

# CAMC Health System, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the  
Years Ended December 31, 2010 and 2009, and  
Schedule of Expenditures of Federal Awards for the  
Year Ended December 31, 2010, and Independent  
Auditors' Reports in Connection With OMB Circular  
A-133 for the Year Ended December 31, 2010

DHHR - Finance

SEP 27 2011

Date Received

# CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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Deloitte & Touche LLP  
2500 One PPG Place  
Pittsburgh, PA 15222-5401  
USA  
Tel: +1 412 338 7200  
Fax: +1 412 338 7380  
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
CAMC Health System, Inc.:

We have audited the accompanying consolidated balance sheets of CAMC Health System, Inc. and subsidiaries (the "System") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the System's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the System as of December 31, 2010 and 2009, and the results of its operations, its changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying 2010 Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. This schedule is the responsibility of the management of the System. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2011, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

April 26, 2011

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 34,492	\$ 12,205
Short-term investments	73,705	73,178
Current portion of assets limited as to use	5,600	5,416
Patient receivables — net of allowances for uncollectible accounts of \$17,702 in 2010 and \$18,965 in 2009	103,504	116,960
Other receivables	16,495	12,409
Estimated amounts due from third-party payors	3,032	1,813
Inventories	15,220	15,804
Prepaid expenses and other	<u>7,470</u>	<u>4,931</u>
Total current assets	<u>259,518</u>	<u>242,716</u>
ASSETS LIMITED AS TO USE	<u>235,747</u>	<u>215,613</u>
OTHER INVESTMENTS	<u>20,629</u>	<u>20,413</u>
PROPERTY, PLANT, AND EQUIPMENT:		
Land	36,183	30,833
Buildings and improvements	338,202	332,976
Equipment and software costs	470,320	442,216
Construction in progress	<u>13,688</u>	<u>17,490</u>
Total property, plant, and equipment	858,393	823,515
Less accumulated depreciation	<u>(558,782)</u>	<u>(520,780)</u>
Property, plant, and equipment — net	<u>299,611</u>	<u>302,735</u>
OTHER ASSETS	<u>21,857</u>	<u>14,235</u>
TOTAL	<u>\$ 837,362</u>	<u>\$ 795,712</u>

(Continued)

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 58,407	\$ 61,121
Self-insurance reserves	5,600	5,200
Derivative obligation	12,730	6,580
Deferred revenue and vendor credits	980	1,364
Litigation verdict obligation	9,545	9,545
Accrued payroll and payroll-related expenses	38,640	34,463
Estimated amounts due to third-party payors	1,445	2,334
Current maturities of long-term debt and capital lease obligations	<u>8,519</u>	<u>8,445</u>
Total current liabilities	<u>135,866</u>	<u>129,052</u>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt and capital lease obligations — less current maturities	349,656	347,811
Retirement obligations	9,794	11,748
Self-insurance reserves	17,068	17,192
Deferred revenue and vendor credits	9,417	9,959
Other	<u>2,775</u>	<u>2,100</u>
Total long-term liabilities	<u>388,710</u>	<u>388,810</u>
Total liabilities	<u>524,576</u>	<u>517,862</u>
<b>NET ASSETS:</b>		
Unrestricted	265,037	238,657
Noncontrolling interest in joint ventures	<u>327</u>	<u>271</u>
Unrestricted — total	265,364	238,928
Temporarily restricted	26,675	18,941
Permanently restricted	<u>20,747</u>	<u>19,981</u>
Total net assets	<u>312,786</u>	<u>277,850</u>
<b>TOTAL</b>	<u>\$ 837,362</u>	<u>\$ 795,712</u>

See notes to consolidated financial statements

(Concluded)

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Net patient service revenue	\$ 858,434	\$ 817,503
Other revenue	37,053	35,596
Investment income — net	25,716	25,073
Net assets released from restrictions	<u>769</u>	<u>621</u>
Total unrestricted revenue and other support	<u>921,972</u>	<u>878,793</u>
EXPENSES:		
Salaries and wages	314,469	306,480
Employee benefits	86,744	87,413
Professional compensation and fees	19,742	12,828
Supplies and other	325,335	312,425
Depreciation and amortization	37,428	37,761
Provision for uncollectible accounts	73,376	62,983
Medicaid provider tax	17,755	17,040
Interest and debt expense	15,402	16,080
Change in fair value of derivatives	6,150	(36,301)
Loss on debt transactions	<u>-</u>	<u>7,918</u>
Total expenses	<u>896,401</u>	<u>824,627</u>
EXCESS OF REVENUES OVER EXPENSES — CAMC Health System, Inc. and Subsidiaries	25,571	54,166
EXCESS OF REVENUES OVER EXPENSES — Noncontrolling Interest (Notes 2 and 15)	<u>811</u>	<u>455</u>
TOTAL EXCESS OF REVENUES OVER EXPENSES	26,382	54,621
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net assets released from restrictions for capital expenditures	10	269
Change in retirement obligations actuarial loss and prior-service cost	(380)	398
Pension assumption adjustment	1,238	-
Unrestricted fund transfer	(519)	-
Distribution to noncontrolling interests in joint ventures	(755)	(431)
Contributions for capital expenditures	<u>460</u>	<u>25</u>
INCREASE IN UNRESTRICTED NET ASSETS AND NONCONTROLLING INTEREST	<u>\$ 26,436</u>	<u>\$ 54,882</u>

See notes to consolidated financial statements.

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	\$ 26,382	\$ 54,621
Change in retirement obligations actuarial loss and prior service cost	(380)	398
Assets released from restrictions for capital expenditures	10	269
Pension assumption adjustment	1,238	-
Unrestricted funds transfer	(519)	-
Distributions to noncontrolling interests in joint ventures	(755)	(431)
Contributions for capital expenditures	<u>460</u>	<u>25</u>
Increase in unrestricted net assets and noncontrolling interest	<u>26,436</u>	<u>54,882</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	3,415	1,315
Investment income — net	4,579	9,947
Temporarily restricted fund transfer	519	-
Net assets released from restrictions for:		
Programs	(769)	(621)
Capital expenditures	<u>(10)</u>	<u>(269)</u>
Increase in temporarily restricted net assets	<u>7,734</u>	<u>10,372</u>
PERMANENTLY RESTRICTED NET ASSETS — Contributions	<u>766</u>	<u>914</u>
INCREASE IN NET ASSETS	<u>34,936</u>	<u>66,168</u>
NET ASSETS — Beginning of year	277,850	211,435
ADJUSTMENT TO INITIALLY APPLY THE PRESENTATION AND DISCLOSURE PROVISIONS OF ASC 2010-7 (Note 2)	<u>-</u>	<u>247</u>
NET ASSETS — Beginning of year (2009 as adjusted, Note 2)	<u>277,850</u>	<u>211,682</u>
NET ASSETS — End of year	<u>\$ 312,786</u>	<u>\$ 277,850</u>

See notes to consolidated financial statements.



# CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
<b>OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 34,936	\$ 66,168
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of derivatives	6,150	(36,301)
Loss on debt transactions	-	7,918
Loss on disposal of fixed assets	38	18
Change in retirement obligations actuarial loss and prior service cost	380	(398)
Depreciation and amortization	37,428	37,761
Provision for uncollectible accounts	73,376	62,983
Equity earnings on unrestricted alternative investments	(226)	(376)
Net restricted contributions and investment (income)	(9,279)	(12,176)
Payments on termination of derivative obligation	-	(19,300)
Distributions to noncontrolling interests in joint ventures	755	431
Changes in assets and liabilities:		
Patient receivables	(59,920)	(53,064)
Other receivables	(4,086)	(494)
Trading investments	(15,654)	(45,055)
Inventories, prepaid expenses, and other	(1,681)	(1,967)
Estimated amounts due from/to third-party payors	(2,108)	(10,103)
Accounts payable and accrued expenses	(2,314)	(559)
Deferred revenue	(926)	(1,601)
Accrued payroll and payroll-related expenses	4,177	(5,622)
Other liabilities	(1,783)	(4,229)
Net cash provided (used in) by operating activities	<u>59,263</u>	<u>(15,966)</u>
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures — net	(34,614)	(44,989)
Purchases of investments	(1,051)	(684)
Proceeds from the sale of investments	500	2,254
Acquisition of Mountaineer Imaging	(7,624)	-
Restricted cash pledged as collateral	(13,010)	(11,010)
Restricted cash released from collateral	8,380	27,160
Net cash used in investing activities	<u>(47,419)</u>	<u>(27,269)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	9,000	177,554
Payment on refunding of bonds	-	(156,759)
Proceeds from loan refinancing	8,428	-
Repayment of loan refinancing	(8,323)	-
Costs associated with loan refinancing	(105)	-
Principal payments on debt obligations and capital lease obligations	(7,081)	(4,774)
Borrowings under lines of credit	687	1,228
Repayment under lines of credit	(687)	(1,228)
Distributions to noncontrolling interests in joint ventures	(755)	(431)
Net restricted contributions and investment income	9,279	12,176
Net cash provided by financing activities	<u>10,443</u>	<u>27,766</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>22,287</b>	<b>(15,469)</b>
CASH AND CASH EQUIVALENTS — Beginning of year	<u>12,205</u>	<u>27,674</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 34,492</u>	<u>\$ 12,205</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 11,005</u>	<u>\$ 16,081</u>
Capital expenditures applied to vendor credits	<u>\$ -</u>	<u>\$ 3,619</u>
Capital assets acquired under capital lease obligation	<u>\$ 4,925</u>	<u>\$ 5,213</u>
Capital expenditures remaining in accounts payable at year-end	<u>\$ 9,512</u>	<u>\$ 9,414</u>

See notes to consolidated financial statements

# CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

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### 1. ORGANIZATION

CAMC Health System, Inc. (the "Parent") (CAMCHSI), is a West Virginia nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"). As the parent holding company, the Parent provides general guidance and strategic direction for the following subsidiaries (collectively, the "System"):

*Charleston Area Medical Center, Inc. (CAMC)* — a West Virginia nonprofit corporation that owns and operates the General, Memorial, and Women and Children's Hospitals.

*Charleston Area Medical Center Foundation, Inc. (the "Foundation")* — a West Virginia nonprofit corporation established for the purpose of raising funds for CAMC.

*CAMC Health Education and Research Institute, Inc. (the "Institute")* — a West Virginia nonprofit corporation established for the purpose of managing, promoting, and conducting medical education and research programs.

*Integrated Health Care Providers, Inc. ("Integrated")* — a West Virginia nonprofit taxable corporation established for the purpose of providing physician services.

*CAMC Teays Valley Hospital, Inc. ("CAMC Teays")* — Formerly, Heritage Health Systems, Inc., a West Virginia nonprofit corporation that owns and operates an urban community hospital in Putnam County, West Virginia.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** — The accompanying consolidated financial statements include the accounts of the Parent and the aforementioned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Investments in companies in which the system owns 20% to 50% of the voting stock and has the ability to exercise significant influence over operating and financial policies of the investee are accounted for using the equity method of accounting. As a result, the System's share of the earnings or losses of such equity affiliates is included in the accompanying consolidated statements of operations and the System's share of these companies' shareholders' equity is included in investments in the accompanying consolidated balance sheets.

**Cash and Cash Equivalents and Short-Term Investments** — Cash and cash equivalents represent cash and temporary investments with original maturities of three months or less. Cash and cash equivalents exclude cash maintained in board-designated, restricted, self-insurance, and trustee-held funds. Short-term investments represent investments with original maturities extending beyond three months that management has identified as available to meet current operating needs. Such deposits exceed the Federal Deposit Insurance Corporation insured limits. Cash equivalents and equity and debt securities (short-term investments) are stated at fair value, which approximates cost.

**Patient Receivables and Net Patient Service Revenues** — Patient receivables and net patient service revenues are derived primarily from patients who reside in West Virginia and surrounding states, and are recorded at net realizable amounts. Patient receivables consist of amounts due from third-party payors, including federal and state indemnity and managed care programs, managed care health plans and commercial insurance companies, and individual patients for health care services rendered. The System does not require collateral or other security on its patient receivables. Management maintains an allowance for doubtful accounts to reserve for estimated losses based on the length of time the account has been past due and historical experience. The System considers accounts for write-offs beginning 90 days after billing. Certain patient accounts are excluded from consideration when the following conditions exist: account has a credit balance, charge has been voided, “hold” on the account unapplied credits, or a payment was made in the last 45 days. Excluded accounts are reviewed weekly by patient accounts to determine collectibility.

In both 2010 and 2009, approximately 87% and 88%, respectively, of consolidated net patient service revenue was derived from third-party payment programs (Medicare, Medicaid, Public Employees’ Insurance Agency (PEIA), workers’ compensation, and various other arrangements), which reimburse the System at amounts that are less than established charges. Net patient service revenue reflects the estimated net realizable amounts due from third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements.

Net patient service revenues from the Medicare and Medicaid programs account for approximately 34% and 11%, respectively, of the System’s net patient service revenue for the year ended December 31, 2010, and 36% and 9%, respectively, of the System’s net patient service revenue for the year ended December 31, 2009. Payments received under the reimbursement arrangements with Medicare and Medicaid are subject to retroactive audit and adjustment. Provision has been made in the consolidated financial statements for estimated contractual adjustments representing the difference between the standard charges for services and estimated total payments to be received from third-party payors. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. Settlement of prior-year cost reports and revisions to other prior-year settlement estimates had the effect of increasing net patient service revenue by \$4,873 and \$7,348 in 2010 and 2009, respectively. Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimated settlements will change by a material amount in the near term. Management believes that adequate provisions have been made for reasonable adjustments that may result from such final settlements. Management believes it is in substantial compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The approximate percentage of patient receivables by type of payor as of December 31, 2010 and 2009, is as follows:

	2010	2009
Medicare	28 %	33 %
Commercial insurance	23	22
Other third-party payment programs	30	30
Medicaid	13	8
Self-pay	1	1
Public Employees Insurance Agency (PEIA)	<u>5</u>	<u>6</u>
	<u>100 %</u>	<u>100 %</u>

**Charity Care** — The System provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than established rates (see Note 4). Because the System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net revenue (see Note 3). The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services furnished under the System's charity care policies.

**Physician Recruitment and Education Assistance Loan Receivable** — CAMC provides loans for physician recruitment and education assistance for the purpose of recruiting qualified physicians and clinicians in areas of need. Physician recruitment loans are made for the following purposes: support during fellowship, moving a doctor and his family, or establishing a medical practice in the community. Recruitment loans may require collateral or a guarantor. Education assistance loans are made for tuition, books, supplies, etc. Education assistance loans do not guarantee employment upon completion of the program, however, if the student gains employment with CAMC, loan payments are forgiven monthly in accordance with a loan amortization schedule. Loans are recorded to other accounts receivable at the time of the cash disbursement for the current portion, and other assets for the long-term portion. Interest is accrued as earned and recorded to the loan balance and interest income in accordance with contract terms. Upon completion of the loan period, loans are repaid monthly in accordance with contract terms, either by cash payment or forgiveness. Loans are evaluated periodically to determine their collectibility; those that are deemed at risk of collection are reserved as uncollectible. Loans in default are referred to internal legal counsel or CAMC's internal collection agency. CAMC's physician recruitment and education assistance loans were \$6,886 and \$5,435 at December 31, 2010 and 2009, respectively. The balance is net of an allowance for loan losses of \$1,071 and \$1,148 at December 31, 2010 and 2009, respectively.

**Pledges Receivable** — The Foundation has \$1,752 and \$93 recorded as pledges receivable at December 31, 2010 and 2009, respectively, with the increase primarily due to pledges for the Cancer Center building campaign. The amount to be received in one year and in one to five years as of December 31, 2010, is \$521 and \$1,211, respectively. The amounts to be received in one year are included in other receivables, and amounts to be received in one to five years are included in other assets in the consolidated financial statements.

**Inventories** — Inventories represent supplies that are valued at the lower of cost on a first-in, first-out basis or market. Subsequent to December 31, 2010, the System converted to an average pricing method of valuing inventory due to a software upgrade. Management has determined the effect of the change in the inventory valuation method to be immaterial to the consolidated financial statements.

**Assets Limited as to Use and Investments** — Assets limited as to use primarily include assets held by trustees under indenture and other agreements, designated assets set aside by the board of trustees, self-insurance funds, and donor-restricted assets. Other investments are alternative investments that are not limited as to use.

Investments in equity securities with readily determinable fair values and all investments in debt securities are classified as trading and are measured at fair value. Investment income or loss (including realized gains and losses, interest, dividends, changes in equity or impairments of limited partnerships, and unrealized gains and losses) is included in unrestricted investment income or loss, unless the income or loss is restricted by donor or law.

The System invests in alternative investments that primarily represent ownership in limited partnerships that invest in hedge funds, real asset funds, and private equity/venture capital funds. In order to liquidate such investments, management is required to provide notice ranging from 45 to 90 days to withdraw from the partnerships. Investments in alternative investments are accounted for utilizing the lower of cost or market method when the System's ownership percentage is less than 5%, as the System has virtually no influence over the partnership's operating and financial policies. As of December 31, 2010 and 2009, alternative investments recorded at cost, many of which have been written down to market, aggregate \$46,808 and \$47,058, respectively. The estimated market value of these investments at December 31, 2010 and 2009, was \$60,273 and \$56,205, respectively. Alternative investments in which the System's ownership percentage exceeds 20% are recorded at fair value. As of December 31, 2010 and 2009, the total carrying value of such investments was \$5,796 and \$5,580, respectively. Alternative investments of \$31,975 and \$32,225 are included in assets limited as to use while \$20,629 and \$20,413 are included in other investments as of December 31, 2010 and 2009, respectively. In accordance with the donors' contribution requirements, unrestricted, temporarily restricted, and permanently restricted investments are pooled to obtain maximum use of funds and higher interest rates on short-term investments. Investment income from these unrestricted, temporarily restricted, and permanently restricted funds is allocated to unrestricted and temporarily restricted funds based on the respective fund's percentage of total investments. The Foundation's investment policy establishes reasonable expectations, objectives, and guidelines; sets forth an investment structure detailing permitted asset classes and expected allocation among asset classes; encourages effective communication and creates a framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the investment committee.

**Investment Risks** — Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying consolidated financial statements.

**Derivatives** — CAMC has entered into floating-to-fixed and floating-to-floating interest rate swap agreements and an interest rate cap agreement in connection with its debt management program. CAMC records its derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets at fair value using the applicable accounting guidance for derivative instruments. None of CAMC's current derivatives are designated as a hedge. Accordingly, the derivative gain or loss related to the change in fair value is included in the excess of revenues over expenses.

**Property, Plant, and Equipment** — Amounts capitalized as part of land, buildings, and equipment, including additions and improvements to existing facilities, are recorded at acquisition cost, including applicable internal labor costs and interest capitalized during construction. During 2010 and 2009, approximately \$1,167 and \$1,147, respectively, of internal labor costs were capitalized related to construction projects. Capital lease assets included in equipment in the consolidated balance sheets are \$6,450, net of \$1,618 accumulated amortization, as of December 31, 2010, and \$6,420, net of \$1,237 accumulated amortization, as of December 31, 2009. The total unamortized capitalized software costs are \$5,323 and \$4,327 as of December 31, 2010 and 2009, respectively. Total related amortization expense was \$2,949 and \$2,942 for the years ended December 31, 2010 and 2009, respectively.

Depreciation, including amortization of assets recorded under capital leases, is recorded on the straight-line method over the estimated useful lives of the buildings and improvements (generally 10 to 40 years) and equipment (generally 3 to 20 years). Upon retirement or disposal, the asset and accumulated depreciation accounts are adjusted and any gain or loss is recorded in the consolidated statements of operations. Maintenance costs and repairs are expensed as incurred.

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any write-downs due to impairment are charged to operations at the time impairment is identified. Management determined that no impairment write-downs were necessary in 2010 or 2009.

Management revalued estimated lives of certain buildings in 2010 based on identifiable building components, the individual cost per component, and assigned appropriate component lives using these lives as determined reasonable by a hospital life study and the American Hospital Association lives for depreciable hospital assets for the calculation of depreciation. The change in estimated lives resulted in a \$1,269 decrease to depreciation expense in 2010.

**Contributions** — Contributions are recognized in the period cash is received or the period in which an unconditional 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. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor-restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations.

Donor-restricted contributions received by the Institute whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. Donor-restricted contributions received by the Foundation whose restrictions are met within the same year as received are reported as net assets released from restrictions in the accompanying consolidated financial statements.

**Temporarily and Permanently Restricted Net Assets** — Temporarily restricted net assets are available for a number of initiatives. The more significant temporary restrictions relate to medical care of patients at CAMC Memorial Hospital of \$8,782, cancer-related initiatives of \$3,708, and scholarships of \$1,967. Permanently restricted net assets are composed of endowment funds, which are restricted in perpetuity, and the income is to be used primarily for clinical and education programs. The more significant permanent restrictions relate to medical care of patients at CAMC Memorial Hospital of \$3,469, cancer research \$1,766, children's initiatives of \$3,658, and geriatric research of \$3,226.

**Self-Insurance Programs** — The System has self-insurance programs for professional malpractice, general liability, workers' compensation, unemployment compensation, disability, and employee health insurance. The estimated self-insurance obligations include a provision for incurred, but not reported claims.

**Noncontrolling interest** — CAMC is a general partner in two medical office building partnerships, each organized as general partnerships. CAMC owns a 79% interest in the General Division Medical Office Building Partnership and an 89% interest in the Women and Children's Medical Office Building Partnership. Individual practicing physicians or physician medical corporations own the remaining residual interest in these partnerships. The residual interest is reflected as noncontrolling interest in unrestricted net assets in the consolidated financial statements.

**Excess of Revenues over Expenses** — The consolidated statements of operations include an excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, primarily include 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 the change in retirement obligations, actuarial loss and prior-service cost.

**Income Taxes** — CAMC, the Foundation, the Institute, and CAMC Teays are exempt from income taxes under Section 501(c)(3) of the Code and applicable state statutes, but are subject to unrelated business income tax. A provision of \$135 and \$1,300 has been made in the accompanying consolidated financial statements for the years ended December 31, 2010 and 2009, for estimated unrelated business income tax.

Integrated, a taxable nonprofit corporation, recognizes income taxes for the amount of taxes payable for the current year and for the impact of deferred tax liabilities and assets. For the years ended December 31, 2010 and 2009, Integrated had cumulative net operating losses (NOLs) available for carryforward approximating \$63,625 and \$63,602, respectively. However, the deferred tax assets related to these and prior-year NOLs have been fully reserved by a valuation allowance due to the uncertainty of Integrated's ability to generate future taxable income. The System does not have any material uncertain tax positions at December 31, 2010 and 2009.

**Other Revenue** — Other revenue is derived from ancillary services, which are an integral part of the operations of the System other than providing health care services to patients. Included in other revenue are grants, cafeteria, gift shop, pharmacy, unrestricted contributions, and other services. Such revenue is recognized when the related service is performed, drugs are dispensed, or in the case of grant revenue, when the System incurs the cost related to the grant's purpose.

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Adjustments to estimates are recorded, as appropriate, in periods in which they are determined.

**New Accounting Pronouncements** — In June 2001, the Financial Accounting Standards Board (FASB) issued guidance related to financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Accounting Principles Board Opinion No. 17, *Intangible Assets*. This guidance was effective for the System as of January 1, 2010, upon the adoption of the guidance for not-for-profit business combinations. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in consolidated financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the consolidated financial statements. The System adopted the guidance for the year ended December 31, 2010, as required, and the adoption, which was not material, is reflected within the Systems' consolidated financial statements and disclosures.

In August 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954), Measuring Charity Care for Disclosure*, which requires that cost be used as a measurement for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. It also requires disclosure of the method used to identify or determine such costs. The provisions of ASU No. 2010-23 are effective for the System beginning January 1, 2012. The adoption of ASU No. 2010-23 is not expected to have a material impact on the System's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which amended Accounting Standards Codification (ASC) No. 820, *Fair Value Measurements and Disclosures*, to require new disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements, including reasons for the transfers, and to require new disclosures related to activity in Level 3 fair value measurements. In addition, ASU No. 2010-06 clarifies existing disclosure requirements related to the level of disaggregation of classes of assets and liabilities and provides further detail about inputs and valuation techniques used for fair value measurement. The provisions of ASU No. 2010-06 are effective for the System beginning January 1, 2010. The adoption of ASU No. 2010-06 is disclosed in Note 13 to the consolidated financial statements.

In April 2009, the FASB issued ASU No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142*. This statement provides guidance on accounting for a combination of not-for-profit entities and applies to a combination that meets the definition of either a merger of not-for-profit entities or an acquisition by a not-for-profit entity. ASU No. 2010-07 establishes principles and requirements for how a not-for-profit entity (a) determines whether a combination is a merger or an acquisition, (b) applies the carryover method in accounting for a merger, (c) applies the acquisition method in accounting for an acquisition, and (d) determines what information to disclose with respect to the nature and financial effects of a merger or an acquisition. This statement also amends both FASB Statement No. 142, *Goodwill and Other Intangible Assets*, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, to make their provisions applicable to not-for-profit entities. The provisions of ASU No. 2010-07, which are to be applied prospectively, were effective for the System beginning January 1, 2010.



The System adopted the presentation and disclosure provisions of ASU No. 2010-07 for noncontrolling interests on January 1, 2010, retroactively effective to January 1, 2009. This standard requires the recognition of a noncontrolling interest (formerly reported as minority interest) in the unrestricted net assets in the consolidated balance sheets separate from the System's unrestricted net assets. The excess of revenues over expenses attributable to the noncontrolling interest is included in the consolidated statements of operations and changes in net assets. The incremental effects of applying the provisions on the individual lines of the consolidated financial statements as of and for the year ended December 31, 2009, are as follows:

	<b>December 31, 2009</b>		
	<b>As Previously Reported</b>	<b>Effect of Retrospective Application</b>	<b>As Adjusted</b>
<b>Consolidated balance sheet:</b>			
Minority interest	<u>\$ 271</u>	<u>\$ (271)</u>	<u>\$ -</u>
Unrestricted net assets — noncontrolling interests in joint ventures	<u>\$ -</u>	<u>\$ 271</u>	<u>\$ 271</u>
Total unrestricted net assets	<u>\$ -</u>	<u>\$ 271</u>	<u>\$ 271</u>
Total net assets	<u>\$ 277,579</u>	<u>\$ 271</u>	<u>\$ 277,850</u>
<b>Consolidated statement of operations:</b>			
Minority interest	<u>\$ 271</u>	<u>\$ (271)</u>	<u>\$ -</u>
Excess of revenues over expenses	<u>\$ 54,166</u>	<u>\$ 455</u>	<u>\$ 54,621</u>
Other changes in unrestricted net assets — distributions to noncontrolling interests in joint ventures	<u>\$ -</u>	<u>\$ (431)</u>	<u>\$ (431)</u>
Increase in unrestricted net assets	<u>\$ 54,858</u>	<u>\$ 24</u>	<u>\$ 54,882</u>
<b>Consolidated statement of changes in net assets:</b>			
Excess of revenues over expenses	<u>\$ 54,166</u>	<u>\$ 455</u>	<u>\$ 54,621</u>
Increase in unrestricted net assets	<u>\$ 54,858</u>	<u>\$ 24</u>	<u>\$ 54,882</u>
Increase in net assets	<u>\$ 66,144</u>	<u>\$ 24</u>	<u>\$ 66,168</u>
Net assets — beginning of year	<u>\$ 211,435</u>	<u>\$ 247</u>	<u>\$ 211,682</u>
Net assets — end of year	<u>\$ 277,579</u>	<u>\$ 271</u>	<u>\$ 277,850</u>
<b>Consolidated statement of cash flows:</b>			
Cash flows from operating activities — increase in net assets	<u>\$ 66,144</u>	<u>\$ 24</u>	<u>\$ 66,168</u>
Other liabilities	<u>\$ (4,205)</u>	<u>\$ (24)</u>	<u>\$ (4,229)</u>
Distributions to noncontrolling interests in joint ventures	<u>\$ -</u>	<u>\$ 431</u>	<u>\$ 431</u>
Net cash provided by (used in) operating activities	<u>\$ (16,397)</u>	<u>\$ 431</u>	<u>\$ (15,966)</u>

**Acquisitions and Mergers** — On December 10, 2010, CAMC executed an asset purchase agreement with Mountaineer Radiologist, Inc, physician owners and operators of an outpatient imaging center. Concurrently, CAMC executed a separate purchase agreement with Wilson & Zekan Investment Co to acquire the building that houses imaging center operations. Under the two-asset purchase agreements, CAMC acquired various assets from the two identified entities necessary to continue the operation of an outpatient imaging center, including building, all major and minor equipment and furnishings, inventory, most all contracts, all patient and personnel records, and proprietary names and symbols. Only a de minimus amount of liabilities was assumed, such as the pro rata share of ad valorem property taxes and utility services. Also of value, was an agreement by the sellers not to compete directly or indirectly with CAMC for a period of two years after the acquisition within a radius of 30 miles of CAMC facilities. The acquisition cost under the two agreements totaled \$7,624 and was financed entirely from loan proceeds with a bank as more fully described in Note 7.

The combined purchase price under the two agreements has been allocated to various asset components as follows:

	Fair Value	Useful Lives
Acquired tangible assets:		
Building	\$ 1,055	10–40
Equipment and furnishings	134	3–20
Supply inventory	13	
Acquired finite intangible assets:		
Tradenname	140	5
Noncompete	1,396	5
Noncontract relationships	4,185	20
Goodwill	706	
Acquired short-term liabilities	<u>(5)</u>	
Total purchase price allocation	<u>\$ 7,624</u>	

Upon implementation of ASU 2010-07, the System adopted the guidance for goodwill and other intangible assets. The System will test annually the carrying value of its acquired goodwill for impairment. The System's identifiable intangible assets with finite lives are being amortized over their estimated use lives and are detailed above. Aggregate amortization expense was \$23 for December 31, 2010. The estimated future amortization expense of identifiable intangible assets during each of the next five years is approximately \$510.

### 3. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended December 31, 2010 and 2009, consists of the following:

	2010				2010	2009
	CAMC	CAMC Teays	Integrated	Elimination		
Gross patient service billings	\$ 1,720,936	\$ 124,157	\$ 50,601	\$ 18	\$ 1,895,712	\$ 1,744,414
Charity care allowances	(52,669)	(4,975)	(1,233)	-	(58,877)	(52,488)
Contractual allowances	(918,323)	(65,234)	(21,713)	-	(1,005,270)	(887,964)
Medicaid-enhanced payment program revenue	24,639	162	-	-	24,801	10,904
Medicaid disproportionate share hospital payment program revenue	<u>1,897</u>	<u>171</u>	<u>-</u>	<u>-</u>	<u>2,068</u>	<u>2,637</u>
Net patient service revenue	<u>\$ 776,480</u>	<u>\$ 54,281</u>	<u>\$ 27,655</u>	<u>\$ 18</u>	<u>\$ 858,434</u>	<u>\$ 817,503</u>

The System has agreements with third-party payors that provide for payments at amounts that differ from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

*Medicare* — Payment for inpatient acute care services rendered to Medicare program beneficiaries and associated medical education, disproportionate share and capital cost reimbursement, and capital costs 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 reimbursed at prospectively determined rates per visit based primarily on an ambulatory payment classification. Some inpatient nonacute services, certain outpatient services, and a percentage of bad debt costs related to Medicare beneficiaries are substantially paid based on a cost reimbursement methodology. Other amounts related to interns and residents and disproportionate share (DSH) are paid based on formulas as defined in the Medicare regulations. The System is paid for cost reimbursable items, interns, and residents and DSH at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medicare program.

The Medicare cost reports for CAMC have been audited by the Medicare fiscal intermediary through December 31, 2006, and for CAMC Teays through November 10, 2006.

*Medicaid* — Payments for inpatient services rendered to Medicaid program beneficiaries are primarily reimbursed on a prospective payment system. Outpatient services rendered to Medicaid program beneficiaries are reimbursed primarily at prospectively determined rates per visit based on an ambulatory classification.

*PEIA* — Inpatient services rendered to PEIA subscribers are reimbursed on a prospective payment system. Outpatient services rendered to PEIA subscribers are reimbursed based on a fee schedule, with no retroactive adjustment.

*Other* — The System has also entered into payment agreements with certain commercial insurance carriers, preferred provider organizations (PPO), and health maintenance organizations (HMO). Payment under the commercial, HMO, and PPO arrangements are primarily based on a percentage of charges.

**Medicaid-Enhanced Payment Programs** — Under the West Virginia Medicaid Enhanced Payment Programs, the methodology utilized in determining payments is based on the West Virginia State Plans approved on November 15, 2010. The methodology utilizes the following four payment groups: Urban, Rural, Tertiary Safety Net, and Rural Safety Net and the amounts currently assigned and approved by the Centers for Medicare and Medicaid. During 2010 and 2009, the System recorded \$24,801 and \$10,904, respectively, in reimbursement from the enhanced payment program. The amount recorded in 2010 included a stimulus payment of \$13,868. This reimbursement has been included in net patient service revenue in the accompanying consolidated statements of operations.

**Medicaid Disproportionate Share Enhancement Program** — Under the West Virginia Medicaid Disproportionate Share Enhancement Program, funds designated by the West Virginia legislature for disproportionate share hospitals (DSHs) are distributed based on, among other things, each particular hospital's Medicaid inpatient activity and total operating expenses compared to other hospitals in the state. During 2010 and 2009, the System recorded \$2,068 and \$2,637, respectively, in reimbursement from the disproportionate share program. This reimbursement has been included in net patient service revenue in the accompanying consolidated statements of operations. Funds received from this program are subject to retroactive adjustment.

The State of West Virginia Disproportionate Share Hospital State Plan (the "DSH State Plan") provides for a settlement process among participating hospitals. 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 DSH State Plan. The laws and regulations governing the DSH settlement process are complex, involving statistical data from all participating hospitals, and are subject to interpretation. Accordingly, the System is not able to estimate the impact on the consolidated financial statements for the completion of the DSH settlement process. The ultimate resolution of the settlement process could materially affect the System's future consolidated results of operations or cash flows in a particular period.

**Broad-Based Health-Care-Related Tax (Medicaid Provider Tax)** — The West Virginia Broad-Based Health-Care-Related Tax of 1993 assesses a tax on net patient service revenue at rates varying from 0.35% to 5%, depending on the type of services provided.

**4. CHARITY CARE AND COMMUNITY SERVICE BENEFIT**

The System provides care to patients who meet certain criteria under the approved charity care policy without charge or at amounts less than the established rates. Because the System does not pursue collection of amounts that are determined to qualify as charity care, they are not reported as net patient service revenue. The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of gross charges forgone for direct patient care, which were \$58,877 and \$52,488 for the years ended December 31, 2010 and 2009, respectively.

In addition to the charity care provided for direct patient care, the System provides free and below cost service and programs for the community. The costs of these services and programs are included in compensation and employee benefits and various other expense line items of the System's consolidated statements of operations.

**5. ASSETS LIMITED AS TO USE AND INVESTMENTS (ALATU)**

Assets limited as to use and investments as of December 31, 2010 and 2009, consist of the following:

	2010	2009
Board-designated and restricted funds:		
Cash and cash equivalents	\$ 298	\$ 298
Corporate stocks	79,221	65,865
Corporate bonds	35,852	32,297
Alternative investments — limited partnerships	20,857	21,108
Alternative investments — international equity fund	8,370	8,369
	<u>144,598</u>	<u>127,937</u>
Total board-designated and restricted funds		
Self-insurance:		
Cash and cash equivalents	2,007	1,942
Corporate stocks	7,398	6,116
Alternative investments — limited partnerships	2,748	2,748
Mutual funds invested in equity securities	10,683	9,283
Mutual funds invested in fixed-income securities	7,142	6,504
	<u>29,978</u>	<u>26,593</u>
Total self-insurance		

(Continued)

	2010	2009
Trustee-held cash and cash equivalents:		
Debt service reserve fund	\$ 15,500	\$ 15,409
Acquisition fund	39,377	42,632
Principal and interest fund	-	215
Collateral on derivatives	4,630	1,850
Other trustee-held funds primarily for executive compensation programs — mutual funds	2,769	2,255
Other assets:		
Cash equivalents	355	274
Other	<u>4,140</u>	<u>3,864</u>
Total trustee-held cash and cash equivalents	<u>66,771</u>	<u>66,499</u>
Total assets limited as to use and investments	241,347	221,029
Less current portion	<u>(5,600)</u>	<u>(5,416)</u>
Assets limited as to use and investments — net of current portion	<u>\$ 235,747</u>	<u>\$ 215,613</u>

(Concluded)

Board-designated and trustee-held funds consist of the Foundation's and CAMC's investments set aside for capital, debt, and other similar expenditures. Self-insurance assets relate primarily to the malpractice and general liability self-insurance program. The trustee-held project acquisition fund was set aside predominantly from the proceeds of the 2008 Series A bonds and 2009 Series A bonds for future capital improvements. Trustee-held investments also include funds set aside for certain obligated group debt service requirements (see Note 7). Other assets primarily consist of assets held in trust for deferred compensation and nonqualified supplemental executive retirement plans (SERPs).

## 6. INVESTMENT INCOME

Investment income and unrealized and realized gains and losses on investments for the years ended December 31, 2010 and 2009, are composed of the following:

	2010	2009
Unrestricted:		
Interest and dividends	\$ 7,593	\$ 6,648
Realized gain (loss) on investments — net	7,641	(2,572)
Equity earnings and impairments on alternative investments	226	376
Net unrealized gains	<u>10,256</u>	<u>20,621</u>
Total unrestricted gains	<u>25,716</u>	<u>25,073</u>
Temporarily restricted:		
Interest and dividends	1,008	569
Realized gain (loss) on investments — net	1,657	(881)
Net unrealized gains	<u>1,914</u>	<u>10,259</u>
Total temporarily restricted gains	<u>4,579</u>	<u>9,947</u>
Net investment income and realized and unrealized gains	<u>\$ 30,295</u>	<u>\$ 35,020</u>

## 7. LONG-TERM DEBT, LEASE OBLIGATIONS, AND DERIVATIVES

Obligations under long-term debt and capital lease obligations as of December 31, 2010 and 2009, consist of the following:

	2010	2009
2010 BB&I Loan — Mountaineer Imaging	\$ 9,000	\$ -
2010 BB&I Refinance — (formerly, 2004 VHA Loan)	8,253	10,264
2009 Series A Bonds	177,385	179,925
2008 Series A Bonds	126,970	127,355
2008 CAMC Teays Bonds	24,600	25,290
2006 Promissory note	6,370	6,650
Other, including capital lease obligations of \$4,925 in 2010 and \$5,213 in 2009	<u>7,862</u>	<u>9,143</u>
Total	360,440	358,627
Less unamortized discount	<u>(2,265)</u>	<u>(2,371)</u>
Total — net of unamortized discount	358,175	356,256
Less current maturities	<u>(8,519)</u>	<u>(8,445)</u>
Total long-term debt and lease obligations	<u>\$ 349,656</u>	<u>\$ 347,811</u>

The fair value of the System's debt obligations was \$361,298 and \$333,123 as of December 31, 2010 and 2009, respectively. Total outstanding escrowed debt as of December 31, 2010 and 2009, is \$96,560 and \$98,080, respectively.

**2010 BB&T Note — Mountaineer Imaging** — In December 2010, CAMC entered into a taxable loan agreement for \$9,000 with Branch Banking and Trust (BB&T) to purchase and update an existing outpatient imaging center in Charleston, West Virginia, as more fully described in Note 2. Principal and interest are payable in consecutive monthly installments commencing January 10, 2011, and continuing in equal monthly payments sufficient to fully amortize the debt in 15 years with the outstanding balance of the note being due and payable in full on December 10, 2015. Interest accrues at a variable rate equal to 30-day London InterBank Offered Rate (LIBOR), which is adjusted monthly, plus 1.75% and approximated 2.01% as of December 31, 2010. The obligation of CAMC under the loan agreement is evidenced and secured by a promissory note issued under the 1993 restated master trust indenture as supplemented from time to time. All notes issued under the 1993 restated master trust indenture are secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

**2009 Series A Bonds**— In September 2009, CAMC entered into a loan agreement with the West Virginia Hospital Finance Authority (the "Authority"), pursuant to which CAMC borrowed the proceeds of the Authority's \$179,925 Fixed Rate Hospital Revenue Refunding and Improvement Bonds 2009 Series A (CAMC). The coupon rates of the bonds range from a low as 3.00% to a high of 5.62% depending on maturity. In aggregate, the bonds sold at a net discount of \$2,406, which will be amortized to interest and debt expense over the 23-year life of the issue. Interest on the bonds is payable semiannually and principal is payable annually beginning 2010. Under the terms of the loan agreement, CAMC makes monthly loan repayments sufficient in time and amount to enable the Authority to pay the principal of, and the interest on, the Series 2009 bonds at the times noted above. The obligations of CAMC under the loan agreement are evidenced and secured by a promissory note issued pursuant to a 1993 restated master trust indenture dated January 1, 1993, as supplemented from time to time. All notes issued under the restated master trust indenture are secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

The proceeds of the 2009 Series A bond issue were used primarily to (i) currently refund the Authority's 2002 Series A and B bonds ("2002 bonds") in the combined principal amount of \$156,759, (ii) pay \$17,000 representing a portion of the total termination payment of \$19,300 to the counterparty as a result of termination of the swap agreement entered into in connection with the issuance of the 2002 bonds, (iii) fund a debt service reserve fund in the amount of \$15,302, (iv) fund a project acquisition fund in the initial amount of \$2,697, and (v) pay the costs of issuing the 2009 Series A bonds. The debt service reserve fund and the project acquisition fund are components of assets limited as to use. As a result of the refunding and termination of the swap agreement, CAMC recognized a loss of \$7,918 reported in the consolidated statement of operations as loss on bond refunding.

**2008 Series A Bonds** — In June 2008, CAMC entered into a loan agreement with the Authority pursuant to which CAMC borrowed the proceeds of the Authority's \$127,355 Variable Rate Revenue Bonds 2008 Series A (CAMC). The proceeds from the 2008 Series A bond issue were used primarily to (i) currently refund the Authority's 1995 Series A bonds in the principal amount outstanding of \$27,540; (ii) refinance an outstanding bank loan in the aggregate principal amount of \$4,915; (iii) pay or reimburse certain capital expenditures made, or to be made, by CAMC with an initial deposit to a trustee-held project acquisition fund in the amount of \$91,085; and (iv) pay for the cost of issuing the 2008 Series A bonds. The project acquisition fund is a component of assets limited as to use appearing in the consolidated balance sheets. The bonds require the payment of principal and interest through September 1, 2037. The bonds are multimodal variable rate demand obligations supported by credit enhancement and a liquidity facility.

The timely payment of principal and interest on the 2008 Series A bonds and the purchase price of tendered bonds are secured by an irrevocable, transferable direct pay letter of credit issued by a bank. The letter of credit will expire on June 19, 2014, unless renewed, and may be replaced by a substitute letter of credit. Should any portion of the bonds not remarket, the holders of said bonds may tender them to the bank holding the direct pay letter of credit. Draws on the letter of credit that cannot be remarked after 90 days will begin repayment over 10 years with a balloon payment at the end of five years. Interest on the 2008 bonds is variable and can bear interest at a daily rate, or a weekly rate, as determined by a remarketing agent. Interest accrues at the minimum rate of interest, which, in the judgment of the remarketing agent under then-existing market conditions, would result in the sale of the 2008 bonds on such rate determination date at a price equal to the principal amount thereof, plus interest accrued through the rate period. As of December 31, 2010, the rate was 0.32%.

**2002 Series A and B Bonds** — In September 2002, CAMC entered into a loan agreement with the Authority, pursuant to which CAMC borrowed the proceeds of the Authority's 2002 bonds (variable rate revenue bonds).

In September 2009, CAMC completed a current refunding of the 2002 bonds with a portion of the proceeds from its 2009 Series A bonds. The escrow fund and the bond principal outstanding are not considered assets and liabilities of the System and have been removed from the accompanying consolidated balance sheets.

**1995 Series A Bonds** — In June 2008, the entire outstanding amount of the 1995 Series A bonds were refunded with a portion of the proceeds from the 2008 Series A bonds. The escrow fund and the outstanding bond principal outstanding are not considered assets and liabilities of the System and have been removed from the accompanying consolidated balance sheets.

**2010 BB&T Refinance** — In November 2010, CAMC refinanced a 2004 VHA, Inc. (VHA) loan when it entered into a loan agreement with the Authority, pursuant to which CAMC borrowed the proceeds of the Authority's tax-exempt Hospital Revenue Bond, 2010 Series A (CAMC). Principal and interest are payable in consecutive monthly installments commencing on December 01, 2010, and continuing in equal monthly payments sufficient to fully amortize the debt in four years. Interest accrues at a variable rate equal to 78% of 30-day LIBOR, which is adjusted monthly, plus 0.975% and approximated 1.18% as of December 31, 2010. The obligation of CAMC under the loan agreement is evidenced and secured by a promissory note issued under the 1993 restated master trust indenture as supplemented from time to time. All notes issued under the 1993 restated master trust indenture are secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

**2006 Promissory Note** — Taxable note with a financial institution guaranteed by CAMC. The 2006 Promissory Note carries a variable monthly interest rate equal to the LIBOR, plus 80-basis points (0.80%), which aggregated 1.00% and 1.24% as of December 31, 2010 and 2009, respectively. Interest on the note is paid monthly in arrears on the first business day of each month through an amended maturity date of January 1, 2014.

**2008 CAMC Teays Bonds** — On September 30, 2008, CAMC Teays entered into a loan agreement with the West Virginia Hospital Finance Authority, pursuant to which CAMC Teays borrowed the proceeds of the Authority's \$26,000 Variable Rate Revenue Bonds. The proceeds from the 2008 bond issue were used primarily to (i) refinance \$21,744 of the 2006 Promissory Note referenced above and (ii) pay or reimburse certain capital expenditure made, or to be made, by CAMC Teays with a deposit to a trustee-held project acquisition fund in the amount of \$4,256. CAMC is a guarantor of this debt. The bonds require the payment of principal and interest through September 30, 2013. Principal is amortizing as if the debt is repaying over 25 years in equal monthly installments of \$50. At the end of five years, a balloon payment is due for the remaining principal and accrued interest.



**Security** — All bonds, direct pay letters of credit, and VHA loan draws are secured by promissory notes given to the West Virginia Hospital Finance Authority and issued under the 1993 restated master trust indenture. The promissory notes are secured by a pledge of revenue and a deed of trust lien on the principal hospital facilities.

**Lines and Letters of Credit** — CAMC maintains a working capital line of credit with a local bank. The borrowing availability under the line is \$10,000 as of December 31, 2010. The working capital line of credit expires on December 31, 2012. No balance is outstanding at December 31, 2010. A note securing the line of credit has been issued under the restated master trust indenture.

As of December 31, 2010 and 2009, there was \$1,516 committed to an undrawn workers' compensation recurring letter of credit that renews every August 1. A note securing the letter of credit has been issued under the 1993 restated master trust indenture.

CAMC is one of three charter members of HealthNet, Inc., a West Virginia nonprofit corporation that provides air medical transportation service to the residents of the State. HealthNet, Inc., is not a consolidated entity within the Parent. In 2009, CAMC issued a guarantee in the aggregate amount of \$5,213 to support the acquisition, renovation, and replacement of a medical helicopter. As of December 31, 2010, CAMC had not been called upon to make payments under the guarantee agreement. CAMC has recorded a \$4,925 and \$5,213 as of December 31, 2010 and 2009, respectively, capital lease obligation as a result of this transaction, which is included in property, plant, and equipment in the consolidated balance sheets.

**Obligated Group** — The Foundation and CAMC are members of the obligated group (CAMC and the Foundation), in accordance with the provisions of the 1993 restated master trust indenture, and are jointly and severally liable for the performance of all covenants and obligations contained in the 1993 restated master trust indenture and in the related notes and guarantees. 2008 Series A bonds, 2008 CAMC Teays bonds, 2009 Series A bonds, and various notes and lines and letters of credit are obligations under the master trust indenture. The Foundation's restricted net assets are not available to satisfy obligations of the obligated group.

**Debt Covenants** — In connection with the long-term obligations detailed above, members of the obligated group are subject to certain restrictive covenants that require, among other items, the obligated group to maintain certain financial ratios as defined in the debt agreements and to make certain informational filings with its creditors.

**Debt Service Requirements** — The System is required to make principal payments under long-term debt and capital lease obligations. As of December 31, 2010, principal payments are as follows:

	Bond Series				2008A CAMC Teays	2006 Promissory CAMC Teays Note	Other — Including Capital Leases	Total
	BB&T Mountaineer Imaging	BB&T VHA Refinance	2009A	2008A				
2011	\$ 559	\$2,107	\$ 2,205	\$ 645	\$ 664	\$ 280	\$2,059	\$ 8,519
2012	559	2,107	2,190	825	693	280	1,010	7,664
2013	559	2,107	2,600	960	722	280	858	8,086
2014	559	1,932	5,445	1,045	752	280	901	10,914
2015	559	-	5,935	1,455	776	5,250	531	14,506
Thereafter	<u>6,205</u>	<u>-</u>	<u>159,010</u>	<u>122,040</u>	<u>20,993</u>	<u>-</u>	<u>2,503</u>	<u>310,751</u>
Total	<u>\$9,000</u>	<u>\$8,253</u>	<u>\$177,385</u>	<u>\$126,970</u>	<u>\$24,600</u>	<u>\$6,370</u>	<u>\$7,862</u>	<u>\$360,440</u>

**Derivatives** — The System has entered into floating-to-fixed and floating-to-floating interest rate swap agreements, and an interest rate cap agreement in connection with its debt management program. The objective is to reduce the amount of interest related to outstanding debt obligations. Consistent with its interest rate risk management objective, the System entered into various interest rate swap agreements that are not designated as hedging instruments with a total outstanding notional amount of \$392,379 at December 31, 2010, and \$395,140 at December 31, 2009. Net interest paid or received under the swap agreements is included in the consolidated statements of operations as a component of interest and debt expense, while the change in the fair value of the derivative is reported separately in the consolidated statements of operations.

The System's interest rate swap agreements as of December 31, 2010 and 2009, are as follows:

Swap Type	Expiration Date	System Pays	Notional Amount	
			2010	2009
Floating	September 1, 2032	BMA Municipal Bond Index rate	\$ 152,725	\$ 154,850
Interest rate cap	September 12, 2012	7.50%*	60,000	60,000
Fixed	September 1, 2027	USD-SIFMA Municipal Bond Index	50,000	50,000
Fixed	September 1, 2037	4.19 %	105,000	105,000
Fixed	October 1, 2013	3.35 %	<u>24,654</u>	<u>25,290</u>
Total			<u>\$ 392,379</u>	<u>\$ 395,140</u>

\* Instrument caps System interest rate exposure, as counterparty will refund the System interest costs above 7.5% related to the notional amount.

The reporting location and amounts of the values for the System's interest rate swap agreements as of December 31, 2010 and 2009, are as follows:

Derivatives not Designated as Hedging Instruments Under Statement 133	Liability Derivatives			
	2010		2009	
	Consolidated Balance Sheet Location	Fair Value	Consolidated Balance Sheet Location	Fair Value
Interest rate swap agreements	Derivative obligation	<u>\$ 12,730</u>	Derivative obligation	<u>\$ 6,580</u>

The reporting location and amounts of derivative losses (gains) on the System's interest rate swap agreements as of December 31, 2010 and 2009, are as follows:

Derivatives not Designated as Hedging Instruments Under Statement 133	Statements of Operations		
	Location of (Gain) Loss Recognized	2010	2009
Interest rate swap agreements	Change in the fair value of the derivatives	<u>\$ 6,150</u>	<u>\$ (36,301)</u>

Net interest paid and received on the System's interest rate swap transactions was an expense of \$2,880 and \$4,402 for the years ended December 31, 2010 and 2009, respectively. This is included in interest and debt expense in the accompanying consolidated statements of operations.

Generally, the counterparty to the CAMC interest rate swap transactions could force an early termination on most of the transactions if the obligated group's underlying credit rating declines from A2 to Baa2 or below as determined by Moody's Investors Service, if the obligated group fails to post collateral or if the obligated group fails to make swap payments. Aggregate termination payments would approximate the fair market value of the outstanding instruments as reported above.

To evidence its obligations under the derivatives, promissory notes were negotiated by CAMC and the swap counterparty to give the swap counterparty security for CAMC's obligations under the derivative agreements. The actual obligation of CAMC on these notes may vary significantly from the nominal amounts of each note. No amounts are outstanding under these notes.

Under the terms of several of the derivative contracts, CAMC is required to maintain collateral posted with the counterparty to secure a portion of the estimated value of the derivative instruments when said instruments are valued in favor of the counterparty as periodically determined by the counterparty. Collateral must be posted when the applicable aggregate derivative values exceed \$10,000 in favor of the counterparty. As of December 31, 2010 and 2009, \$4,630 and \$1,850, respectively, of collateral had been posted. The System's accounting policy is not to offset collateral amounts against fair value amounts recognized for derivative instrument obligations. Accordingly, the posted collateral is included in assets limited as to use in the accompanying consolidated balance sheets.

**Operating Lease Agreements** — The System leases various land, computer, office, and movable equipment under noncancelable operating lease agreements expiring at various dates through 2020. The payments under the noncancelable operating lease agreements as of December 31, 2010, are as follows:

<b>Years Ended December 31</b>	
2011	\$ 4,530
2012	3,508
2013	1,650
2014	911
2015	850
Thereafter	<u>3,849</u>
<b>Total</b>	<b><u>\$ 15,298</u></b>

Total expense for operating leases, which is included in supplies and other in the accompanying consolidated statements of operations, was \$ 4,490 and \$4,419 for the years ended December 31, 2010 and 2009, respectively.

## **8. LIABILITIES FOR SELF-INSURANCE RESERVES**

Certain of the System's subsidiaries are self-insured for professional malpractice and general liability claims through the CAMCHSI and Affiliates Malpractice Self-Insurance Trust (the "Trust"). Participating affiliates have proportionate rights to the Trust's account balance held under the custodial management of a bank trust department and can withdraw from the Trust, subject to certain actuarially determined thresholds. The Trust's account is used for payment of any professional malpractice and general liability losses, expenses relating thereto, costs of administering the Trust, and insurance premiums for coverage in excess of the self-insured limits.

Contributions to the Trust are made as determined using statistical analysis by an independent actuarial valuation of occurrence-based risks, which includes consideration of incurred but not reported claims exposure. The System's methodology for estimating this self-insured obligation is a simulation-modeling approach largely dependent on the System's actual loss history. As of December 31, 2010 and 2009, the System has recorded \$21,115 and \$20,451, respectively, as the liability for self-insured asserted and unasserted professional malpractice and general liability claims. The estimated current portion of \$5,600 in 2010 and \$5,200 in 2009 is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. The estimated liability for such malpractice and general liability claims has been discounted using a discount rate of 1.0% in 2010 and 2.0% in 2009. While the ultimate amount of costs incurred under the System's self-insured programs is dependent on future developments, in management's opinion, recorded reserves are adequate to cover the future settlement of claims. However, it is reasonably possible that recorded reserves may not be adequate to cover the future settlement of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in operations in the periods in which such adjustments are known.

The malpractice self-insurance limits are a maximum \$3,000 per occurrence and a maximum annual aggregate limit of \$12,000 for May 1, 2001 through April 30, 2002; \$5,000 per occurrence and a maximum annual aggregate limit of \$20,000 for May 1, 2002 through April 30, 2003; \$7,000 per occurrence and a maximum annual aggregate limit of \$25,000 for May 1, 2003 through April 30, 2004; \$10,000 per occurrence and a maximum annual aggregate limit of \$30,000 for May 1, 2004 through April 30, 2005; and \$10,000 per reported claim and a maximum annual aggregate limit of \$30,000 for the five years from May 1, 2005 through April 30, 2010. Management has negotiated the renewal coverage with similar retention limits; this coverage was retained through April 30, 2011.

Certain members of the System are also self-insured for workers' compensation, unemployment compensation, and disability. The workers' compensation plan's trust fund is under the custodial management of a bank trust department. The workers' compensation obligation recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets for these programs is \$2,275 and \$2,486 at December 31, 2010 and 2009, respectively, and is estimated using statistical analyses by consulting actuaries.

As noted above, certain members of the System are self-insured employers for employee workers' compensation claims in the state of West Virginia. The System is subject to risk pools (security and guaranty) for the benefit of self-insured employers. The risk pools are utilized to fund the claims payments of default and bankrupt self-insured employers. Under the security pool, the System is required to maintain a \$1,516 letter of credit to secure claims with dates of injury on or prior to June 30, 2004. The System and other pool participants are required to pay annual guaranty pool assessments until the guaranty pool contains the sum of \$30,000 or 5% of the estimated total claims liability of all self-insured employers. In the event that actual claim defaults exceed the amounts of defaulted claim reserves, additional amounts may be assessed to the self-insured employers to fund the guaranty pool. The System's contributions to the guaranty pool were \$1 and \$7 for 2010 and 2009, respectively. The amount of the System's liability in respect to potential assessments cannot be estimated. Accordingly, no accrual for such liability has been reflected in the consolidated financial statements.

## 9. BENEFIT PLANS

**SERPs** — The System has adopted several SERPs for the benefit of corporate officers. The SERPs, when combined with the Retirement Savings Plan, are intended to provide corporate officers with a retirement benefit from all System sources (including 50% of Social Security benefits) ranging from approximately 55% to 60% of the officer's average compensation during his or her final five years of employment with an assumed normal retirement age of 60. Generally, an officer may become fully vested in SERPs' benefits at age 60 with at least 30 years of service. Partial vesting in these benefits begins at age 55 with at least five years of service. Benefit payments under these plans generally do not commence until 24 months after termination of employment. No benefits are payable under the SERPs should the officer, who is otherwise eligible for benefits, enter into competition with the System during the 24 months following termination of employment. The SERPs are nonqualified plans. The plans were amended to comply with Section 409a regulations, including the substantial risk-of-forfeiture requirements.

The table below sets forth the change in the benefit obligation of the SERPs for the years ended December 31, 2010 and 2009, using a December 31 valuation date. The table also reflects the funded status of the plans.

<b>Change in Projected Benefit Obligation</b>	<b>2010</b>	<b>2009</b>
Benefit obligation at beginning of year	\$ 9,324	\$ 8,944
Plan assumption adjustment	(1,238)	-
Service cost	511	606
Interest cost	374	544
Actuarial loss	18	473
Benefits paid	(2,367)	(1,242)
Other	19	-
	<u>\$ 6,641</u>	<u>\$ 9,325</u>
Projected benefit obligation (underfunded status) at end of year	<u>\$ 6,641</u>	<u>\$ 9,325</u>

The long-term portion of this obligation is included in retirement obligations, while the current portion is included in accrued payroll and payroll-related expenses in the accompanying consolidated balance sheets. The accumulated benefit obligation for the SERPs was \$5,508 and \$7,484 at December 31, 2010 and 2009, respectively.

Included in unrestricted net assets at December 31, 2010, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial gain of \$1,746 and unrecognized net prior-service cost of \$687. The actuarial loss and prior-service cost expected to be recognized are \$120 and \$270, respectively, during the year ending December 31, 2011.

The majority of the SERPs benefits are not funded. Certain assets approximating \$1,739 and \$1,425 at December 31, 2010 and 2009, respectively, are maintained in a separate account to fund benefits under the plans. Contributions of \$0 and \$286 were made into this account in 2010 and 2009, respectively. Such assets are subject to general creditors of the System. Actual employer contributions and benefits paid under the plans were \$2,367 and \$1,242 for the years ended December 31, 2010 and 2009, respectively. The System expects to contribute approximately \$830 to its SERP plans in 2011.

The benefit payments, which reflect expected future service, as appropriate, as of December 31, 2010, are expected to be paid by the SERP plans as follows:

<b>Years Ended December 31</b>	
2011	\$ 830
2012	-
2013	-
2014	4,130
2015	1,287
2016–2020	3,072

The components of net periodic benefit cost for SERP plans for the years ended December 31, 2010 and 2009, were as follows:

	<b>2010</b>	<b>2009</b>
Service cost	\$ 511	\$ 606
Interest cost	374	544
Settlement charge	622	340
Actuarial loss	202	218
Amortization of prior-service cost	<u>415</u>	<u>415</u>
Net periodic benefit cost	<u>\$ 2,124</u>	<u>\$ 2,123</u>

Actuarial assumptions for the plans for the years ended December 31, 2010 and 2009, are as follows:

	<b>2010</b>	<b>2009</b>
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	4.35 %	5.70 %
Expected rate of compensation increase	4.50	4.50
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	3.65 %	4.35 %
Rate of compensation increase	4.50	4.50
Lump-sum interest rate	3.50	3.50

**Postretirement Benefits Other Than Pensions** — Effective May 1, 1998, employees were notified of the discontinuation of other postretirement benefits (OPEBs), except for a grandfathered group of participants. In accordance with the establishment of accounting standards for employers' accounting for postretirement benefits other than pensions (postretirement benefits), as of the effective date, CAMC ceased recognizing service costs related to the health care component of the benefit. However, life insurance and sick day buyout benefits continue to be offered. CAMC changed the design of the plan to eliminate prescription drug benefits for all retirees effective January 1, 2006. Medical benefits for certain classes of retirees are 100% retiree-paid beginning in 2006.

Beginning with the 2005 valuation, the effects of the changes to the drug plan are amortized over three years, as that is the time over which the drug plan still exists. The effect of these changes to the grandfathered medical benefits, however, were recognized over the average remaining future lives of those participants who were affected since the medical plan was going to continue to be offered. However, effective January 1, 2006, CAMC discontinued its retiree medical and drug plan for both Medicare-eligible participants and those who have yet to attain Medicare eligibility, except for a small number of grandfathered employees. Additionally, the amortization period of the unrecognized prior-service credit and net actuarial loss at December 31, 2005, related to the retiree medical and drug plan is being amortized over two years beginning in 2006. Beginning in 2007, unrecognized amounts are primarily subject to a one-year amortization period.

The table below sets forth the change in the plan assets and benefit obligation of the OPEBs for the years ended December 31, 2010 and 2009, using a December 31 valuation date. The table also reflects the funded status of the plans.

<b>Change in Projected Benefit Obligation</b>	<b>2010</b>	<b>2009</b>
Benefit obligation — beginning of year	\$ 3,654	\$ 2,975
Service cost	54	30
Interest cost	170	163
Actuarial gain	477	661
Benefits paid	<u>(243)</u>	<u>(175)</u>
Benefit obligation (underfunded status) — end of year	<u>\$ 4,112</u>	<u>\$ 3,654</u>

The OPEB benefits are unfunded. Employer contributions and benefits paid were \$252 and \$175 for the years ended December 31, 2010 and 2009, respectively.

A summary of projected benefit payments for the years ending December 31, is as follows:

2011	\$ 513
2012	489
2013	471
2014	438
2015	413
2016–2020	1,768

The postretirement benefit expense for the years ended December 31, 2010 and 2009, was as follows:

	<b>2010</b>	<b>2009</b>
Service cost of benefits earned	\$ 54	\$ 30
Interest cost	170	163
Amortization:		
Prior-service credit	-	553
Actuarial loss	<u>96</u>	<u>18</u>
Net periodic postretirement expense	<u>\$ 320</u>	<u>\$ 764</u>

The postretirement benefit plan is not funded. The current portion of the obligation is \$513 and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. For measurement purposes, an annual rate of increase in the per capita cost of covered health care benefits of 8%, declining to 5%, was assumed for 2015 and thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. A discount rate of 4.25% and 4.90% was used for the medical plan for the years 2010 and 2009, respectively. The discount rate was 4.25% and 4.90% for the life insurance and sick day buyout and was used to determine the postretirement benefit obligation as of December 31, 2010 and 2009.

**Retirement Savings Plan** — All employees of participating employers (CAMC, Integrated, the Institute, CAMC Teays, and the Foundation) are eligible to participate in a retirement savings plan. Employees may contribute from 1% to 100% of their salary to the plan, subject to certain limitations, and the employers will match from 1% to 6% based on the employees' years of service. Total employer contributions to the retirement savings plan were \$10,091 and \$9,549 during 2010 and 2009, respectively, which is included in employee benefits in the accompanying consolidated statements of operations.

#### 10. RELATED-PARTY TRANSACTIONS

West Virginia University (WVU) employs physicians who provide medical education and supervision to the resident physicians employed by CAMC. In 2010 and 2009, CAMC provided \$11,111 and \$10,141, respectively, to WVU for the physicians who teach and supervise the resident physicians. The fee paid to WVU is included in supplies and other expense in the accompanying consolidated statements of operations. CAMC has committed \$12,240 to further support WVU during 2011 for the use of the teaching and supervising physicians.

CAMC, Cabell Huntington Hospital, and West Virginia University Hospital are members of HealthNet, Inc. (HNET). Each member's legally controlled percentage is 33 1/3%. HNET is a West Virginia nonprofit corporation, which the Internal Revenue Service (IRS) has determined is recognized as exempt from federal income tax under Section 501 (c)(3) of the Code. HNET is an aeromedical transport service company. Members are required to support HNET to the extent that expenses exceed revenues. For the years ended December 31, 2010 and 2009, HNET expenses exceeded revenues by \$889 and revenues exceeded expenses by \$352. The excess is distributed to the members during the following fiscal year. HNET also reimburses CAMC for operating expenses incurred on its behalf as well as for certain financial services. HNET reimbursed CAMC \$3,703 in 2010 and \$4,009 in 2009 for such services. Amounts due from HNET included in other receivables were \$4,278 and \$3,480 at December 31, 2010 and 2009, respectively.

#### 11. FUNCTIONAL EXPENSES

The functional expenses related to the System's operations as of December 31, 2010 and 2009, are as follows:

	2010	2009
Provision of health care and related services	\$ 704,317	\$ 681,336
General and administrative	185,934	179,592
Change in fair value of derivatives (G&A)	<u>6,150</u>	<u>(36,301)</u>
Total	<u>\$ 896,401</u>	<u>\$ 824,627</u>



## 12. COMMITMENTS, CONTINGENCIES, AND LITIGATION

Entities of the System are party to a number of lawsuits. It is not possible at the present time to estimate the ultimate legal and financial liability, if any, with respect to certain lawsuits. In the opinion of management, after consultation with counsel, adequate insurance and self-insurance reserves exist in the event of any significant financial exposure. Accordingly, in the opinion of management, resolution of those matters is not expected to have a material adverse effect on the System's consolidated financial position. However, depending on the amount and timing of such resolution, an unfavorable resolution of some or all of these matters could materially affect the future consolidated results of operations or cash flows in a particular period.

On February 7, 2008, a jury returned a verdict against CAMC in a lawsuit filed prior to December 31, 2007. The lawsuit concerned a physician's medical staff privileges. The jury returned a verdict against CAMC in the amount of \$5,000 compensatory damages and \$20,000 punitive damages, for a total of \$25,000 in damages. CAMC recorded an obligation and related expense totaling \$26,000 for this matter in its 2007 consolidated financial statements. The circuit court subsequently reduced the compensatory damages to \$2,000 and the punitive damages to \$8,000, thereby reducing the total award from \$25,000 to \$10,000, and CAMC reduced its previously recorded obligation and reduced related litigation expense in its 2008 consolidated financial statements. The case was settled on appeal for \$11,700. The settlement was funded by CAMC (\$2,000) and two of CAMC's insurance carriers, Executive Risk Indemnity Co. (ERI) (\$8,200) and Employers Reinsurance Corporation (ERC) (\$1,500), pursuant to a nonwaiver agreement under which the parties preserved their right to negotiate or litigate among themselves with respect to the portion of the settlement, if any, each should bear. ERI, ERC, and CAMC are currently litigating the ultimate relative responsibility of each for the settlement. Management is unable to estimate the ultimate amount, if any, of insurance proceeds that CAMC may receive as a result of the litigation. Accordingly, an obligation of \$9,545 has been recorded and is reflected in the consolidated balance sheets as of December 31, 2010 and 2009.

**Rate Regulation** — The Health Care Authority (HCA) is empowered, by provisions of the West Virginia Code, to regulate CAMC and CAMC Teays' gross patient revenues from nongovernment payors and to evaluate health care entity financial performance. This is accomplished by issuing rate orders, based on facility operating budgets and rate schedules, and through evaluating performance and compliance reports submitted by CAMC and CAMC Teays on a periodic basis. The addition and deletion of services are also regulated by HCA. For the years ended December 31, 2010 and 2009, CAMC Teays had \$479 and \$546, respectively, of penalties being held in abeyance by the HCA. For the years ended December 31, 2010 and 2009, \$0 and \$68, respectively, of these penalties relates to unapproved payor discount contracts. The remaining penalties relate to underspent wages. These remaining penalties may be used to reduce future rates at such times and in such amounts according to the HCA's discretion. These penalties against CAMC Teays may also be reduced based on an annual plan that CAMC Teays may submit to the Authority outlining community service projects. CAMC Teays must submit such plan to the Authority outlining the community services to be provided in future years along with the amount of the penalty CAMC Teays believes should be eliminated as a result of these services. An obligation is not recorded for such penalties in abeyance in the accompanying consolidated financial statements as the final resolution for such penalties is unknown and the corresponding obligation cannot be estimated.

**Asset Retirement Obligation** — Guidance regarding the accounting for conditional asset retirement obligations clarified when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered the applicable accounting guidance, specifically as it relates to its legal obligations to perform asset retirement activities, such as asbestos removal, on its existing properties. Management does not believe that remediation of such obligations will have a material effect on the consolidated financial statements.

**Regulatory Matters** — In December 2003, CAMC executed a settlement agreement with the U.S. Department of Health and Human Services, Office of the Inspector General (OIG) related to billings for Medicaid and Medicare therapy services provided by CAMC from 1999 to 2001. The settlement was agreed upon in order to avoid the possible delay and expense that would be involved in litigating claims made by the OIG that CAMC submitted certain inappropriate billings to the Medicare and Medicaid programs. No admission of wrongdoing by CAMC was made through this agreement. The provisions of this agreement apply to CAMC only, not the Parent or any of its other subsidiaries. As part of the settlement, CAMC agreed to comply with the terms of a Corporate Integrity Agreement (CIA) for a five-year period from the effective date. The CIA requires that CAMC maintain its existing compliance program and that it expand the following areas of compliance activity: training of employees, selected physicians, and selected contractors; updating and adding to the existing compliance policies and procedures; reporting of overpayments to the OIG; screening employees and others against the exclusion lists maintained by the OIG and the federal General Services Administration; providing periodic reports to the OIG; and retaining an independent review organization to monitor compliance with the CIA. The reviews completed by the independent review organization to date have indicated that CAMC was below the 5% error threshold stipulated in the CIA.

CAMC has completed all the administrative requirements of the CIA. CAMC is continuing to train and to monitor compliance-related activity, but is no longer required to report these functions to the OIG. However, CAMC has not received a formal notice of the CIA's termination due to the fact that two overpayments discovered during the CIA have not yet been refunded to the Medicare program. Closure of these overpayments requires action by CAMC's Medicare intermediary. CAMC is waiting for direction from the Medicare intermediary. Two other overpayments of this type, still pending at year-end 2009, have now been resolved and settled with the intermediary during 2010. The documentation for resolution of one outstanding overpayment is currently in the OIG's hands for review. If that review is favorable, the final overpayment will be resolved in the same way. Adequate reserves for these overpayments were established in years prior to 2009 and continue to be maintained.

Similar to other providers, the System has received notification that certain government agencies are reviewing billings for certain types of services rendered. The System's management is of the opinion that the effect of these reviews will not be material to the financial position of the System. However, the System has not quantified and is unable to quantify the amounts, if any, that it may need to repay by reason of unnecessary services being ordered, furnished, and billed or services being billed incorrectly, and no amount has been specified by the government agencies. Accordingly, management is unable to estimate the potential obligation associated with these matters.

**IT Outsourcing** — In August 2003, CAMC entered into a 10-year agreement with Siemens Medical Solutions USA, Inc. ("Siemens") for the license, implementation, and support of the software for its core information services applications. CAMC's total commitment related to this agreement, aggregating \$41,031, is to be paid in 120 monthly installments of \$342, plus applicable sales tax and subject to an annual adjustment as described in the agreement during the 10-year term. Also, under this agreement, \$15,000 of penalty credits has accrued to the benefit of CAMC for purchase of additional services or products from Siemens. CAMC is recognizing these credits as a reduction of expenses incurred under the Siemens' agreement over the anticipated benefit and usage period of the related modules ranging

from 24 to 60 months. Siemens contract expenses, including expenses eligible for capitalization, were reduced by \$588 and \$715 related to the recognition of such credits for the years ended December 31, 2010 and 2009, respectively.

Further, CAMC entered into an information technology outsourcing agreement with Siemens concurrently with the execution of the license, implementation, and support agreement. Under the outsourcing agreement, CAMC outsourced to Siemens the services previously provided by its employees, including maintaining software and hardware and providing information systems and telecommunications services to CAMC and its affiliates. The term of the outsourcing agreement is 10 years and may be terminated by CAMC with 30 days' notice if Siemens fails to meet or exceed service-level standards, as defined in the agreement. Siemens may terminate the agreement under certain defined conditions with notice that varies by condition. Annual expenditures related to staffing under this outsourcing agreement are expected to approximate \$7,200 annually over the life of the agreement, subject to an annual adjustment as described in the agreement during the 10 years.

Total fees incurred during the years ended December 31, 2010 and 2009, related to these agreements were \$14,870 and \$15,372, respectively. Of this amount, \$2,429 and \$2,583 was capitalized as of December 31, 2010 and 2009, respectively, related to capitalized computer hardware and software costs.

In September 2010, CAMC entered into an amended agreement with Siemens, whereby the original agreement was extended by seven years through September 30, 2020. CAMC's total commitment related to this amended agreement for the license, implementation, and support is \$14,188.

**Gain Contingency** — CAMC believes that sales tax was improperly collected from CAMC by various vendors and remitted to the State of West Virginia (the "State") during the period July 2007 to June 2009 for radiopharmaceuticals, drugs, durable medical goods, mobility-enhancing equipment, and prosthetic devices exempt from tax pursuant to the WV Code 11-15-9i, other statutory provisions and established case law. On August 11, 2009, CAMC submitted a claim for refund of approximately \$9,600 to the State for sales taxes paid to vendors from July 2007 through June 2009. In 2010, the State paid CAMC \$2,276 on this claim, and CAMC has recorded the amount paid as a reduction to expense in 2010. The remainder of the August 11, 2009, claim has been denied by the State. Based on the State's review of CAMC's August 2009 claim, the State has notified CAMC of \$1,900 of additional sales tax liability for the period from July 2007 to June 2009, which has been recorded as an expense in 2010. On February 14, 2011, CAMC submitted another claim for refund to the State of sales taxes paid to vendors in the amount of \$1,700 from July 2009 to December 2010. CAMC received from the State \$1,325 in March 2011 on this claim and will record this and any additional portion of the claim received as income in the year that it is received.

On March 10, 2010, the IRS issued IR-2010-25. The issuance of this notice legally commits the IRS to refund Federal Insurance Contributions Act (FICA) tax and pay interest on valid refunds for medical resident FICA taxes for periods ending before April 1, 2005. CAMC filed approximately \$3,500 of medical resident FICA tax refunds during 2010. The determination of the amount of interest and how the interest will be calculated is not detailed in either the IR-2010-25 notice or the refund received by CAMC for the FICA tax during 2010 and as such is subject to IRS determination. CAMC has recorded a gain through operating expense during 2010 for the FICA tax refund filed and will record through operating expense the interest associated with the FICA tax refund in the period received.

**Other Commitments** — At December 31, 2010, the System has committed approximately \$39,372 in the aggregate over a five-year period for current and planned projects, including new construction, renovations, and equipping of facilities at its Memorial, General, Women and Children's, and CAMC Teays hospitals. Current plans are for such projects to be funded mainly from 2008 bond proceeds currently on deposit in trustee project acquisition funds included in assets limited as to use.

### 13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting guidance on fair value measurements for certain financial assets and liabilities defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. The guidance established a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and expanded disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. The System is required to assess its credit risk versus its counterparties. This assessment resulted in a decrease in the liability of \$283 and \$719, which increased the System's excess of revenues over expenses for the years ended December 31, 2010 and 2009, respectively.

As noted above, the guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- *Level 1* — Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* — Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- *Level 3* — Inputs to the valuation methodology are unobservable and significant to the fair value measurement

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The financial instruments carried at fair value as of December 31, 2010, by caption, in the consolidated balance sheet by the three-level valuation hierarchy defined above, is as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investments:</b>				
Cash equivalents	\$ 66,466	\$ -	\$ -	\$ 66,466
Equity securities — domestic	115,803	-	6,044	121,847
Equity securities — international	12,985	-	-	12,985
Debt securities issued by U.S. Treasury and other U.S. government corporations and agencies	39,872	-	-	39,872
Debt securities issued by states of the U.S. and political subdivisions of the states	207	-	-	207
Corporate debt securities	43,358	-	-	43,358
Other	<u>1,538</u>	<u>-</u>	<u>-</u>	<u>1,538</u>
<b>Total investments at fair value</b>	<u>\$ 280,229</u>	<u>\$ -</u>	<u>\$ 6,044</u>	<u>\$ 286,273</u>
<b>Liabilities — derivative obligation</b>	<u>\$ -</u>	<u>\$ 12,730</u>	<u>\$ -</u>	<u>\$ 12,730</u>
<b>Total liabilities at fair value</b>	<u>\$ -</u>	<u>\$ 12,730</u>	<u>\$ -</u>	<u>\$ 12,730</u>
	<b>Other Investments</b>	<b>Other ALATU</b>		<b>Total</b>
<b>Effect of Level 3 Inputs on Net Assets</b>				
Beginning balance (December 31, 2009)	\$ 5,580	\$ 238		\$ 5,818
Total gain	<u>216</u>	<u>10</u>		<u>226</u>
Ending balance (December 31, 2010)	<u>\$ 5,796</u>	<u>\$ 248</u>		<u>\$ 6,044</u>

The financial instruments carried at fair value as of December 31, 2009, by caption, in the consolidated balance sheet by the three-level valuation hierarchy defined above, is as follows:

	Level 1	Level 2	Level 3	Total
<b>Investments:</b>				
Cash equivalents	\$ 68,108	\$ -	\$ -	\$ 68,108
Equity securities — domestic	114,789	-	5,818	120,607
Debt securities issued by U.S. Treasury and other U.S. government corporations and agencies	35,377	-	-	35,377
Debt securities issued by states of the U.S. and political subdivisions of the states	312	-	-	312
Corporate debt securities	39,295	-	-	39,295
Other	<u>3,863</u>	<u>-</u>	<u>-</u>	<u>3,863</u>
Total investments at fair value	<u>\$261,744</u>	<u>\$ -</u>	<u>\$ 5,818</u>	<u>\$267,562</u>
Liabilities — derivative obligation	<u>\$ -</u>	<u>\$ 6,580</u>	<u>\$ -</u>	<u>\$ 6,580</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 6,580</u>	<u>\$ -</u>	<u>\$ 6,580</u>
 <b>Effect of Level 3 Inputs on Net Assets</b>				
	<b>Other Investments</b>	<b>Other ALATU</b>		<b>Total</b>
Beginning balance (December 31, 2008)	\$ 5,146	\$ 219		\$ 5,365
Total gain	<u>434</u>	<u>19</u>		<u>453</u>
Ending balance (December 31, 2009)	<u>\$ 5,580</u>	<u>\$ 238</u>		<u>\$ 5,818</u>

Following is a description of the System's valuation methodologies for assets and liabilities measured at fair value

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

*Cash and Cash Equivalents and Short-Term Investments* — The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents and short-term investments approximate their fair value.

*Assets Limited as to Use* — The fair value for assets limited as to use, except for cost method alternative investments, is based on quoted market prices, if available, or estimated using quoted market prices for similar securities (see Note 5)

*Derivatives* — The fair value of the derivative obligation is based on observable inputs from market sources that aggregate data based upon market transactions.

#### 14. ENDOWMENT

Accounting guidance on endowments of not-for-profit organizations provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The following disclosures are made as required by the accounting guidance:

The System's endowment consists of approximately 101 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the System has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- a. The duration and preservation of the fund
- b. The purposes of the System and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the System
- g. The investment policies of the System

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specific period(s), as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation, and investment management costs of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

As part of the current spending policy, the System computes a 12-quarter trailing average market value of each portfolio as of the prior June 30 and makes 5% of that amount available for expenditure. The computed value may be adjusted for large contributions, withdrawals, or market value swings as necessary to produce the desired level of cash. With this policy, the annual dollar amount available for spending will be known at the beginning of the year. If necessary, quarterly transfers of approximately 1.25% will be scheduled to be transferred to Foundation's main cash account. The objectives of the portfolio are the enhancement of capital and real purchasing power, while limiting exposure to risk of loss. Real purchasing power or real rate of return will be defined as returns in excess of inflation as defined by consumer price index. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the assets, while providing the necessary capital to fund the annual spending policy of 5%, plus an additional 1% to cover administrative expenses. Therefore, the desired minimum rate of return is equal to the consumer price index, plus 600-basis points (6%) on an annualized basis. In light of the return requirement, the portfolio is constructed using a total approach with significant portion of the funds invested to seek growth of principal over time. The assets are to be invested for the long term, and a higher short-term volatility in these assets is to be expected and accepted.

Changes in endowment funds for the fiscal year ended December 31, 2010, consisted of the following:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets — beginning of the year	<u>\$ 18,948</u>	<u>\$ 20,018</u>	<u>\$ 38,966</u>
Investment return:			
Investment income	968	-	968
Net depreciation (realized and unrealized)	<u>3,430</u>	<u>-</u>	<u>3,430</u>
Total investment return	<u>4,398</u>	<u>-</u>	<u>4,398</u>
Contributions	<u>2</u>	<u>767</u>	<u>769</u>
Appropriation of endowment assets for expenditure	<u>(814)</u>	<u>-</u>	<u>(814)</u>
Net assets — end of year	<u>\$ 22,534</u>	<u>\$ 20,785</u>	<u>\$ 43,319</u>



Changes in endowment funds for the fiscal year ended December 31, 2009, consisted of the following:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets — beginning of the year	<u>\$ 12,491</u>	<u>\$ 19,104</u>	<u>\$ 31,595</u>
Investment return:			
Investment income	543	-	543
Net depreciation (realized and unrealized)	<u>6,139</u>	<u>-</u>	<u>6,139</u>
Total investment return	<u>6,682</u>	<u>-</u>	<u>6,682</u>
Contributions	<u>(120)</u>	<u>914</u>	<u>794</u>
Appropriation of endowment assets for expenditure	<u>(105)</u>	<u>-</u>	<u>(105)</u>
Net assets — end of year	<u>\$ 18,948</u>	<u>\$ 20,018</u>	<u>\$ 38,966</u>

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor or UPMIFA requires the System to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees. There were no significant deficiencies of this nature that are reported in unrestricted net assets as of December 31, 2010 and 2009.

## 15. UNRESTRICTED NET ASSETS

**Unrestricted Net Assets** — Changes in consolidated unrestricted net assets attributable to the System and the noncontrolling interest in joint ventures for the years ended December 31, 2010 and 2009, are as follows (in thousands):

	<b>CAMC Health System, Inc. and Subsidiaries</b>	<b>Noncontrolling Interests in Joint Ventures</b>	<b>Total</b>
Unrestricted net assets — December 31, 2008	<u>\$ 183,799</u>	<u>\$ 247</u>	<u>\$ 184,046</u>
Excess of revenues over expenses	54,166	455	54,621
Other changes in unrestricted net assets:			
Net assets released from restrictions for capital expenditures	269	-	269
Change in retirement obligations actuarial loss and prior	398	-	398
Distribution of noncontrolling interest	-	(431)	(431)
Contributions for capital expenditures	<u>25</u>	<u>-</u>	<u>25</u>
Increase in unrestricted net assets	<u>54,858</u>	<u>24</u>	<u>54,882</u>
Unrestricted net assets — December 31, 2009	<u>238,657</u>	<u>271</u>	<u>238,928</u>
Excess of revenues over expenses	25,571	811	26,382
Other changes in unrestricted net assets:			
Net assets released from restrictions for capital expenditures	10	-	10
Change in retirement obligations actuarial loss and prior	(380)	-	(380)
Pension assumption adjustment	1,238	-	1,238
Unrestricted fund transfer	(519)	-	(519)
Distribution of noncontrolling interest	-	(755)	(755)
Contributions for capital expenditures	<u>460</u>	<u>-</u>	<u>460</u>
Increase in unrestricted net assets	<u>26,380</u>	<u>56</u>	<u>26,436</u>
Unrestricted net assets — December 31, 2010	<u>\$ 265,037</u>	<u>\$ 327</u>	<u>\$ 265,364</u>

## 16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 26, 2011, the date the consolidated financial statements were available to be issued, and no subsequent events require recognition or disclosure, except as noted in Notes 8 and 12

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**SUPPLEMENTAL SCHEDULE**

# CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor/Program Title	Source	Federal CFDA No.	Indirect Agency	Federal Expenditures
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	D	93 918		\$412,984
WV ID conference	I	93 116	WV DHHR/ WV BPH/ WV OEHP/ WV DSDC	43 239
Public Health and Social Services Emergency Fund	I	93 003	WV DHHR/ WV Hospital Association	106,972
HIV Prevention Activities-Health Department Based	I	93 940	WV DHHR/ WV BPH / WV OEHP/ WV DSDC	21 268
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	I	93 988	WV DHHR/ WV BPH / WV OEHP / Division of Health Promotion	1,147
Asthma Program	I	93 283	WV DHHR/ WV BPH/ OEHP	37,192
Epidemiology Course	I	93 069	WV DHHR/ WV BPH/ OEPS	12,373
Appalachian Regional Commission — Partnering for a drug free pregnancy	D	23 001		5,795
U S Department of Health and Human Services Centers for Medicare and Medicaid Services --- Medical Assistance Program	I	93 778	WV DHHR/ WV BPH	173,907
U S Department of Health and Human Services National Institute of Health — National Center for Research Resources	I	93 389	Marshall University Research Corporation	16,911
Total federal expenditures				<u>\$831,788</u>

## **CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2010**

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#### **1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures on an accrual basis of CAMC Health Education and Research Institute (the "Institute") under programs financed by the U S. government for the year ended December 31, 2010. Because the Schedule presents only a selected portion of the operations included in the System's financial statements, it is not intended to, and does not present the financial position, changes in net assets, and cash flows of the System and its subsidiaries.

For the purposes of the Schedule, federal awards include the following:

- Direct federal awards
- Pass-through funds received from non-federal organizations under federally sponsored programs conducted by those organizations.

#### **2. BASIS OF PRESENTATION**

The Institute did not make any subrecipient disbursements during the year ended December 31, 2010.



Deloitte & Touche LLP  
2500 One PPG Place  
Pittsburgh, PA 15222-5401  
USA

Tel: +1 412 338 7200  
Fax: +1 412 338 7380  
www.deloitte.com

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

To the Audit Committee of  
CAMC Health System, Inc.  
Charleston, West Virginia

We have audited the consolidated financial statements of CAMC Health System, Inc. and subsidiaries (the "System") as of and for the year ended December 31, 2010, and have issued our report thereon dated April 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

The System's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the System's response, and accordingly, we express no opinion on it.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

September 9, 2011



Deloitte & Touche LLP  
2500 One PPG Place  
Pittsburgh, PA 15222-5401  
USA  
Tel: +1 412 338 7200  
Fax: +1 412 338 7380  
www.deloitte.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

To the Audit Committee of  
CAMC Health System, Inc.  
Charleston, West Virginia

**Compliance**

We have audited CAMC Health System, Inc. and subsidiaries' (the "System") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2010. The System's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings And Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the System's compliance with those requirements.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

**Internal Control Over Compliance**

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test

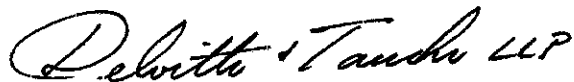


and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, Charleston Area Medical Center, Inc.'s Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

September 9, 2011

# CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010

### PART I — SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued:	unqualified		
Internal control over financial reporting:			
• Material weakness(es) identified?	_____ yes	<u>  X  </u> no	
• Significant deficiency(ies) identified not considered to be material weaknesses?	<u>  X  </u> yes	_____	none reported
Noncompliance material to financial statements noted?	_____ yes	<u>  X  </u> no	

#### Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	_____ yes	<u>  X  </u> no	
• Significant deficiency(ies) identified not considered to be material weakness(es)?	_____ yes	<u>  X  </u>	none reported
Type of auditors' report issued on compliance for major programs:	unqualified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____ yes	<u>  X  </u> no	

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
93 918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
Dollar threshold used to distinguish between Type A and Type B programs	<u>  \$300,000  </u>
Auditee qualified as low-risk auditee?	<u>  X  </u> yes      _____ no

## CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010

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#### PART II — FINANCIAL STATEMENT FINDINGS

**Condition:** The error identified was an overstatement of the Accounts payable and accrued expenses, Inventory, Fixed Assets and Supplies and other expense line items and the understatement of Excess of Revenue over Expense in the consolidated balance sheet and statement of operations as of and for the year ended December 31, 2009, additionally the Functional Expense disclosure (which breaks out the provision of health care and related services and general and administrative costs) was overstated due to the supplies and other expense overstatement for the year ended December 31, 2009

**Cause:** The control for the accrual of outstanding purchase orders was not operating timely; adjustments were being made in 2010 related to purchase orders that should have been removed from the accrual as of December 2009. Duplicate purchase orders for capital purchases existed, as well as, unit of measure issues occurring when medical supplies were received by shipping

Duplicate purchase orders for capital purchases occurred because capital purchases can be requisitioned via invoice, purchase order, or by communication with a vendor, as long an approval has been received by purchasing. The item for which an invoice was received was also outstanding on a PO. When the item was received, it was matched to the invoice but not the PO; therefore, the PO continued to accrue after the invoice had been paid.

Unit of measure errors occurred because of different units of measure on the PO and the shipping documents received – i.e. 12 canisters of oxygen were ordered via a purchase order, when received the shipping documentation was marked 1 case as there are 12 canisters in 1 case of bottled oxygen. Due to the different units of measure between the purchase order and the shipping documents, the Company removed 1 canister from the purchase order that had 12 canisters denoted and the 11 remaining canisters, which had been received, continued to accrue

**Criteria and Effect:** Purchase orders were inappropriately accrued as of December 31, 2010 due to duplicate purchase orders, errors in unit of measure, and purchase orders for items that had been received and paid for continuing to accrue in A/P and accrued expenses. Detailed analysis of the error shows a limited possible impact to grant-related expenditures. As the possible impact does not exceed the \$10,000 questioned costs threshold per OMB Circular A-133 section 510 (a)(3), this error will not be a Part III reportable finding.

**Recommendations:** A thorough review of the open purchase orders was not completed by the Purchasing Department manager. An appropriate detailed review would ensure that all material purchase orders are properly identified and reconciled to supporting detail. Also, the reconciliation should be evaluated by another level of management to ensure that all reconciling items are appropriate. This process should occur on a timely basis to ensure proper recording within the Company's Financial Statements

The Company should consider a simplified process for the requisition of capital and supplies, specifically as it relates to the medium used to purchase from the vendor and the matching of receiving documentation to the original documentation. Additionally, a standardized process across capital or supply times for all vendors would improve the complexity of the process.

**Views of responsible officials/ corrective action plans:** Management has implemented several changes to mitigate the potential for error. The Data Management Department has developed a new monthly aging report of open purchase orders for distribution to Purchasing, Receiving and Accounts Payable. These functional areas will report back by the 25<sup>th</sup> of each month any open purchase order corrections to Data Management. Further, to reduce the number of open purchase orders for reconciliation, the receiving system has been modified to prevent clerks from receiving quantities in excess of purchase order amounts. The receiving clerk must secure a purchasing agents approval to receive an amount in excess of the stipulated purchase order amount. Management plans to seek external direction for suggestions that might improve the accuracy and reduce the complexity of our purchasing and payment processes.

### **PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters are reportable.