

CAMC Health System, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the
Years Ended December 31, 2013 and 2012, and
Schedule of Expenditures of Federal Awards for the
Year Ended December 31, 2013, and Schedule of
Expenditures of State of West Virginia Awards for the
Years Ended December 31, 2013 and 2012, and
Independent Auditors' Reports in Connection with
OMB Circular A-133 for the
Year Ended December 31, 2013

DHHR - Finance

SEP 22 2014

Date Received

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of CAMC Health System, Inc. and its subsidiaries (the "System"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State of West Virginia Department of Health and Human Resources Grantee Audit Compliance Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CAMC Health System, Inc. and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2013 and 2012 Schedules of the State of West Virginia Awards are presented for the purposes of additional analysis as required by State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide and the 2013 Schedule of Expenditures of Federal Awards is presented for the purposes 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 they are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2014 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scoping of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide in considering the System's internal control over financial reporting and compliance.

Deloitte & Touche LLP

April 29, 2014 (September 4, 2014 as to Note 16, Subsequent Events)

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Date Received

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,831	\$ 14,445
Short-term investments	205,578	147,057
Current portion of assets limited as to use	5,900	5,000
Patient receivables — net of allowances for uncollectible accounts of \$19,982 in 2013 and \$22,093 in 2012	106,601	118,887
Other receivables	10,138	13,084
Estimated amounts due from third-party payors	7,751	11,096
Inventories	17,555	18,730
Prepaid expenses and other	<u>8,644</u>	<u>7,069</u>
Total current assets	<u>390,998</u>	<u>335,368</u>
ASSETS LIMITED AS TO USE	<u>361,461</u>	<u>282,403</u>
OTHER INVESTMENTS	<u>20,742</u>	<u>20,669</u>
PROPERTY, EQUIPMENT AND INFORMATION SYSTEMS:		
Land	42,797	41,869
Buildings and improvements	371,111	351,433
Equipment and software costs	477,497	510,151
Construction in progress	<u>40,723</u>	<u>20,401</u>
Total property, equipment and information systems	932,128	923,854
Less accumulated depreciation and amortization	<u>(616,601)</u>	<u>(627,393)</u>
Property, equipment and information systems — net	<u>315,527</u>	<u>296,461</u>
OTHER ASSETS	<u>16,950</u>	<u>19,088</u>
TOTAL	<u>\$ 1,105,678</u>	<u>\$ 953,989</u>

(Continued)

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 55,295	\$ 51,198
Self-insurance reserves	5,900	5,000
Derivative obligation	14,170	25,296
Accrued payroll and payroll-related expenses	41,638	41,319
Estimated amounts due to third-party payors	16,990	19,030
Current maturities of long-term debt and capital lease obligations	<u>12,667</u>	<u>8,143</u>
Total current liabilities	<u>146,660</u>	<u>149,986</u>
LONG-TERM LIABILITIES:		
Long-term debt and capital lease obligations — less current maturities	404,235	333,130
Retirement obligations	13,845	13,531
Self-insurance reserves	13,378	15,426
Other	<u>10,610</u>	<u>10,485</u>
Total long-term liabilities	<u>442,068</u>	<u>372,572</u>
Total liabilities	<u>588,728</u>	<u>522,558</u>
NET ASSETS:		
Unrestricted	447,356	370,938
Noncontrolling interest in joint ventures	<u>358</u>	<u>317</u>
Unrestricted — total	447,714	371,255
Temporarily restricted	47,776	38,946
Permanently restricted	<u>21,460</u>	<u>21,230</u>
Total net assets	<u>516,950</u>	<u>431,431</u>
TOTAL	<u>\$1,105,678</u>	<u>\$953,989</u>

See notes to consolidated financial statements.

(Concluded)

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Patient service revenue (net of contractual allowances and discounts)	\$ 961,721	\$ 938,315
Provision for bad debts	<u>(85,515)</u>	<u>(78,774)</u>
Net patient service revenues less provision for bad debts	876,206	859,541
Other revenue	40,996	41,045
Investment income — net	49,822	33,376
Net assets released from restrictions	<u>1,845</u>	<u>1,701</u>
Total unrestricted revenue and other support	<u>968,869</u>	<u>935,663</u>
EXPENSES:		
Salaries and wages	346,445	331,286
Employee benefits	104,261	95,343
Professional compensation and fees	19,614	19,689
Supplies and other	362,729	332,127
Depreciation and amortization	36,107	37,544
Medicaid provider tax	22,503	20,292
Interest and debt expense	16,312	15,158
Change in fair value of derivatives	<u>(14,083)</u>	<u>(2,710)</u>
Total expenses	<u>893,888</u>	<u>848,729</u>
EXCESS OF REVENUES OVER EXPENSES — Controlling and noncontrolling interest	74,981	86,934
LESS EXCESS OF REVENUES OVER EXPENSES — Noncontrolling interest	<u>(97)</u>	<u>(101)</u>
EXCESS OF REVENUES OVER EXPENSES — Net of noncontrolling interest	74,884	86,833
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net assets released from restrictions for capital expenditures	242	249
Change in retirement obligations actuarial loss and prior service cost	951	(1,071)
Distributions to noncontrolling interest	65	(190)
Contributions for capital expenditures	<u>220</u>	<u>314</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 76,459</u>	<u>\$ 86,236</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, 2013 AND 2012 (In thousands)

	2013	2012
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses — Controlling and noncontrolling interest	\$ 74,981	\$ 86,934
Change in retirement obligations actuarial loss and prior service cost	951	(1,071)
Net assets released from restrictions for capital expenditures	242	249
Distribution to noncontrolling interest	65	(190)
Contributions for capital expenditures	<u>220</u>	<u>314</u>
Increase in unrestricted net assets	<u>76,459</u>	<u>86,236</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	3,002	3,188
Investment income — net	7,814	4,848
Net assets released from restrictions for:		
Programs	(1,773)	(1,701)
Capital expenditures	<u>(213)</u>	<u>(249)</u>
Increase in temporarily restricted net assets	<u>8,830</u>	<u>6,086</u>
PERMANENTLY RESTRICTED NET ASSETS — Contributions	<u>230</u>	<u>238</u>
INCREASE IN NET ASSETS	85,519	92,560
NET ASSETS — Beginning of year	<u>431,431</u>	<u>338,871</u>
NET ASSETS — End of year	<u>\$ 516,950</u>	<u>\$ 431,431</u>

See notes to consolidated financial statements.

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
OPERATING ACTIVITIES:		
Increase in net assets	\$ 85,519	\$ 92,560
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of derivatives	(14,083)	(2,710)
(Gain) loss on disposal of fixed assets	(491)	24
Change in retirement obligations actuarial loss and prior service cost	(951)	1,071
Depreciation and amortization	36,107	37,544
Provision for bad debts	85,515	78,774
Unrealized gains on alternative investments	-	(1,272)
Realized gains on alternative securities	(496)	(1,450)
Realized and unrealized gain on limited as to use trading investments	(26,300)	(13,697)
Net restricted contributions and investment income	(11,046)	(8,274)
Distributions to noncontrolling interest	(65)	190
Changes in assets and liabilities:		
Patient receivables	(73,229)	(81,990)
Other receivables	2,946	6,406
Short term trading investments	(58,521)	(44,827)
Inventories, prepaid expenses, and other	4,696	(506)
Estimated amounts due from/to third-party payors	1,305	9,278
Accounts payable and accrued expenses	2,551	(5,896)
Accrued payroll and payroll-related expenses	319	(392)
Other liabilities	(279)	(385)
Net cash provided by operating activities	<u>33,497</u>	<u>64,448</u>
INVESTING ACTIVITIES:		
Capital expenditures	(38,332)	(37,199)
Capital expenditures — Cancer Center	(10,589)	-
Purchases of alternative investments	(5,909)	(297)
Limited as to use trading investments	(67,491)	(36,060)
Proceeds from the sale of alternative investments	4,845	6,762
Restricted cash as collateral	(7,500)	(14,250)
Restricted cash from collateral	<u>22,820</u>	<u>12,360</u>
Net cash used in investing activities	<u>(102,156)</u>	<u>(68,684)</u>
FINANCING ACTIVITIES:		
Principal payments on debt obligations and capital lease obligations	(8,066)	(8,915)
Borrowings of debt obligations	80,000	-
Borrowings under lines of credit	1,096	1,033
Repayment under lines of credit	(1,096)	(1,033)
Distributions to noncontrolling interest	65	(190)
Net restricted contributions and investment income	<u>11,046</u>	<u>8,274</u>
Net cash provided by (used in) financing activities	<u>83,045</u>	<u>(831)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,386	(5,067)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>14,445</u>	<u>19,512</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 28,831</u>	<u>\$ 14,445</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 11,918</u>	<u>\$ 10,879</u>
Capital assets acquired under capital lease obligations	<u>\$ 3,695</u>	<u>\$ -</u>
Capital expenditures remaining in accounts payable at year-end	<u>\$ 3,218</u>	<u>\$ 1,151</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, 2013 AND 2012 (In thousands)

1. ORGANIZATION

CAMC Health System, Inc. (the “Parent”), is a West Virginia nonprofit corporation that the Internal Revenue Service (IRS) has determined is 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 and is the sole corporate member 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, all in Kanawha County, West Virginia. CAMC is a general partner in two medical office building partnerships, each organized as general partnerships. CAMC owns an 79.3% interest in the General division medical office building partnership and an 90.1% interest in the Women and Children’s medical office building partnership.

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. Effective March 1, 2014, CAMC Teays was merged with and into CAMC. The merger has no effect on the consolidated financial statements as CAMC Teays was a consolidated entity for all years presented.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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. The investment balances and equity earnings were not material in 2013 or 2012.

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 that management has identified as available to meet current operating needs. Short-term investments are stated at fair value.

The Parent and its subsidiaries maintain certain cash balances with banks that exceed the amounts insured by the Federal Deposit Insurance Corporation.

Net Patient Service Revenues and Patient Accounts Receivable — Net patient service revenues and patient receivables are derived primarily from patients who reside in West Virginia and surrounding states.

Gross patient service revenue is recognized based on the System’s standard billing rates. Gross patient service billings is reduced to “patient service revenue (net of contractual allowances and discounts)”, through a provision for contractual allowances for patients who have third-party coverage with contracted rates for the services rendered, including federal and state indemnity and managed care programs and commercial insurance. Such contracted rates are typically less than standard billed charges. Patient service revenue (net of contractual allowances and discounts) for the years ended December 31, 2013 and 2012, by major payor sources, is as follows:

	Patient Service Revenue (Net of Contractual Allowances and Discounts)	
	2013	2012
Medicare	\$ 359,260	\$ 322,382
Medicaid	93,879	112,605
Other Government third-party payors	35,132	38,748
Other third-party payors	388,638	396,933
Self-pay	84,812	67,647

Patient receivables are reduced to their estimated net realizable value through an allowance for uncollectible accounts and contractual adjustments.

Allowance for Uncollectible Accounts — The System recognizes a significant amount of patient service revenue at the time the services are rendered even though the System does not assess the patient’s ability to pay at that time. As a result, the provision for bad debts is presented as a deduction from patient services revenue (net of contractual allowances and discounts). The System does not require collateral or other security on its patient receivables. Self-pay accounts for patients with no insurance and patient deductibles and co-payments on third-party accounts are reduced by an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. This allowance is established based on the length of time the account has been past due and historical experience.

The System considers the patient portion of accounts receivable for write-off beginning 90 days after billing. Certain patient accounts are excluded from write-off consideration when the following conditions exist: the patient account has a credit balance, the charge has been voided, hold on the account, unapplied credits that exist on the patient account, or a payment was made on the patient account in the last 45 days. Excluded accounts are reviewed weekly to assess collectability.

Allowance for Contractual Adjustments — As gross patient service billings are recognized and recorded as accounts receivable, the third-party portion of patient receivables is reduced by an allowance for contractual adjustments to the estimated contracted rate. The System analyzes its past history of collectability and adjusts for certain events or trends as necessary for each of its major payor sources to estimate the allowance for contractual adjustments.

Net patient service revenues less provision for bad debts from the Medicare and Medicaid programs account for approximately 41% and 11%, respectively, of the System's net patient service revenue for the year ended December 31, 2013, and 38% and 13%, respectively, of the System's net patient service revenue for the year ended December 31, 2012. Payments received under the reimbursement arrangements with Medicare and Medicaid are subject to retroactive audit and adjustment. 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 \$3,793 and \$4,278 in 2013 and 2012, 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, 2013 and 2012, is as follows:

	2013	2012
Medicare	30 %	33 %
Commercial Insurance and other third-party payment programs	51	48
Medicaid	13	12
Self-pay	1	1
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. Because the System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net revenue (see Notes 3 and 4). 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.

Pledges Receivable — The Foundation has \$3,830 and \$4,173 recorded as pledges receivable as of December 31, 2013 and 2012, respectively. The amount to be received in one year is included in other receivables and the amount to be received in one to five years is included in other assets.

	2013	2012
Unconditional promises to give consist of:		
Amounts expected to be collected in:		
Less than one year	\$2,167	\$1,930
One to five years	<u>1,906</u>	<u>2,605</u>
	4,073	4,535
Discount to present value of future cash flows	243	362
Allowance for uncollectible accounts	<u>-</u>	<u>-</u>
Total unconditional promises to give — net	<u>\$3,830</u>	<u>\$4,173</u>

Inventories — Inventories represent supplies that are valued at the average-cost method.

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.

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.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. 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 and in certain cases may only withdraw from the partnership quarterly or annually. There are no unfunded commitments. Substantially all of the System's alternative investments are redeemable at net asset value per ownership unit or its equivalent. Fair value for alternative investments is based on the net asset value per ownership unit, as published and determined by the fund manager at least quarterly using the estimated fair value of the underlying investments.

Investments in alternative investments are accounted for utilizing the lower of cost or market method when the System's actual or effective 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, 2013 and 2012, alternative investments recorded at cost aggregate to \$36,803 and \$31,693, respectively. The estimated fair value of these investments as of December 31, 2013 and 2012, was \$54,239 and \$42,778,

respectively. Alternative investments in which the System's ownership percentage exceeds 20% are recorded at fair market value. As of December 31, 2013 the System did not have any such alternative investments. As of December 31, 2012, the total carrying values of such investments was \$5,837. Alternative investments of \$16,061 and \$16,861 are included in assets limited as to use while \$20,742 and \$20,669 are included in other investments as of December 31, 2013 and 2012, respectively.

The Foundation investment policy, which mirrors the Systems 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, which can be expected to generate acceptable long-term returns at a level of risk suitable to the investment committee. The Foundation's investments are pooled to obtain maximum use of funds and higher interest rates. Investment income from this pool is allocated to unrestricted and temporarily restricted net assets based on the percentage of total investments.

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 an accounting hedge and the asset or liability is presented as current as CAMC has the right to settle the agreements prior to expiration and periodically evaluates the interest rate environment to determine if the agreements are consistent with its debt management program. The derivative gain or loss related to the change in fair value is included in the excess of revenues over expenses. The interest rate cap agreement expired in September 2012.

Property, Equipment and Information Systems — Amounts capitalized as part of property, equipment and information systems, including additions and improvements to existing facilities, are recorded at acquisition cost. During 2013 and 2012, approximately \$1,974 and \$1,232, respectively, of internal labor costs were capitalized related to construction projects and \$1,088 and \$0, respectively of interest was capitalized. Capital lease assets included in equipment in the accompanying consolidated balance sheets are \$10,145, net of \$3,144 accumulated amortization, as of December 31, 2013, and \$6,450, net of \$2,636 accumulated amortization, as of December 31, 2012. Capitalized software costs are \$40,225, net of \$36,587 accumulated amortization as of December 31, 2013 and \$39,085, net of \$32,478 accumulated amortization as of December 31, 2012. Total related amortization expense was \$4,109 and \$4,795 for the years ended December 31, 2013 and 2012, respectively.

Depreciation, including amortization of assets recorded under capital leases and capitalized software, is recorded on the straight-line method over the estimated useful lives of the aggregate building components and improvements (generally 10 to 45 years) and equipment and software (generally three 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 2013 and 2012.

Management engaged a third party to perform a fixed asset inventory to validate certain fixed asset records during 2013. As a result, the System recorded disposals of \$44,437 related to certain fixed assets which had a recorded value, net of accumulated depreciation, of \$31.

Goodwill and Intangible Assets — Goodwill represents the future economic benefit arising from assets acquired in a business combination that are not individual and separately recognized. The System tests goodwill annually for impairment. The System has the option to qualitatively assess goodwill for impairment before completing a quantitative assessment. Under the qualitative approach, if, after assessing the totality of events or circumstances, including both macroeconomic, industry and market factors, and entity-specific factors, the System determines it is likely (more likely than not) that the fair value is greater than its carrying amount, then the quantitative impairment analysis is not required. No impairment was recorded for the years ended December 31, 2013 or 2012.

Intangible assets, other than goodwill, are reviewed for impairment if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of comparison of the undiscounted cash flows of the intangible asset with its carrying amount. If such undiscounted cash flows are less than the carrying amount, the fair value of the intangible asset is determined and the carrying value is adjusted through an impairment charge to such fair value.

Deferred Financing Costs — Costs related to long-term financing, included in other assets, are being amortized over the life of the bonds. The carrying value of deferred financing costs was \$4,159 and \$3,897 as of December 31, 2013 and 2012.

Contributions — Contributions are recognized at fair value in the period cash or 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 to unrestricted net assets and reported in the consolidated statements of operations.

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

Temporary restricted net assets as of December 31 are restricted to:

	2013	2012
Patient related projects	\$ 34,901	\$ 28,063
Scholarships and education	5,046	3,721
Various other healthcare related activities	<u>7,829</u>	<u>7,162</u>
	<u>\$ 47,776</u>	<u>\$ 38,946</u>

Permanently restricted net assets as of December 31 are restricted to:

	2013	2012
Patient related projects	\$ 9,588	\$ 9,376
Scholarships and education	7,847	7,836
Various other healthcare related activities	<u>4,025</u>	<u>4,018</u>
	<u>\$ 21,460</u>	<u>\$ 21,230</u>

Self-Insurance Programs — The System has self-insurance programs for professional malpractice, general liability, unemployment compensation, disability, and employee health insurance. The estimated self-insurance obligations include a provision for incurred but not reported claims. Workers Compensation ceased being self-insured on January 1, 2012.

Noncontrolling Interest — CAMC is a general partner in two medical office building partnerships, each organized as general partnerships. CAMC owns an 79.3% interest in the General division medical office building partnership and an 90.1% interest in the Women and Children’s medical office building partnership, which are consolidated by the System. The residual interest is reflected as noncontrolling interest in the consolidated financial statements.

Excess of Revenues over Expenses — The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, 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 — The IRS has determined that 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 \$373 and \$297 has been made in the accompanying consolidated statements of operations for the years ended December 31, 2013 and 2012, respectively, for estimated unrelated business income tax. The IRS has audited CAMC’s unrelated business income tax liability through December 31, 2010. The System was not audited nor was CAMC as a whole.

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, 2013 and 2012, Integrated had cumulative net operating losses (NOLs). 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 as of December 31, 2013 and 2012.

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. 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 of the System to make assumptions, estimates and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if

any. The more significant judgments and estimates including the following: recognition of net patient service revenue, which includes contractual allowances; provisions for bad debts and charity care; recorded values of investments; and reserves for losses and expenses related to health care professional and general liability. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates and are recorded in the period in which they are determined.

New Accounting Pronouncements — In December 2011, the FASB issued ASU 2011-11, *Disclosures About Offsetting Assets and Liabilities*. This guidance contains new disclosure requirements regarding the nature of an entity’s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance was effective for the System beginning on January 1, 2013, and retrospective application was required. This adoption of ASU 2011-11 did not have a material impact on the System’s consolidated financial statements.

In January 2013, the FASB issued ASU 2013-01, “*Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*.” This guidance provides clarification on the scope of the offsetting disclosure requirements in ASU 2011-11. This guidance was effective for the System beginning on January 1, 2013, and retrospective application was required. This adoption of ASU 2013-01 did not have a material impact on the System’s consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06, “*Services Received from Personnel of an Affiliate*.” The guidance requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. This guidance is effective for the System beginning January 1, 2015. The System has not yet evaluated the impact this guidance may have on its consolidated financial statements.

3. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended December 31, 2013 and 2012, consists of the following:

	2013					2012
	CAMC	CAMC Teays	Integrated	Elimination	Total	
Gross patient service billings	\$ 2,099,508	\$ 153,129	\$ 78,318	\$ 13	\$ 2,330,968	\$ 2,218,922
Charity care allowances	(65,161)	(6,689)	(1,563)	-	(73,413)	(73,795)
Contractual allowances	(1,200,387)	(87,676)	(37,187)	-	(1,325,250)	(1,247,683)
Medicaid upper payment limit program	14,784	1,325	-	-	16,109	26,559
Medicaid-enhanced payment program revenue	12,908	115	-	-	13,023	13,376
Medicaid disproportionate share hospital payment program revenue	317	(33)	-	-	284	936
Patient service revenue	861,969	60,171	39,568	13	961,721	938,315
Provision for bad debts	(71,098)	(9,993)	(4,424)	-	(85,515)	(78,774)
Net patient service revenue	\$ 790,871	\$ 50,178	\$ 35,144	\$ 13	\$ 876,206	\$ 859,541

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 (DSH), 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 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, 2009, and for CAMC Teays through September 30, 2008.

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

Public Employees' Insurance Agency (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.

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 System's allowance for doubtful accounts for self-pay patients and patient responsibility decreased to 80% of self-pay and patient responsibility accounts receivable as of December 31, 2013, from 88% of self-pay and patient responsibility accounts receivable as of December 31, 2012 due to improvement in the aging of the self-pay and patient responsibility accounts receivable which decreased the amount of accounts reserved at 100%. The System's allowance for uncollectible accounts decreased by \$2,111 to \$19,982 as of December 31, 2013, from \$22,093 as of December 31, 2012. The decrease relates to the decrease in gross accounts receivable to \$258,153 as of December 31, 2013, from \$275,875 as of December 31, 2012, including a decrease in self-pay gross accounts receivable to \$25,006 as of December 31, 2013, from \$25,150 as of December 31, 2012. The System does not maintain a material allowance for uncollectible accounts from third-party payors, nor does it have a history of significant write-offs from third-party payors.

The System did not change its charity care or uninsured discount policies during fiscal year 2012. The System increased the uninsured discount to 50% in 2013 and the charity care policy did not change in 2013. The uninsured discount is provided pursuant to the System's established charity care policy and recorded in charity care allowances.

Medicaid-Upper Payment Limit Program — On May 23, 2012, the West Virginia Medicaid Program received federal CMS approval to implement the Upper Payment Limit (UPL) program proposed by the West Virginia Hospital Association. The UPL program was initially limited to the state fiscal years 2012 and 2013, unless extended. The UPL program is currently extended for state fiscal year ending June 30, 2014. The payment is computed primarily on the following factors: hospital allowable total cost to charge ratio and what Medicaid paid for the fee for service segment of Medicaid. These computations were market based adjusted to fiscal year 2013. The West Virginia Department of Tax and Revenue has also implemented a tax on licensed general acute care hospitals as an expansion of the existing health care provider tax. The revenues produced from this tax will be used as the State contribution toward drawing down additional federal matching dollars for Medicaid to enhance current hospital payment rates under the UPL program. During the years ended December 31, 2013 and 2012, the System recorded \$16,109 and \$26,559, respectively, in reimbursement from the UPL program. The 2012 reimbursement was retroactive to July 2011, and included six quarters of reimbursement. This reimbursement has been included in net patient service revenue in the accompanying consolidated statements of operations.

During the years ended December 31, 2013 and 2012, the System recorded \$5,573 and \$10,720, respectively, in taxes related to the UPL program, which has been included in Medicaid Provider Tax in the accompanying consolidated statements of operations. The 2012 tax was also retroactive to July 2011, and included six quarters of tax. Additionally, the tax rate decreased in 2013 to .45% of net patient service revenue from .88% in 2012 of net patient service revenue.

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 May 15, 2006. 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 2013 and 2012, the System recorded \$13,023 and \$13,426, respectively, in reimbursement from the enhanced payment program. This reimbursement has been included in net patient service revenue in the accompanying consolidated statements of operations.

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. During 2013 and 2012, the System recorded, \$22,503 and \$20,292, respectively related to the Broad Based Health Care-Related Tax which is included in Medicaid Provider Tax in the accompanying consolidated statements of operations. The 2012 recorded balance was reduced by a \$7,520 credit related to the filing of 2007 to 2010 amended returns.

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 \$73,413 and \$73,795 for the years ended December 31, 2013 and 2012, respectively. The costs

associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care and amounted to \$24,960 and \$25,090 for the years ended December 31, 2013 and 2012, 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

Investments and assets limited as to use as of December 31, 2013 and 2012, consist of the following:

	2013	2012
Short term investments:		
Cash and cash equivalents	\$ 57,620	\$ 22,346
Corporate stocks and equity mutual funds	74,888	111,932
Fixed income securities and mutual funds	<u>73,070</u>	<u>12,779</u>
Total short term investments	<u>\$ 205,578</u>	<u>\$ 147,057</u>
Assets limited as to use:		
Self-insurance:		
Cash and cash equivalents	\$ 2,000	\$ 1,874
U.S. treasury and U.S. government agency obligations	2,046	3,536
Corporate stocks	14,176	10,137
Alternative investments	2,748	2,748
Equity mutual funds	12,847	9,650
Fixed income securities and mutual funds	<u>5,910</u>	<u>4,697</u>
Total self-insurance	<u>39,727</u>	<u>32,642</u>
Board-designated and restricted funds:		
Cash and cash equivalents	20,247	403
Corporate stocks and equity mutual funds	150,738	121,296
Corporate bonds and fixed income mutual funds	91,278	43,405
Alternative investments	<u>13,313</u>	<u>14,113</u>
Total board-designated and restricted funds	<u>275,576</u>	<u>179,217</u>
Trustee-held funds:		
Debt service reserve fund — cash equivalents and U.S. government agency obligations	15,543	15,439
Acquisition fund — cash equivalents	23,485	33,891
Collateral on derivatives — cash equivalents	3,860	19,180
Other assets:		
Cash equivalents	601	400
Other fixed income	<u>8,569</u>	<u>6,634</u>
Total trustee-held funds	<u>52,058</u>	<u>75,544</u>
Total assets limited as to use and investments	367,361	287,403
Less current portion	<u>(5,900)</u>	<u>(5,000)</u>
Assets limited as to use and investments — net of current portion	<u>\$ 361,461</u>	<u>\$ 282,403</u>
Other investments:		
Alternative investments	<u>\$ 20,742</u>	<u>\$ 20,669</u>

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 and workers' compensation programs. The trustee-held acquisition project fund was set aside from the proceeds of the 2008 Series A bonds and 2009 Series A bonds for future capital improvements. As of December 31, 2013, the 2009 Series A bond fund was zero. Trustee-held investments also include funds set aside for certain obligated group debt service requirements (see Note 7). The Board has also designated the majority of proceeds received in 2013 from two taxable notes for use toward future capital projects.

6. INVESTMENT INCOME

Investment income and unrealized and realized gains and losses on investments for the years ended December 31, 2013 and 2012, are composed of the following:

	2013	2012
Unrestricted:		
Interest and dividends	\$ 13,708	\$ 11,701
Realized gain on investments — net	20,031	3,310
Unrealized gain on alternative investments	-	1,272
Net unrealized gain	<u>16,083</u>	<u>17,093</u>
Total unrestricted investment income — net	<u>49,822</u>	<u>33,376</u>
Temporarily restricted:		
Interest and dividends	1,025	1,485
Realized gain on investments — net	2,270	2,164
Net unrealized gains	<u>4,519</u>	<u>1,199</u>
Total temporarily restricted investment income — net	<u>7,814</u>	<u>4,848</u>
Net investment income and realized and unrealized gains	<u>\$ 57,636</u>	<u>\$ 38,224</u>

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

Obligations under long-term debt and capital lease obligations as of December 31, 2013 and 2012, consist of the following:

	2013	2012
2010 Bank Loan	\$ 7,135	\$ 7,729
2013 Taxable Notes	80,000	-
2009 Series A Bonds	170,390	172,990
2008 Series A Bonds	124,540	125,500
2008 CAMC Teays Bonds	22,124	23,243
2010 VHA Loan Refinancing	1,931	4,039
2006 Promissory note	5,525	5,805
Capital lease obligations	<u>7,209</u>	<u>4,025</u>
Total	418,854	343,331
Less unamortized discount	<u>(1,952)</u>	<u>(2,058)</u>
Total — net of unamortized discount	416,902	341,273
Less current maturities	<u>(12,667)</u>	<u>(8,143)</u>
Total long-term debt and lease obligations	<u>\$ 404,235</u>	<u>\$ 333,130</u>

The fair value of the System's debt obligations was \$363,440 and \$324,160 as of December 31, 2013 and 2012, respectively. In determining the fair value of debt, the System considers its credit standing and does not take into account the credit standing of the financial institution that participated in the issuance of the debt instruments. Additional considerations for valuing the debt include the maturity date and the coupon and yield of the debt instrument.

Obligated Group — The CAMC and the Foundation are members of the obligated group 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. The 2013 Taxable notes, 2008 Series A bonds, 2008 CAMC Teays bonds, 2009 Series A bonds, and various notes, lines and letters of credit are obligations under the 1993 restated master trust indenture. The Foundation's restricted net assets are not available to satisfy obligations of the obligated group. The obligations of the Obligated Group are evidenced and secured by a promissory notes issued pursuant to a 1993 restated master trust indenture dated January 1, 1993, 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.

The obligated group is 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. Effective March 1, 2014, CAMC Teays was merged with and into CAMC and the combined entity is part of the obligated group due to CAMC's membership.

2013 Taxable Debt Notes — On March 22, 2013, CAMC issued and sold \$60,000 4.5% taxable Master Note 2013-1 with final maturity on March 14, 2043, utilizing level debt amortization over 30 years. On May 21, 2013, CAMC issued and sold \$20,000 4.02% taxable Master Note 2013-2 with final maturity

on March 15, 2038, utilizing level debt amortization over 25 years. These notes are issued and secured under the 1993 restated master trust indenture and secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities. The proceeds from the sale of these notes have been deposited in “Assets Limited as to Use” in the accompanying consolidated balance sheets and will be used to fund certain planned capital expenditures.

2010 Bank Loan — In December 2010, CAMC entered into a bank loan agreement for \$9,000. Principal and interest are payable in equal monthly installments 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), plus 1.75%. The rate aggregated to 2.125% as of December 31, 2013.

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. The coupon rates of the bonds range from 3% to 5.62% depending on maturity. In aggregate, the bonds sold at a net discount of \$2,406, which is being 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. 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. Approximately \$48,000 of these Bonds are currently callable at 100% par.

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. 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, 2015, 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, which cannot be remarketed after 90 days will begin repayment over 10 years with a balloon payment at the end of five years. There were no draws on the letter of credit in 2013. 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 stated interest rate, 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, 2013, the interest rate was 0.04%.

2008 CAMC Teays Bonds — On September 30, 2008, CAMC Teays entered into a loan agreement with the Authority pursuant to which CAMC Teays borrowed the proceeds of the Authority’s \$26,000 variable-rate revenue bonds. CAMC is a guarantor of this debt. The bonds require the payment of principal and interest through October 31, 2018. Principal is amortizing as if the debt is repaying over 21 years in equal monthly installments. On October 31, 2018, a balloon payment is due for the remaining principal and accrued interest. Interest is accrued on a monthly basis. The associated note carries a variable monthly interest rate equal to 78% of LIBOR, plus 80-basis points (0.80%). New terms were executed effective December 13, 2012, calling for a variable monthly interest equal to 78% of LIBOR, plus 85-basis points (0.85%). As of December 31, 2013, the interest rate was 0.98%.

2010 VHA Loan Refinancing — In November 2010, CAMC refinanced a 2004 VHA Central Atlantic, Inc. (VHA), loan when it entered into a loan agreement with the Authority, pursuant to which CAMC borrowed the proceeds of the Authority's \$8,400 tax-exempt Hospital Revenue Bond, 2010 Series A. Principal and interest are payable in consecutive monthly installments 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 0.98.% and aggregated 1.11% as of December 31, 2013.

2006 Promissory Note — Taxable note for CAMC Teays with a financial institution guaranteed by CAMC. The 2006 Promissory Note carries a variable monthly interest rate equal to the LIBOR, plus 100-basis points (1.00%), which aggregated 1.17% as of December 31, 2013. 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, 2020.

Other — 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, 2013. The working capital line of credit expires on December 31, 2014. As of December 31, 2013 and 2012, there was no outstanding balance. A note securing the line of credit has been issued under the 1993 restated master trust indenture.

As of December 31, 2013 and 2012, there was \$3,497 and \$4,709, respectively, committed to two undrawn reoccurring letters of credit related to workers' compensation. These letters of credit are renewed annually and currently expire on August 20, 2014.

CAMC is one of three charter members of HealthNet, Inc. (HNET), a West Virginia nonprofit corporation that provides air medical transportation service to the patient population. HNET 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. In September 2013, CAMC issued a second guarantee in the aggregate amount of \$3,695 to support the acquisition, renovation, and replacement of a second medical helicopter. As of December 31, 2013, CAMC had not been called upon to make payments under the guarantee agreement.

CAMC has recorded \$7,209 and \$4,025 as of December 31, 2013 and 2012, respectively, as a capital lease obligation for these helicopters as a result of the lease guarantees and the helicopters being primarily used by CAMC. The related asset is included in property, equipment and information systems in the accompanying consolidated balance sheets.

Debt Service Requirements — The System is required to make principal payments under long-term debt and capital lease obligations. The required principal payments are as follows:

	2013 Taxable Note	2010 Mountaineer Imaging	2010 VHA	2009A	2008A	2008A CAMC Teays	2006 Promissory Teays Note	Other — Including Capital Leases	Total
2014	\$ 1,360	\$ 595	\$1,931	\$ 5,445	\$ 1,045	\$ 1,118	\$ 280	\$ 893	\$ 12,667
2015	1,530	6,540	-	5,935	1,455	1,118	280	909	17,767
2016	1,595	-	-	6,150	1,600	1,118	280	927	11,670
2017	1,665	-	-	6,425	1,650	1,118	280	945	12,083
2018	1,740	-	-	6,735	1,725	17,652	280	964	29,096
Thereafter	<u>72,110</u>	<u>-</u>	<u>-</u>	<u>139,700</u>	<u>117,065</u>	<u>-</u>	<u>4,125</u>	<u>2,571</u>	<u>335,571</u>
Total	<u>\$80,000</u>	<u>\$7,135</u>	<u>\$1,931</u>	<u>\$170,390</u>	<u>\$124,540</u>	<u>\$22,124</u>	<u>\$5,525</u>	<u>\$7,209</u>	<u>\$418,854</u>

Advanced Refundings — The outstanding balance of advanced refunded bonds excluded from the consolidated balance sheets was \$16,000 as of December 31, 2013 and 2012. The System advanced refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustee is solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in U.S. government securities.

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. Such instruments are not designated as hedging instruments. 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 interest rate cap agreement expired September 2012.

The System's interest rate swap agreements as of December 31, 2013 and 2012, are as follows:

Swap Type	Expiration Date	System Pays	Notional Amount	
			2013	2012
Floating	September 1, 2032	BMA municipal Bond index rate	\$ 145,775	\$ 148,175
Floating	September 4, 2027	USD-securities industry and financial markets Association Municipal Bond Index	50,000	50,000
Fixed	September 1, 2037	4.19 %	102,570	103,530
Fixed	October 1, 2013	3.35 %	-	23,302
			<u>\$ 298,345</u>	<u>\$ 325,007</u>

Net interest paid and received on the System's interest rate swap transactions was an expense of \$4,797 and \$2,841 for the years ended December 31, 2013 and 2012, respectively. This is included in interest and debt expense in the accompanying consolidated statements of operations.

Under the terms of certain of the derivative contracts, the System 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, 2013 and 2012, \$3,860 and \$19,180, 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.

Generally, the counterparties to the transactions could force an early termination if the obligated group's underlying credit rating declines from A3 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. CAMC's bonds issued through the West Virginia Hospital Finance Authority carry a current credit rating as of December 31, 2013, of A3.

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.

The following table summarizes the estimated fair value of the Corporation's derivative financial instruments at June 30:

Derivatives not Designated as Hedging Instruments	Consolidated Balance Sheet Location	2013	2012
		(In thousands)	
Asset derivatives — interest rate swaps	Prepaid expenses and other	<u>\$ 2,958</u>	<u>\$ -</u>
Liability derivatives — interest rate swaps	Derivative obligation	<u>\$ 14,170</u>	<u>\$ 25,296</u>

Operating Lease Agreements — The System leases various land, computer, office, and movable equipment under noncancelable operating lease agreements expiring at various dates through 2020. Payments required under the noncancelable operating lease agreements as of December 31, 2013, are as follows:

Years Ending December 31	
2014	\$ 4,220
2015	2,679
2016	2,132
2017	1,731
2018	463
Thereafter	<u>2,166</u>
	<u>\$ 13,391</u>

Total expense for operating leases, which is included in supplies and other in the accompanying consolidated statements of operations, was \$5,799 and \$6,416 for the years ended December 31, 2013 and 2012, 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 CAMC Health System Inc. and Affiliates Malpractice Self-Insurance Trust (the "Trust"). This is a revocable 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.

Obligations of the trust are 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 and certain national, regional, and state specific claim statistics. As of December 31, 2013 and 2012, the System has recorded \$18,392 and \$19,696, respectively, as the liability for self-insured asserted and unasserted professional malpractice and general liability claims. The estimated current portion of \$5,900 in 2013 and \$5,000 in 2012 is recorded in current liabilities in the accompanying consolidated balance sheets. The estimated liability for such malpractice and general liability claims has been discounted using a discount rate of 0.75% and 0.5% in 2013 and 2012, respectively. 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 value 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; \$10,000 per reported claim and a maximum annual aggregate limit of \$30,000 for the six years from May 1, 2005, through April 30, 2011; and \$10,000 per reported claim and a maximum annual aggregate limit of \$25,000 for May 1, 2011, through April 30, 2014.

Prior to 2012, certain members of the System were also self-insured for workers compensation, unemployment compensation, disability, and employee health insurance. The workers' compensation plan's trust fund is under the custodial management of a bank trust department. The workers' compensation long-term portion of the obligation recorded in self-insurance reserves in the accompanying consolidated balance sheets for these programs is \$886 and \$730 as of December 31, 2013 and 2012, respectively. The current portion of the obligation recorded in accrued expenses for workers' compensation was \$368 and \$334 as of December 31, 2013 and 2012, respectively. Beginning, January 1, 2012, all system members became insured for workers' compensation. Self-insured workers' compensation obligations are reserved for claims prior to the effective date of January 1, 2012, including incurred but not reported claims. Claims, beginning on January 1, 2012, are administered under a deductible insured program with limits of \$1,000 per occurrence and \$3,000 annual aggregate.

Prior to 2012, the System was subject to risk pools (security and guaranty) for the benefit of self-insured employers in West Virginia. The risk pools were utilized to fund the claims payments of default and bankrupt self-insured employers. The System maintains a required \$3,764 letter of credit in favor of the West Virginia Insurance Commission to secure claims with dates of injury on or prior to June 30, 2004 and a required \$945 letter of credit in favor of an excess/stop-loss insurer. 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 \$2 and \$6 for 2013 and 2012, 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. RETIREMENT OBLIGATIONS

Supplemental Executive Retirement Program (SERP) — 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 on January 1, 2008, to comply with Section 409a of the Internal Revenue Code, 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, 2013 and 2012, using a December 31 valuation date.

Change in Projected Benefit Obligation	2013	2012
Benefit obligation at beginning of year	\$ 10,709	\$ 9,104
Service cost	534	543
Interest cost	285	285
Actuarial loss	192	1,334
Benefits paid	(1,853)	(1,404)
Plan amendments	<u>-</u>	<u>847</u>
 Projected benefit obligation (underfunded status) at end of year	 <u>\$ 9,867</u>	 <u>\$ 10,709</u>

As of December 31, 2013, and 2012, the long-term portion of this obligation is \$9,867 and \$9,348, respectively, and is included in retirement obligations. The current portion of this obligation of \$0 and \$1,361, as of December 31, 2013, and 2012, respectively, is included in accrued payroll and payroll-related expenses in the accompanying consolidated balance sheets. The accumulated benefit obligation for the SERPs was \$8,599 and \$8,983 as of December 31, 2013 and 2012, respectively.

Included in unrestricted net assets as of December 31, 2013 and 2012, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of \$3,429 and \$4,282, respectively, and unrecognized net prior service cost of \$1,062 and \$1,160, respectively.

Certain assets approximating \$2,738 and \$2,189 as of December 31, 2013 and 2012, respectively, are maintained in a separate account to fund benefits under the plans and are recorded in other assets limited as to use in the accompanying consolidated balance sheets. Contributions of \$145 and \$148 were made into this account in 2013 and 2012, respectively. Such assets are subject to general creditors of the System. The System expects to contribute approximately \$143 to these accounts in 2014.

The benefit payments, which reflect expected future service, as appropriate, expected to be paid by the SERP plans during the years ended are as follows:

December 31

2014	\$ -
2015	1,489
2016	1,870
2017	4,446
2018–2022	3,586

The components of net periodic benefit cost for SERP plans for the years ended December 31, 2013 and 2012, are as follows:

	2013	2012
Service cost	\$ 534	\$ 543
Interest cost	285	285
Settlement charge	644	561
Actuarial loss	401	433
Amortization of prior service cost	<u>98</u>	<u>143</u>
Net periodic benefit cost	<u>\$ 1,962</u>	<u>\$ 1,965</u>

Actuarial plan assumptions for the years ended December 31, 2013 and 2012, are as follows:

	2013	2012
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	2.75 %	3.15 %
Expected rate of compensation increase	4.00	4.00
Weighted-average assumptions used to determine benefit obligations as of December 31:		
Discount rate	3.50 %	2.75 %
Expected rate of compensation increase	4.00	4.00
Lump-sum interest rate	1.50	1.75

Postretirement Benefits Other than Pensions — The System provides certain other postretirement benefits (OPEBs) to a grandfathered group of participants. Such benefits are primarily related to life insurance, sick day buyout benefits and medical. OPEB benefits for current employees and retirees except for the grandfathered group were ceased in years prior to 2006.

The table below sets forth the change in the benefit obligation of the postretirement benefits for the years ended December 31, 2013 and 2012, using a December 31 valuation date.

Change in Projected Benefit Obligation	2013	2012
Benefit obligation — beginning of year	\$3,760	\$3,717
Service cost	51	51
Interest cost	106	128
Actuarial loss (gain)	(397)	119
Contributions	15	13
Benefits paid	<u>(221)</u>	<u>(268)</u>
Benefit obligation (underfunded status) — end of year	<u>\$3,314</u>	<u>\$3,760</u>

The postretirement benefits are unfunded.

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

2013	\$ 433
2014	344
2015	352
2016	354
2017	357
2018	355
2019–2023	1,342

The postretirement benefit expense for the years ended December 31, 2013 and 2012, was as follows:

	2013	2012
Service cost of benefits earned	\$ 51	\$ 51
Interest cost	106	128
Actuarial loss	<u>87</u>	<u>92</u>
Net periodic postretirement expense	<u>\$244</u>	<u>\$271</u>

The current portion of the obligation is \$352 and \$436 and is included in accrued expenses in the accompanying consolidated balance sheets as of December 31, 2013 and 2012, respectively. The long-term portion is \$2,962 and \$3,343 and is included in retirement obligations in the accompanying consolidated balance sheets as of December 31, 2013 and 2012, respectively. 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.

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% of salary based on the employees' years of service. Total employer contributions to the retirement savings plan were \$11,470 and \$10,998 during 2013 and 2012, 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 2013 and 2012, CAMC provided \$14,732 and \$13,089, respectively, to WVU for the physicians who teach and supervise the resident physicians for call pay, income guarantees, fees for services, and other expenses. The fees paid are included in either professional compensation and fees or supplies and other, depending on the nature of the transaction. CAMC has committed \$16,016 to further support WVU during 2014 for the use of the teaching and supervising physicians.

CAMC, Cabell Huntington Hospital, and West Virginia University Hospital are members of Healthnet, Inc. ("Healthnet"). Each member's legally controlled percentage is 33-1/3%. Healthnet is a West Virginia nonprofit corporation that provides aeromedical transport service, which the IRS has determined is recognized as exempt from federal income tax under Section 501(c)(3) of the Code. Members are required to support Healthnet to the extent that expenses exceed revenues. For the years ended December 31, 2013 and 2012, Healthnet expenses exceeded revenues by \$1,584 and \$1,749, respectively. Prior to 2013, Healthnet had also reimbursed CAMC for operating expenses incurred on its behalf, as well as for certain financial services. Healthnet began paying operating expenses directly to vendors in 2013. Healthnet reimbursed CAMC \$166 in 2013 and \$4,498 in 2012 for such expenses and services. Amounts due from Healthnet included in other receivables were \$1,571 and \$2,990 as of December 31, 2013 and 2012, respectively.

11. FUNCTIONAL EXPENSES

The functional expenses related to the System's operations as of December 31, 2013 and 2012, are as follows:

	2013	2012
Provision of health care and related services	\$ 675,395	\$ 604,328
General and administrative	232,576	247,111
Change in fair value of derivative	<u>(14,083)</u>	<u>(2,710)</u>
	<u>\$ 893,888</u>	<u>\$ 848,729</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.

Asset Retirement Obligations — Management, based on its consideration of asset retirement activities such as asbestos removal on existing properties, does not believe that remediation of such items will have a material effect on the consolidated financial statements.

Information Technology (IT) Outsourcing — CAMC has an agreement with Siemens Medical Solutions USA, Inc. (“Siemens”), for the license, implementation, and support of the software for its core information services applications which expires on September 30, 2020. CAMC’s total commitment related to the amended agreement for the license, implementation, and support is \$14,188.

CAMC also has an IT outsourcing agreement with Siemens executed concurrently with the license, implementation, and support agreement. Under the outsourcing agreement, CAMC outsourced to Siemens services, including maintaining software and hardware and providing information systems and telecommunications services, to CAMC and its affiliates. The outsourcing agreement expires on September 30, 2020 and may be terminated by CAMC with 30-day 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.

Total fees incurred during the years ended December 31, 2013 and 2012, related to these agreements were \$18,733 and \$17,780, respectively. Of this amount, \$3,342 and \$3,747 was capitalized on December 31, 2013 and 2012, respectively, related to capitalized computer hardware and software costs.

Gain Contingency — CAMC and TVH have total outstanding sales tax refund claims filed with the state of West Virginia (the State) for periods prior to 2012 of \$2,080. Such claims, related to sales tax collected by the System’s vendors and remitted to the State, is still under review by the State. Settlement of these claims will be treated as a reduction to expense in the year in which the claim is settled. During the years ended December 31, 2013 and 2012, settled claims with the State of \$651 and \$61, respectively, were received and recorded as reduction to expense. In November 2011, CAMC and CAMC Teays entered into a direct pay agreement with the state to simplify the sales tax payment and reporting procedures. This agreement was effective beginning in January 2012.

On March 10, 2010, the IRS issued IR-2010-25 which committed the IRS to refund Federal Insurance Contributions Act (FICA) tax and pay interest on valid refunds for medical residents FICA taxes for periods ending before April 1, 2005. The System filed a claim for refunds which included \$983 in FICA tax pertaining to medical residents who were paid by the Institute. In 2012, the IRS agreed to recognize the Institute portion of claims and the \$983 was recognized as a gain through operating expense in 2012. In 2013 and 2012, respectively, the IRS paid \$157 and \$3,100 toward the claim settlement (which included certain amounts recognized by CAMC prior to 2012). CAMC has recorded \$90 and \$1,760 during the years ended December 31, 2013 and 2012, respectively, in interest income received. The current receivable outstanding related to FICA claims is \$174 as of December 31, 2013.

Other Commitments — As of December 31, 2013, the System has committed approximately \$195,000 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, including a new cancer care facility. These commitments will be funded with a combination of cash generated from operating activities, fund raising, and existing debt proceeds approximating \$102,000. Existing debt proceeds originated from 2013, 2008 and 2009 debt transactions for CAMC and a 2008 CAMC Teays transaction, each on deposit with a trustee or in a board designated investment account and included in assets limited as to use.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The System uses a three-level valuation hierarchy for disclosure of fair value measurements. Fair value is defined 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. 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. Corporate bonds are valued using pricing models maximizing the use of observable inputs for similar securities. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement related to notice requirements in order to withdraw from the investment.

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, 2013, by caption, in the consolidated statements of financial position by the three-level valuation hierarchy defined above are as follows:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash equivalents	\$ 112,904	\$ -	\$ -	\$ 112,904
Equity securities	83,761	-	-	83,761
Equity mutual funds	168,269	-	-	168,269
Debt securities issued by U.S. Treasury and other U.S. government corporations and agencies	-	18,459	-	18,459
Debt securities issued by states of the United States and political subdivisions of the states	-	3,870	-	3,870
Corporate debt securities	-	9,056	-	9,056
Fixed income mutual funds	155,690	-	-	155,690
Other	-	674	-	674
	<u>\$ 520,624</u>	<u>\$ 32,059</u>	<u>\$ -</u>	<u>\$ 552,683</u>
Total investments at fair value				
Assets — derivative asset	<u>\$ -</u>	<u>\$ 2,958</u>	<u>\$ -</u>	<u>\$ 2,958</u>
Liabilities — derivative obligation	<u>\$ -</u>	<u>\$ 14,170</u>	<u>\$ -</u>	<u>\$ 14,170</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 14,170</u>	<u>\$ -</u>	<u>\$ 14,170</u>

The fixed income mutual funds were classified as level 1 during 2013 recognizing their registered open-ended investment company structure.

The financial instruments carried at fair value as of December 31, 2012, by caption, in the consolidated statements of financial position by the three-level valuation hierarchy defined above are as follows:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash equivalents	\$ 93,822	\$ -	\$ -	\$ 93,822
Equity securities	73,726	-	5,963	221,689
Equity mutual funds	144,138	-	-	2,137
Debt securities issued by U.S. Treasury and other U.S. government corporations and agencies	-	46,940	-	46,940
Debt securities issued by states of the United States and political subdivisions of the states	-	581	-	581
Corporate debt securities	-	53,650	-	53,650
Other	<u>1,939</u>	<u>-</u>	<u>-</u>	<u>1,939</u>
Total investments at fair value	<u>\$ 313,624</u>	<u>\$ 101,171</u>	<u>\$ 5,963</u>	<u>\$ 420,758</u>
Liabilities — derivative obligation	<u>\$ -</u>	<u>\$ 25,296</u>	<u>\$ -</u>	<u>\$ 25,296</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 25,296</u>	<u>\$ -</u>	<u>\$ 25,296</u>

Effect of Level 3 Inputs on Net Assets	Other Investments	Other Assets Limited as to Use	Total
Beginning balance — December 31, 2011	\$ 5,540	\$ 119	\$ 5,659
Total gain — net (within Investment Income)	<u>297</u>	<u>7</u>	<u>304</u>
Ending balance — December 31, 2012	<u>\$ 5,837</u>	<u>\$ 126</u>	<u>\$ 5,963</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 Equivalents — The carrying amounts reported in the accompanying consolidated balance sheets for cash equivalents approximate their fair value.

Short-Term Investments and Assets Limited as to Use — The fair value for short term investments and assets limited as to use, except for 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 (see Note 7). In determining the fair value of the System's derivative instruments quoted price can be obtained from a number of dealer counterparties

and other independent market sources based on observable interest rates and yield curves for the full term of the asset or liability. In order to determine the risk of nonperformance for our derivative instruments, the System will determine the credit spread for debt issues by entities with similar credit characteristics to the System. The fair value of the System's derivatives instruments will adjust based on the nonperformance risk of the System when the derivative instrument is a liability position or by each Counterparty when the derivative instrument is an asset to the System.

The System is required to assess its credit risk versus its counterparties, this assessment resulted in a decrease in the liability of \$697 and \$686, which reduced the System's deficiency of revenues over expenses for the years ended December 31, 2013 and 2012, respectively.

14. ENDOWMENT — RESTRICTED NET ASSETS

The System's endowment is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and 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 restricted net 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 year ended December 31, 2013, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Net assets — beginning of the year	<u>\$ 25,534</u>	<u>\$ 21,268</u>	<u>\$ 46,802</u>
Investment return:			
Investment income	962	-	962
Net appreciation (realized and unrealized)	<u>6,380</u>	<u>-</u>	<u>6,380</u>
Total investment return	<u>7,342</u>	<u>-</u>	<u>7,342</u>
Contributions	1	230	231
Other		(38)	(38)
Appropriation of endowment assets for expenditure	<u>(657)</u>	<u>-</u>	<u>(657)</u>
Net assets — end of year	<u>\$ 32,220</u>	<u>\$ 21,460</u>	<u>\$ 53,680</u>

Changes in endowment funds for the year ended December 31, 2012, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Net assets — beginning of the year	<u>\$ 21,628</u>	<u>\$ 21,030</u>	<u>\$ 42,658</u>
Investment return:			
Investment income	1,417	-	1,417
Net appreciation (realized and unrealized)	<u>3,138</u>	<u>-</u>	<u>3,138</u>
Total investment return	<u>4,555</u>	<u>-</u>	<u>4,555</u>
Contributions	<u>2</u>	<u>238</u>	<u>240</u>
Appropriation of endowment assets for expenditure	<u>(651)</u>	<u>-</u>	<u>(651)</u>
Net assets — end of year	<u>\$ 25,534</u>	<u>\$ 21,268</u>	<u>\$ 46,802</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, 2013 and 2012.

15. INTANGIBLES

As of December 31, 2013 and 2012, the System has goodwill recorded in the amount of \$697. Intangible assets, other than software which is included in property, equipment and information systems, are other assets.

The System's identifiable intangible assets with finite lives are being amortized over their estimated useful lives and are as follows:

	December 31, 2013			
	Gross Carrying Amount	Accumulated Amortization	Net	Amortization Period
Trade name/trademark	\$ 140	\$ (84)	\$ 56	5 years
Noncompete	1,396	(838)	558	5 years
Noncontract relationships	4,131	(620)	3,511	20 years
Intangibles — software	<u>40,225</u>	<u>(36,587)</u>	<u>3,638</u>	3 years
	<u>\$ 45,892</u>	<u>\$ (38,129)</u>	<u>\$ 7,763</u>	

	December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net	Amortization Period
Trade name/trademark	\$ 140	\$ (56)	\$ 84	5 years
Noncompete	1,396	(558)	838	5 years
Noncontract relationships	4,131	(412)	3,719	20 years
Intangibles — software	<u>37,982</u>	<u>(31,521)</u>	<u>6,461</u>	3 years
	<u>\$43,649</u>	<u>\$ (32,547)</u>	<u>\$11,102</u>	

Amortization expense for finite lived intangible assets was \$4,561 and \$5,079 at December 31, 2013 and 2012, respectively. The following is a schedule of estimated future amortization of finite lived intangible assets as of December 31, 2013:

Years Ending December 31	
2014	\$3,240
2015	1,236
2016	443
2017	215
2018	207
Thereafter	<u>2,478</u>
	<u>\$7,819</u>

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 4, 2014, the date the consolidated financial statements were available to be issued, and no subsequent events require recognition or disclosure except the following items. Effective March 1, 2014 CAMC Teays was merged with and into CAMC, as noted in Notes 1 and 7. During July 2014, the System issued \$45,625,000 of West Virginia Hospital Finance Authority Hospital Revenue Refunding Bonds, 2014 Series A at fixed rates ranging from 3.5% to 5%, with maturities that vary beginning September 1, 2024 through September 1, 2028, and which were used to legally defease a portion of the System's 2009 bonds.

* * * * *

SUPPLEMENTAL SCHEDULES

CAMC HEALTH EDUCATION AND RESEARCH INSTITUTE

SCHEDULE OF EXPENDITURES OF STATE OF WEST VIRGINIA AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

Funding Source	Grant #	CHERI Activity #	Amount Received	Amount Expended	Difference
State of WV/DHHR/BPH/OEHP	G130069	68650	\$111,397	\$187,117	\$ (75,720)
State of WV/DHHR/BPH/OMCFH	G130074/G140372	68657	103,959	217,826	(113,867)
State of WVDHHR/BPH/OEPS	G140446	68659	<u>110,043</u>	<u>54,205</u>	<u>55,838</u>
			<u>\$325,399</u>	<u>\$459,148</u>	<u>\$(133,749)</u>

CAMC HEALTH EDUCATION AND RESEARCH INSTITUTE

SCHEDULE OF EXPENDITURES OF STATE OF WEST VIRGINIA AWARDS FOR THE YEAR ENDED DECEMBER 31, 2012

Funding Source	Grant #	CHERI Activity #	Amount Received	Amount Expended	Difference
State of WV/DHHR/BPH/OEHP	G120024/G130369	68650	\$ 21,263	\$ 16,961	\$ 4,302
State of WV/DHHR/BPH/OCHSH&HP	G120887	63041	49,861	49,861	-
State of WV/DHHR/BPH/OEHP	G120082	68813	26,476	48,838	(22,362)
State of WV/DHHR/BPH/OMCFH	G120188/G130074	68657	218,939	234,418	(15,479)
State of WV/DHHR/BPH/OCHS&PS	G120662	63068	698	8,301	(7,603)
State of WVDHHR/BPH/OEPS	G130457	68659	44,621	74,103	(29,482)
State of WV/DHHR/BPH/OEHP	G120465/G130433	63033	<u>17,312</u>	<u>43,090</u>	<u>(25,778)</u>
			<u>\$379,170</u>	<u>\$475,572</u>	<u>\$ (96,402)</u>

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

Federal Grantor/Program Title	Source	Federal CFDA No.	Pass-Through Entity Identification Number	Indirect Agency	Federal Expenditures
FUNDING FROM HEALTH AND HUMAN SERVICES:					
Terrorism Preparedness	I	93.003	CAMC2013	WV DHHR/WV Hospital Association	\$ 75,882
Asthma Program	I	93.070	G130433/G140592	WV DHHR/WV BPH/OEHP	34,271
ARRA — Rural Health Conference	I	93.913	G140571	WVDHHR/BPH/OCHSHP	4,895
ARRA — Rural Health Conference	I	93.241	G140571	WVDHHR/BPH/OCHSHP	6,231
Administration of the Right From the Start Project	I	93.778	G130074/G140372	WV DHHR/BPH/OMCFH	217,826
Grant Program to Provide Outpatients DIS with Respect to HIV Disease	D	93.918	Not applicable		466,990
Partnership In Health	I	93.940	G130623	WVDHHR/BPH/OEHP/AIDS Program	13,735
Rural Trauma Development Courses	I	93.241	G130745	WVDHHR/BPH/OEMS	<u>3,659</u>
Total Health and Human Services					<u>823,489</u>
RESEARCH AND DEVELOPMENT CLUSTER:					
Nurse Anesthetist Traineeship Reducing Cervical Cancer in Appalachia — CARE II	D	93.124	Not applicable		31,549
WV IDEA Center	I	93.399	60039299	The Ohio State University	49,194
	I	93.859	12-303-CAMC	West Virginia University Research Corporation	<u>141,626</u>
Total Research and Development Cluster					<u>222,369</u>
TOTAL FEDERAL EXPENDITURES					<u>\$1,045,858</u>

See notes to Schedule of Federal Awards.

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2012. Because the Schedule presents only a selected portion of the operations included in the System's consolidated 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, 2013.

* * * * *



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**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 Board of Directors of
CAMC Health System, Inc.:

We have audited, in accordance with the 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, and State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide the consolidated financial statements of CAMC Health System, Inc. (the "System"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated April 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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 deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency noted at 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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* and "State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide"

The System's Response to the Finding

The System's response to the finding is described in the accompanying Schedule of Findings and Questioned Costs. The System's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and "State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide" in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

April 29, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

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, 2013. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. 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; OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide. 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of 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, 2013.

Report on Internal Control over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal controls 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significance deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency noted at 2013-2.

The System's Response to the Finding

The System's response to the finding is described in the accompanying Schedule of Findings and Questioned Costs. The System's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

September 4, 2014

DHHR - Finance

SEP 22 2014

Date Received

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

PART I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified not considered to be material weaknesses? X yes _____ none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified not considered to be material weaknesses(es)? X yes _____ none reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ yes X no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
93.859, 93.399, 93.124	Research and Development Cluster
93.918	Grant Program to Provide Outpatients DIS with Respect to HIV Disease
93.778	Administration of the Right from the Start Project

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2013

PART II — FINANCIAL STATEMENT FINDINGS

2013-1

Significant Deficiency

Criteria — In accordance with generally accepted accounting principles, the statement of cash flows requires certain items to be reported both on individually described line items and within operating, investing, financing or non-cash sections of such statement.

Condition — Subsequent to the issuance of the 2012 and 2011 financial statements, certain cash flow statement classification errors were detected by the auditors during the 2013 audit procedures.

Effect — There were identified certain individually material, offsetting reclassification adjustments to the System's 2012 and 2011 statement of cash flows. When aggregated, the net effect of such items was not material.

Cause — There was no sufficiently designed and implemented controls that were in place to detect such errors.

Recommendation — The System should reevaluate their controls for the preparation and review of the cash flows statement.

Views of Responsible Officials and Planned Corrective Action — The System concurs with the auditor findings. We have begun the process to enhance existing controls in order to identify reporting requirements.

PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2013-2

Significant Deficiency

Criteria — In accordance with Office of Management and Budget regulations, the Single Audit report is to be filed within 9 months of an entity's fiscal year-end to the Federal Clearinghouse, and should be free of material misstatements or errors.

Condition — The System's 2012 report for OMB Circular A-133, required for federal funds received by CAMC Health Education and Research Institute ("CHERI"), was completed in June 2013 but was not filed with the federal clearinghouse until after a notice of late filing was received in December 2013. Subsequent to the filing a deficiency notice was received from the State of West Virginia (as the oversight agency) identifying certain typographical errors and omissions in the report and data collection form which required revision.

Effect — The 2012 Single Audit report was not filed timely and it contained typographical errors and omissions.

Cause — There was no sufficiently designed and implemented controls that were in place to ensure timely filing and review of the Single Audit report to ensure it complied with all requirements and contained accurate information.

Recommendation — The System should reevaluate their controls for the preparation and review and filing of the Schedule of Federal Expenditures contained within the Single Audit report.

Views of Responsible Officials and Planned Corrective Action — A corrective action plan has been developed and approved by the responsible Institutional Official (Sharon Hall). This plan clearly defines roles, responsibilities and deadlines related to filing the annual audit with the federal clearinghouse.

PART IV — SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Number

2012-1

Finding — Cash flows statement preparation and review.

Status — The cash flows statement has been adjusted and is monitored and reviewed on a monthly basis for any necessary changes/updates due to any changes in accounting principles.

Contact — Debbie McClure

Number

2012-2

Finding — Single Audit Report timely review and filing.

Status — A process has been put in place to ensure that all steps required to file the audit with the Federal Audit Clearinghouse have been completed. This process includes task reminders and a system of checks and balances involving additional staff who will review filing for accuracy and completion.

Contact — Sharon Hall

