West Virginia University Health System and Controlled Entities

Consolidated Financial Statements and
Consolidating Supplementary Information

December 31, 2017 and 2016

BAKER TILLY

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December 31, 2017 and 2016

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, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, 2017 and 2016, 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 schedules on pages 41 to 48 are presented for purposes of additional analysis rather than to present the financial position, results of operations, changes in net assets, 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, 2018

West Virginia University Health System and Controlled Entities

Consolidated Balance Sheet
December 31, 2017 and 2016
(In Thousands)

Assets	2017	2016
Current Assets		
Cash and cash equivalents	$ 121,635	$ 134,188
Current portion of assets whose use is limited	20,209	18,659
Accounts receivable:		
Patients, net of estimated allowance for doubtful accounts of $70,451 in 2017 and $61,675 in 2016	301,793	221,558
Other	36,441	29,056
Inventories of supplies	39,272	35,237
Estimated third-party payor settlements	18,697	-
Prepaid expenses and other current assets	13,504	18,621
Total current assets	551,551	457,319
Assets Whose Use is Limited		
Board-designated funds:		
Funded depreciation	761,018	698,547
Malpractice self-insurance	35,676	30,425
Under trust indenture, held by trustee	55,064	9,099
Malpractice self-insurance, held by trustee	23,310	25,359
Foundation investments	44,403	39,894
Noncurrent portion of assets whose use is limited	919,471	803,324
Property and Equipment, Net	1,235,159	1,140,934
Restricted Assets Held by Third-Parties	18,588	16,296
Other Assets, Net	88,429	80,545
Total assets	$ 2,813,198	$ 2,498,418

Liabilities and Net Assets	2017	2016
Current Liabilities		
Line of credit	$ 11,928	$ 11,936
Current maturities of long-term debt	25,108	25,330
Accounts payable and accrued expenses	136,662	117,288
Estimated third-party payor settlements	8,150	10,055
Salaries and benefits payable	108,788	94,927
Accrued interest payable	1,646	2,480
Current portion of malpractice costs	13,638	15,217
Total current liabilities	305,920	277,233
Long-Term Debt, Net	1,080,812	913,278
Malpractice Costs	39,858	45,713
Derivative Financial Instruments	39,704	44,366
Pension Liability	7,147	11,383
Other Liabilities	5,009	4,265
Total liabilities	1,478,450	1,296,238
Net Assets		
Net assets without donor restrictions	1,309,640	1,179,545
Net assets with donor restrictions	25,108	22,635
Total net assets	1,334,748	1,202,180
Total liabilities and net assets	$ 2,813,198	$ 2,498,418

See notes to consolidated financial statements

West Virginia University Health System and Controlled Entities

Consolidated Statement of Operations
Years Ended December 31, 2017 and 2016
(In Thousands)

	2017	2016
Operating Revenues		
Patient service revenues (net of contractual allowances and discounts)	$ 2,076,830	$ 1,807,906
Provision for bad debts	(69,918)	(59,005)
Net patient service revenues	2,006,912	1,748,901
Other revenues	165,816	128,424
Total operating revenues	2,172,728	1,877,325
Operating Expenses		
Salaries and wages	767,701	674,163
Employee benefits	220,839	192,077
Supplies	432,389	360,184
Physician support	190,610	128,293
Professional fees	103,682	90,812
Depreciation and amortization	126,644	106,135
Interest	41,714	28,915
Other	255,504	224,986
Total operating expenses	2,139,083	1,805,565
Operating income	33,645	71,760
Nonoperating Income (Loss)		
Investment income	110,595	57,562
Change in fair value of derivative financial instruments	4,519	5,747
Other, net	(2,563)	(2,279)
Contribution from acquisition	-	11,112
Loss on refinancing	-	(32,460)
Total nonoperating income	112,551	39,682
Revenues in excess of expenses	146,196	111,442
Pension Liability Adjustment	(24)	(239)
Transfers to the School of Medicine and Strategic Initiatives	(16,045)	(12,475)
Other	(32)	(412)
Change in net assets without donor restrictions	$ 130,095	$ 98,316

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, 2017 and 2016
(In Thousands)

	2017	2016
Changes in Net Assets Without Donor Restrictions		
Revenues in excess of expenses	$ 146,196	$ 111,442
Pension liability adjustment	(24)	(239)
Transfers to the School of Medicine and strategic initiatives	(16,045)	(12,475)
Other	(32)	(412)
Change in net assets without donor restrictions	130,095	98,316
Changes in Net Assets With Donor Restrictions		
Increase in restricted assets held by West Virginia University Foundation	1,853	2,418
Contributions and grants	643	979
Valuation gain	442	201
Change in value of split-interest agreements	101	90
Net assets released from restrictions	(566)	(737)
Contribution from acquisition	-	1,929
Change in net assets with donor restrictions	2,473	4,880
Change in net assets	132,568	103,196
Net Assets, Beginning of Year	1,202,180	1,098,984
Net Assets, End of Year	$ 1,334,748	$ 1,202,180

See notes to consolidated financial statements

West Virginia University Health System and Controlled Entities

Consolidated Statement of Cash Flows
Years Ended December 31, 2017 and 2016
(In Thousands)

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 132,568	$ 103,196
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for doubtful collections	69,918	59,005
Depreciation and amortization	126,644	106,135
Amortization of debt issuance costs included in interest expense	603	497
Net realized and unrealized gains on investments	(94,703)	(43,260)
Change in fair value of derivative financial instruments	(4,662)	(5,930)
Pension liability adjustment	24	239
Loss on refinancing	-	32,460
Contribution from acquisition, net of cash received	-	(12,306)
Other operating activities	(1,574)	(1,876)
Changes in assets and liabilities:		
Patient accounts receivable	(150,153)	(83,470)
Other receivables	(7,385)	(7,214)
Estimated third-party payor settlements	(20,602)	(4,441)
Inventories of supplies, prepaid expenses and other current assets	1,082	(8,700)
Accounts payable and accrued expenses	19,374	21,985
Salaries and benefits payable	13,861	8,222
Malpractice costs	(7,434)	5,679
Other liabilities	(4,350)	(5,156)
Net cash provided by operating activities	73,211	165,065
Cash Flows from Investing Activities		
Purchases of property and equipment	(224,455)	(240,809)
(Purchases) sales of investments	(22,994)	130,948
Increase in other assets	(7,991)	(5,961)
Proceeds from the sale of property and equipment	1,097	967
Net cash used in investing activities	(254,343)	(114,855)
Cash Flows from Financing Activities		
Proceeds from the issuance of long-term debt	194,616	11,362
Repayment of long-term debt	(24,294)	(44,154)
Payment of financing costs	(1,735)	(2,229)
Net proceeds from line of credit	(8)	300
Net cash provided by (used in) financing activities	168,579	(34,721)
(Decrease) increase in cash and cash equivalents	(12,553)	15,489
Cash and Cash Equivalents, Beginning	134,188	118,699
Cash and Cash Equivalents, Ending	$ 121,635	$ 134,188
Supplemental Disclosure of Cash Flow Information		
Interest paid, net of amounts capitalized	$ 44,140	$ 32,528
Supplemental Disclosure of Noncash Investing and Financing Activities		
Long-term debt refinanced	$ -	$ 278,585
Capital lease for purchase of property and equipment	$ 317	$ 376

See notes to consolidated financial statements

1. Organizational Structure and Nature of Operations

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

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

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

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

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

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

On February 28, 2014, WVUH became the sole member of Potomac Valley Hospital of W. Va., Inc. ("PVH"), a for-profit acute care critical access hospital located in Keyser, West Virginia. Immediately following the 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.

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.

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, 2018, the date the consolidated financial statements were issued.

Reclassifications

Certain reclassifications were made to the 2016 consolidated financial statements to conform with the 2017 presentation.

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 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. Amounts required to meet current maturities of certain debt and the current portion of malpractice costs have been classified as current in the consolidated balance sheet.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value. 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.

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.

The System's allowance for doubtful accounts for self-pay patients increased to 60% of self-pay accounts receivable at December 31, 2017, from 57% of self-pay accounts receivable at December 31, 2016. In addition, the System's self-pay write-offs (net of recoveries) increased to approximately $61,142,000 in 2017, from approximately $51,775,000 in 2016, which is the result of a slightly higher payor mix percentage of individuals without insurance and a slightly higher exposure to self-pay balances from high deductible third-party insurance plans. The System does not maintain a material allowance for doubtful accounts from third-party payors, nor does it have a history of significant write-offs from third-party payors.

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, 2017 and 2016 from patients and third-party payors is as follows:

	2017	2016
Medicare	29 %	31 %
Medicaid	14	14
Blue Cross	21	21
Commercial/HMO/Other	32	30
Patients	4	4
Total	100 %	100 %

Inventories

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

Investments and Investment Risk

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

The System's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the 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.

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

Restricted Assets Held by Third Parties

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

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

Other Investments

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

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis. Such lives, in the opinion of management, are adequate to allocate asset costs over their productive lives. Maintenance, repairs, and minor improvements are expensed as incurred. Equipment under capital leases is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Depreciation expense, including amortization of equipment under capital leases, was $126,537,000 in 2017 and $106,039,000 in 2016.

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 $1,369,000 in 2017 and $6,733,000 in 2016.

Gifts of long-lived assets such as land, buildings or equipment are recorded at fair value and reported as increases in net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions. 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.

Goodwill

Goodwill represents the excess of the amount paid to acquire certain businesses over the fair value of the net assets purchased. In 2017, the System recognized $1,365,000 related to the acquisition of several physician practices. In 2016, the System recognized $5,259,000 related to the acquisition of Gateway Home Care LLC and several physician practices. Goodwill of $41,733,000 at December 31, 2017 and $40,368,000 at December 31, 2016 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 2017 and 2016.

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 $603,000 in 2017 and $497,000 in 2016.

Net Assets

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

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net Assets With Donor Restrictions – net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Measure of Operations

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

Revenues in Excess of Expenses

The consolidated statement of operations includes the determination of revenues in excess of expenses. Changes in net assets without donor restrictions which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, adjustments to pension obligations, 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 2017 and 2016 from these major payor sources, are as follows (in thousands):

	2017	2016
Third-party government payors	$ 1,218,698	$ 1,054,990
Third-party commercial payors	841,127	740,280
Self-pay	17,005	12,636
Total	$ 2,076,830	$ 1,807,906

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 $20,330,000 in 2017 and $17,273,000 in 2016.

Contributions

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

Medicaid Provider Tax

The West Virginia Broad Based Health Care Related Tax of 1993 assesses a tax on net patient service revenues at rates ranging from 1.75% to 5.50%, depending on the type of services provided. Additionally, the West Virginia Department of Tax and Revenue assesses a tax on net patient service revenues related to the Directed Payment Program (“DPP”), formerly known as the Upper Payment Limit (“UPL”) program (Note 3). The System incurred related taxes of $46,390,000 in 2017 and $39,582,000 in 2016.

Federal and State Income Taxes

WVUHS, WVUH, PVH, CCHS, CCMC, CCF, CCPC, University Healthcare, BMC, JMC, UHCF, UHC, USC, UHF, UPC, SJH, SJF, RMH and RMF are tax-exempt organizations and not subject to federal or state income taxes in accordance with Section 501(c)(3) of the Internal Revenue Code. On such basis, they will not incur any liability for income taxes, except for possible unrelated business income. AHS, WVUIS and GHC are organizations subject to federal and/or state income taxes. The System does not have any material uncertain tax positions as of December 31, 2017 and 2016.

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

In 2017, the System early adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The System has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have been presented for 2017 only, as allowed by ASU No. 2016-14.

In 2017, the System adopted the FASB's ASU No. 2015-11, *Simplifying the Measurement of Inventory*. As a result of ASU No. 2015-11, the System is required to measure inventory, other than inventory measured using the last-in, first-out or retail inventory methods, at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation. The effect of the required prospective application of this change did not have a material effect on the System's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 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. The System will be required to retrospectively adopt the guidance in ASU No. 2014-09 for its year ending December 31, 2018; early application is permitted. The System is currently assessing the effect that ASU No. 2014-09 will have on their consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU No. 2017-07 was issued to provide guidance on the presentation of net periodic pension and net periodic postretirement benefit cost in the statement of operations and the components that are eligible for capitalization in assets. ASU No. 2017-07 requires that an employer report the service cost component of net periodic pension and net periodic postretirement benefit cost in the same line item used to record compensation expense for the related employees during the period. The other components are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations, if one is presented. The System will be required to retrospectively adopt the guidance in ASU No. 2017-07 for its year ending December 31, 2018; early application is permitted. The System is currently assessing the effect that the adoption of ASU No. 2017-07 will have on their consolidated financial statements.

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

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. Revenues from Medicare were approximately 36% in 2017 and 34% in 2016 of total net patient service revenues.

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

Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid on a published fee schedule. Revenues from Medicaid were approximately 19% in 2017 and 2016 of total net patient service revenues.

The State of West Virginia's disproportionate share plan reimburses hospitals in the state that provide Medicaid services and meet other eligibility criteria. Under the disproportionate share program, the System received $11,909,000 in 2017 and $13,666,000 in 2016, 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 DPP (formerly known as UPL) regulations. The first payment was made in April 2004 and periodic payments have been made subsequent to that date. The DPP payments are recorded in the period in which they are earned. The System recorded DPP payments of $32,378,000 in 2017 and $37,951,000 in 2016, which is included in patient service revenues in the consolidated statement of operations.

The laws and regulations governing the DPP reimbursement are complex and subject to interpretation. The DPP reimbursement 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 DPP payments but maintain the Provider Tax.

Blue Cross

Inpatient and outpatient services rendered to Blue Cross subscribers are paid at either prospectively determined rates per case or discounts from established charges. Revenues from Blue Cross were approximately 29% in 2017 and 27% in 2016 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.

4. Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
Cash and cash equivalents	$ 77,222	$ 71,262
U.S. government and agency obligations	-	26,676
Marketable equity securities	38,007	26,744
Marketable debt securities	3,425	54,965
Mutual funds:		
Domestic equity	33,693	86,533
International equity	213,786	135,896
Domestic fixed income	116,124	99,895
Global bonds	14,951	16,499
Exchange traded funds, domestic equity	275,638	175,006
Exchange traded funds, domestic fixed income	32,085	22,858
Alternative investments	32,461	19,015
Alternative investments accounted for under cost method	102,288	86,634
Total assets whose use is limited	939,680	821,983
Less current portion of assets whose use is limited	20,209	18,659
Noncurrent portion of assets whose use is limited	$ 919,471	$ 803,324

The System has commitments for the additional purchase of ownership in limited partnerships (private equity and venture capital funds) which are classified as alternative investments in the table above. Total unfunded commitments at December 31, 2017 were $111,697,000, and are due over approximately the next ten years. Funding for these commitments is expected to come from board-designated funded depreciation assets.

Investment income, gains, and losses included in net assets without donor restrictions are comprised of the following in 2017 and 2016 (in thousands):

	2017	2016
Investment income:		
Interest and dividend income	$ 20,662	$ 19,086
Fees	(4,770)	(4,784)
Net realized and unrealized gains on investments	94,703	43,426
Write-downs of the cost basis of investments due to an other-than-temporary decline in fair value	-	(166)
Total	$ 110,595	$ 57,562

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.

The fair value of financial instruments listed below was determined using the following valuation hierarchy at December 31, 2017 (in thousands):

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

(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.

(2) Certain investments in hedge funds, private equity funds, and other limited partnerships are recorded at cost. These investments are not classified in the fair value hierarchy and the amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheet.

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

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV (1)	Total
Assets - recurring fair value measurements:					
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	$ 563,263	$ 81,641	$ -	$ 90,445	735,349
Cost method investments (2)					86,634
Total assets whose use is limited					$ 821,983
Restricted assets held by third-parties	$ 10,953	$ -	$ 5,343	$ -	$ 16,296
Liabilities - recurring fair value measurements:					
Derivative financial instruments	$ -	$ 44,366	$ -	$ -	$ 44,366
Assets disclosed at fair value:					
Cash and cash equivalents	$ 134,188	$ -	$ -	$ -	$ 134,188
Liabilities disclosed at fair value:					
Long-term debt, with a carrying value of $938,608	$ -	$ 502,710	$ 457,328	$ -	$ 960,038

(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.

(2) Certain investments in hedge funds, private equity funds, and other limited partnerships are recorded at cost. These investments are not classified in the fair value hierarchy and the amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheet.

The following table presents the nature and risk of investments reported at NAV as of December 31, 2017 and 2016 (in thousands):

Name of Fund	Fair Value at December 31, 2017	Fair Value at December 31, 2016	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
IR&M Core Bond Fund II	$ 34,243	$ 26,655	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	27,238	20,104	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	8,890	10,381	Seeks to capture interest income and generate principal growth through capital appreciation. Invests in the sovereign debt and currencies of countries in the Citigroup World Government Bond Index, as well as investment-grade fixed income securities in those countries.	N/A	Monthly	10 business days
Frontier Small Cap Value Fund	6,076	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	6,377	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
Universa BSPP Equity & Fixed Income Fund	7,681	4,108	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
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
Other limited partnerships	24,780	14,907	(A)	(A)	N/A	N/A
Total	$ 115,056	$ 90,445				

(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 $15,412,000 (see Note 4) at December 31, 2017, related to the limited partnerships reported at NAV in the table above.

Beneficial interests in perpetual trusts, which are included in restricted assets held by third-parties, are measured at fair value based on the trusts' underlying investments using unobservable inputs (Level 3). The following is a reconciliation of the opening and closing balances during the period ended December 31, 2017 and 2016:

Balance at December 31, 2015	$ 5,142
Valuation gain	201
Balance at December 31, 2016	5,343
Valuation gain	442
Balance at December 31, 2017	$ 5,785

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, 2017 and 2016.

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

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

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

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

Mutual funds: Mutual funds include investments in individual mutual funds and commingled funds (fund of funds). The individual mutual funds are valued at the quoted NAV of shares (basis for trade) held by the System at year end and are considered Level 1. The System has access to a detailed listing of the underlying assets of the commingled funds, the majority of which are publicly traded, but shares of the commingled funds themselves are not publicly traded. The System is provided a NAV per share for these funds that has been calculated in accordance with investment company rules, which among other requirements indicates that the underlying investments be measured at fair value.

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

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

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

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

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

6. Property and Equipment

Property and equipment and related accumulated depreciation consist of the following at December 31, 2017 and 2016 (in thousands):

	2017	2016
Land	$ 32,510	$ 25,134
Land improvements	50,883	51,987
Buildings and building improvements	998,965	841,340
Equipment (including equipment under capital lease)	1,070,219	901,311
Leasehold improvements	15,280	15,066
Total	2,167,857	1,834,838
Less accumulated depreciation	1,021,043	908,964
	1,146,814	925,874
Construction in progress	88,345	215,060
Property and equipment, net	$ 1,235,159	$ 1,140,934

Construction in progress consists primarily of major renovation and expansion projects. Purchase commitments related to these projects were approximately $42,299,000 and $77,458,000 at December 31, 2017 and 2016, respectively.

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, 2017 and 2016. Borrowings under the agreement bear interest at a variable rate determined by adding 100 basis points to the Daily One Month LIBOR (2.275% at December 31, 2017).

RMH maintains a revolving line of credit in the amount of $1,500,000. There were borrowings outstanding of $1,463,000 at December 31, 2017 and $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, 2017). The line of credit is secured by the assets of RMH.

8. Long-Term Debt

A summary of long-term debt at December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
West Virginia Hospital Finance Authority Bonds:		
2017 Series - WVUH, UHC	$ 185,320	$ -
2016 Series - WVUH, UHC, CCMC, BMC	254,945	260,890
2015 Series - UHC, SJH, PVH	33,860	33,860
2013 Series - WVUH, CCMC	204,055	206,730
2012 Series - WVUH, UHC, CCMC, BMC, JMC, UHCF	154,610	160,920
2011 Series - WVUH, CCMC, BMC	49,038	52,635
2004 Series - CCMC	63,050	63,250
Other notes payable	140,244	143,799
Capital lease obligations	2,359	2,863
Total long-term debt	1,087,481	924,947
Net unamortized bond premium	27,732	21,822
Debt issuance costs	(9,293)	(8,161)
Current maturities of long-term debt	(25,108)	(25,330)
Long-term debt	$ 1,080,812	$ 913,278

The scheduled principal repayments as of December 31, 2017 are as follows (in thousands):

Years ending December 31:	
2018	$ 25,108
2019	24,754
2020	25,476
2021	23,718
2022	24,004
Thereafter	964,421
Total	$ 1,087,481

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.

2017 Series – Hospital Revenue Improvement Bonds

In March 2017, the West Virginia Hospital Finance Authority (the "Authority") issued $185,320,000 of Hospital Revenue Improvement Bonds (the "2017 Bonds") on behalf of the Obligated Group. The proceeds of the 2017 Bonds 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%.

2016 Series – Hospital Revenue Refunding Bonds

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

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

In conjunction with the advance refundings in 2016, 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	25,545
Total loss on refinancing	$ 32,460

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, 2017.

2013 Series - Hospital Revenue Refunding and Improvement Bonds

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

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

2012 Series - Hospital Refunding Bonds

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

The 2012 Bonds include variable rate bonds of $154,610,000 maturing in 2030 through 2041 with interest rates ranging from 2.00% to 2.67% at December 31, 2017.

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 $19,240,000 maturing in 2022 and 2026 with interest rates ranging from 3.12% to 3.54%; and variable rate bonds of $29,798,000 maturing in 2021 and 2041 with interest rates ranging from 2.99% to 4.25% at December 31, 2017.

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 $11,500,000 maturing in 2034 with interest payable based upon 35-day auction periods. Interest rates as determined by these auctions are subject to various risks including changes in the credit markets, re-marketing mechanisms, and the potential for failed auctions. The default interest rate for the 2004 Bonds is based upon a formulaic maximum rate which approximates 1.68% to 1.75%. The 2004 Bonds are insured by Assured Guaranty Municipal Corp.

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. The principal balance of this note was $6,107,000 at December 31, 2017 and $8,385,000 at December 31, 2016.

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% (2.28% at December 31, 2017). The principal balance of this loan was $40,785,000 at December 31, 2017 and $41,285,000 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. The principal balance of this note was $16,125,000 at December 31, 2017 and $16,654,000 at December 31, 2016.

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% (2.72% at December 31, 2017).

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

9. Derivative Financial Instruments

The System's primary objective for holding derivative financial instruments is to manage interest rate risk. The System does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes. The derivative financial instruments are recorded at fair value, which is the amount that the System would pay to terminate the respective agreements, based upon information supplied by the counterparty.

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 $42,950,000 and terminates on June 1, 2033. The 2003 Agreements require the System to pay a fixed rate while receiving variable interest rates based upon 70% of LIBOR. The fair value of the 2003 Agreements was $7,993,000 at December 31, 2017 and $9,145,000 at December 31, 2016.

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 $10,195,000 at December 31, 2017 and $11,446,000 at December 31, 2016.

In 2005, the System entered into an interest rate swap agreement (the "2005 Agreement") in connection with the 2005 Bonds. The 2005 Agreement, which has transferred to the 2012 Bonds, has a notional value of $13,730,000 and terminates on June 1, 2030. The 2005 Agreement requires the System to pay a fixed rate while receiving a variable interest rate of 70% of LIBOR. The fair value of the 2005 Agreement was $1,669,000 at December 31, 2017 and $2,012,000 at December 31, 2016.

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 the 2012 Bonds, has a notional value of $25,525,000 and terminates on June 1, 2041. The second agreement has a notional value of $40,300,000 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 $16,335,000 at December 31, 2017 and $17,765,000 at December 31, 2016.

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 $19,550,000 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 $3,512,000 at December 31, 2017 and $3,998,000 at December 31, 2016.

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

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

10. Pension Plans

Defined Contribution Plans

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

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

UHC and UPC provide defined contribution pension plans covering substantially all employees. Contributions to the 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 $19,618,000 in 2017 and $18,863,000 in 2016.

Defined Benefit Plans

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, 2017 and 2016 (in thousands):

	2017	2016
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	$ 54,264	$ 54,189
Interest cost	2,162	2,473
Actuarial loss	3,722	1,958
Benefits paid	(1,337)	(1,392)
Settlement	(2,294)	(2,964)
Projected benefit obligation, end of year	$ 56,517	$ 54,264
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 42,881	$ 40,214
Actual return on plan assets (net of expense)	5,389	2,833
Employer contributions	4,731	4,190
Benefits paid	(1,337)	(1,392)
Settlement	(2,294)	(2,964)
Fair value of plan assets, end of year	49,370	42,881
Funded status at end of year	$ (7,147)	$ (11,383)
Accumulated benefit obligation	$ 56,517	$ 54,264

The following table sets forth the components of net periodic pension costs in 2017 and 2016 (in thousands):

	2017	2016
Interest cost	$ 2,162	$ 2,473
Expected return on plan assets	(2,993)	(2,835)
Amortization of actuarial loss	477	528
Settlement charge	825	1,193
Net periodic pension cost	$ 471	$ 1,359

A net actuarial loss of $20,197,000 at December 31, 2017 and $20,173,000 at December 31, 2016, represents the unrecognized component of net periodic pension cost included in net assets without donor restrictions.

Estimated amortization of the net loss of $452,000 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, 2017 and 2016:

	2017	2016
Discount rate:		
CCMC plan	3.49 %	4.03 %
SJH plan	3.65 %	4.25 %

The weighted-average assumptions used in the measurement of net periodic benefit cost for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate:		
CCMC plan	4.03 %	4.22 %
SJH plan	4.25 %	4.40 %
Expected long-term return on plan assets:		
CCMC plan	6.00 %	7.00 %
SJH plan	6.75 %	6.75 %

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

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

Actual allocation and targeted percentages as of December 31, 2017 and 2016 are as follows:

	Actual Percentage		Targeted Percentage	
	2017	2016	2017	2016
Cash and cash equivalents	1 %	2 %	- %	- %
Equity securities	29	45	45	45
Fixed income securities	70	53	55	55

The following table summarizes the plan's assets measured at fair value on a recurring basis at December 31, 2017 and 2016 (in thousands):

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

	December 31, 2016		
	Level 1	Level 2	Assets at Fair Value
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
Total	$ 41,549	$ 1,332	$ 42,881

There were no Level 3 investments at December 31, 2017 and 2016.

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, 2017 and 2016.

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

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

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

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

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

The System expects to contribute approximately $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:	
2018	$ 1,747
2019	1,989
2020	1,851
2021	2,034
2022	2,022
2023 – 2027	13,569

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31, 2017 and 2016 (in thousands):

	2017	2016
Subject to expenditure for specified purposes:		
Pediatric care	$ 8,190	$ 7,207
Purchases of property and equipment	2,679	2,234
Various healthcare related activities	2,501	2,319
Other	2,682	2,954
Total subject to expenditure for specified purposes	16,052	14,714
Endowment funds - income expendable to support various healthcare services and purchase equipment	3,271	2,578
Perpetual income trusts - income expendable to support charity care and other healthcare services	5,785	5,343
Total net assets with donor restrictions	$ 25,108	$ 22,635

12. Medical Malpractice Claims Coverage

The System maintains various self-insurance programs for medical malpractice insurance and general liability insurance which cover WVUH, UHC and its subsidiaries, UPC, University Healthcare, PVH and CCMC. These self-insurance programs require these entities to deposit funds either into trust funds or other investment accounts, based upon actuarial calculations, sufficient to cover estimated claims. Medical malpractice and general liability claims are managed by the System's legal staff. Specialized experts and outside attorneys are utilized when such expertise is considered necessary.

The 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 $53,496,000 at December 31, 2017 and $60,930,000 at December 31, 2016. 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, 2017 and 2016.

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.

13. 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 2017 and 2016 related to WVUH’s contribution of DPP (formerly UPL) payments, were $50,275,000 in 2017 and $54,348,000 in 2016, and the associated expenses are included in physician support 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 $107,121,000 in 2017 and $64,113,000 in 2016, and the associated expenses are included in physician support in the consolidated statement of operations. The total amount payable to UHA was $10,856,000 at December 31, 2017 and $8,636,000 at December 31, 2016.

Additionally, the JOA, as amended, requires a transfer of excess funds from WVUH to the University’s School of Medicine. In 2017 and 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. The contribution from WVUH to the University’s School of Medicine was $8,025,000 in 2017 and 2016, 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 $16,660,000 in 2017 and $9,657,000 in 2016, with a total amount payable to the University’s School of Medicine of $2,006,000 at December 31, 2017 and $8,025,000 at December 31, 2016.

WVUHS performs certain information technology services on behalf of UHA. Payments for these services were $7,589,000 in 2017 and $5,014,000 in 2016. WVUHS also performs other services on behalf of UHA and payments for these other services were $1,000,000 in 2017 and $681,000 in 2016. The total amount receivable from UHA was $1,992,000 at December 31, 2017 and $775,000 at December 31, 2016.

UHA provides various medical director services and other medical service support to WVUH, BMC, and JMC. Payments for these services were $11,283,000 in 2017 and $7,365,000 in 2016, and the associated expenses are included in physician support and purchased services in the consolidated statement of operations. The total amount payable to UHA for these services was $1,981,000 at December 31, 2017. There were no amounts payable at December 31, 2016.

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 $14,342,000 in 2017 and $9,703,000 in 2016, and is included in physician support 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. Amounts due from HNET were $6,300,000 at December 31, 2017 and $5,841,000 at December 31, 2016, and are included in other accounts receivable and other assets in the consolidated balance sheet.

14. Operating Leases

The System leases certain equipment and office buildings under the terms of non-cancellable operating leases. The following is a schedule of future minimum lease payments under operating leases as of December 31, 2017, that have initial or remaining lease terms in excess of one year (in thousands):

Years ending December 31:	
2018	$ 13,793
2019	10,658
2020	9,196
2021	8,372
2022	8,003
Thereafter	7,197
Total	$ 57,219

Rental expense for all operating leases was $19,389,000 in 2017 and $16,586,000 in 2016.

15. Commitments and Contingencies

Workers' Compensation Claims Coverage

The System maintains insurance policies with a stated per occurrence deductible and a stated deductible aggregate for workers' compensation claims. The policies provide statutory workers' compensation limits of liability. The System was required to establish loss funds and provide letters of credit to secure the deductible obligations. The letters of credit total $5,485,000 at December 31, 2017, and are automatically renewed by the bank every July 1st unless notified 90 days prior to the renewal date.

Asbestos

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

Disproportionate Share Hospital State Plan

The State of West Virginia Disproportionate Share Hospital 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.

Healthcare Industry

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

16. Liquidity and Availability

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

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at December 31, 2017 (in thousands):

Cash and cash equivalents	$ 121,635
Accounts receivable, net	338,234
Estimated third-party payor settlements	18,697
Assets whose use is limited,	
Board designated funded depreciation	608,814
Total	$ 1,087,380

The System estimates that approximately 80% of the board designated funded depreciation is available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. The System has other assets whose use is limited for debt service, for the professional and general liability insurance program, and for donor-restricted purposes. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. However, certain board designated funds could be made available, if necessary.

Additionally, the System maintains a $30,000,000 revolving line of credit (Note 7). As of December 31, 2017, $19,535,000 remained available on the System's line of credit for use in the normal course of operations if needed.

17. Functional Expenses

The System provides general health care and related services to individuals within its geographic region. Expenses related to providing these services in 2017 are as follows (in thousands):

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

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

In 2016, approximately $1,430,961,000 of expenses related to healthcare services, $373,126,000 of expenses related to general and administrative and $1,478,000 of expenses related to fundraising.

18. Subsequent Events

Effective January 1, 2018, the System formed Augusta Insurance Company, Ltd. ("Augusta"), a wholly owned captive insurance company incorporated as an exempted company under the Companies Law of the Cayman Islands. Augusta will facilitate the structuring of a unified insurance program for the System, while remaining flexible to meet unique needs that may vary across the System. In conjunction with the formation of Augusta, the System terminated the existing self-insurance programs (see Note 12) and transferred approximately $73,000,000 in assets and approximately $53,000,000 in liabilities from the self-insurance malpractice trusts to Augusta. Augusta will be included in the System's consolidated financial statements going forward. Future operations of Augusta will be funded by premiums paid by the System entities.

West Virginia University Health System and Controlled Entities

Consolidating Schedule of Balance Sheet Information
December 31, 2017
(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
Assets												
Current Assets												
Cash and cash equivalents	$ 6,209	$ 45,156	$ 2,637	$ 19,819	$ 18,791	$ 1,188	$ 6,562	$ -	$ 100,362	$ 21,273	$ -	$ 121,635
Current portion of assets whose use is limited	6,167	9,884	3,083	828	247	-	-	-	20,209	-	-	20,209
Accounts receivable:												
Patients, net	173,123	45,606	30,846	22,749	6,588	-	-	-	278,912	22,881	-	301,793
Other	14,731	1,237	608	8,158	281	118	3,648	-	28,781	7,660	-	36,441
Affiliates	22,249	12,305	5,384	7,367	966	(86)	23,994	(46,722)	25,457	11,824	(37,281)	-
Inventories of supplies	21,298	4,973	5,255	2,164	807	-	-	-	34,497	4,775	-	39,272
Estimated third-party payor settlements	4,529	3,937	5,829	4,402	-	-	-	-	18,697	-	-	18,697
Prepaid expenses and other current assets	438	2,831	1,492	164	8	116	6,702	-	11,751	1,753	-	13,504
Total current assets	248,744	125,929	55,134	65,651	27,688	1,336	40,906	(46,722)	518,666	70,166	(37,281)	551,551
Assets Whose Use is Limited												
Board-designated funds:												
Funded depreciation	483,218	195,016	22,748	28,539	12,828	12,459	-	-	754,808	6,210	-	761,018
Malpractice self-insurance	35,676	-	-	-	-	-	-	-	35,676	-	-	35,676
Under trust indenture, held by trustee	35,303	12,990	6,526	207	36	2	-	-	55,064	-	-	55,064
Malpractice self-insurance, held by trustee	-	13,177	5,605	2,579	1,122	-	-	-	22,483	827	-	23,310
Foundation investments	25,704	-	-	-	-	-	-	-	25,704	18,699	-	44,403
Noncurrent portion of assets whose use is limited	579,901	221,183	34,879	31,325	13,986	12,461	-	-	893,735	25,736	-	919,471
Property and Equipment, Net	592,073	286,205	139,386	63,156	15,597	20,646	61,400	-	1,178,463	56,696	-	1,235,159
Restricted Assets Held by Third-Parties	12,767	-	-	29	6,116	36	-	(360)	18,588	-	-	18,588
Due from Affiliates	17,752	-	-	-	-	-	-	-	17,752	898	(18,650)	-
Other Assets, Net	36,946	4,483	10,880	2,854	267	1,154	8,351	-	64,935	24,172	(678)	88,429
Total assets	$ 1,488,183	$ 637,800	$ 240,279	$ 163,015	$ 63,654	$ 35,633	$ 110,657	$ (47,082)	$ 2,692,139	$ 177,668	$ (56,609)	$ 2,813,198

West Virginia University Health System and Controlled Entities

Consolidating Schedule of Balance Sheet Information
December 31, 2017
(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
Liabilities and Net Assets												
Current Liabilities												
Line of credit	$ -	$ -	$ 9,550	$ -	$ -	$ -	$ -	$ -	$ 9,550	$ 2,378	$ -	$ 11,928
Current maturities of long-term debt	7,186	6,013	4,215	2,894	683	317	-	-	21,308	3,800	-	25,108
Accounts payable and accrued expenses	54,065	14,306	11,772	15,713	3,610	35	19,756	-	119,257	17,405	-	136,662
Due to affiliates	8,429	9,957	15,980	7,801	2,371	349	13,659	(46,722)	11,824	25,457	(37,281)	-
Estimated third-party payor settlements	-	-	-	-	3,677	-	-	-	3,677	4,473	-	8,150
Salaries and benefits payable	48,726	18,099	9,815	11,010	2,591	21	6,365	-	96,627	12,161	-	108,788
Accrued interest payable	1,929	779	(1,343)	55	132	35	-	-	1,587	59	-	1,646
Current portion of malpractice costs	5,655	3,166	2,997	828	247	-	-	-	12,893	745	-	13,638
Total current liabilities	125,990	52,320	52,986	38,301	13,311	757	39,780	(46,722)	276,723	66,478	(37,281)	305,920
Long-Term Debt, Net	560,422	224,106	194,877	45,684	8,692	8,088	-	-	1,041,869	38,943	-	1,080,812
Malpractice Costs	20,919	7,209	5,969	3,074	917	-	-	-	38,088	1,770	-	39,858
Derivative Financial Instruments	7,993	16,335	13,707	1,462	207	-	-	-	39,704	-	-	39,704
Due to Affiliates	898	-	-	-	-	-	-	-	898	17,752	(18,650)	-
Pension Liability	-	-	(2,008)	-	-	-	-	-	(2,008)	9,155	-	7,147
Other Liabilities	1,143	334	1,126	-	-	72	1,959	-	4,634	375	-	5,009
Total liabilities	717,365	300,304	266,657	88,521	23,127	8,917	41,739	(46,722)	1,399,908	134,473	(55,931)	1,478,450
Net Assets (Deficit)												
Net assets without donor restrictions	758,051	337,496	(26,378)	74,465	34,411	26,350	68,918	-	1,273,313	37,005	(678)	1,309,640
Net assets with donor restrictions	12,767	-	-	29	6,116	366	-	(360)	18,918	6,190	-	25,108
Total net assets	770,818	337,496	(26,378)	74,494	40,527	26,716	68,918	(360)	1,292,231	43,195	(678)	1,334,748
Total liabilities and net assets	$ 1,488,183	$ 637,800	$ 240,279	$ 163,015	$ 63,654	$ 35,633	$ 110,657	$ (47,082)	$ 2,692,139	$ 177,668	$ (56,609)	$ 2,813,198

West Virginia University Health System and Controlled Entities

Consolidating Schedule of Operations
Year Ended December 31, 2017
(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
Operating Revenues												
Patient service revenues (net of contracutal allowances and discounts)	$ 1,022,685	$ 345,952	$ 257,654	$ 213,297	$ 53,553	$ -	$ -	$ (833)	$ 1,892,308	$ 184,522	$ -	$ 2,076,830
Provision for bad debts	(24,027)	(14,367)	(10,415)	(8,415)	(2,668)	-	-	-	(59,892)	(10,026)	-	(69,918)
Net patient service revenues	998,658	331,585	247,239	204,882	50,885	-	-	(833)	1,832,416	174,496	-	2,006,912
Other revenues	72,977	12,622	4,763	9,099	245	2,366	127,880	(98,177)	131,775	117,937	(83,896)	165,816
Total operating revenues	1,071,635	344,207	252,002	213,981	51,130	2,366	127,880	(99,010)	1,964,191	292,433	(83,896)	2,172,728
Operating Expenses												
Salaries and wages	327,724	123,658	72,121	61,125	15,934	526	47,452	-	648,540	119,161	-	767,701
Employee benefits	102,799	32,005	23,599	15,905	3,928	148	14,953	-	193,337	27,502	-	220,839
Supplies	244,508	58,744	45,243	35,130	4,517	1	16	-	388,159	44,230	-	432,389
Physician support	177,405	33,429	46,483	45,435	14,984	-	-	(96,851)	220,885	46,257	(76,532)	190,610
Professional fees	36,218	13,080	17,987	10,017	3,935	48	8,953	(1,117)	89,121	21,052	(6,491)	103,682
Depreciation and amortization	65,842	22,421	15,169	8,127	2,425	857	4,569	-	119,410	7,234	-	126,644
Interest	20,686	7,812	8,746	1,918	406	333	20	-	39,921	1,793	-	41,714
Other	82,520	32,089	30,456	16,797	4,077	853	59,485	(1,042)	225,235	31,142	(873)	255,504
Total operating expenses	1,057,702	323,238	259,804	194,454	50,206	2,766	135,448	(99,010)	1,924,608	298,371	(83,896)	2,139,083
Operating income (loss)	13,933	20,969	(7,802)	19,527	924	(400)	(7,568)	-	39,583	(5,938)	-	33,645
Nonoperating Income (Loss)												
Investment income	72,341	22,560	5,223	3,583	1,957	1,942	269	-	107,875	2,720	-	110,595
Change in fair value of derivative financial instruments	1,018	1,430	1,737	293	41	-	-	-	4,519	-	-	4,519
Other, net	(3,134)	229	444	(100)	(32)	(4)	(12)	-	(2,609)	46	-	(2,563)
Total nonoperating income	70,225	24,219	7,404	3,776	1,966	1,938	257	-	109,785	2,766	-	112,551
Revenues in excess of (less than) expenses	84,158	45,188	(398)	23,303	2,890	1,538	(7,311)	-	149,368	(3,172)	-	146,196
Pension Liability Adjustment	-	-	1,365	-	-	-	-	-	1,365	(1,389)	-	(24)
Transfers to the School of Medicine and Strategic Initiatives	(16,045)	-	-	-	-	-	-	-	(16,045)	-	-	(16,045)
Other	282	-	(402)	37	51	-	-	-	(32)	-	-	(32)
Transfers (to) from Affiliates	(12,614)	(12,345)	(9,068)	-	-	-	42,079	-	8,052	(8,052)	-	-
Change in net assets without donor restrictions	$ 55,781	$ 32,843	$ (8,503)	$ 23,340	$ 2,941	$ 1,538	$ 34,768	$ -	$ 142,708	$ (12,613)	$ -	$ 130,095

West Virginia University Health System and Controlled Entities

Consolidating Schedule of Changes in Net Assets
Year Ended December 31, 2017
(In Thousands)

	West Virginia University Hospital	United Hospital Center	Camden Clark Medical Center	Berkeley Medical Center	Jefferson Medical Center	University Healthcare Foundation	West Virginia University Health System	Eliminations	Total Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
Changes in Net Assets Without Donor Restrictions												
Revenues in excess of (less than) expenses	$ 84,158	$ 45,188	$ (398)	$ 23,303	$ 2,890	$ 1,538	$ (7,311)	$ -	$ 149,368	$ (3,172)	$ -	$ 146,196
Pension liability adjustment	-	-	1,365	-	-	-	-	-	1,365	(1,389)	-	(24)
Transfers to the School of Medicine and strategic initiatives	(16,045)	-	-	-	-	-	-	-	(16,045)	-	-	(16,045)
Other	282	-	(402)	37	51	-	-	-	(32)	-	-	(32)
Transfers (to) from affiliates	(12,614)	(12,345)	(9,068)	-	-	-	42,079	-	8,052	(8,052)	-	-
Change in net assets without donor restrictions	55,781	32,843	(8,503)	23,340	2,941	1,538	34,768	-	142,708	(12,613)	-	130,095
Changes in Net Assets With Donor Restrictions												
Increase in restricted assets held by WVU Foundation	1,853	-	-	-	-	-	-	-	1,853	-	-	1,853
Contributions and grants	-	-	-	-	-	57	-	-	57	586	-	643
Valuation gain	-	-	-	-	442	-	-	-	442	-	-	442
Change in value of split-interest agreements	-	-	-	-	-	(2)	-	-	(2)	103	-	101
Decrease in restricted assets held by affiliated foundation	-	-	-	(26)	(4)	-	-	30	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	(79)	-	-	(79)	(487)	-	(566)
Change in net assets with donor restrictions	1,853	-	-	(26)	438	(24)	-	30	2,271	202	-	2,473
Change in net assets	57,634	32,843	(8,503)	23,314	3,379	1,514	34,768	30	144,979	(12,411)	-	132,568
Net Assets (Deficit), Beginning	713,184	304,653	(17,875)	51,180	37,148	25,202	34,150	(390)	1,147,252	55,606	(678)	1,202,180
Net Assets (Deficit), Ending	$ 770,818	$ 337,496	$ (26,378)	$ 74,494	$ 40,527	$ 26,716	$ 68,918	$ (360)	$ 1,292,231	$ 43,195	$ (678)	$ 1,334,748

West Virginia University Health System and Controlled Entities

Consolidating Schedule of Balance Sheet Information
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
Assets												
Current Assets												
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	181,205	119,315	48,458	54,223	22,530	2,916	26,789	(37,237)	418,199	59,685	(20,565)	457,319
Assets Whose Use is Limited												
Board-designated funds:												
Funded depreciation	444,248	174,643	34,926	15,663	11,122	12,205	-	-	692,807	5,740	-	698,547
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
Property and Equipment, Net	541,366	279,155	143,623	58,007	15,282	18,169	28,883	-	1,084,485	56,449	-	1,140,934
Restricted Assets Held by Third-Parties	10,915	-	-	55	5,678	38	-	(390)	16,296	-	-	16,296
Due from Affiliates	10,238	-	-	-	-	-	-	-	10,238	649	(10,887)	-
Other Assets, Net	31,356	4,452	11,051	3,032	216	1,010	7,576	-	58,693	22,530	(678)	80,545
Total 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 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
Liabilities and Net Assets												
Current Liabilities												
Line of credit	-	-	9,550	-	-	-	-	-	9,550.00	$ 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	1,688	30	14,756	-	108,445	8,843	-	117,288
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	2,268	42	5,253	-	84,360	10,567	-	94,927
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	731	-	15,217
Total current liabilities	136,745	42,179	45,587	26,425	8,982	662	27,789	(37,237)	251,132	46,666	(20,565)	277,233
Long-Term Debt, Net	389,457	218,157	199,066	48,785	9,350	8,404	-	-	873,219	40,059	-	913,278
Malpractice Costs	21,476	8,043	8,228	5,566	721	-	-	-	44,034	1,679	-	45,713
Derivative Financial Instruments	9,145	17,765	15,444	1,763	249	-	-	-	44,366	-	-	44,366
Due to Affiliates	649	-	-	-	-	-	-	-	649	10,238	(10,887)	-
Pension Liability	-	-	2,474	-	-	-	-	-	2,474	8,909	-	11,383
Other Liabilities	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
Net Assets (Deficit)												
Net assets without donor restrictions	702,270	304,653	(17,875)	51,125	31,470	24,812	34,150	-	1,130,605	49,618	(678)	1,179,545
Net assets with donor restrictions	10,914	-	-	55	5,678	390	-	(390)	16,647	5,988	-	22,635
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
Operating Revenues												
Patient service revenues (net of contracutal 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 operating 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
Operating Expenses												
Salaries and wages	284,806	115,567	69,236	60,547	15,825	383	36,733	-	583,097	91,066	-	674,163
Employee benefits	88,773	31,398	18,775	17,005	3,676	108	10,679	-	170,414	21,836	(173)	192,077
Supplies	212,938	55,501	42,903	30,302	3,565	-	6	-	345,215	14,969	-	360,184
Physician support	141,003	15,088	25,247	34,966	13,488	-	-	(81,452)	148,340	19,644	(39,691)	128,293
Professional fees	29,169	16,105	15,638	9,668	3,890	53	6,916	(1,036)	80,403	19,182	(8,773)	90,812
Depreciation and amortization	50,588	23,614	13,513	7,881	2,274	839	933	-	99,642	6,493	-	106,135
Interest	12,826	8,104	7,202	(930)	421	343	3	-	27,969	1,286	(340)	28,915
Other	75,511	28,745	28,500	19,397	3,974	779	47,955	(1,046)	203,815	22,726	(1,555)	224,986
Total operating 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
Nonoperating Income (Loss)												
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)
Total nonoperating income (loss)	26,465	(4,570)	2,161	1,586	1,161	1,178	94	-	28,075	11,967	(360)	39,682
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 (to) from Affiliates	(8,549)	(10,367)	(20,877)	(2,129)	(85)	-	19,820	-	(22,187)	22,187	-	-
Change in net assets without donor restrictions	$ 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
Changes in Net Assets Without Donor Restrictions												
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 (to) from affiliates	(8,549)	(10,367)	(20,877)	(2,129)	(85)	-	19,820	-	(22,187)	22,187	-	-
Change in net assets without donor restrictions	46,705	9,186	(4,889)	10,759	2,603	921	19,073	-	84,358	13,958	-	98,316
Changes in Net Assets With Donor Restrictions												
Increase in restricted assets held by WVU Foundation	2,418	-	-	-	-	-	-	-	2,418	-	-	2,418
Contributions and grants	-	-	-	-	-	56	-	-	56	923	-	979
Valuation gain	-	-	-	-	201	-	-	-	201	-	-	201
Change in value of split-interest agreements	-	-	-	-	-	(4)	-	-	(4)	94	-	90
Decrease in restricted assets held by affiliated foundation	-	-	-	(47)	(4)	-	-	51	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	(103)	-	-	(103)	(634)	-	(737)
Contribution from acquisition	-	-	-	-	-	-	-	-		1,929	-	1,929
Change in net assets with donor restrictions	2,418	-	-	(47)	197	(51)	-	51	2,568	2,312	-	4,880
Change in net assets	49,123	9,186	(4,889)	10,712	2,800	870	19,073	51	86,926	16,270	-	103,196
Net Assets (Deficit), Beginning	664,061	295,467	(12,986)	40,468	34,348	24,332	15,077	(441)	1,060,326	39,336	(678)	1,098,984
Net Assets (Deficit), Ending	$ 713,184	$ 304,653	$ (17,875)	$ 51,180	$ 37,148	$ 25,202	$ 34,150	$ (390)	$ 1,147,252	$ 55,606	$ (678)	$ 1,202,180