	\$ 764,323	\$ 293,901	\$ 235,892	\$ 178,093	\$ 53,601	\$ -	\$ (812)	\$ 1,524,998	\$ 88,941	\$ (537)	\$ 1,613,402
Provision for bad debts	(10,212)	(18,094)	(9,941)	(7,571)	(3,412)	-	-	(49,230)	(4,291)	-	(53,521)
Net patient service revenues	754,111	275,807	225,951	170,522	50,189	-	(812)	1,475,768	84,650	(537)	1,559,881
Other revenues	62,479	9,082	5,806	5,282	1,276	2,256	(980)	85,201	50,030	(43,448)	91,783
Total unrestricted revenues	816,590	284,889	231,757	175,804	51,465	2,256	(1,792)	1,560,969	134,680	(43,985)	1,651,664
<b>Expenses</b>											
Supplies and purchased services	346,275	96,537	104,710	72,545	17,611	959	(1,792)	636,845	40,507	(31,289)	646,063
Salaries and wages	294,298	108,530	78,723	69,450	21,296	388	-	572,685	82,934	(7,502)	648,117
Employee benefits	65,997	31,788	19,836	18,396	4,665	116	-	140,798	18,871	(2,571)	157,098
Depreciation and amortization	45,004	24,232	16,529	9,257	2,819	823	-	98,664	5,278	(2,387)	101,555
Interest	12,302	10,058	8,136	3,376	554	363	-	34,789	1,003	(535)	35,257
Total expenses	763,876	271,145	227,934	173,024	46,945	2,649	(1,792)	1,483,781	148,593	(44,284)	1,588,090
Operating income (loss)	52,714	13,744	3,823	2,780	4,520	(393)	-	77,188	(13,913)	299	63,574
<b>Other Income (Loss)</b>											
Investment income	(2,398)	(1,258)	(351)	(91)	(156)	(211)	-	(4,465)	834	(299)	(3,930)
Change in fair value of derivative financial instruments	295	200	340	99	14	-	-	948	-	-	948
Asset impairment losses	-	-	(25,545)	-	-	-	-	(25,545)	-	-	(25,545)
Other, net	(1,798)	215	14	(285)	(41)	(202)	-	(2,097)	(59)	-	(2,156)
Revenues in excess of (less than) expenses	48,813	12,901	(21,719)	2,503	4,337	(806)	-	46,029	(13,138)	-	32,891
<b>Pension Liability Adjustment</b>	-	-	1,852	-	-	-	-	1,852	-	-	1,852
<b>Transfers to the School of Medicine and Strategic Initiatives</b>	(11,373)	-	-	-	-	-	-	(11,373)	-	-	(11,373)
<b>Other</b>	982	-	(630)	146	85	-	-	583	-	-	583
<b>Transfers from (to) Affiliates</b>	(2,205)	(11,817)	(32,316)	(130)	(40)	-	-	(46,508)	46,508	-	-
Increase (decrease) in unrestricted net assets	\$ 36,217	\$ 1,084	\$ (52,813)	\$ 2,519	\$ 4,382	\$ (806)	\$ -	\$ (9,417)	\$ 33,370	\$ -	\$ 23,953



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

Consolidating Schedule of Changes in Net Assets

Year Ended December 31, 2015

(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	Eliminations	Total Obligated Group	Non- Obligated Group	Eliminations	Total Consolidated
<b>Unrestricted Net Assets</b>											
Revenues in excess of (less than) expenses	\$ 48,813	\$ 12,901	\$ (21,719)	\$ 2,503	\$ 4,337	\$ (806)	\$ -	\$ 46,029	\$ (13,138)	\$ -	\$ 32,891
Pension liability adjustment	-	-	1,852	-	-	-	-	1,852	-	-	1,852
Transfers to the School of Medicine and strategic initiatives	(11,373)	-	-	-	-	-	-	(11,373)	-	-	(11,373)
Other	982	-	(630)	146	85	-	-	583	-	-	583
Transfers from (to) affiliates	(2,205)	(11,817)	(32,316)	(130)	(40)	-	-	(46,508)	46,508	-	-
Increase (decrease) in unrestricted net assets	36,217	1,084	(52,813)	2,519	4,382	(806)	-	(9,417)	33,370	-	23,953
<b>Temporarily Restricted Net Assets</b>											
Increase in temporarily restricted assets held by WVU Foundation	561	-	-	-	-	-	-	561	-	-	561
Contributions and grants	-	-	-	-	-	60	-	60	567	-	627
Change in value of split-interest agreements	-	-	-	-	-	(7)	-	(7)	370	-	363
Decrease in temporarily restricted assets held by affiliated foundation	-	-	-	(128)	(32)	-	160	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	(218)	-	(218)	(717)	-	(935)
Increase (decrease) in temporarily restricted net assets	561	-	-	(128)	(32)	(165)	160	396	220	-	616
<b>Permanently Restricted Net Assets</b>											
Valuation loss	-	-	-	-	(397)	-	-	(397)	-	-	(397)
Decrease in permanently restricted assets held by WVU Foundation	(121)	-	-	-	-	-	-	(121)	-	-	(121)
Decrease in permanently restricted net assets	(121)	-	-	-	(397)	-	-	(518)	-	-	(518)
Change in net assets	36,657	1,084	(52,813)	2,391	3,953	(971)	160	(9,539)	33,590	-	24,051
<b>Net Assets, Beginning</b>	627,404	294,383	39,827	38,077	30,395	25,303	(601)	1,054,788	20,823	(678)	1,074,933
<b>Net Assets (Deficit), Ending</b>	\$ 664,061	\$ 295,467	\$ (12,986)	\$ 40,468	\$ 34,348	\$ 24,332	\$ (441)	\$ 1,045,249	\$ 54,413	\$ (678)	\$ 1,098,984