Ohio Valley Health Services And Education

OVHS&E

Consolidated Financial and Compliance Report

December 31, 2012

arnett foster toothman pllc

CPAs & Advisors

CONTENTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS, SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, AND OTHER SUPPLEMENTARY INFORMATION	1 - 2
FINANCIAL STATEMENTS	
Consolidated balance sheets	3
Consolidated statements of operations	4
Consolidated statements of changes in net assets	5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7 – 32
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	34
Schedule of Expenditures of State Awards	35
Family Services – Upper Ohio Valley, Inc. Schedule of Functional Expenses – 2012	36 – 37
Consolidating balance sheet information – 2012	38 – 39
Consolidating statement of operations information – 2012	40 – 41
Consolidating balance sheet information – 2011	42 – 43
Consolidating statement of operations information – 2011	44 – 45
INDEPENDENT AUDITOR'S 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*	46 – 47
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	48 – 49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	50 - 51
AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	52
AUDITEE'S CORRECTIVE ACTION PLAN	N/A

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS, SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, AND OTHER SUPPLEMENTARY INFORMATION

To the Board of Trustees
Ohio Valley Health Services and Education
Corporation and subsidiaries
Wheeling, West Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ohio Valley Health Services and Education Corporation and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

101 Washington Street East | P.O. Box 2629
Charleston, WV 25329
304.346.0441 | 800.642.3601

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio Valley Health Services and Education Corporation and subsidiaries, as of December 31, 2012 and 2011, 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 Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of Federal awards appearing on pages 33 through 34 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* and is not a required part of the consolidated financial statements. Additionally, the accompanying schedule of Expenditures of State Awards appearing on page 35 and the Family Services – Upper Ohio Valley, Inc., Schedule of Functional Expenses appearing on pages 36 through 37, are presented for purposes of additional analysis and are not required parts of the consolidated financial statements. Further, the consolidating information appearing on pages 38 through 45 is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities and is not a required part of the consolidated financial statements. The information described above and appearing on pages 33 through 45; is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other 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 supplementary 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 May 22, 2013, on our consideration of Ohio Valley Health Services and Education Corporation and subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended December 31, 2012. We issued a similar report for the year ended December 31, 2011, dated May 14, 2012, which has not been included within the 2012 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ohio Valley Health Services and Education Corporation and subsidiaries' internal control over financial reporting and compliance.

ARNETT FOSTER TOOTHMAN PLLC

Arnett Foster Toothman PLLC

Charleston, West Virginia
May 22, 2013

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	**$ 716,096**	$ 1,033,971
Assets limited as to use, current portion	**1,688**	4,903
Investments	**997,805**	955,533
Patient accounts receivable, net of allowance for doubtful accounts of $9,295,929 - 2012; $9,403,292 - 2011	**23,542,211**	26,518,746
Supplies inventory	**5,108,657**	5,727,035
Prepaid expenses and other current assets	**2,035,479**	1,816,944
Total current assets	**32,401,936**	36,057,132
Assets limited as to use, net of current portion	**3,761,864**	3,424,224
Property and equipment, net	**58,854,816**	57,022,324
Other assets:		
Debt issuance costs, net of accumulated amortization	**247,651**	621,911
Other	**215,120**	258,360
Total other assets	**462,771**	880,271
Total assets	**$ 95,481,387**	$ 97,383,951

LIABILITIES AND NET ASSETS	2012	2011
Current liabilities:		
Current portion of long-term debt	**$ 2,019,676**	$ 1,833,397
Accounts payable	**15,588,470**	21,072,976
Other accrued expenses	**12,489,598**	14,761,129
Estimated third-party payor settlements	**1,596,677**	1,136,394
Total current liabilities	**31,694,421**	38,803,896
Other liabilities	**4,215,414**	5,872,059
Accrued pension cost and deferred compensation	**8,934,032**	6,721,466
Long-term debt, net of current portion	**23,215,911**	22,617,874
Total liabilities	**68,059,778**	74,015,295
Net assets:		
Unrestricted	**22,375,244**	17,195,280
Temporarily restricted	**2,342,309**	3,002,435
Permanently restricted	**2,704,056**	3,170,941
Total net assets	**27,421,609**	23,368,656
Total liabilities and net assets	**$ 95,481,387**	$ 97,383,951

See accompanying notes to consolidated financial statements

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	**$ 180,737,300**	$ 175,323,467
Provision for bad debts	**(20,158,164)**	(22,924,147)
Net patient service revenue	**160,579,136**	152,399,320
Other operating revenues	**4,369,689**	6,950,469
Grants	**1,454,656**	1,508,594
Net assets released from restrictions	**686,087**	109,691
Total revenues, gains and other support	**167,089,568**	160,968,074
Expenses:		
Salaries and wages	**69,202,434**	65,582,411
Payroll taxes and benefits	**15,171,800**	15,156,242
Supplies	**34,580,015**	31,728,175
Professional fees and purchased services	**17,389,461**	15,457,147
Interest	**1,841,770**	1,669,530
Depreciation and amortization	**7,134,282**	7,380,687
Malpractice insurance	**1,494,734**	1,219,374
Utilities	**3,471,808**	3,556,668
Rents, repairs and other	**15,131,276**	14,174,504
Total expenses	**165,417,580**	155,924,738
Operating income	**1,671,988**	5,043,336
Other income (expense):		
Other	**183,354**	110,748
Grants related to long-lived assets	**4,350,061**	404,725
Change in asset retirement obligation estimate (Note 8)	**1,789,340**	-
Investment income (loss)	**(6,353)**	491,781
Total other income	**6,316,402**	1,007,254
Excess of revenues over expenses	**7,988,390**	6,050,590
Change in net unrealized gains (losses) on other than trading securities	**51,290**	(412,610)
Defined benefit pension plan adjustment	**(3,665,187)**	(4,408,530)
Other changes (Note 9)	**805,471**	(35,449)
Increase in unrestricted net assets	**$ 5,179,964**	$ 1,194,001

See accompanying notes to consolidated financial statements

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted net assets		
Excess (deficiency) of revenues over expenses	$ 7,988,390	$ 6,050,590
Net unrealized gains (losses) on other than trading securities	51,290	(412,610)
Defined benefit pension plan adjustment	(3,665,187)	(4,408,530)
Other changes (Note 9)	805,471	(35,449)
Increase in unrestricted net assets	5,179,964	1,194,001
Temporarily restricted net assets		
Contributions	73,815	111,754
Net realized and unrealized gains (losses) on investments	173,060	(1,744)
Net assets released from restriction	(303,221)	(15,170)
Other changes (Note 9)	(603,780)	-
Increase (decrease) in temporarily restricted net assets	(660,126)	94,840
Permanently restricted net assets		
Contributions	84,111	58,197
Net realized and unrealized gains (losses) on investments	6,848	(124,818)
Net assets released from restrictions	(382,866)	(102,328)
Other changes (Note 9)	(174,978)	-
Decrease in permanently restricted net assets	(466,885)	(168,949)
Increase (decrease) in net assets	4,052,953	1,119,892
Net assets, beginning of year	23,368,656	22,248,764
Net assets, end of year	$ 27,421,609	$ 23,368,656

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	**$ 4,052,953**	$ 1,119,892
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**7,134,282**	7,380,687
Net realized and unrealized (gains) and losses on investments, other than trading	**(231,198)**	143,085
Provision for doubtful accounts	**20,158,164**	22,924,147
(Gain) loss on disposal of property and equipment	**204**	(16,648)
Change in defined benefit pension plan adjustment	**3,665,187**	4,408,530
Change in assets and liabilities:		
(Increase) decrease in patient accounts receivable	**(17,181,629)**	(27,028,954)
(Increase) decrease in supplies inventory	**618,378**	(1,316,505)
(Increase) decrease in prepaid expenses and other current assets	**(218,535)**	(420,597)
(Increase) decrease in other assets	**29,132**	(240,536)
Increase (decrease) in accounts payable and accrued expenses	**(7,756,037)**	727,091
Increase (decrease) in estimated third-party payor settlements	**460,283**	(222,327)
Increase (decrease) in accrued pension costs, deferred compensation and other liabilities	**(3,109,266)**	(536,867)
Net cash provided by operating activities	**7,621,918**	6,920,998
Cash flows from investing activities		
Purchase of property and equipment	**(7,313,566)**	(4,623,100)
Proceeds from sales and maturities of investments	**626,022**	8,350,687
Purchases of investments	**(771,520)**	(4,824,134)
Proceeds from disposal of property and equipment	**100**	27,765
Net cash used in investing activities	**(7,458,964)**	(1,068,782)
Cash flows from financing activities		
Proceeds from long-term obligations	**2,000,000**	14,216,077
Principal payments on long-term obligations	**(2,225,874)**	(16,911,597)
Increase (decrease) in line of credit, net	**(254,955)**	(2,333,923)
Net cash used in financing activities	**(480,829)**	(5,029,443)
Net (decrease) increase in cash and cash equivalents	**(317,875)**	822,773
Cash and Cash Equivalents		
Beginning of year	**1,033,971**	211,198
End of year	**$ 716,096**	$ 1,033,971
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	**$ 1,841,770**	$ 1,669,530
Supplemental Schedule of Noncash Investing and Financing Activities		
Fixed assets acquired through capital lease obligations	**$ 1,265,145**	$ 1,695,726

See accompanying notes to consolidated financial statements

Note 1. Description of Organization and Summary of Significant Accounting Policies

Organization: Ohio Valley Health Services and Education Corporation (OVHS&E) located in Wheeling, West Virginia, is a not-for-profit acute care health system. OVHS&E provides inpatient, outpatient, and emergency care services for residents of the Ohio Valley and the surrounding area. OVHS&E was incorporated in West Virginia in 1981:

- Ohio Valley Medical Center, Incorporated (OVMC), a not-for-profit corporation operating an acute care facility in Wheeling, West Virginia.
- East Ohio Regional Hospital at Martins Ferry (EORH), a not-for-profit corporation consisting of an acute care and a long-term care unit in Martins Ferry, Ohio.
- River Health Enterprises, Inc. (River Health), a for-profit corporation which owns rental property in the form of a professional building.
- OVHS&E Foundation, Inc. (Foundation), a not-for-profit supporting organization created to administer certain gifts, grants, and bequests.
- Family Service – Upper Ohio Valley, Inc. (FSUOV), a not-for-profit corporation which provides various services to the public.

OVMC and EORH (collectively, the “Hospitals”) provide a broad range of routine and specialty medical and surgical services, including acute inpatient care in the major clinical services, emergency care, and ancillary diagnostic treatment services required to support inpatient and outpatient care services.

Pursuant to the credit and security agreement entered with MidCap Financial, LLC, in August 2011, OVMC, EORH, and OVHS&E have become members of an Obligated Group which is jointly and severally liable for the performance of all covenants and agreements under the agreement and for the payment of principal and interest on the obligation.

A summary of significant accounting policies is as follows:

Basis of consolidation: The accompanying consolidated financial statements include the accounts of OVHS&E, OVMC, EORH, River Health, Foundation, and FSUOV. All significant intercompany balances and transactions have been eliminated in consolidation.

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

Cash and cash equivalents: Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Patient accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospitals analyze their past history and identify trends for each of their major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectibility. Management also reviews troubled, aged accounts to determine collection potential. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third–party coverage exists for part of the bill), the Hospitals record a significant provision for bad debts in the period of service on the basis of their past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded as a reduction to the provision for bad debt expense when received. Interest is not charged on patient accounts receivable.

The Hospitals' allowance for doubtful accounts for self-pay patients increased from 61 percent of self-pay accounts receivable at December 31, 2011, to 62 percent of self-pay accounts receivable at December 31, 2012. In addition, the Hospitals' self-pay write offs decreased $199,695 from $22,477,528 for the fiscal year 2011 to $22,277,833 for fiscal year 2012. The Hospitals had an allowance for doubtful accounts of approximately $9,296,000 and $9,403,000 for the years ended December 31, 2012 and 2011, respectively.

Supplies inventory: Supplies inventory is stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or fair value.

Debt issuance costs: Debt issuance costs have been incurred in connection with the issuance of long-term debt. These costs are amortized over the term of the related debt using the straight-line method, which approximates amortization determined by the effective interest method of amortization.

Assets limited as to use: Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees for future capital improvements over which the board maintains control and may at its discretion subsequently use for other purposes. Donor restricted amounts make up the remainder of assets limited as to use. Amounts required to meet current liabilities have been reclassified in the balance sheet at December 31, 2012 and 2011.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Property and equipment: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support, and are excluded from excess (deficiency) of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Temporarily and permanently restricted net assets: Temporarily restricted net assets are those whose use by OVHS&E 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 OVHS&E in perpetuity, unless donor authorization for release has been received.

Excess of revenues over expenses: The statement of operations includes *excess of revenues over expenses.* Changes in unrestricted net assets which are excluded from *excess of revenues over expenses*, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and 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).

Patient service revenue (net of contractual allowances and discounts): OVMC and EORH (collectively "the Hospitals") have agreements with third-party payors that provide for payments to the Hospitals at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Patient service revenue (net of contractual allowances and discounts) is reported at the estimated net charges to patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity care: The Hospitals provide care to patients who meet certain criteria under their charity care policy, without charge or at amounts less than their established rates. Because the Hospitals do not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Deferred revenue: Deferred revenue represents amounts collected that cannot be recognized at the time of collection. These amounts are deferred on the basis that they have not met the general conditions for revenue recognition. The balance of deferred revenue represents revenue from various grant programs and is included with other accrued expenses in the balance sheet.

Donor-restricted gifts: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Income taxes: OVHS&E and certain subsidiaries qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC). Additionally, River Health, the for-profit subsidiary of OVHS&E, incurred losses in 2012 and 2011; therefore, no expense has been recognized for income taxes in the accompanying consolidated financial statements. River Health has a net operating loss carryforward of approximately $14,300,000 at December 31, 2012. No value has been assigned to the net operating loss carryforward as it is unlikely the amounts will be utilized to offset future taxable income.

The rules and regulations of the Internal Revenue Services regarding unrelated business income tax (UBIT) are extremely complex and subject to interpretation. As a result, at this time there is uncertainty regarding whether OVHS&E should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which OVHS&E was granted non-taxable status. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the OVHS&E's non-taxable status is not expected to have a material effect on OVHS&E's financial position or results of operations.

OVHS&E is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The management of OVHS&E believes it is no longer subject to income tax examinations for years prior to the year ended December 31, 2009.

Workers' compensation: OVMC has a premium based plan for workers' compensation claims and is subject to certain retroactive premiums based on an audit of the actual payroll cost versus the estimated payroll costs under this policy. EORH maintains self-insurance for workers' compensation up to $450,000 per year whereby the provision for estimated workers' compensation claims includes estimates for both reported claims and claims incurred but not reported. Amounts accrued as a provision for estimated claims are recorded in Other Accrued Expenses on the balance sheet.

Estimated malpractice costs: The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Significant New Authoritative Accounting Guidance: On July 27, 2012, the FASB issued *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02). The amendments in this ASU allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that the indefinite-lived intangible asset is impaired. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendments of this ASU are effective for annual and interim impairment tests of indefinite-lived intangible assets performed for fiscal years beginning after September 15, 2012. Early adoption permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

On October 22, 2012, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update entitled *Statement of Cash Flows (Topic 230)—Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* (ASU 2012-05). This ASU addresses how cash receipts arising from the sale of certain donated financial assets, such as securities, should be classified in the statement of cash flows of not-for-profit entities (NFPs). Some NFPs classify those cash receipts as investing cash inflows, while other entities classify them as either operating cash inflows or financing cash inflows, consistent with their treatment of inflows arising from cash contributions. The objective of this Update is for an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without the NFP imposing any limitations for sale and were converted nearly immediately into cash. The amendments in ASU 2012-05 are effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption from the beginning of the fiscal year of adoption is also permitted. For fiscal years beginning before October 22, 2012, early adoption is permitted only if an NFP's financial statements for those fiscal years and interim periods within those years have not yet been made available for issuance.

On February 28, 2013, the FASB issued *Liabilities (Topic 405)—Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* (ASU 2013-04). The amendments of this Update provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance within accounting principles generally accepted in the United States of America. Examples of obligations within this guidance are debt arrangements, other contractual obligations, and settled litigation and judicial rulings. For public entities, the amendments of this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim and annual periods thereafter. The amendments shall be applied retrospectively to all prior periods presented for those obligations within the scope of this Subtopic that exist at the beginning of an entity's fiscal year of adoption. Early adoption is permitted.

On April 19, 2013, the FASB issued ASU 2013-06 *Not-for-Profit Entities (Topic 958)—Services Received from Personnel of an Affiliate*. The objective of ASU 2013-06 is to address the diversity in practice about what guidance not-for-profit entities should apply for recognizing and measuring personnel services received from an affiliate which is defined as a party that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the recipient not-for-profit entity. The amendments in this Update require 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. A recipient not-for-profit entity within the scope of Topic 954, *Health Care Entities*, that is required to provide a performance indicator should report as an equity transfer the increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate. All recipient not-for-profit entities should report the corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate similar to how other such expenses or assets are reported. The amendments also specify that Accounting Standards Codification Subtopic 850-10, *Related Party Disclosures—Overall*, applies to services received from personnel of an affiliate. The amendments in this Update are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. A recipient not-for-profit entity may apply the amendments using a modified retrospective approach under which all prior periods presented upon the date of adoption should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted.

The management of OVHS&E has evaluated the potential effects of these new accounting and financial reporting standard updates and has determined that they will have no significant impact on the Organization's financial position, results of operations, or cash flows.

Subsequent events: OVHS&E has evaluated subsequent events through May 22, 2013, the date on which the financial statements were available to be issued.

Reclassification: Certain amounts from the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation.

Note 2. Net Patient Service Revenue

The Hospitals have agreements with third-party payors that provide for payments to the Hospitals at amounts different from their established rates. A summary of the payment arrangements follows:

- **Medicare**

  Inpatient acute care services and inpatient long-term care services, rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge and rate per day, respectively. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

  Medicare hospital outpatient services are paid on a prospective payment system (PPS) based upon Ambulatory Payment Classifications (APCs). The outpatient payment amounts are adjusted for regional wage differences and additional payments may be made for high cost and new technology procedures. Inpatient Psychiatric services rendered to Medicare program beneficiaries are paid on a prospective payment system (PPS) for psychiatric services adjusted for regional wage differences.

  The Hospitals are reimbursed for certain items, such as Medicare bad debts and disproportionate share payments at a tentative rate with final settlement determined after submission and annual cost reports by the Hospitals and audits thereof by the Medicare fiscal intermediary. The Hospitals' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Additionally, some Medicare beneficiaries have elected to have their benefits administered by a Health Maintenance Organization. For these patients, the Hospitals are reimbursed at a negotiated rate of payment.

- **Medicaid**

  Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicaid outpatient services are reimbursed based upon the lesser of the Hospitals' charge or the predetermined fee schedule amount.

  Medicaid classification of patients under the program is accomplished by pre-admission/pre-certification for all inpatient claims. West Virginia Medical Institute (WVMI) is the peer review organization for the West Virginia Medicaid Program.

  Inpatient psychiatric services are paid on the cost basis subject to a final settlement determined after submission of an annual cost report by the Hospitals and audits thereof by the Medicaid Intermediary.

- **Commercial Insurance Carriers**

  The Hospitals also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospitals under these agreements includes various discounts from established charges.

- **West Virginia Health Care Authority**

  The Legislature of the State of West Virginia has created the Health Care Authority to regulate the Hospitals' gross patient revenue based on limitation orders compiled from rate schedules and budgets submitted by the Hospitals on a periodic basis. If a hospital's charges are held to be excessive or unreasonable, the Health Care Authority may require rebates to consumers or adjustments to subsequent year revenue limits.

- **Rural Referral Center Status**

  In 2012, Ohio Valley Medical Center became designated as a Rural Referral Center by the Centers for Medicare and Medicaid Services. As a result, OVMC qualifies to participate in the Medicaid 340(B) Drug Discount Program and is waiting final Federal approval. The estimated annual impact from participation in the 340(B) program will increase revenues by approximately $2 million.

Revenue from the Medicare and Medicaid programs accounted for approximately 45% and 14%, respectively, of the Hospitals' gross patient service revenue for the year ended December 31, 2012, and 45% and 15%, respectively, of the Hospitals' gross patient service revenue, for the year ended December 31, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2012 and 2011 net patient service revenue increased (decreased) approximately $(255,000) and $688,000 respectively, as a result of settlements at amounts different than originally intended.

Charity Care

The Hospitals provide charity care to patients who are financially unable to pay for the health care services they receive. The Hospitals' policy is not to pursue collection of amounts determined to qualify as charity care if the patient has an adjusted income equal to or below 100% of the Federal Poverty Income levels. Accordingly, the Hospitals do not report these amounts in the net revenues or in the allowance for doubtful accounts. The Hospitals determine the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patient for the years ended December 31, 2012 and 2011 were approximately $1,468,000 and $1,869,000, respectively.

The Hospitals maintain records to identify and monitor the level of charity care they provide. These records include the amount of charges forgone for services and supplies furnished under their charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended December 31:

	2012	2011
Charges forgone, based on established rates	**$ 3,994,375**	$ 5,170,913

A summary of gross and net patient service revenue for all payors for the Hospitals for the years ended December 31, 2012 and 2011, follows:

	2012	2011
Gross patient revenue	**$ 442,152,107**	$ 423,193,983
Less: Provision for contractual adjustments	**257,420,432**	242,659,050
Provision for bad debts	**20,158,164**	22,964,700
Charity care	**3,994,375**	5,170,913
Net patient service revenue	**$ 160,579,136**	$ 152,399,320

Supplemental Medicaid Funding: In 2012, the Federal Department of Health and Human Services, Centers for Medicare and Medicaid Services approved a State of West Virginia Medicaid Plan Amendment. The Plan Amendment provides for supplemental Medicaid payments to qualifying hospitals. These supplemental payments are made for medical services provided to Medicaid recipients. The program is limited to state fiscal years ending June 30, 2012 and 2013.

The approved supplemental payment methodology also implements a provider tax as an expansion of the health care provider tax. The new revenues produced will be used as the state contribution toward drawing down additional federal matching dollars for Medicaid to enhance current hospital payment rates under a new Upper Payment Limit (UPL) program. In addition to the current tax of 2.5% currently imposed on providers of inpatient and outpatient hospital services, there is an additional tax of eighty-eight one hundredths of one percent (0.88%) on the gross receipts. The tax provisions expire on July 1, 2013 and are being implemented retroactively to July 1, 2011. Amounts charged to expense for the additional tax imposed amounted to $969,010 and $0 for the years ended December 31, 2012 and 2011, respectively. This additional expense is included within rents, repairs and other expense in the accompanying consolidated statements of operations.

The Hospital's recorded revenue totaling $2,909,241 and $0 for the supplemental Medicaid payments for the years ended December 31, 2012 and 2011, respectively, and is recorded as an increase to net patient service revenue. Of this amount, $486,081 had not been received as of December 31, 2012 and is included within other accounts receivable in the accompanying consolidated balance sheets. The program will result in additional revenue net of the related provider taxes in 2013 of approximately $650,000. The State of West Virginia is waiting on approval from the Center for Medicare and Medicaid Services to extend the program for an additional two years through June 2014.

The Hospitals recognize patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospitals recognize revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus the Hospitals record a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the years ended December 31, 2012 and 2011 from these major payor sources, is as follows:

2012	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 157,387,951	$ 23,349,349	$ 180,737,300

2011	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 150,429,568	$ 24,893,899	$ 175,323,467

The Hospitals qualify as disproportionate share hospitals for Medicaid. This designation entitles the Hospitals to disproportionate share payments from Medicaid. Additional income recorded in 2012 and 2011, as a result of being classified as disproportionate share providers, was approximately $379,000 and $248,000, respectively. The amount is recorded as a reduction of contractual adjustments.

Note 3. Investments and Assets Limited As to Use:

The composition of assets limited as to use at December 31, 2012 and 2011, is set forth in the following table. Amounts are stated at fair value:

	2012	2011
By Board for funded depreciation:		
Cash and cash equivalents	**$ 6,710**	$ 11,063
Common stocks	**-**	1,000
Miscellaneous	**-**	7,101
	6,710	19,164
Donor restricted long-term investments:		
Cash and cash equivalents	**930,919**	719,016
U.S. government securities	**54,000**	71,861
Common stock	**1,603,502**	1,559,369
Mutual funds	**856,732**	713,722
Bonds	**54,535**	77,267
Miscellaneous	**257,154**	268,728
	3,756,842	3,409,963
Total assets limited as to use	**3,763,552**	3,429,127
Less assets limited as to use that are required for current liabilities	**1,688**	4,903
Noncurrent assets limited as to use	**$ 3,761,864**	$ 3,424,224

Other investments

Other investments at December 31, 2012 and 2011, in the amount of $997,805 and $955,533, respectively, consist of various investments in money market funds and other investments.

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended December 31, 2012 and 2011:

	2012		
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**
Dividends and interest	**$ 5,160**	**$ 555**	**$ 238**
Net realized gains (losses)	**(11,513)**	**(2,801)**	**(83)**
Change in net unrealized gains (losses)	**51,290**	**175,306**	**6,692**
	$ 44,937	**$ 173,059**	**$ 6,849**

	2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Dividends and interest	$ 156,259	$ 14,212	$ 7,853
Net realized gains (losses)	335,522	(2,929)	(5,265)
Change in net unrealized gains (losses)	(412,610)	(13,027)	(127,406)
	$ 79,171	$ (1,744)	$ (124,818)

OVHS&E invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect investment balances and the amounts reported in the consolidated balance sheets.

The following table presents investments unrestricted of OVHS&E in an unrealized loss position as of December 31:

	2012					
	Less than 12 months		**12 months or more**		**Total**	
	Fair value	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Equity securities	$ 12,680	$ (728)	$ 27,972	$ (3,755)	$ 40,651	$ (4,484)
U.S. Treasuries	35,981	(1,489)	-	-	35,981	(1,489)
	$ 48,661	$ (2,217)	$ 27,972	$ (3,755)	$ 76,632	$ (5,973)

	2011					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Equity securities	$ 74,850	$ (15,133)	$ -	$ -	$ 74,850	$ (15,133)
U.S. Treasuries	48,491	(159)	-	-	48,491	(159)
	$ 123,341	$ (15,292)	$ -	$ -	$ 123,341	$ (15,292)

Impairment

OVHS&E has evaluated their investments for potential impairment. Impairment is evaluated using numerous factors, and their relative significance varies case to case. Factors considered included length of time and extent to which the market value has been less than cost; the financial condition and near term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, an impairment shall be recognized in earnings equal to the difference between the investment's amortized cost basis and its fair value at the balance sheet date. There were no impairment losses for the years ended December 31, 2012 and 2011.

Note 4. Property and Equipment and Donated Use of Facilities

The following is a summary of property and equipment at December 31, 2012 and 2011:

	2012	2011
Land	**$ 5,614,839**	$ 5,614,839
Buildings and improvements	**127,830,459**	119,776,396
Equipment	**96,499,221**	109,085,068
Construction-in-progress	**281,579**	2,472,348
	230,226,098	236,948,651
Accumulated depreciation and amortization	**171,371,282**	179,926,327
Property and equipment, net	**$ 58,854,816**	$ 57,022,324

The cost of leased equipment was approximately $5,671,000 and $4,331,000 at December 31, 2012 and 2011, respectively. Accumulated amortization for equipment under capital lease obligations was approximately $2,869,000 and $2,234,000 at December 31, 2012 and 2011, respectively.

OVMC provides office space under a cancelable operating lease arrangement, principally to professionals who provide health services. The carrying value of the approximately 110,000 square feet being leased has been determined to be approximately $5.6 million; this building is listed as property and equipment and management believes any reclassification would be insignificant to OVHS&E's financial position as a whole.

OVMC provides facilities rent free to a local not-for-profit organization at no cost. An in-kind contribution for approximately $264,000, the estimated annual rental value of the property, is included in other operating revenues and other expenses, respectively, for both of the years ended December 31, 2012 and 2011.

Note 5. Estimated Third-Party Payor Settlements

Estimated third-party payor settlements consist of amounts payable to Medicare and Medicaid programs for settlement of current and prior year cost reports. These estimated settlements by program are as follows:

	2012	2011
Medicare	**$ 1,258,680**	$ 353,846
Medicaid	**337,997**	782,548
Net intermediary payable	**$ 1,596,677**	$ 1,136,394

The State of West Virginia Disproportionate Share Hospital State Plan was amended to provide for a settlement process among participating hospitals. On January 1, 2012, the West Virginia Department of Health and Human Services (DHHR), Bureau for Medical Services (BMS) and the West Virginia Hospital

Association (WVHA) signed a resolution relating to BMS disproportionate share hospital payments for state fiscal years June 30, 1997 through June 30, 2010, a 14 year period. The resolution deems the tentative DSH payments made to hospitals, for the periods previously mentioned, to be the final payments.

Note 6. Letter-of-Credit

EORH has a stand-by letter-of-credit with a local bank in the amount of $491,000. The letter-of-credit relates to the self funded workers' compensation plan. As of December 31, 2012, the outstanding balance of the letter-of-credit was $0.

Note 7. Long-Term Debt and Subsequent Event

A summary of the long-term debt at December 31, 2012 and 2011 follows:

	2012	2011
Note payable, MidCap Financial, interest at 7.5%, due in monthly installments of $47,917 (20-year amortization) through September 2014, at which time a balloon payment of approximately $5,400,000 will be due secured by substantially all of obligated group's assets. (Amended April 2013. Terms below)	**$ 6,829,158**	$ 5,570,832
Note payable, MidCap Financial, asset based revolving line of credit, variable interest, (terms below).	**10,545,041**	10,799,998
Capital lease obligations, interest rates ranging from 2.74% to 9.47%, due in monthly installments through 2016, secured by related equipment.	**2,304,258**	2,113,859
Construction loan, bank, variable interest based on U.S. Treasury Securities (5.0% at December 31, 2012, monthly payments of approximately $27,000 through October 15, 2016). Any unpaid principal balance as of October 15, 2016, as well as all unpaid and accrued interest shall be paid in full in one balloon payment, secured by related building and equipment. (Paid off April 2013)	**3,970,303**	4,094,664
Note payable, bank, 4.25% interest at December 31, 2012, due in monthly installments of $7,859, through 2024, secured by related property. (Note was paid off April 2013)	**858,147**	914,725
Note payable, Community Improvement Corporation, 3% interest at December 31, 2012, due in monthly installments of $4,828 through 2016, secured by related equipment.	**235,149**	235,149
Note payable, bank, 4.63% interest at December 31, 2012, due in monthly installments of $21,472 through 2014 secured by related equipment.	**493,531**	722,044
Total	**25,235,587**	24,451,271
Less current portion	**2,019,676**	1,833,397
Long-term debt	**$ 23,215,911**	$ 22,617,874

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows:

Year	Capital Leases	Notes Payable	Total
2013	$ 831,222	$ 1,311,491	$ 2,142,713
2014	715,238	808,377	1,523,615
2015	583,928	561,282	1,145,210
2016	364,806	522,341	887,147
2017	64,729	503,192	567,921
Thereafter	-	19,224,646	19,224,646
	2,559,923	22,931,329	25,491,252
Less amount representing interest under capital lease obligations	255,665	-	255,665
	$ 2,304,258	$ 22,931,329	$ 25,235,587

In 2011, the Obligated Group entered into an agreement with a commercial finance company for a term note in the amount of $5,750,000 and a revolving note in the amount of $15,000,000. The proceeds from these borrowings were used to pay off the Series 1998 Tax-exempt Revenue Bonds and other notes payable. Principal payable on the revolving note is due immediately upon the receipt of any payment on or proceeds from any right to payment of a monetary obligation to the Obligated Group. The revolving note accrues interest at the LIBOR rate plus 5.00% which was 5.21% at December 31, 2012. The revolving note will terminate in August 2014. The entire outstanding principal balance will be due at that time.

In 2012, the Obligated Group entered into an agreement to increase the term note from $5,750,000 to $7,750,000. The terms and conditions of the term note have not been modified from the original agreement.

Subsequent Event: In April 2013, the Obligated Group entered into an agreement with a commercial financial company to amend the terms of the term note and revolving note. The agreement increases the term note from $7,750,000 to $12,570,822. The proceeds from the additional borrowings have been used to pay off certain notes payable and replenish certain restricted assets (Note 9). The terms of note have been amended to extend the loan through April 24, 2018, at which time a balloon payment of approximately $10,200,000 will be due. Interest on the amended term note is 7.25% due in monthly installments of $41,902 (25-year amortization). The terms of the revolving note were modified to adjust asset borrowing base availability by $2,500,000. The interest rate was decreased to LIBOR rate plus 4.75%, which was 4.95% at time of amendment. The revolving note will terminate in April 2018, with entire outstanding principal balance due at that time.

Note 8. Asset Retirement Obligation (ARO)

In the normal course of operations, OVHS&E performs maintenance and repairs on its buildings. Additionally, OVHS&E is involved in ongoing construction and renovation projects. OVHS&E has identified costs that may be incurred for asbestos abatement, which would be legally required, if exposed as a result of such construction and renovation projects. The aggregate undiscounted estimated asbestos removal cost for OVHS&E was estimated at $4,400,000 when initially estimated.

OVHS&E has an ARO liability to recognize the costs associated with future asbestos removal (Note 10). This represents the present value of the expected future cash flows based on various potential settlement possibilities, including sale of buildings and normal repairs and maintenance between 2012 and 2027, which represents management's estimated time period for removal. In 2012, Management reviewed the actual expenditures and future plans for renovations and determined that the likelihood that the costs incurred would be as significant as the original estimate is remote. Management reduced the remaining estimate from approximately $2,110,000 as of December 31, 2011, to $320,000 as of December 31, 2012. The reduction of this estimate was recorded as a change in estimate of other income (expense) on the consolidated statement of operations. Accretion expense and estimated revisions were not substantial in 2012 and 2011. The remaining ARO liability has been discounted using a rate of 4.91%.

Note 9. Temporarily, Permanently Restricted Net Assets, Endowments and Commitment

Temporarily restricted net assets as of December 31, 2012 and 2011, are available for the following purposes:

	2012	2011
Healthcare services:		
Children care	**$ 1,608,515**	$ 2,368,628
EORH – surgery	**-**	3,711
Health education	**114,564**	105,373
Purchases for medical library	**360,274**	403,293
Mentally handicapped patients	**5,667**	5,264
Other	**253,289**	116,166
	$ 2,342,309	$ 3,002,435

Permanently restricted net assets as of December 31, 2012 and 2011, are restricted to the following:

	2012	2011
Investments to be held in perpetuity – the income from which is expendable to support:		
Indigent care	**$ 867,559**	$ 1,150,853
Health education	**1,630,475**	1,814,104
Medical library	**194,257**	194,257
Equipment purchases	**11,765**	11,727
	$ 2,704,056	$ 3,170,941

OVHS&E has adopted the applicable provisions of Topic 958-205 of the FASB Standards Codification (formerly FASB Staff Position No. 117-1, Endowments of Not-for-Profit Organizations - *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The State of West Virginia has adopted UPMIFA.

The endowments include 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 OVHS&E 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, OVHS&E 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, OVHS&E considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund,
2. The purpose of the donor-restricted endowment fund,
3. General economic conditions,
4. The possible effect of inflation and deflation,
5. The expected total return from income and the appreciation of investments,
6. Other resources of OVHS&E, and
7. The investment policies of OVHS&E.

OVHS&E 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 OVHS&E 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 3% greater than inflation over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, OVHS&E 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).

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 3,002,435	$ 3,170,941	$ 6,173,376
Net realized and unrealized gains (losses)	173,060	6,848	179,908
Contributions	73,815	84,111	157,926
Donor approved appropriation of endowment assets for expenditure	(303,221)	(382,866)	(686,087)
Other changes	(603,780)	(174,978)	(778,758)
Endowment net assets, end of year	$ 2,342,309	$ 2,704,056	$ 5,046,365

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires OVHS&E 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 which are reported in unrestricted net assets as of December 31, 2012 and 2011; however, as noted below, OVHS&E has entered into an agreement to replenish the Gasaway fund and as a result has reclassified distributions from the Fund previously treated as released from restrictions.

Other Changes

During 2009, EORH used donor restricted funds for purposes other than those intended by the donor of approximately $1.5 million based upon a determination from outside legal counsel. Under a court order dated March 18, 2011, EORH is to replenish the funds in the amount of $120,000 per month beginning August 2011 or to offset approved expenses. During the year ended December 31, 2010, OVHS&E recorded as an Other Change in net assets a $1.5 million reclass between unrestricted and temporarily restricted for this amount. The related temporarily restricted investment account will be replenished as the cash is deposited to the appropriate accounts.

In the current year, management reclassified approximately $800,000 of temporarily restricted net assets to unrestricted net assets for certain temporarily restricted net assets that were determined by management to be unrestricted. This reclassification was necessary to properly reflect the current structure of the organization's total net assets.

Note 10. Other Liabilities and Other Accrued Expenses

Other liabilities as of December 31, 2012 and 2011, consist of the following:

	2012	2011
Accrued malpractice costs	**$ 2,200,000**	$ 1,570,499
Asbestos abatement costs (Note 8)	**321,858**	2,111,198
Settlement costs (Note 17)	**1,693,556**	2,190,362
	$ 4,215,414	$ 5,872,059

Other accrued expenses as of December 31, 2012 and 2011, consist of the following:

	2012	2011
Accrued salaries and wages	**$ 1,736,337**	$ 1,214,442
Accrued vacation, payroll taxes and benefits	**4,065,072**	4,550,702
Accrued health insurance	**2,034,498**	4,151,577
Deferred revenue	**32,448**	40,602
Other operating accruals	**4,019,347**	4,143,806
Settlement costs (Note 17)	**601,896**	660,000
	$ 12,489,598	$ 14,761,129

Note 11. Pension Plans

Defined Benefit Pension Plan

OVHS&E maintains the Retirement Plan for the Employees of OVMC, EORH, and the Parent, a defined benefit cash balance pension plan. Each employee's individual retirement benefit is defined within the plan's obligation as notational cash balance retirement accounts and is credited with interest based upon a defined interest rate. On April 4, 2007, an OVHS&E Pension Plan Freeze Amendment was executed. Participation and benefit accruals were frozen effective May 19, 2007. Participation is frozen such that there shall be no new participants in the plan after January 1, 2007. As a result of the freeze, additional annual annuities shall generally not be credited to any participant under the plan after December 31, 2006.

The funded status at the measurement dates of December 31, 2012 and 2011, and amounts recognized in the consolidated financial statements at December 31, 2012 and 2011, relating to employee retirement benefits are set forth in the following table:

	2012	2011
Change in obligation:		
Benefit obligation – beginning of year	**$ 32,399,363**	$ 33,270,350
Interest cost	**1,366,573**	1,736,654
Settlement (gain) loss	**(26,607)**	611,945
Benefits paid	**(711,493)**	(703,104)
Settlements paid	**(1,992,274)**	(4,314,772)
Actuarial loss	**4,527,214**	1,798,290
Benefit obligation – end of year	**$ 35,562,776**	$ 32,399,363
Change in plan assets:		
Fair value of plan assets – beginning of year	**$ 25,677,897**	$ 30,240,050
Actual return on plan assets	**2,538,648**	187,741
Employer contribution	**1,345,000**	452,149
Benefits paid	**(711,493)**	(703,104)
Settlements paid	**(1,992,274)**	(4,314,772)
Administrative expenses	**(229,034)**	(184,167)
Fair value of plan assets – end of year	**$ 26,628,744**	$ 25,677,897
Funded status	**$ (8,934,032)**	$ (6,721,466)
Unrecognized actuarial loss (gain)	**10,264,863**	7,088,768
Unrecognized prior service cost	**(3,483,638)**	(3,981,301)
Accrued benefit cost	**$ (2,152,807)**	$ (3,613,999)
Components of net period pension cost:		
Interest cost on projected benefit obligation	**$ 1,366,573**	$ 1,736,654
Expected return on plan assets	**(1,941,226)**	(2,294,148)
Recognized actuarial loss (gain)	**381,639**	415,954
Amortization of prior service cost	**(497,663)**	(497,663)
Settlements	**574,485**	943,830
Net period pension cost (income)	**$ (116,192)**	$ 304,627

Additional Information

Assumptions

Weighted-average assumptions used to determine net cost:		
Discount rate	**4.25%**	4.50%
Expected long-term rate of return on plan assets	**7.75%**	8.00%
Rate of compensation increase	**N/A**	N/A

An unrecognized loss of $10,264,863 and $7,088,768 is included in net assets at December 31, 2012 and 2011, respectively. The estimated net loss that will be amortized into net pension cost in 2012 is $684,969.

Plan Assets

OVHS&E's investment policy is to provide for the benefit obligations earned by employees during their career at OVHS&E. Plan assets are invested to provide maximum total return with strong emphasis on preservation of capital in real terms. Plan assets should participate in rising markets, with defensive action in declining markets expected to an even greater degree. The total portfolio is expected to be less volatile than the market the vast majority of time, although individual manager's portfolios may be characterized by higher levels of volatility.

OVHS&E's funding policy is to contribute such amounts as necessary on an actuarial basis to provide the plan with assets sufficient to meet benefits to be paid to retirees or their beneficiaries, and to satisfy minimum funding requirements of Employee Retirement Income Security Act and IRC. Plan assets are invested primarily in corporate common stocks, fixed income obligations of the United States government and corporations, and cash and cash equivalents.

OVHS&E's pension plan weighted-average asset allocation as of December 31, 2012 and 2011, by asset category are as follows:

	Actual 2012	Actual 2011	Target Ranges
Plan assets:			
Equity securities	**60%**	58%	45-75%
Debt securities and funds	**39%**	41%	20-45%
Cash	**1%**	1%	0-25%
Total	**100%**	100%	

OVHS&E maintains no significant concentrations of a single investment in plan assets that would affect its understanding of the risks associated with each asset category and the overall expected long-term rate of return on assets.

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth by level within the fair value hierarchy, pension plan assets at their fair value as of December 31:

	Total at December 31, 2012	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Plan investments				
Cash and cash equivalents	$ 376,191	$ 376,191	$ -	$ -
securities	3,964,874	-	3,964,874	-
Corporate bonds				
Aaa	202,632	-	202,632	-
A1	297,195	-	297,195	-
A2	497,115	-	497,115	-
A3	1,465,390	-	1,465,390	-
Baa1	250,530	-	250,530	-
Baa2	1,234,021	-	1,234,021	-
Equities				
Common stock				
Consumer discretionary	1,513,390	1,513,390	-	-
Consumer staples	821,137	821,137	-	-
Energy	1,307,135	1,307,135	-	-
Financials	1,996,001	1,996,001	-	-
Healthcare	1,002,328	1,002,328	-	-
Industrials	2,150,820	2,150,820	-	-
Information technology	2,121,101	2,121,101	-	-
Materials	373,545	373,545	-	-
Telecommunications services	101,130	101,130	-	-
Utilities	199,850	199,850	-	-
Equity mutual funds	3,647,566	3,647,566	-	-
Preferred stock				
Financials	756,450	756,450	-	-
Municipal obligations	1,012,848	-	1,012,848	-
Mutual funds – fixed income	785,690	785,690	-	-
U.S. government obligations	551,805	551,805	-	-
Total	$ 26,628,744	$ 17,704,139	$ 8,924,605	$ -

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

		Fair Value Measurements Using:		
	Total at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Plan investments				
Cash and cash equivalents	$ 332,884	$ 332,884	$ -	$ -
Collateralized mortgage backed securities	2,566,279	-	2,566,279	-
Corporate bonds				
Aaa	303,537	-	303,537	-
Aa2	275,485	-	275,489	-
Aa3	469,686	-	469,686	-
A1	1,060,048	-	1,060,048	-
A2	1,345,149	-	1,345,149	-
A3	539,661	-	539,661	-
Baa1	487,185	-	487,185	-
Baa2	446,876	-	446,876	-
Equities				
Common stock				
Consumer discretionary	970,499	970,499	-	-
Consumer staples	891,576	891,576	-	-
Energy	1,808,697	1,808,697	-	-
Financials	1,694,225	1,694,225	-	-
Healthcare	980,183	980,183	-	-
Industrials	3,351,764	3,351,764	-	-
Information technology	1,913,928	1,913,928	-	-
Materials	989,260	989,260	-	-
Telecommunications services	211,300	211,300	-	-
Equity mutual funds	1,071,741	1,071,741	-	-
Preferred stock				
Financials	1,010,960	1,010,960	-	-
Municipal obligations	1,331,514	-	1,331,514	-
Mutual funds – fixed income	711,951	711,951	-	-
U.S. government obligations	913,509	913,509	-	-
Total	$ 25,677,897	$ 16,852,477	$ 8,825,420	$ -

Cash Flows - Contributions

OVHS&E is required to abide by the minimum funding requirements of Section 412 of the Internal Revenue Code. Based on most recent actuarial estimates, OVHS&E is expected to fund $1,170,000 during the year ending December 31, 2013.

The expected long-term rate of return for the plan's total assets is estimated from the weighted expected return on plan asset allocation categories which are determined using standardized figures for each asset class based on historical norms and adjusted for today's environment.

Estimated Future Benefit Payments

The following benefit payments, which reflect future services, as appropriate, are expected to be paid by OVHS&E:

Years Ending December 31,	Pension Benefits
2013	$ 4,073,101
2014	$ 2,148,367
2015	$ 1,813,816
2016	$ 1,978,706
2017	$ 2,698,974
2018 - 2022	$ 12,454,167

Defined Contribution Plan

The Hospitals also sponsor a 403(b) Savings Plan, a defined contribution savings plan, which is available to all OVMC and EORH employees. Under this plan and as determined on an individual employee basis, the Hospitals contributed an amount equal to 25% of an employee's contribution up to 6% of such employee's salary in 2012 and 2011. The Hospital's expense associated with their contributions to this savings plan was $98,047 and $0 in 2012 and 2011, respectively. Employer matching contributions were suspended in January 2009 and subsequently reinstated in July 2012.

Note 12. Advertising Expense

OVHS&E's policy is to expense advertising costs as they are incurred. Total advertising expense for the years ended December 31, 2012 and 2011 was approximately $272,000 and $336,000, respectively.

Note 13. Rents, Repairs and Other Expenses

Rents, Repairs and Other Expenses as of December 31, 2012 and 2011, consist of the following:

	2012	2011
Repairs and maintenance	**$ 1,317,233**	$ 1,098,783
Maintenance contracts	**2,456,148**	2,423,143
Equipment rental	**4,128,850**	3,713,267
Advertising	**272,216**	335,882
Building rental	**1,250,312**	1,199,301
Taxes	**2,585,202**	2,259,117
Insurance	**391,398**	359,622
Dues, licenses and assessments	**1,289,584**	1,015,119
Other	**1,440,333**	1,770,270
	$ 15,131,276	$ 14,174,504

Note 14. Functional Expenses

OVHS&E provides general health care services to residents within its geographic location. Expenses related to providing these services are classified functionally as follows:

	2012	2011
Healthcare services	**$ 136,135,776**	$ 130,183,111
General and administrative services	**29,281,804**	25,741,627
Total	**$ 165,417,580**	$ 155,924,738

Note 15. Concentrations of Credit Risk

Financial instruments that potentially subject OVHS&E to significant concentration of credit risk consist principally of cash. The Hospitals maintain cash with financial institutions which, at times, may exceed federally insured limits. OVHS&E believes it is not exposed to any significant credit risk on cash.

The Hospitals are located in Ohio County, West Virginia and Belmont County, Ohio and grant credit without collateral to their patients, many of whom are local residents and are insured under third party payor agreements. The mix of receivables from third party payors and patients is as follows:

	2012	2011
Medicare	**29%**	38%
Medicaid	**14%**	12%
Managed care	**4%**	4%
Blue Cross	**9%**	10%
Other commercial insurers	**30%**	28%
Patients (private)	**14%**	8%
	100%	100%

Note 16. Contingencies and Medical Malpractice Coverage

OVMC has a self-insurance (high deductible) program for professional and general liability to cover medical malpractice claims. OVMC has also self-insured any claims incurred but not reported since April 1, 2002. OVMC also has an excess policy, per claim and in aggregate. The excess liability policy also covers claims incurred but not reported since April 1, 2002.

As of December 31, 2012 and 2011, EORH maintained self insurance coverage for general and professional liability (claims-made basis) for losses exceeding deductible amounts. This policy is effective for occurrences since December 1975.

Additionally, there exist inherent risks in the areas of general and professional liability insurance that stem from among other things, coverage availability and the financial viability of the underlying insurance carrier.

Medical malpractice liabilities approximate $2,200,000 and $1,570,000 at December 31, 2012 and 2011, respectively, and are included in other liabilities on the accompanying consolidated balance sheets.

OVHS&E is subject to various legal proceedings and claims consistent with an organization of its size arising in the ordinary course of its business and not yet adjudicated. In the opinion of management, after consultation with legal counsel, the ultimate outcome of any legal proceedings and claims will not have a material adverse effect on the consolidated balance sheets, results of operations, or cash flows of OVHS&E.

Note 17. Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by health care providers. The Hospitals are conducting a compliance investigation and self-reported compliance findings to the Office of the United States Attorney for the Northern District of West Virginia concerning the Hospitals' business relationships with physicians.

In 2011, the Office of the United States Attorney for the Northern District of West Virginia proposed a potential conclusion of the investigation based upon payment of the amount of approximately $3.6 million plus certain operation compliance provisions. The proposal requires the Hospital to make a $500,000 lump sum payment followed by monthly payments of $55,000 through June 2016. An accrued liability of approximately $2.3 million and $2.9 million has been recorded as of December 31, 2012 and 2011, respectively, and is recorded in other accrued expense (short-term portion) and other liabilities (long-term portion) in the accompanying balance sheets. The amount was recorded as government settlement in the statement of operations for the year ended December 31, 2010.

Rate Regulation

The Health Care Authority (HCA) is empowered, by provisions of the West Virginia Code, to regulate OVMC's gross patient revenues from nongovernment payors and to evaluate health care entity financial performance. This is accomplished by issuing rate orders, based on OVMC's budgets and rate schedules, and evaluating performance and compliance reports submitted by OVMC on a periodic basis. Addition and deletion of services is also regulated by HCA. In prior years, HCA levied penalties against OVMC. These penalties have been reduced based on an annual plan that OVMC submits to the Authority outlining community service projects. The plan may contain community services that are already being provided on a regular basis, but must also include new community service projects. OVMC must submit such plan to the Authority outlining the community services to be provided in future years along with the amount of the penalty that OVMC believes should be eliminated as a result of each service. As of December 31, 2012, there remains approximately $11.0 million in penalties in abeyance that management believes will be forgiven resulting from OVMC's continuing and future compliance with rate orders from HCA.

Note 18. Lease Commitments and Rental Expense

Operating leases consist of several cancelable and noncancelable leasing arrangements expiring at various dates through 2016 with renewal options thereafter. Aggregate rental expense under operating lease agreements amounted to approximately $5,379,000 and $4,913,000 in 2012 and 2011, respectively. At December 31, 2012, future minimum lease payments under noncancelable operating leases were approximately as follows:

Year ending December 31	Minimum Lease Payments
2013	$ 2,901,612
2014	2,677,689
2015	2,677,689
2016	2,676,519
2017	2,174,385
Total minimum lease payments	$ 13,107,894

Note 19. Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This Topic defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. This Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. Quoted prices for identical assets or liabilities traded in active exchange markets such as the New York Stock Exchange.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities. Observable inputs other than Level 1 including quoted prices for similar assets of liabilities, quoted prices in less active markets or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivatives contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability. Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

Fair Value Measurements

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments and Assets Limited as to Use: Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. Level 1 securities include those traded by dealers or brokers in active exchange markets and cash equivalent money market funds.

Assets at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis.

	Total at December 31, 2012	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 953,676	$ 888,235	$ 65,441	$ -
Mutual funds	834,266	834,266	-	-
Common stocks:	1,045,439	1,045,439	-	-
Consumer staples	21,750	21,750	-	-
Energy	46,629	46,629	-	-
Asset allocation mutual funds	245,765	245,765	-	-
Equity mutual funds	579,692	579,692	-	-
Financials	92,522	92,522	-	-
Healthcare	39,835	39,835	-	-
Industrials	23,089	23,089	-	-
Information technology	32,774	32,774	-	-
Materials	36,180	36,180	-	-

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Total at December 31, 2012	Fair Value Measurements Using: Level 1	Level 2	Level 3
All Others	30,000	30,000	-	-
Other Assets	257,154	257,154	-	-
	4,238,771	4,173,330	65,441	-
Bonds:				
Treasury/agency	33,486	33,486	-	-
Aaa	56,798	-	56,798	-
Aa1	113,431	-	113,431	-
Aa2	54,751	-	54,751	-
Baa1	55,432	-	55,432	-
Baa2	54,776	-	54,776	-
Not rated	78,863	-	78,863	-
	447,537	33,486	414,051	-
U.S. government securities	54,000	-	54,000	-
Corporate obligations	21,049	-	21,049	-
Total assets limited as to use and investments	$ 4,761,357	$ 4,206,816	$ 554,541	$ -

	December 31, 2011	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 1,148,770	$ 1,148,770	$ -	$ -
Mutual funds	538,072	538,072	-	-
Common stocks:	904,408	904,408	-	-
Consumer discretionary	14,688	14,688	-	-
Consumer staples	20,991	20,991	-	-
Energy	93,723	93,723	-	-
Asset allocation mutual funds	237,915	237,915	-	-
Equity mutual funds	445,270	445,270	-	-
Financials	82,274	82,274	-	-
Healthcare	30,196	30,196	-	-
Industrials	51,391	51,391	-	-
Information technology	27,093	27,093	-	-
Materials	31,428	31,428	-	-
All Others	13,212	13,212	-	-
Other Assets	247,004	247,004	-	-
	3,886,435	3,887,435	-	-
Bonds:				
Aaa	55,234	-	55,234	-
Aa1	110,922	-	110,922	-
A2	56,636	-	56,636	-
Not rated	83,265	-	83,265	-
	306,057	-	306,057	-
U.S. government securities	71,861	-	71,861	-
Corporate obligations	120,307	-	120,307	-
Total assets limited as to use and investments	$ 4,384,660	$ 3,886,435	$ 498,225	$ -

Assets Recorded at Fair Value on a Nonrecurring Basis

OVHS&E has no assets that are recorded at fair value on a nonrecurring basis.

The following methods and assumptions were used by OVHS&E in estimating the fair value of each class of its financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: The carrying amount approximates fair value because of the short-term maturity of those instruments.

Patient accounts receivable: The carrying amount which is net realizable value approximates fair value.

Investments and assets limited as to use: The carrying amount is fair value, which is based on quoted market prices or dealer quotes for level 1 investments.

Estimated third-party payor settlement: The carrying amount which is net realizable value approximates fair value.

Long-term debt: The fair values of bonds payable are based on quoted market prices for the similar issues.

The following table presents estimated fair values of OVHS&E's financial instruments:

	2012		2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 716,096**	**$ 716,096**	$ 1,033,971	$ 1,033,971
Patient accounts receivable	**$ 23,542,211**	**$ 23,542,211**	$ 26,518,746	$ 26,518,746
Other current assets	**$ 2,035,479**	**$ 2,035,479**	$ 1,816,944	$ 1,816,944
Investments and assets limited as to use	**$ 4,761,357**	**$ 4,761,357**	$ 4,384,660	$ 4,384,660
Third party settlements payable	**$ 1,596,677**	**$ 1,596,677**	$ 1,136,394	$ 1,136,394
Long-term debt	**$ 25,235,587**	**$ 26,735,587**	$ 24,451,271	$ 25,951,271

Note 21. Electronic Health Records (Meaningful Use)

The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals. OVHS&E intends to comply with the EHR meaningful use requirements of the HITECH Act in time to qualify for the maximum available Medicare and Medicaid incentive payments. OVHS&E's compliance will result in significant costs including professional services focused on successfully designing and implementing EHR solutions along with costs associated with the hardware and software components of the project. OVHS&E has incurred and will continue to incur both capital expenditures and operating expenses in connection with the implementation of its EHR initiatives. The timing of these expenditures does not necessarily correlate with the timing of receipt of the incentive payments and the recognition of revenues. For the year ended December 31, 2012, OVHS&E incurred approximately $340,000 of additional operating expenses related to implementation of EHR initiatives. The Hospitals currently estimate that, at a minimum, total costs incurred to comply will be recovered through improved reimbursement amounts over the projected lifecycle of this initiative. During the year ended December 31, 2012, OVHS&E did not recognize any revenues related to Medicaid EHR incentive payments.

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Years Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Awards:			
Health Care and Other Facilities Renovation or Construction Projects	93.887	-	$ 4,350,061
Passed through Ohio Department of Health:			
Coal Miners Respiratory Impairment Treatment Clinics and Services	93.965	-	249,866
Passed through Belomar Regional Council Interstate Planning Commission:			
Special Programs for the Aging Title III, Part D – Disease Prevention and Health Promotion Services	93.043	21235 21335	3,516
Special Programs for the Aging Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	21235 21335	59,392
Special Programs for the Aging Title III, Part Nutrition Services	93.045		271,258
National Family Caregiver Support Title III, Part E	93.052	21235 21335	34,666
Low-Income Home Energy Assistance	93.568	-	1,518
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	21232	1,109
			371,459
Total U.S. Department of Health and Human Services			4,971,386
Total Expenditures of Federal Awards			$ 4,971,386

**OHIO VALLEY HEALTH SERVICES AND
EDUCATION CORPORATION AND SUBSIDIARIES**

**NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Years Ended December 31, 2012**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of Ohio Valley Health Services and Education Corporation and subsidiaries and is presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF STATE AWARDS
Years Ended December 31, 2012

State Grantor/Program Title	Grant Recipient	Grant Number	Grant Expenditures
West Virginia Bureau of Senior Services:			
Legislative Grant – Community Partnership Abroad	Family Service – Upper Ohio Valley, Inc.	SC21204	$ 49,260
Lighthouse and Family Alzheimer's In-House Respite (FAIR) Program	Family Service – Upper Ohio Valley, Inc.	21249	321,814
Total West Virginia Bureau of Senior Services			$ 371,074
Belomar Regional Council Interstate Planning Commission:			
Legislative Initiative for the Elderly (LIFE) Program	Family Service – Upper Ohio Valley, Inc.	21202 21302	262,713
Special Programs for the Aging Title III, Part B – Grants for Supportive Services and Senior Centers Matching Funds	Family Service – Upper Ohio Valley, Inc.	21235 21335	55,389
Special Programs for the Aging Title III, Part C Nutrition Services Nutrition Services Matching Funds	Family Service – Upper Ohio Valley, Inc.		143,477
National Family Caregiver Support Title III, Part D Matching Funds	Family Service – Upper Ohio Valley, Inc.	21235 21335	678
Total Belomar Regional Council Interstate Planning Commission	Family Service – Upper Ohio Valley, Inc.		462,257
Total state awards			$ 833,331

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

FAMILY SERVICE – UPPER OHIO VALLEY, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

	Title IIIB	Title IIIC-1	Title IIIC-2	Title IIID	Title IIIE	Adult Daycare	In Home	Consumer Credit
FUNCTIONAL EXPENSES:								
Program Services								
Payroll:								
Salaries	$ 21,381	$ 85,083	$ 101,678	$ 630	$ 30,081	$ 114,018	$ 286,738	$ (3,052)
Payroll taxes	2,552	10,459	11,888	70	3,371	13,769	38,417	760
Employee Benefits	3,408	5,975	12,656	47	9,368	8,598	4,513	71
Total payroll	27,341	101,517	126,222	747	42,820	136,385	324,668	(1,221)
Other:								
Supplies	-	56,976	128,265	45	-	5,292	2,332	-
Telephone	-	639	1,010	-	-	-	-	68
Postage	-	172	258	-	-	318	912	18
Occupancy	-	6,245	10,348	-	-	531	-	-
Property maintenance and rental	-	5,277	9,364	-	-	72	-	-
Insurance	(1,395)	2,920	2,888	-	425	1,837	3,958	131
Transportation	-	574	8,176	-	16	2,130	9,814	-
Professional fees	-	-	-	-	3,205	-	-	313
Taxes	-	-	-	-	-	-	-	-
Dues and memberships	-	271	469	-	75	910	70	-
Purchase service	91	441	315	871	127	3,579	3,736	573
Other program expense	-	397	434	-	85	4,309	754	466
Allocated administrative and indirect costs	10,106	39,031	43,696	272	13,369	57,516	128,884	1,132
Total other expenses	8,802	112,943	205,223	1,188	17,302	76,494	150,460	2,701
Depreciation and amortization	-	-	-	-	-	-	-	-
Total functional expenses	$ 36,143	$ 214,460	$ 331,445	$ 1,935	$ 60,122	$ 212,879	$ 475,128	$ 1,480

(Continued)

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

FAMILY SERVICE – UPPER OHIO VALLEY, INC.
SCHEDULE OF FUNCTIONAL EXPENSES (Continued)
For the Year Ended December 31, 2012

	Conservator	LIFE	Other Programs	Total Program Expense	Admin, Indirect and Property Expenses	Fundraising	Total Support Expenses	Total Expenses
FUNCTIONAL EXPENSES:								
Program Services								
Payroll:								
Salaries	$ 23,223	$ 93,718	$ 49,032	$ 803,530	$ 283,741	$ 288	$ 284,029	$ 1,087,559
Payroll taxes	2,603	10,741	6,279	95,909	31,005	42	31,047	126,956
Employee benefits	7,527	12,221	4,530	68,914	49,564	6	49,570	118,484
Total payroll	33,353	116,680	59,841	968,353	364,310	336	364,646	1,332,484
Other:								
Supplies	887	8,452	52,288	254,537	10,817	188	11,005	265,542
Telephone	67	4,020	1,736	7,540	5,854	-	5,854	13,394
Postage	2,835	1,999	165	6,677	4,007	118	4,125	10,802
Occupancy	-	-	24,277	41,401	40,536	-	40,536	81,937
Property maintenance and rental	-	2,260	13,514	30,487	44,374	-	44,374	74,861
Insurance	348	2,723	7,296	21,131	2,326	-	2,326	23,457
Transportation	-	2,301	-	23,011	208	-	208	23,219
Taxes	-	-	-	-	168	-	168	168
Dues and memberships	-	170	471	2,436	460	-	460	2,896
Purchase service	2,845	3,031	490	16,099	7,202	-	7,202	23,301
Other program expense	-	1,035	236	7,716	9,450	-	9,452	17,168
Allocated administrative and indirect costs	14,087	41,569	25,304	374,966	(374,966)	-	(374,966)	-
Total other expenses	21,069	67,569	125,777	789,519	(226,890)	306	(226,582)	562,936
Depreciation and amortization	-	-	-	-	78,003	-	78,003	78,003
Total functional expenses	$ 54,422	$ 184,240	$ 185,618	$ 1,757,872	$ 215,423	$ 642	$ 216,067	$ 1,973,939

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET INFORMATION
December 31, 2012

ASSETS	Ohio Valley Health Services and Education Corporation	Ohio Valley Medical Center	East Ohio Regional Hospital	Eliminations	Total Obligated Group	River Health Enterprises	OVHS&E Foundation	Family Service Upper Ohio Valley	Eliminations	Total Consolidated
Current Assets:										
Cash and cash equivalents	$ (195,239)	$ 575,196	$ 7,157	$ -	$ 387,114	$ 100	$ -	$ 328,882	$ -	$ 716,096
Assets limited as to use	1,688	-	-	-	1,688	-	-	-	-	1,688
Investments	299,127	15,000	15,000	-	329,127	-	-	669,678	(1,000)	997,805
Patient accounts receivables, net	-	12,802,759	10,560,394	-	23,363,153	(4,637)	-	183,695	-	23,542,211
Affiliate receivables	26,767,868	-	-	(24,404,352)	2,363,516	-	(166,174)	673,673	(2,871,015)	-
Supplies inventory	10,779	3,575,670	1,522,208	-	5,108,657	-	-	-	-	5,108,657
Prepaid expenses and other current assets	258,233	1,530,499	180,609	-	1,969,341	-	500	65,638	-	2,035,479
Total current assets	27,142,456	18,499,124	12,285,368	(24,404,352)	33,522,596	(4,537)	(165,674)	1,921,566	(2,872,015)	32,401,936
Assets limited as to use	185,614	3,054,468	220,489	-	3,460,571	-	301,293	-	-	3,761,864
Advances to (from) affiliates	19,966,417	-	-	(19,866,417)	100,000	-	-	-	(100,000)	-
Property and equipment, net	2,593,696	22,887,766	30,207,026	-	55,688,488	2,734,238	-	432,090	-	58,854,816
Other assets										
Debt issuance costs, net	247,651	-	-	-	247,651	-	-	-	-	247,651
Other	-	32,702	182,418	-	215,120	-	-	-	-	215,120
Total other assets	247,651	32,702	182,418	-	462,771	-	-	-	-	462,771
Total assets	$ 50,135,834	$ 44,474,060	$ 42,895,301	$ (44,270,769)	$ 93,234,425	$ 2,729,701	$ 135,619	$ 2,353,656	$ (2,972,015)	$ 95,481,387

(Continued)

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET INFORMATION (Continued)
December 31, 2012

LIABILITIES AND NET ASSETS	Ohio Valley Health Services and Education Corporation	Ohio Valley Medical Center	East Ohio Regional Hospital	Eliminations	Total Obligated Group	River Health Enterprises	OVHS&E Foundation	Family Service Upper Ohio Valley	Eliminations	Total Consolidated
Current liabilities:										
Current portion of long-term debt	$ 886,723	$ 299,652	$ 766,717	$ -	$ 1,953,092	$ 60,334	$ -	$ 6,250	$ -	$ 2,019,676
Accounts payable	14,401,842	670,310	476,413	-	15,548,565	3,474	-	36,431	-	15,588,470
Affiliate payables	-	21,061,775	3,797,848	(23,057,164)	1,802,459	1,068,556	-	-	(2,871,015)	-
Other accrued expenses	6,814,864	2,954,807	2,422,941	-	12,192,612	45,372	-	251,614	-	12,489,598
Estimated third-party payors	-	729,809	866,868	-	1,596,677	-	-	-	-	1,596,677
Total current liabilities	22,103,429	25,716,353	8,330,787	(23,057,164)	33,093,405	1,177,736	-	294,295	(2,871,015)	31,694,421
Other liabilities	-	3,215,999	999,415	-	4,215,414	-	-	-	-	4,215,414
Accrued pension cost and deferred compensation	-	(6,368,404)	15,302,436	-	8,934,032	-	-	-	-	8,934,032
Advances from affiliates	50,000	14,163,605	7,000,000	(21,213,605)	-	100,000	-	-	(100,000)	-
Long term debt, net of current portion	16,657,894	870,157	4,890,047	-	22,418,098	797,813	-	-	-	23,215,911
Total liabilities	38,811,323	37,597,710	36,522,685	(44,270,769)	68,660,949	2,075,549	-	294,295	(2,971,015)	68,059,778
Net assets:										
Unrestricted	11,138,897	3,826,096	4,805,028	-	19,770,021	(20,080,113)	(33,284)	1,985,355	20,733,265	22,375,244
Temporarily restricted	23,075	529,707	1,567,588	-	2,120,370	-	147,933	74,006	-	2,342,309
Permanently restricted	162,539	2,520,547	-	-	2,683,086	-	20,970	-	-	2,704,056
Common stock	-	-	-	-	-	1,000	-	-	(1,000)	-
Additional paid-in capital	-	-	-	-	-	20,733,265	-	-	(20,733,265)	-
Total net assets	11,324,511	6,876,350	6,372,616	-	24,573,477	654,152	135,619	2,059,361	(1,000)	27,421,609
Total liabilities and net assets	$ 50,135,834	$ 44,474,060	$ 42,895,301	$ (44,270,769)	$ 93,234,426	$ 2,729,701	$ 135,619	$ 2,353,656	$ (2,972,015)	$ 95,481,387

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION
Year Ended December 31, 2012

	Ohio Valley Health Services and Education Corporation	Ohio Valley Medical Center	East Ohio Regional Hospital	Eliminations	Total Obligated Group	River Health Enterprises	OVHS&E Foundation	Family Service Upper Ohio Valley	Eliminations	Total Consolidated
Revenues:										
Patient service revenue (net)	$ -	$ 108,688,763	$ 72,063,655	$ -	$ 180,752,418	$ (15,118)	$ -	$ -	$ -	$ 180,737,300
Provision for bad debts	-	(12,402,540)	(7,740,786)	-	(20,143,326)	(14,838)	-	-	-	(20,158,164)
Net patient service revenue	-	96,286,223	64,322,869	-	160,609,092	(29,956)	-	-	-	160,579,136
Other operating revenues	17,292,315	2,246,784	782,671	(17,062,731)	3,259,039	310,175	-	766,007	34,468	4,369,689
Grants	-	-	249,866	-	249,866	-	-	1,204,790	-	1,454,656
Net assets released from restrictions	(7)	612,328	64,160	-	676,481	-	9,606	-	-	686,087
Total operating revenues	17,292,308	99,145,335	65,419,566	(17,062,731)	164,794,478	280,219	9,606	1,970,797	34,468	167,089,568
Expenses:										
Salaries and wages	5,494,149	37,637,173	24,947,153	-	68,078,474	29,015	7,388	1,087,557	-	69,202,434
Payroll taxes and benefits	982,142	8,254,355	5,687,284	-	14,923,781	2,023	550	245,446	-	15,171,800
Supplies	1,482,246	19,706,605	13,109,690	-	34,298,541	26,142	(10,210)	265,542	-	34,580,015
Professional fees and purchased services	4,448,699	8,412,089	4,476,015	-	17,336,803	3,164	-	49,494	-	17,389,461
Interest	1,330,314	148,027	329,129	-	1,807,470	34,300	-	-	-	1,841,770
Intercompany allocation	-	10,340,993	6,666,684	(17,007,677)	-	13,317	116	(47,901)	34,368	-
Depreciation and amortization	1,174,798	2,719,310	2,963,313	-	6,857,421	198,858	-	78,003	-	7,134,282
Malpractice insurance	2,273	1,096,294	396,167	-	1,494,734	-	-	-	-	1,494,734
Utilities	470	1,924,974	1,375,805	-	3,301,249	75,229	-	95,330	-	3,471,808
Rental, repairs, other	2,379,006	6,581,157	5,904,263	-	14,864,426	59,731	6,651	200,468	-	15,131,276
Total operating expenses	17,294,095	96,820,977	65,855,503	(17,007,677)	162,962,899	441,779	4,495	1,973,939	34,368	165,417,580
Operating income (loss)	(1,788)	2,324,358	(435,937)	(55,054)	1,831,579	(161,560)	5,111	(3,142)	-	1,671,988
Other income (expense):										
Other	(62,993)	77,136	99,695	55,054	168,892	-	14,462	-	-	183,354
Grants related to long-lived assets	-	4,350,061	-	-	4,350,061	-	-	-	-	4,350,061

(Continued)

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION (Continued)
Year Ended December 31, 2012

	Ohio Valley Health Services and Education Corporation	Ohio Valley Medical Center	East Ohio Regional Hospital	Eliminations	Total Obligated Group	River Health Enterprises	OVHS&E Foundation	Family Service Upper Ohio Valley	Eliminations	Total Consolidated
Change in asset retirement estimate	-	1,553,461	235,879	-	1,789,340	-	-	-	-	1,789,340
Investment income (loss)	(4,263)	-	-	-	(4,263)	-	(2,090)	-	-	(6,353)
Total other income (expense)	(67,256)	5,980,658	335,574	55,054	6,304,030	-	12,372	-	-	6,316,402
Excess (deficiency) of revenues over expenses	(69,044)	8,305,016	(100,363)	-	8,135,609	(161,560)	17,483	(3,142)	-	7,988,390
Net unrealized gains on other than trading securities	20,388	-	-	-	20,388	-	-	30,902	-	51,290
Defined benefit pension plan adjustment	-	(1,429,423)	(2,235,764)	-	(3,665,187)	-	-	-	-	(3,665,187)
Other changes	-	-	805,471	-	805,471	-	-	-	-	805,471
Increase (decrease) in unrestricted net assets	$ (48,656)	$ 6,875,593	$ (1,530,656)	$ -	$ 5,296,281	$ (161,560)	$ 17,483	$ 27,760	$ -	$ 5,179,964

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET INFORMATION
December 31, 2011

ASSETS	Ohio Valley Health Services and Education Corporation	Ohio Valley Medical Center	East Ohio Regional Hospital	Eliminations	Total Obligated Group	River Health Enterprises	OVHS&E Foundation	Family Service Upper Ohio Valley	Eliminations	Total Consolidated
Current Assets:										
Cash and cash equivalents	$ (60,945)	$ 760,372	$ 8,368	$ -	$ 707,795	$ 100	$ -	$ 326,076	$ -	$ 1,033,971
Assets limited as to use	4,903	-	-	-	4,903	-	-	-	-	4,903
Investments	295,740	-	-	-	295,740	-	-	660,793	(1,000)	955,533
Patient accounts receivables, net	-	14,666,005	11,719,958	-	26,385,963	(5,944)	-	138,727	-	26,518,746
Affiliate receivables	31,281,656	-		(29,029,957)	2,251,699	-	639,583	673,673	(3,564,955)	-
Supplies inventory	20,076	3,794,311	1,912,648	-	5,727,035	-	-	-	-	5,727,035
Prepaid expenses and other current assets	358,823	348,121	1,019,060	-	1,726,004	-	501	90,439	-	1,816,944
Total current assets	31,900,253	19,568,809	14,660,034	(29,029,957)	37,099,139	(5,844)	640,084	1,889,708	(3,565,955)	36,057,132
Assets limited as to use	181,374	2,867,245	904,998	-	3,953,617	-	(529,393)	-	-	3,424,224
Advances to (from) affiliates	19,996,815	-	-	(19,896,815)	100,000	-	-	-	(100,000)	-
Property and equipment, net	2,733,279	19,161,310	31,706,618	-	53,601,207	2,921,322	-	499,795	-	57,022,324
Other assets										
Debt issuance costs, net	621,911	-	-	-	621,911	-	-	-	-	621,911
Other	-	40,292	218,068	-	258,360	-	-	-	-	258,360
Total other assets	621,911	40,292	218,068	-	880,271	-	-	-	-	880,271
Total assets	$ 55,433,632	$ 41,637,656	$ 47,489,718	$ (48,926,772)	$ 95,634,234	$ 2,915,478	$ 110,691	$ 2,389,503	$ (3,665,955)	$ 97,383,951

(Continued)

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET INFORMATION (Continued)
December 31, 2011

LIABILITIES AND NET ASSETS	Ohio Valley Health Services and Education Corporation	Ohio Valley Medical Center	East Ohio Regional Hospital	Eliminations	Total Obligated Group	River Health Enterprises	OVHS&E Foundation	Family Service Upper Ohio Valley	Eliminations	Total Consolidated
Current liabilities:										
Current portion of long-term debt	$ 723,546	$ 299,494	$ 752,486	$ -	$ 1,775,526	$ 57,871	$ -	$ -	$ -	$ 1,833,397
Accounts payable	18,878,685	1,078,110	1,090,011	-	21,046,806	1,928	-	24,242	-	21,072,976
Affiliate payables	-	25,209,297	6,338,377	(29,029,957)	2,517,717	1,047,238	-	-	(3,564,955)	-
Other accrued expenses	8,445,274	2,754,312	3,192,004	-	14,391,590	35,875	-	333,664	-	14,761,129
Estimated third-party payors	-	1,136,456	(62)	-	1,136,394	-	-	-	-	1,136,394
Total current liabilities	28,047,505	30,477,669	11,372,816	(29,029,957)	40,868,033	1,142,912	-	357,906	(3,564,955)	38,803,896
Other liabilities	-	4,350,068	1,521,991	-	5,872,059	-	-	-	-	5,872,059
Accrued pension cost and deferred compensation	-	(6,982,467)	13,703,933	-	6,721,466	-	-	-	-	6,721,466
Advances from affiliates	50,000	12,846,815	7,000,000	(19,896,815)	-	100,000	-	-	(100,000)	-
Long term debt, net of current portion	15,976,271	638,162	5,146,587	-	21,761,020	856,854	-	-		22,617,874
Total liabilities	44,073,776	41,330,247	38,745,327	(48,926,772)	75,222,578	2,099,766	-	357,906	(3,664,955)	74,015,295
Net assets:										
Unrestricted	11,187,554	(3,049,494)	6,335,683	-	14,473,743	(19,918,553)	(50,766)	1,957,591	20,733,265	17,195,280
Temporarily restricted	9,763	369,402	2,408,708	-	2,787,873	-	140,556	74,006	-	3,002,435
Permanently restricted	162,539	2,987,501	-	-	3,150,040	-	20,901	-	-	3,170,941
Common stock	-	-	-	-	-	1,000	-	-	(1,000)	-
Additional paid-in capital	-	-	-	-	-	20,733,265	-	-	(20,733,265)	-
Total net assets	11,359,856	307,409	8,744,391	-	20,411,656	815,712	110,691	2,031,597	(1,000)	23,368,656
Total liabilities and net assets	$ 55,433,632	$ 41,637,656	$ 47,489,718	$ (48,926,772)	$ 95,634,234	$ 2,915,478	$ 110,691	$ 2,389,503	$ (3,665,955)	$ 97,383,951

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION
Year Ended December 31, 2011

	Ohio Valley Health Services and Education Corporation	Ohio Valley Medical Center	East Ohio Regional Hospital	Eliminations	Total Obligated Group	River Health Enterprises	OVHS&E Foundation	Family Service Upper Ohio Valley	Eliminations	Total Consolidated
Revenues:										
Patient service revenue (net)	$ -	$ 98,824,672	$ 76,498,741	$ -	$ 175,323,413	$ 54	$ -	$ -	$ -	$ 175,323,467
Provision for bad debts	-	(13,398,428)	(9,525,694)	-	(22,924,122)	(25)	-	-	-	(22,924,147)
Net patient service revenue	-	85,426,244	66,973,047	-	152,399,291	29	-	-	-	152,399,320
Other operating revenues	16,218,942	2,875,361	2,565,164	(16,000,298)	5,659,169	408,227	-	856,474	26,599	6,950,469
Grants	-	404,725	248,337	-	248,337	-	-	1,260,257	-	1,508,594
Net assets released from restrictions	(1,332)	106,668	4,355	-	109,691	-	-	-	-	109,691
Total operating revenues	16,217,610	88,408,273	69,790,903	(16,000,298)	158,416,488	408,256	-	2,116,731	26,599	160,968,074
Expenses:										
Salaries and wages	5,235,865	34,506,999	24,682,447	-	64,425,311	43,223	-	1,113,877	-	65,582,411
Payroll taxes and benefits	825,900	6,508,131	7,581,106	-	14,915,137	3,095	-	238,010	-	15,156,242
Supplies	1,275,015	17,243,249	12,900,570	-	31,418,834	21,913	(647)	288,075	-	31,728,175
Professional fees and purchased services	4,515,687	7,065,071	3,809,967	-	15,390,725	5,909	-	60,513	-	15,457,147
Interest	758,618	254,893	611,225	-	1,624,736	44,794	-	-	-	1,669,530
Intercompany allocation	-	9,163,479	6,766,545	(15,930,024)		16,431	(27)	(43,003)	26,599	
Depreciation and amortization	1,206,563	2,825,457	3,055,689	-	7,087,709	214,181	-	78,797	-	7,380,687
Malpractice insurance	-	499,560	719,814	-	1,219,374	-	-	-	-	1,219,374
Utilities	623	1,972,326	1,406,173	-	3,379,122	74,690	-	102,856	-	3,556,668
Rental, repairs, other	2,421,411	6,207,027	5,261,444	-	13,889,882	89,982	39	194,601	-	14,174,504
Total operating expenses	16,239,682	86,246,192	66,794,980	(15,930,024)	153,350,830	514,218	(635)	2,033,726	26,599	155,924,738
Operating income (loss)	(22,072)	2,162,081	2,995,923	(70,274)	5,065,658	(105,962)	635	83,005	-	5,043,336
Other income (expense):										
Other	(84,723)	124,230	5,876	70,274	115,657	-	(4,909)	-	-	110,748
Grants related to long-lived assets	-	404,725	-	-	404,725	-	-	-	-	404,725
Government settlement	-	-	-	-	-	-	-	-	-	-
Investment income (loss)	497,600	-	-	-	497,600	-	(5,819)	-	-	491,781
Total other income (expense)	412,877	528,955	5,876	70,274	1,017,982	-	(10,728)	-	-	1,007,254

(Continued)

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION (Continued)
Year Ended December 31, 2011

	Ohio Valley Health Services and Education Corporation	Ohio Valley Medical Center	East Ohio Regional Hospital	Eliminations	Total Obligated Group	River Health Enterprises	OVHS&E Foundation	Family Service Upper Ohio Valley	Eliminations	Total Consolidated
Excess (deficiency) of revenues over expenses	390,805	2,691,036	3,001,799	-	6,083,640	(105,962)	(10,093)	83,005	-	6,050,590
Net unrealized gains (losses) on other than trading securities	(397,192)	-	-	-	(397,192)	-	-	(15,418)	-	(412,610)
Defined benefit pension plan adjustment	-	(1,719,327)	(2,689,203)	-	(4,408,530)	-	-	-	-	(4,408,530)
Other changes	-	-	-	-	-	-	-	(35,449)	-	(35,449)
Increase (decrease) in unrestricted net assets	$ (6,387)	$ 971,709	$ 312,596	$ -	$ 1,277,918	$ (105,962)	$ (10,093)	$ 32,138	$ -	$ 1,194,001

arnett
foster
toothman pllc
CPAs & Advisors

INDEPENDENT AUDITOR'S 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*

Board of Trustees
Ohio Valley Health Services and Education
Corporation and subsidiaries
Wheeling, WV

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, the consolidated financial statements of Ohio Valley Health Services and Education Corporation and subsidiaries (OVHS&E) which comprise the consolidated balance sheet, as of December 31, 2012, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Ohio Valley Health Services and Education Corporation and subsidiaries' consolidated financial statements, and have issued our report thereon dated May 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OVHS&E'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OVHS&E's internal control. Accordingly, we do not express an opinion on the effectiveness of OVHS&E'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 a 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OVHS&E'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.*

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* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARNETT FOSTER TOOTHMAN PLLC

Arnett Foster Toothman PLLC

Charleston, West Virginia
May 22, 2013

arnett foster toothman pllc
CPAs & Advisors

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Ohio Valley Health Services and Education
Corporation and subsidiaries
Wheeling, West Virginia

Report on Compliance for Each Major Federal Program

We have audited Ohio Valley Health Services and Education Corporation and subsidiaries (OVHS&E) compliance with the types of requirements described in the *OMB Circular A-133*, *Compliance Supplement* that could have a direct and material effect on each of OVHS&E's major federal programs for the year ended December 31, 2012. OVHS&E's major federal program is 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 OVHS&E'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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OVHS&E'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 of the OVHS&E's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Ohio Valley Health Services and Education Corporation and subsidiaries 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, 2012.

101 Washington Street East | P.O. Box 2629
Charleston, WV 25329
304.346.0441 | 800.642.3601

Report on Internal Control Over Compliance

Management of Ohio Valley Health Services and Education Corporation and subsidiaries 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 of compliance, we considered OVHS&E'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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OVHS&E'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 significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

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 requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

ARNETT FOSTER TOOTHMAN PLLC

Arnett Foster Toothman PLLC

Charleston, West Virginia
May 22, 2013

OHIO VALLEY HEALTH SERVICES AND EDUCATION CORPORATION AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____yes __X__no
- Significant deficiency(ies) identified? ____yes ___x_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? ____yes __X__none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____yes __X__no

Identification of major programs:

CFDA Number	Name of Federal Program	Amount Expended
	U.S. Department of Health and Human Services Direct award:	
93.887	Health Care and Other Facilities Renovation or Construction Projects	$ 4,350,061
		$ 4,350,061

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee? ____yes __X__no

**OHIO VALLEY HEALTH SERVICES AND
EDUCATION CORPORATION AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended December 31, 2012**

SECTION II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

**OHIO VALLEY HEALTH SERVICES AND
EDUCATION CORPORATION AND SUBSIDIARIES**

**AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2012**

No matters were reported.