CAMC Health System, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2012 and 2011, and Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2012, and Schedule of Expenditures of State of West Virginia Awards for the Years Ended December 31, 2012 and 2011, and Independent Auditors’ Reports in Connection with OMB Circular A-133 for the Year Ended December 31, 2012

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of CAMC Health System, Inc. and subsidiaries (the "System"), as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 System's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of December 31, 2012 and 2011, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The accompanying 2012 and 2011 Schedules of the State of West Virginia Awards are presented for purposes of additional analysis and the 2012 Schedule of Expenditures of Federal Awards are presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations,* and they are not a required part of the basic consolidated financial statements. Such information is the responsibility of the System's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules 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, such schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 23, 2013 (April 29, 2014 as to Note 2 to the Schedule of Expenditure of Federal Awards), on our consideration of the System's internal Control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* is considering the System's internal control over financial reporting and compliance.

Deloitte + Touche LLP

April 23, 2013 (April 29, 2014 as to the paragraph titled "Statement of Cash Flows" in Footnote 2 and the Supplemental Schedules on pages 41–44.)

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011
(In thousands)

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,445	$ 19,512
Short-term investments	147,057	98,108
Current portion of assets limited as to use	5,000	6,250
Patient receivables — net of allowances for uncollectible accounts of $22,093 in 2012 and $20,162 in 2011	118,887	115,671
Other receivables	13,084	19,490
Estimated amounts due from third-party payors	11,096	6,499
Inventories	18,730	17,416
Prepaid expenses and other	7,069	5,102
Total current assets	335,368	288,048
ASSETS LIMITED AS TO USE	282,403	237,668
OTHER INVESTMENTS	20,669	20,372
PROPERTY, PLANT, AND EQUIPMENT:		
Land	41,869	38,752
Buildings and improvements	351,433	345,916
Equipment and software costs	510,151	494,574
Construction in progress	20,401	12,177
Total property, plant, and equipment	923,854	891,419
Less accumulated depreciation	(627,393)	(593,065)
Property, plant, and equipment — net	296,461	298,354
OTHER ASSETS	19,088	21,863
TOTAL	$ 953,989	$ 866,305

(Continued)

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011
(In thousands)

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 50,756	$ 56,245
Self-insurance reserves	5,000	6,250
Derivative obligation	25,296	28,006
Deferred revenue	442	681
Accrued payroll and payroll-related expenses	41,319	41,711
Estimated amounts due to third-party payors	19,030	5,155
Current maturities of long-term debt and capital lease obligations	8,143	7,501
Total current liabilities	149,986	145,549
LONG-TERM LIABILITIES:		
Long-term debt and capital lease obligations — less current maturities	333,130	342,687
Retirement obligations	13,531	11,473
Self-insurance reserves	15,426	17,333
Deferred revenue	8,170	8,612
Other	2,315	1,780
Total long-term liabilities	372,572	381,885
Total liabilities	522,558	527,434
NET ASSETS:		
Unrestricted	370,938	284,815
Noncontrolling interest in joint ventures	317	204
Unrestricted — total	371,255	285,019
Temporarily restricted	38,946	32,860
Permanently restricted	21,230	20,992
Total net assets	431,431	338,871
TOTAL	$ 953,989	$ 866,305

See notes to consolidated financial statements. (Concluded)

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Patient service revenue (net of contractual allowances and discounts)	$ 938,315	$ 884,494
Provision for bad debts (see Note 2)	(78,774)	(74,902)
Net patient service revenues less provision for bad debts	859,541	809,592
Other revenue	41,045	35,955
Investment income (loss) — net	33,376	(402)
Net assets released from restrictions	1,701	2,328
Total unrestricted revenue and other support	935,663	847,473
EXPENSES:		
Salaries and wages	331,286	318,855
Employee benefits	95,343	87,750
Professional compensation and fees	19,689	16,444
Supplies and other	332,127	325,244
Litigation settlement	-	(8,495)
Depreciation and amortization	37,544	38,818
Medicaid provider tax	20,292	19,197
Interest and debt expense	15,158	15,548
Change in fair value of derivatives	(2,710)	15,276
Total expenses	848,729	828,637
EXCESS OF REVENUES OVER EXPENSES — Controlling and noncontrolling interest	86,934	18,836
LESS: EXCESS OF REVENUES OVER EXPENSES — Noncontrolling interest	(101)	(76)
EXCESS OF REVENUES OVER EXPENSES — Net of noncontrolling interest	86,833	18,760
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net assets released from restrictions for capital expenditures	249	203
Change in retirement obligations actuarial loss and prior service cost	(1,071)	(1,454)
Changes of noncontrolling interest	(190)	(199)
Contributions for capital expenditures	314	2,269
INCREASE IN UNRESTRICTED NET ASSETS	$ 86,236	$ 19,655

See notes to consolidated financial statements.

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 86,934	$ 18,836
Change in retirement obligations actuarial loss and prior service cost	(1,071)	(1,454)
Assets released from restrictions for capital expenditures	249	203
Distribution to noncontrolling interest	(190)	(199)
Contributions for capital expenditures	314	2,269
Increase in unrestricted net assets	86,236	19,655
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	3,188	8,941
Investment income (loss) — net	4,848	(225)
Net assets released from restrictions for:		
Programs	(1,701)	(2,328)
Capital expenditures	(249)	(203)
Increase in temporarily restricted net assets	6,086	6,185
PERMANENTLY RESTRICTED NET ASSETS — Contributions	238	245
INCREASE IN NET ASSETS	92,560	26,085
NET ASSETS — Beginning of year	338,871	312,786
NET ASSETS — End of year	$ 431,431	$ 338,871

See notes to consolidated financial statements.

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
OPERATING ACTIVITIES:		
Increase in net assets	$ 92,560	$ 26,085
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of derivatives	(2,710)	15,276
Loss on disposal of fixed assets	24	1,933
Change in retirement obligations actuarial loss and prior service cost	1,071	1,454
Depreciation and amortization	37,544	38,818
Provision for bad debts	78,774	74,902
Unrealized gain on alternative investments	(1,272)	264
Realized gains on alternative securities	(1,450)	(356)
Realized and unrealized gain on limited as to use trading investment	(13,697)	4,742
Net restricted contributions and investment income	(8,274)	(8,961)
Changes of noncontrolling interest in joint ventures	190	199
Changes in assets and liabilities:		
Patient receivables	(81,990)	(87,069)
Other receivables	6,406	(2,995)
Short-term trading investments	(44,827)	(21,387)
Inventories, prepaid expenses, and other	(506)	166
Estimated amounts due from/to third-party payors	9,278	244
Accounts payable and accrued expenses	(5,215)	(1,513)
Deferred revenue	(681)	(1,104)
Litigation verdict obligation	-	(9,545)
Accrued payroll and payroll-related expenses	(392)	3,071
Other liabilities	(385)	(505)
Net cash provided by operating activities	64,448	33,719
INVESTING ACTIVITIES:		
Capital expenditures	(37,199)	(39,494)
Purchases of alternative investments	(297)	-
Proceeds from the sale of alternative investments	6,762	10,158
Limited as to use trading investments	(36,060)	(7,478)
Restricted cash as collateral	(14,250)	(19,350)
Restricted cash from collateral	12,360	6,690
Net cash used in investing activities	(68,684)	(49,474)
FINANCING ACTIVITIES:		
Principal payments on debt obligations and capital lease obligations	(8,915)	(7,987)
Borrowings under lines of credit	1,033	839
Repayment under lines of credit	(1,033)	(839)
Changes of noncontrolling interest in joint ventures	(190)	(199)
Net restricted contributions and investment income	8,274	8,961
Net cash (used in) provided by financing activities	(831)	775
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,067)	(14,980)
CASH AND CASH EQUIVALENTS — Beginning of year	19,512	34,492
CASH AND CASH EQUIVALENTS — End of year	$ 14,445	$ 19,512
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 10,879	$ 11,120
Capital assets acquired under capital lease obligations	$ 4,025	$ 4,486
Capital expenditures remaining in accounts payable at year-end	$ 1,151	$ 2,675

See notes to consolidated financial statements.

1. ORGANIZATION

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

Charleston Area Medical Center, Inc. (CAMC) — a West Virginia nonprofit corporation that owns and operates the General, Memorial, and Women and Children's Hospitals, all in Kanawha County, West Virginia. CAMC is a general partner in two medical office building partnerships, each organized as general partnerships. CAMC owns an 82% interest in the General division medical office building partnership and an 89% interest in the Women and Children's medical office building partnership.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Cash and Cash Equivalents and Short-Term Investments — Cash and cash equivalents represent cash and temporary investments with original maturities of three months or less. Cash and cash equivalents exclude cash maintained in board-designated, restricted, self-insurance, and trustee-held funds. Short-term investments represent investments with original maturities extending beyond three months that management has identified as available to meet current operating needs. Such deposits exceed the Federal Deposit Insurance Corporation-insured limits. Short-term investments are stated at fair value, which approximates cost. In 2012, $40,000 was invested in short-term investments from operating cash.

Statements of Cash Flows — Subsequent to the original issuance of the System's December 31, 2012 financial statements, the System identified adjustments to the 2012 and 2011 consolidated statements of cash flows primarily related to the classification of its trading investments. The net reclassification adjustments decreased net cash provided by operating activities and net cash used in investing activities by $2,416 for 2012 and increased net cash provided by operating activities and net cash used in investing activities by $7,478 for 2011. These reclassification adjustments to the 2012 and 2011 consolidated statement of cash flows had no impact on the consolidated balance sheets, including reported cash, or the consolidated statements of operations.

Net Patient Service Revenues and Patient Accounts Receivable — Net patient service revenues and patient accounts receivable are derived primarily from patients who reside in West Virginia and surrounding states. Patient accounts receivable consist of amounts due from third-party payors, including federal and state indemnity and managed care programs, managed care health plans, commercial insurance companies, and individual patients for health care services rendered. The System does not require collateral or other security on its patient receivables. Gross patient service revenue is recognized based on the System's standard billing rates. Gross patient service revenue is reduced to "patient service revenue," net of contractual allowances and discounts, through a provision for contractual allowances associated with services provided to patients who have third-party coverage on the basis of contracted rates for the services rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended December 31, 2012 and 2011, by major payor sources, is as follows:

	Patient Service Revenue (Net of Contractual Allowances and Discounts)	
	2012	**2011**
Medicare	$ 322,382	$ 304,144
Medicaid	112,605	93,346
Government third-party payors	38,748	45,866
Other third-party payors	396,933	379,224
Self-pay	67,647	61,914
Total	$ 938,315	$ 884,494

Patient accounts receivable are reduced to their estimated net realizable value through an allowance for uncollectible accounts and contractual adjustments. Patient accounts receivable are reduced by an allowance for contractual adjustments associated with third-party payor responsibility. Patient accounts receivable are further reduced by an allowance for uncollectible accounts of 8% as of December 31, 2012 and 2011.

Allowance for Uncollectible Accounts — The patient portion of accounts receivable, including self-pay accounts for patients with no insurance and patient deductibles and co-payments on third-party accounts, are reduced by an allowance for doubtful accounts. Management maintains an allowance for doubtful accounts for each of its major revenue sources to reserve for estimated losses based on the length of time the account has been past due and historical experience. The System considers the patient portion of accounts receivable for write-off beginning 90 days after billing. Certain patient accounts are excluded from consideration when the following conditions exist: the patient account has a credit balance, the charge has been voided, hold on the account, unapplied credits that exist on the patient account, or a payment was made on the patient account in the last 45 days. Excluded accounts are reviewed weekly by the business office to assess collectability.

Allowance for Contractual Adjustments — The majority of patients maintains commercial insurance or is covered by a third-party government payor. Most of these coverage sources, through contract or mandate, pay less than the hospitals' standard billed charges. Accordingly, as gross revenues are recognized and recorded as accounts receivable, the third-party portion of the accounts receivable is reduced by an allowance for contractual adjustments. The System analyzes its past history of collectability and adjusts for certain events or trends as necessary for each of its major payor sources of revenue to estimate the appropriate allowance for contractual adjustments.

Net patient service revenues from the Medicare and Medicaid programs account for approximately 38% and 13%, respectively, of the System's net patient service revenue for the year ended December 31, 2012, and 38% and 12%, respectively, of the System's net patient service revenue for the year ended December 31, 2011. Payments received under the reimbursement arrangements with Medicare and Medicaid are subject to retroactive audit and adjustment. Provision has been made in the consolidated financial statements for estimated contractual adjustments representing the difference between the standard charges for services and estimated total payments to be received from third-party payors. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. Settlement of prior-year cost reports and revisions to other prior-year settlement estimates had the effect of increasing net patient service revenue by $4,278 and $860 in 2012 and 2011, respectively. Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimated settlements will change by a material amount in the near term. Management believes that adequate provisions have been made for reasonable adjustments that may result from such final settlements. Management believes it is in substantial compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The approximate percentage of patient receivables by type of payor as of December 31, 2012 and 2011, is as follows:

	2012	**2011**
Medicare	33 %	32 %
Commercial insurance and other third-party payment programs	48	51
Medicaid	12	11
Self-pay	1	1
PEIA	6	5
	100 %	100 %

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

Physician Recruitment and Education Assistance Loan Receivable — CAMC provides physician recruitment and education assistance for the purpose of recruiting qualified physicians and clinicians in areas of need. Physician recruitment loans are made for the following purposes; support during fellowship, moving a doctor and his or her family, and/or establishing a medical practice in the community. Recruitment loans may require collateral or a guarantor. Fellowship loans may carry a higher interest and/or a liquidation damages clause for having no collateral. Education assistance loans are made for tuition, books, supplies, etc. Education assistance loans do not guarantee employment upon completion of the program; however, if the student gains employment with CAMC, loan payments are forgiven monthly in accordance with a loan amortization schedule. Loans are recorded as other receivables at the time of the cash disbursement. Interest is accrued as earned and added to the loan balance and recorded as interest income in accordance with contract terms. Upon completion of the loan advance period, loans are repaid monthly in accordance with contract terms either by cash payment or forgiveness. Loans are evaluated periodically to determine their collectability; those that are deemed at risk of collection are reserved as uncollectible. Loans in default are referred to internal legal counsel or CAMC's internal collection agency. CAMC's physician recruitment and education assistance loans totaled $6,574 and $6,808 as of December 31, 2012 and 2011, respectively. Such balance is net of an allowance for loan losses of $988 and $1,277 as of December 31, 2012 and 2011, respectively. The short-term portion of the balance is $2,827 and 1,941, respectively, and located in other receivables on the accompanying consolidated balance sheets. The long-term portion of the balance is $3,747 and $4,867, respectively, and located in other assets on the accompanying consolidated balance sheets.

Pledges Receivable — The Foundation has $4,173 and $6,320 recorded as pledges receivable as of December 31, 2012 and 2011, respectively, with the decrease primarily due to the settlement of a significant pledge. The amount to be received in one year and as of December 31, 2012, is $1,930 and included in other receivables in the consolidated financial statements. The amount to be received in one to five years is $2,243 and included in other assets in the consolidated financial statements.

	2012	2011
Unconditional promises to give consist of:		
Amounts expected to be collected in:		
Less than one year	$ 1,930	$ 3,709
One to five years	2,605	2,611
	4,535	6,320
Discount to present value of future cash flows	362	376
Allowance for uncollectible accounts	-	-
Total unconditional promises to give — net	$ 4,173	$ 5,944

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

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

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

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

The System invests in alternative investments that primarily represent ownership in limited partnerships that invest in hedge funds, real asset funds, and private equity/venture capital funds. In order to liquidate such investments, management is required to provide notice ranging from 45 to 90 days to withdraw from the partnerships. Investments in alternative investments are accounted for utilizing the lower of cost or market method when the System's ownership percentage is less than 5%, as the System has virtually no influence over the partnership's operating and financial policies. As of December 31, 2012 and 2011, alternative investments recorded at cost, many of which have been written down to market, which aggregate to $31,693 and $37,005, respectively. The estimated market value of these investments as of December 31, 2012 and 2011, was $42,778 and $46,682, respectively. Alternative investments in which the System's ownership percentage exceeds 20% are recorded at fair market value. As of December 31, 2012 and 2011, the total carrying values of such investments was $5,837 and $5,539, respectively. The system has no alternative investments greater than 5% and less than 20%. Alternative investments of $16,861 and $22,173 are included in assets limited as to use while $20,669 and $20,372 are included in other investments as of December 31, 2012 and 2011, respectively.

In accordance with the donors' contribution requirements, unrestricted, temporarily restricted, and permanently restricted investments are pooled to obtain maximum use of funds and higher interest rates on short-term investments. Investment income from these unrestricted, temporarily restricted, and permanently restricted funds is allocated to unrestricted and temporarily restricted funds based on the respective fund's percentage of total investments.

The Foundation investment policy, which mirrors the Systems policy, establishes reasonable expectations, objectives, and guidelines; sets forth an investment structure detailing permitted asset classes and expected allocation among asset classes; encourages effective communication; and creates a framework for a well-diversified asset mix, which can be expected to generate acceptable long-term returns at a level of risk suitable to the investment committee.

Derivatives — CAMC has entered into floating-to-fixed and floating-to-floating interest rate swap agreements, and an interest rate cap agreement in connection with its debt management program. CAMC records its derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets at fair value using the applicable accounting guidance for derivative instruments. None of CAMC's current derivatives are designated as an accounting hedge. Accordingly, the derivative gain or loss related to the change in fair value is included in the excess of revenues over expenses. The interest rate cap agreement expired in September 2012.

Property, Plant, and Equipment — Amounts capitalized as part of land, buildings, and equipment, including additions and improvements to existing facilities, are recorded at acquisition cost, including applicable internal labor costs and interest capitalized during construction. During 2012 and 2011, approximately $1,232 and $1,111, respectively, of internal labor costs were capitalized related to construction projects. Capital lease assets included in equipment in the accompanying consolidated balance sheets are $6,450, net of $2,636 accumulated amortization, as of December 31, 2012, and $6,450, net of $1,746 accumulated amortization, as of December 31, 2011. The total unamortized capitalized software costs are $6,607 and $7,043 as of December 31, 2012 and 2011, respectively. Total related amortization expense was $4,795 and $3,979 for the years ended December 31, 2012 and 2011, respectively. Construction in progress totals are $20,401 and $12,177 as of December 31, 2012 and 2011, respectively, primarily related to Memorial Hospital fifth floor nursing unit, Women and Children's Hospital obstetrics renovations, Memorial Hospital endoscopy relocation and renovations, emergency department expansion, CAMC Cancer Center development, as well as Siemens licensing and implementation fees. None of these projects were qualified assets; and therefore, there is no related capitalized interest.

Depreciation, including amortization of assets recorded under capital leases, is recorded on the straight-line method over the estimated useful lives of the aggregate building components and improvements (generally 10 to 45 years) and equipment (generally three to 20 years). Upon retirement or disposal, the asset and accumulated depreciation accounts are adjusted, and any gain or loss is recorded in the consolidated statements of operations. Maintenance costs and repairs are expensed as incurred.

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any write-downs due to impairment are charged to operations at the time impairment is identified. Management determined that no impairment write-downs were necessary in 2012. The System incurred an impairment loss due to a building market value adjustment of $1,936 in 2011.

Management revalued estimated lives of certain buildings in 2011 based on controllable building components, the individual cost per component, and assigned appropriate component lives using both lives as determined reasonable by a hospital life study and the American Hospital Association lives for depreciable hospital assets for the calculation of depreciation.

Contributions — Contributions are recognized in the period cash is received or the period in which an unconditional promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor-restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations.

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

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are available for a number of initiatives. The more significant temporary restrictions relate to cancer-related initiatives of $16,560, medical care of patients at CAMC Memorial Hospital of $10,227, and scholarships of $2,122. Permanently restricted net assets are composed of endowment funds, which are restricted in perpetuity, and the income is to be used primarily for clinical and education programs. The more significant permanent restrictions relate to education of $5,659, children's initiatives of $4,046, medical care of patients at CAMC Memorial Hospital of $3,485, cancer research $1,845, and scholarship initiatives of $2,177.

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

Noncontrolling Interest — CAMC is a general partner in two medical office building partnerships, each organized as general partnerships. CAMC owns an 82% interest in the General division medical office building partnership and an 89% interest in the Women and Children's medical office building partnership, which are consolidated by the System. Individual practicing physicians or physician medical corporations own the remaining residual interest in these partnerships. The residual interest is reflected as noncontrolling interest in the consolidated financial statements.

Excess of Revenues over Expenses — The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets) and the change in retirement obligations actuarial loss and prior service cost.

Income Taxes — The IRS has determined that CAMC, the Foundation, the Institute, and CAMC Teays are exempt from income taxes under Section 501(c)(3) of the Code and applicable state statutes, but are subject to unrelated business income tax. A provision of $297 and $135 has been made in the accompanying consolidated statements of operations for the years ended December 31, 2012 and 2011, respectively, for estimated unrelated business income tax. IRS has audited CAMC's unrelated business income tax liability through December 31, 2010. The System was not audited nor was CAMC as a whole.

Integrated, a taxable nonprofit corporation, recognizes income taxes for the amount of taxes payable for the current year and for the impact of deferred tax liabilities and assets. For the years ended December 31, 2012 and 2011, Integrated had cumulative net operating losses (NOLs) available for carryforward approximating $152,281 and $115,406, respectively. However, the deferred tax assets related to these and prior-year NOLs have been fully reserved by a valuation allowance due to the uncertainty of Integrated's ability to generate future taxable income. The System does not have any material uncertain tax positions as of December 31, 2012 and 2011.

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

Goodwill — From time to time, the System will make asset acquisitions, which include the recording of value for goodwill. As of December 31, 2012 and 2011, the System has goodwill recorded in the amount of $697 reported as a component of "other long-term assets" within the accompanying consolidated balance sheets. In accordance with Accounting Standards Codification Topic "350," the System tests goodwill annually for impairment. The System tests for goodwill impairment using the fair value standard and has determined that the fair value of its acquired reporting units exceeds the carrying value of the reporting unit's tangible, intangible, and goodwill values. See Intangibles, Note 16, for additional information.

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

New Accounting Pronouncements — In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards*. The amendments in ASU 2011-04 change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments include those that clarify the application of existing fair value measurement and disclosure requirements; and, those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in ASU 2011-04 did not have a material impact on the System's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, "*Disclosures About Offsetting Assets and Liabilities*." This guidance contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance is effective for the Corporation beginning on January 1, 2013, and retrospective application is required. The System has not yet evaluated the impact this guidance may have on the System's consolidated financial statements.

3. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended December 31, 2012 and 2011, consists of the following:

	2012					
	CAMC	CAMC Teays	Integrated	Elimination	Total	2011
Gross patient service billings	$ 1,991,301	$154,287	$ 73,318	$16	$ 2,218,922	$ 2,044,955
Charity care allowances	(65,546)	(7,222)	(1,027)	-	(73,795)	(68,622)
Contractual allowances	(1,129,883)	(82,409)	(35,391)	-	(1,247,683)	(1,108,920)
Medicaid upper payment limit program	24,424	2,135	-	-	26,559	-
Medicaid-enhanced payment program revenue	13,246	130	-	-	13,376	15,459
Medicaid disproportionate share hospital payment program revenue	815	121	-	-	936	1,622
Patient service revenue	834,357	67,042	36,900	16	938,315	884,494
Provision for bad debts	(65,593)	(9,277)	(3,904)	-	(78,774)	(74,902)
Net patient service revenue	$ 768,764	$ 57,765	$ 32,996	$16	$ 859,541	$ 809,592

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

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

The Medicare cost reports for CAMC have been audited by the Medicare fiscal intermediary through December 31, 2007, and for CAMC Teays through September 30, 2007.

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

Public Employees' Insurance Agency (PEIA) — Inpatient services rendered to PEIA subscribers are reimbursed on a prospective payment system. Outpatient services rendered to PEIA subscribers are reimbursed based on a fee schedule with no retroactive adjustment.

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

The System's allowance for doubtful accounts for self-pay patients and patient responsibility decreased to 88% of self-pay and patient responsibility accounts receivable as of December 31, 2012, from 93% of self-pay and patient responsibility accounts receivable as of December 31, 2011. This decrease is due to an increase in estimated charity reserve. The System's allowance for uncollectible accounts increased by $1,931 to $22,093 as of December 31, 2012, from $20,162 as of December 31, 2011. The System has not changed its charity care or uninsured discount policies during fiscal year 2012 or 2011. The increase relates to change in gross accounts receivable to $275,875 as of December 31, 2012, from $249,677 as of December 31, 2011. The System does not maintain a material allowance for uncollectible accounts from third-party payors, nor does it have a history of significant write-offs from third-party payors.

In both 2012 and 2011, approximately 86% and 86%, respectively, of consolidated net patient service revenue was derived from third-party payment programs (Medicare, Medicaid, PEIA, workers' compensation, and various other arrangements), which reimburse the System at amounts that are less than established charges. Net patient service revenue reflects the estimated net realizable amounts due from third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements and estimated net realizable amounts due from patients for services rendered.

Medicaid-Upper Payment Limit Program — On May 23, 2012, the West Virginia Medicaid Program received federal CMS approval to implement the Upper Payment Limit (UPL) program proposed by the West Virginia Hospital Association. The UPL program is limited to the state fiscal years 2012 and 2013, unless extended. The payment is computed primarily on the following factors: hospital allowable total cost to charge ratio and what Medicaid paid for the fee for service segment of Medicaid. These computations were market based adjusted to fiscal year 2012. The West Virginia Department of Tax and Revenue has also implemented a tax on licensed general acute care hospitals as an expansion of the existing health care provider tax. The revenues produced from this tax will be used as the State contribution toward drawing down additional federal matching dollars for Medicaid to enhance current hospital payment rates under the UPL program. During 2012, the System recorded $26,559 in reimbursement from the UPL program. This reimbursement has been included in net patient service revenue in the accompanying consolidated statements of operations. During 2012, the System recorded $10,720 in taxes related to the UPL program, which has been included in total expenses in the accompanying consolidated statements of operations.

Medicaid-Enhanced Payment Programs — Under the West Virginia Medicaid Enhanced Payment Programs, the methodology utilized in determining payments is based on the West Virginia State Plans approved on May 15, 2006. The methodology utilizes the following four payment groups: urban, rural, tertiary safety net, and rural safety net, and the amounts currently assigned and approved by the Centers for Medicare and Medicaid. During 2012 and 2011, the System recorded $13,426 and $15,459, respectively, in reimbursement from the enhanced payment program. The amounts recorded in 2011 included a one-time stimulus payment of $4,022 for January through June 2011. This reimbursement has been included in net patient service revenue in the accompanying consolidated statements of operations.

Medicaid Disproportionate Share Enhancement Program — Under the West Virginia Medicaid Disproportionate Share Enhancement Program, funds designated by the West Virginia legislature for disproportionate share hospitals (DSHs) are distributed based on, among other things, each particular hospital's Medicaid inpatient activity and total operating expenses compared to other hospitals in the state. During 2012 and 2011, the System recorded $936 and $1,622, respectively, in reimbursement from the DSH program. This reimbursement has been included in net patient service revenue in the accompanying consolidated statements of operations. Currently, funds received from this program are subject to retroactive adjustment.

The State of West Virginia Disproportionate Share Hospital State Plan (the "DSH State Plan") provides for a settlement process among participating hospitals. The Bureau for Medical Services of the State of West Virginia Department of Health and Human Resources has contracted with a third-party vendor to assist with the audit settlement process for the DSH State Plan. The laws and regulations governing the DSH settlement process are complex, involving statistical data from all participating hospitals, and are subject to interpretation. Accordingly, the System is not able to estimate the impact on the consolidated financial statements for the completion of the DSH settlement process. The ultimate resolution of the settlement process could materially affect the System's future consolidated results of operations or cash flows in a particular period. The state of West Virginia is currently considering a proposal to eliminate the settlement process for 2008 and prior to allow the payments to be considered as settled.

Broad-Based Health Care-Related Tax (Medicaid Provider Tax) — The West Virginia Broad-Based Health Care-Related Tax of 1993 assesses a tax on net patient service revenue at rates varying from 0.35% to 5%, depending on the type of services provided. During 2012 and 2011, the System recorded $20,292 and $19,197 for this tax. The System recorded $10,720 in taxes related to the Upper Payment Limit Program implemented by the West Virginia Department of Tax and Revenue in 2012. In addition, $17,092 was recorded for 2012 broad base tax and $(7,520) in credits related to the filing of 2007 to 2010 amended annual returns. The 2011 return has not yet been amended. This is included in Medicaid Provider Tax on the accompanying consolidated statements of operations.

4. CHARITY CARE AND COMMUNITY SERVICE BENEFIT

The System provides care to patients who meet certain criteria under the approved charity care policy without charge or at amounts less than the established rates. Because the System does not pursue collection of amounts that are determined to qualify as charity care, they are not reported as net patient service revenue. The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of gross charges forgone for direct patient care, which were $73,795 and $68,622 for the years ended December 31, 2012 and 2011, respectively.

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

5. ASSETS LIMITED AS TO USE AND INVESTMENTS

Assets limited as to use as of December 31, 2012 and 2011, consist of the following:

	2012	2011
Short term investments:		
Cash and cash equivalents	$ 22,346	$ 3,881
Corporate stocks	111,932	82,242
Corporate bonds	12,779	11,985
Total short term investments	147,057	98,108
Self-insurance:		
Cash and cash equivalents	1,874	1,885
U.S. treasury and U.S. government agency obligations	3,536	3,362
Corporate stocks	10,137	8,652
Alternative investments — limited partnerships	2,748	2,748
Mutual funds invested in equity securities	9,650	4,169
Mutual funds invested in fixed-income securities	4,697	8,093
Total self-insurance	32,642	28,909
Board-designated and restricted funds:		
Cash and cash equivalents	403	298
Corporate stocks	121,296	82,510
Corporate bonds	43,405	38,494
Alternative investments — limited partnerships	14,113	20,857
Total board-designated and restricted funds	179,217	142,159
Trustee-held cash and cash equivalents:		
Debt service reserve fund	15,439	15,469
Acquisition fund	33,891	33,819
Collateral on derivatives	19,180	17,290
Other assets:		
Cash equivalents	400	381
Other	6,634	5,891
Total trustee-held cash and cash equivalents	75,544	72,850
Other investments	20,669	20,372
Total assets limited as to use and investments	455,129	362,398
Less current portion	(5,000)	(6,250)
Assets limited as to use and investments — net of current portion	$ 450,129	$ 356,148

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

6. INVESTMENT INCOME

Investment income and unrealized and realized gains and losses on investments for the years ended December 31, 2012 and 2011, are composed of the following:

	2012	2011
Unrestricted:		
Interest and dividends	$ 11,701	$ 7,635
Realized gain on investments — net	3,310	8,965
Equity earnings (losses) and impairments on alternative investments	1,272	(264)
Net unrealized gain (losses)	17,093	(16,738)
Total unrestricted gains (losses)	33,376	(402)
Temporarily restricted:		
Interest and dividends	1,485	794
Realized gain on investments — net	2,164	2,459
Net unrealized gains (losses)	1,199	(3,478)
Total temporarily restricted gains (losses)	4,848	(225)
Net investment income (loss) and realized and unrealized gains (losses)	$ 38,224	$ (627)

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

Obligations under long-term debt and capital lease obligations as of December 31, 2012 and 2011, consist of the following:

	2012	2011
2010 — Mountaineer Imaging Loan	$ 7,729	$ 8,324
2009 Series A Bonds	172,990	175,180
2008 Series A Bonds	125,500	126,325
2008 CAMC Teays Bonds	23,243	23,935
2010 VHA Loan Refinancing	4,039	6,146
2006 Promissory note	5,805	6,090
Other, including capital lease obligations of $4,025 in 2012 and $4,486 in 2011	4,025	6,350
Total	343,331	352,350
Less unamortized discount	(2,058)	(2,162)
Total — net of unamortized discount	341,273	350,188
Less current maturities	(8,143)	(7,501)
Total long-term debt and lease obligations	$ 333,130	$ 342,687

The fair value of the System's debt obligations was $324,160 and $358,657 as of December 31, 2012 and 2011. Total outstanding escrowed debt as of December 31, 2012 and 2011, was $16,000 and $16,000.

In determining the fair value of debt, the System considers its credit standing and does not take into account the credit standing of the financial institution that participated in the issuance of the debt instruments. Additional considerations for valuing the debt include the maturity date and the coupon and yield of the debt instrument.

2013 Taxable Note — On March 22, 2013, CAMC issued and sold $60,000 4.5% taxable Master Note 2013-1 with final maturity on March 14, 2043, utilizing level debt amortization over 30 years. CAMC will make scheduled payments of principal on an annual basis each March 15 starting March 15, 2014, and scheduled payments of interest on a semiannual basis each March 15 and September 15 beginning September 15, 2013 through March 15, 2043. This note is issued and secured under the 1993 restated master trust indenture and secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities. The proceeds from the sale of this note have been deposited in "Assets Limited as to Use" in the accompanying consolidated balance sheets. The funds will be used for construction of a new outpatient Cancer Center on the campus of CAMC Memorial Hospital; the renovation and improvement of CAMC Memorial Hospital for the future addition of inpatient rooms; the construction of an ambulatory surgery center on the campus of CAMC General Hospital; the upgrade of the energy systems at CAMC General Hospital; the construction, renovation and improvement of physician office space at various CAMC locations; and other routine capital expenditures approved in capital budget of CAMC.

2010 Mountaineer Imaging Loan — In December 2010, CAMC entered into a loan agreement for $9,000 with Branch Banking and Trust (BB&T) to purchase Mountaineer Imaging. In February 2011, BB&T sold the note with a balance of $8,918 to Fifth Third Bank. Principal and interest are payable in consecutive monthly installments commencing January 10, 2011, and continuing in equal monthly payments sufficient to fully amortize the debt in 15 years with the outstanding balance of the note being due and payable in full on December 10, 2015. Interest accrues at a variable rate equal to 30-day London InterBank Offered Rate (LIBOR), plus 1.75%. The rate aggregated to 2.125% as of December 31, 2011. The obligation of CAMC under the loan agreement is evidenced and secured by a promissory note issued under the 1993 restated master trust indenture as supplemented from time to time. All notes issued under the 1993 restated master trust indenture are secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

2009 Series A Bonds — In September 2009, CAMC entered into a loan agreement with the West Virginia Hospital Finance Authority (the "Authority") pursuant to which CAMC borrowed the proceeds of the Authority's $179,925 fixed-rate hospital revenue refunding and improvement bonds 2009 Series A (CAMC). The coupon rates of the bonds range from a low of 3% to a high of 5.62% depending on maturity. In aggregate, the bonds sold at a net discount of $2,406, which is being amortized to interest and debt expense over the 23-year life of the issue. Interest on the bonds is payable semiannually and principal is payable annually. Under the terms of the loan agreement, CAMC makes monthly loan repayments sufficient in time and amount to enable the Authority to pay the principal of, and the interest on, the Series 2009 bonds at the times noted above. The obligations of CAMC under the loan agreement are evidenced and secured by a promissory note issued pursuant to a 1993 restated master trust indenture dated January 1, 1993, as supplemented from time to time. All notes issued under the 1993 restated master trust indenture are secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

2008 Series A Bonds — In June 2008, CAMC entered into a loan agreement with the Authority pursuant to which CAMC borrowed the proceeds of the Authority's $127,355 variable-rate revenue bonds 2008 Series A (CAMC). The proceeds from the 2008 Series A bond issue were used primarily to (i) currently refund the Authority's 1995 Series A bonds in the principal amount outstanding of $27,540, (ii) refinance an outstanding bank loan in the aggregate principal amount of $4,915, (iii) pay or reimburse certain capital expenditures made, or to be made, by CAMC with an initial deposit to a trustee-held project acquisition fund in the amount of $91,085, and (iv) pay for the cost of issuing the 2008 Series A bonds. The project acquisition fund is a component of assets limited as to use appearing in the accompanying consolidated balance sheets. The bonds require the payment of principal and interest through September 1, 2037. The bonds are multimodal variable-rate demand obligations supported by credit enhancement and a liquidity facility. The obligations of CAMC under the loan agreement are evidenced and secured by a promissory note issued pursuant to a 1993 restated master trust indenture dated January 1, 1993, as supplemented from time to time. All notes issued under the 1993 restated master trust indenture are secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

The timely payment of principal and interest on the 2008 Series A bonds and the purchase price of tendered bonds are secured by an irrevocable, transferable direct pay letter of credit issued by a bank. The letter of credit will expire on June 19, 2015, unless renewed, and may be replaced by a substitute letter of credit. Should any portion of the bonds not remarket, the holders of said bonds may tender them to the bank holding the direct pay letter of credit. Draws on the letter of credit, which cannot be remarketed after 90 days will begin repayment over 10 years with a balloon payment at the end of five years. There were no draws on the letter of credit in 2012. Interest on the 2008 bonds is variable and can bear interest at a daily rate or a weekly rate as determined by a remarketing agent. Interest accrues at the stated interest rate, which, in the judgment of the remarketing agent under then-existing market conditions, would result in the sale of the 2008 bonds on such rate determination date at a price equal to the principal amount thereof, plus interest accrued through the rate period. As of December 31, 2012, the rate was 0.12%.

2008 CAMC Teays Bonds — On September 30, 2008, CAMC Teays entered into a loan agreement with the Authority pursuant to which CAMC Teays borrowed the proceeds of the Authority's $26,000 variable-rate revenue bonds. The proceeds from the 2008 bond issue were used primarily to (i) refinance $21,744 of the 2006 promissory note referenced above and, (ii) pay or reimburse certain capital expenditures made, or to be made, by CAMC Teays with a deposit to a trustee-held project acquisition fund in the amount of $4,256. CAMC is a guarantor of this debt. The bonds require the payment of principal and interest through October 31, 2018. Principal is amortizing as if the debt is repaying over 21 years in equal monthly installments of $93. On October 31, 2018, a balloon payment is due for the remaining principal and accrued interest. Interest is accrued on a monthly basis. The associated note carries a variable monthly interest rate equal to 78.00% of LIBOR, plus 80-basis points (0.80%), which aggregated 0.97% as of December 31, 2012. New terms were executed effective December 13, 2012, calling for a variable monthly interest equal to 78.00% of LIBOR, plus 85-basis points (0.85%).

2010 VHA Loan Refinancing — In November 2010, CAMC refinanced a 2004 VHA Central Atlantic, Inc. (VHA), loan when it entered into a loan agreement with the Authority, pursuant to which CAMC borrowed the proceeds of the Authority's $8,400 tax-exempt Hospital Revenue Bond, 2010 Series A (CAMC). Principal and interest are payable in consecutive monthly installments commencing on December 1, 2010, and continuing in equal monthly payments sufficient to fully amortize the debt in four years. Interest accrues at a variable rate equal to 78.00% of 30-day LIBOR, which is adjusted monthly, plus 0.98.% and aggregated 1.14% as of December 31, 2012. The obligation of CAMC under the loan agreement is evidenced and secured by a promissory note issued under the 1993 restated master trust indenture as supplemented from time to time. All notes issued under the 1993 restated master trust indenture are secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

2006 Promissory Note — Taxable note for CAMC Teays with a financial institution guaranteed by CAMC. The 2006 Promissory Note carries a variable monthly interest rate equal to the LIBOR, plus 100-basis points (1.00%), which aggregated 1.21% as of December 31, 2012. Interest on the note is paid monthly in arrears on the first business day of each month through an amended maturity date of January 1, 2014.

Other — CAMC is a general partner in two medical office building partnerships, each organized as general partnerships. CAMC owns an 82% interest in the General division medical office building partnership and an 89% interest in the Women and Children's medical office building partnership.

The West Virginia Hospital Finance Authority Hospital Refunding Revenue Bonds, bearing interest at a fixed rate of 7.25%, were issued to the General division partnership in October 1993. These bonds were guaranteed by CAMC. To achieve debt service savings, CAMC loaned the partnership the principal amount of $1.4 for the purpose of refinancing these bonds on March 18, 2011. The new note will be payable to CAMC in monthly installments of $9 and shall bear interest initially at 2.42% and will be adjusted quarterly to be charged at the higher of LIBOR, plus 1.75% or the IRS Code Section 1274(d) Mid-Term Rate. The note is secured by real estate and matures on February 18, 2016, and is based on a 180-month amortization period.

A Women and Children's partnership note payable to a bank was due to be refinanced, and on January 31, 2011, CAMC loaned the partnership funds sufficient to repay the bank note and any costs associated with refinancing in the amount of $625. As of December 21, 2012, this note was repaid in full to CAMC.

CAMC maintains a working capital line of credit with a local bank. The borrowing availability under the line is $10,000 as of December 31, 2012. The working capital line of credit expires on December 31, 2014. There were no borrowings in 2011 or 2012. A note securing the line of credit has been issued under the 1993 restated master trust indenture.

As of December 31, 2012 and 2011, there was $4,709 committed to two undrawn reoccurring letters of credit related to workers' compensation. These letters of credit are renewed annually.

CAMC is one of three charter members of HealthNet, Inc. (HNET), a West Virginia nonprofit corporation that provides air medical transportation service to the patient population. HNET is not a consolidated entity within the Parent. In 2009, CAMC issued a guarantee in the aggregate amount of $5,213 to support the acquisition, renovation, and replacement of a medical helicopter. As of December 31, 2012, CAMC had not been called upon to make payments under the guarantee agreement.

CAMC has recorded $4,025 and $4,486 as of December 31, 2012 and 2011, respectively as a, capital lease obligation for a helicopter, which is included in property, plant, and equipment in the accompanying consolidated balance sheets.

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

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

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

Debt Service Requirements — The System is required to make principal payments under long-term debt and capital lease obligations. This schedule includes amounts related to an obligation that was entered into subsequent to the balance-sheet date. Please see 2013 Taxable Note above for details. The required principal payments are as follows:

	2013 Taxable Note	2010 Mountaineer Imaging	2010 VHA	2009A	2008A	2008A CAMC Teays	2006 Promissory Teays Note	Other — Including Capital Leases	Total
2013	$ -	$ 595	$2,107	$ 2,600	$ 960	$ 1,118	$ 280	$ 483	$ 8,143
2014	965	595	1,932	5,445	1,045	1,118	5,525	505	17,130
2015	1,030	6,539	-	5,935	1,455	1,118	-	531	16,608
2016	1,075	-	-	6,150	1,600	1,118	-	557	10,500
2017	1,125	-	-	6,425	1,650	1,118	-	584	10,902
Thereafter	55,805	-	-	146,435	118,790	17,653	-	1,365	340,048
Total	$60,000	$7,729	$4,039	$172,990	$125,500	$23,243	$5,805	$4,025	$403,331

Derivatives — The System has entered into floating-to-fixed and floating-to-floating interest rate swap agreements, and an interest rate cap agreement in connection with its debt management program. The objective is to reduce the amount of interest related to outstanding debt obligations. Consistent with its interest rate risk management objective, the System entered into various interest rate swap agreements that are not designated as hedging instruments with a total outstanding notional amount of $325,007 as of December 31, 2012, and $388,847 as of December 31, 2011. Net interest paid or received under the swap agreements is included in the consolidated statements of operations as a component of interest and debt expense while the change in the fair value of the derivative is reported separately in the consolidated statements of operations.

The System's interest rate swap agreements as of December 31, 2012 and 2011, are as follows:

Swap Type	Expiration Date	System Pays	Notional Amount 2012	Notional Amount 2011
Floating	September 1, 2032	BMA Municipal Bond Index rate	$ 148,175	$ 150,500
Interest rate cap	September 1, 2012	7.5%*	-	60,000
Fixed	September 4, 2027	USD-Securities Industry and Financial Markets Association Municipal Bond Index	50,000	50,000
Fixed	September 1, 2037	4.19 %	103,530	104,355
Fixed	October 1, 2013	3.35 %	23,302	23,992
			$ 325,007	$ 388,847

* Instrument capped System interest rate exposure, as counterparty would refund the System interest costs above 7.5% related to the notional amount. This instrument expired in 2012 with no fees due or payable.

Net interest paid and received on the System's interest rate swap transactions was an expense of $2,841 and an expense of $2,858 for the years ended December 31, 2012 and 2011, respectively. This is included in interest and debt expense in the accompanying consolidated statements of operations.

Under the terms of several of the derivative contracts, CAMC is required to maintain collateral posted with the counterparty to secure a portion of the estimated value of the derivative instruments when said instruments are valued in favor of the counterparty, as periodically determined by the counterparty. Collateral must be posted when the applicable aggregate derivative values exceed $10,000 in favor of the counterparty. As of December 31, 2012 and 2011, $19,180 and $17,290, respectively, of collateral had been posted. The System's accounting policy is not to offset collateral amounts against fair value amounts recognized for derivative instrument obligations. Accordingly, the posted collateral is included in assets limited as to use in the accompanying consolidated balance sheets.

Generally, the counterparties to the CAMC interest rate swap transactions could force an early termination on most of the transactions if the obligated group's underlying credit rating declines from A3 to Baa2 or below as determined by Moody's Investors Service, if the obligated group fails to post collateral or if the obligated group fails to make swap payments. Aggregate termination payments would approximate the fair market value of the outstanding instruments as reported above. CAMC's bonds issued through the West Virginia Hospital Finance Authority carry a current credit rating as of December 31, 2012, of A3.

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

Operating Lease Agreements — The System leases various land, computer, office, and movable equipment under noncancelable operating lease agreements expiring at various dates through 2020. Payments required under the noncancelable operating lease agreements as of December 31, 2012, are as follows:

Years Ending December 31	
2013	$ 2,227
2014	1,360
2015	1,264
2016	1,063
2017	835
Thereafter	2,170
	$ 8,919

Total expense for operating leases, which is included in supplies and other in the accompanying consolidated statements of operations, was $6,416 and $5,684 for the years ended December 31, 2012 and 2011, respectively.

8. LIABILITIES FOR SELF-INSURANCE RESERVES

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

Obligations of the trust are determined using statistical analysis by an independent actuarial valuation of occurrence-based risks, which includes consideration of incurred but not reported claims exposure. The System's methodology for estimating this self-insured obligation is a simulation modeling approach largely dependent on the System's actual loss history and certain national, regional, and state specific claim statistics. As of December 31, 2012 and 2011, the System has recorded $19,696 and $22,360, respectively, as the liability for self-insured asserted and unasserted professional malpractice and general liability claims. The estimated current portion of $5,000 in 2012 and $6,250 in 2011 is recorded in current liabilities in the accompanying consolidated balance sheets. The estimated liability for such malpractice and general liability claims has been discounted using a discount rate of 0.5% in both 2012 and in 2011. While the ultimate amount of costs incurred under the System's self-insured programs is dependent on future developments, in management's opinion, recorded reserves are adequate to cover the future settlement value of claims. However, it is reasonably possible that recorded reserves may not be adequate to cover the future settlement of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in operations in the periods in which such adjustments are known.

The malpractice self-insurance limits are a maximum $3,000 per occurrence and a maximum annual aggregate limit of $12,000 for May 1 2001 through April 30, 2002; $5,000 per occurrence and a maximum annual aggregate limit of $20,000 for May 1 2002 through April 30, 2003; $7,000 per occurrence and a maximum annual aggregate limit of $25,000 for May 1, 2003 through April 30, 2004; $10,000 per occurrence and a maximum annual aggregate limit of $30,000 for May 1, 2004 through April 30, 2005; $10,000 per reported claim and a maximum annual aggregate limit of $30,000 for the six years from May 1, 2005 through April 30, 2011; and $10,000 per reported claim and a maximum annual aggregate limit of $25,000 for May 1, 2011 through April 30, 2013.

Prior to 2012, certain members of the System were also self-insured for workers compensation unemployment compensation, disability, and employee health insurance. The workers' compensation plan's trust fund is under the custodial management of a bank trust department. The workers' compensation long-term portion of the obligation recorded in self-insurance reserves in the accompanying consolidated balance sheets for these programs is $730 and $1,223 as of December 31, 2012 and 2011, respectively, and is estimated using statistical analyses by consulting actuaries. The current portion of the obligation recorded in accrued expenses for workers' compensation was $334 and $579 as of December 31, 2012 and 2011. Beginning, January 1, 2012, all system members became insured for workers' compensation. Due to excessive assessments by the West Virginia Insurance Commissioner's office, which is responsible for administering the self-insurance program across the state of West Virginia, the System no longer found it to be financially feasible to remain self-insured for workers' compensation exposures. Self-insured workers' compensation obligations as of December 31, 2011, are reserved as claims prior to the effective date of January 1, 2012, including incurred but not reported claims. The System expects the self-insured liability will be completely liquidated within 24 to 36 months. Claims, beginning on January 1, 2012, are administered under a high deductible insured program with limits of $1,000 per occurrence and $3,000 annual aggregate.

Prior to 2012, the System was subject to risk pools (security and guaranty) for the benefit of self-insured employers. The risk pools were utilized to fund the claims payments of default and bankrupt self-insured employers. Under the security pool, the System is required to maintain a $3,764 letter of credit to secure claims with dates of injury on or prior to June 30, 2004. The System and other pool participants are required to pay annual guaranty pool assessments until the guaranty pool contains the sum of $30,000 or 5% of the estimated total claims liability of all self-insured employers. In the event that actual claim defaults exceed the amounts of defaulted claim reserves, additional amounts may be assessed to the self-insured employers to fund the guaranty pool. The System's contributions to the guaranty pool were $6 and $8 for 2012 and 2011, respectively. The amount of the System's liability in respect to potential assessments cannot be estimated. Accordingly, no accrual for such liability has been reflected in the consolidated financial statements. System members that were self-insured for workers' compensation became insured. With the move to insured status, the System subsequently provided a letter of credit in favor of the West Virginia Insurance Commission in the amount of $3,764 and a letter of credit in favor of an excess/stop-loss insurer in the amount of $945.

9. RETIREMENT OBLIGATIONS

Supplemental Executive Retirement Program (SERP) — The System has adopted several SERPs for the benefit of corporate officers. The SERPs, when combined with the retirement savings plan, are intended to provide corporate officers with a retirement benefit from all System sources (including 50% of social security benefits) ranging from approximately 55% to 60% of the officer's average compensation during his or her final five years of employment with an assumed normal retirement age of 60. Generally, an officer may become fully vested in SERPs' benefits at age 60 with at least 30 years of service. Partial vesting in these benefits begins at age 55 with at least five years of service. Benefit payments under these plans generally do not commence until 24 months after termination of employment. No benefits are payable under the SERPs should the officer, who is otherwise eligible for benefits, enter into competition with the System during the 24 months following termination of employment. The SERPs are nonqualified plans. The plans were amended on January 1, 2008, to comply with Section 409a of the Internal Revenue Code, including the substantial risk of forfeiture requirements.

The table below sets forth the change in the benefit obligation of the SERPs for the years ended December 31, 2012 and 2011, using a December 31 valuation date. The table also reflects the funded status of the plans.

Change in Projected Benefit Obligation	**2012**	**2011**
Benefit obligation at beginning of year	$ 9,104	$ 6,641
Plan assumption adjustment	-	-
Service cost	543	362
Interest cost	285	225
Actuarial loss	1,334	2,683
Benefits paid	(1,404)	(846)
Plan amendments	847	39
Projected benefit obligation (underfunded status) at end of year	$ 10,709	$ 9,104

As of December 31, 2012, and 2011, the long-term portion of this obligation is $9,348 and $7,499, respectively, and is included in retirement obligations, while the current portion is $1,361 and $1,605, respectively, and is included in accrued payroll and payroll-related expenses in the accompanying consolidated balance sheets. The accumulated benefit obligation for the SERPs was $8,983 and $7,989 as of December 31, 2012 and 2011, respectively.

Included in unrestricted net assets as of December 31, 2012, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of $4,282 and unrecognized net prior service cost of $1,160. The actuarial loss and prior service cost recognized in 2012 were $433 and $143, respectively.

The majority of the SERPs' benefits are not funded. Certain assets approximating $2,189 and $1,813 as of December 31, 2012 and 2011, respectively, are maintained in a separate account to fund benefits under the plans and are recorded in other assets in the accompanying consolidated balance sheets. Contributions of $148 and $143 were made into this account in 2012 and 2011, respectively. Such assets are subject to general creditors of the System. The System expects to contribute approximately $51 to its SERP plans in 2013.

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

December 31	
2013	$ 1,361
2014	677
2015	1,447
2016	1,840
2017	4,416
2018–2021	2,396

The components of net periodic benefit cost for SERP plans for the years ended December 31, 2012 and 2011, are as follows:

	2012	2011
Service cost	$ 543	$ 362
Interest cost	285	225
Settlement charge	561	367
Actuarial loss	433	120
Amortization of prior service cost	143	270
Net periodic benefit cost	$ 1,965	$ 1,344

Actuarial assumptions for the plans for the years ended December 31, 2012 and 2011, are as follows:

	2012	2011
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	3.15 %	3.65 %
Expected rate of compensation increase	4.00	4.50
Weighted-average assumptions used to determine benefit obligations as of December 31:		
Discount rate	2.75 %	3.15 %
Expected rate of compensation increase	4.00	4.00
Lump-sum interest rate	1.75	2.50

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

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

The table below sets forth the change in the plan assets and benefit obligation of the postretirement benefits for the years ended December 31, 2012 and 2011, using a December 31 valuation date. The table also reflects the funded status of the plans.

Change in Projected Benefit Obligation	**2012**	**2011**
Benefit obligation — beginning of year	$ 3,717	$ 4,112
Service cost	51	54
Interest cost	128	166
Actuarial loss (gain)	119	(349)
Contributions	13	-
Benefits paid	(268)	(266)
Benefit obligation (underfunded status) — end of year	$ 3,760	$ 3,717

The postretirement benefits are unfunded. Employer contributions and benefits paid were $268 and $265 for the years ended December 31, 2012 and 2011, respectively.

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

2013	$ 436
2014	412
2015	390
2016	376
2017	353
2018–2022	1,409

The postretirement benefit expense for the years ended December 31, 2012 and 2011, was as follows:

	2012	**2011**
Service cost of benefits earned	$ 51	$ 54
Interest cost	128	166
Actuarial loss	92	162
Net periodic postretirement expense	$ 271	$ 382

The current portion of the obligation is $436 and $434 and is included in accrued expenses in the accompanying consolidated balance sheets as of December 31, 2012 and 2011, respectively. The long-term portion is $3,343 and $3,308 and is included in retirement obligations in the accompanying consolidated balance sheets as of December 31, 2012 and 2011, respectively. The amounts included in the balance-sheet liability included an additional $20 for an employee not considered in the actuarial valuation. For measurement purposes, an annual rate of increase in the per capita cost of covered health care benefits of 8%, declining to 5%, was assumed for 2015 and thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. A discount rate of 2.95% and 3.6% was used for the medical plan for the years 2012 and 2011, respectively. The discount rate was 2.95% and 3.6% for the life insurance and sick day buyout and was used to determine the postretirement benefit obligation as of December 31, 2012 and 2011.

Retirement Savings Plan — All employees of participating employers (CAMC, Integrated, the Institute, CAMC Teays, and the Foundation) are eligible to participate in a retirement savings plan. Employees may contribute from 1% to 100% of their salary to the plan, subject to certain limitations, and the employers will match from 1% to 6% of salary based on the employees' years of service. Total employer contributions to the retirement savings plan were $10,998 and $10,735 during 2012 and 2011, respectively, which is included in employee benefits in the accompanying consolidated statements of operations.

10. RELATED-PARTY TRANSACTIONS

West Virginia University (WVU) employs physicians who provide medical education and supervision to the resident physicians employed by CAMC. In 2012 and 2011, CAMC provided $13,089 and $11,356, respectively, to WVU for the physicians who teach and supervise the resident physicians for call pay, income guarantees, fees for services, and other expenses. The fee paid to WVU is included in supplies and other expense in the accompanying consolidated statements of operations. CAMC has committed $14,205 to further support WVU during 2013 for the use of the teaching and supervising physicians.

CAMC, Cabell Huntington Hospital, and West Virginia University Hospital are members of Healthnet, Inc. ("Healthnet"). Each member's legally controlled percentage is 33-1/3%. Healthnet is a West Virginia nonprofit corporation that provides aeromedical transport service, which the IRS has determined is recognized as exempt from federal income tax under Section 501(c)(3) of the Code. Members are required to support Healthnet to the extent that expenses exceed revenues. For the years ended December 31, 2012 and 2011, Healthnet expenses exceeded revenues by $1,749 and $2,832, respectively. Healthnet also reimburses CAMC for operating expenses incurred on its behalf, as well as for certain financial services. Healthnet reimbursed CAMC $4,498 in 2012 and $4,236 in 2011 for such services. Amounts due from Healthnet included in other receivables were $2,990 and $4,207 as of December 31, 2012 and 2011, respectively.

11. FUNCTIONAL EXPENSES

The functional expenses related to the System's operations as of December 31, 2012 and 2011, are as follows:

	2012	2011
Provision of health care and related services	$ 604,328	$ 594,950
General and administrative	247,111	218,411
Change in fair value of derivative	(2,710)	15,276
	$ 848,729	$ 828,637

12. COMMITMENTS, CONTINGENCIES, AND LITIGATION

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

On February 7, 2008, a jury returned a verdict against CAMC in a lawsuit filed prior in 2007. The lawsuit concerned a physician's medical staff privileges. The jury returned a verdict against CAMC in the amount of $5,000 compensatory damages and $20,000 punitive damages for a total of $25,000 in damages, which was reduced in 2010 to $10,000. The case was settled on appeal for $11,500. The settlement was funded by CAMC $1,955 and two of CAMC's insurance carriers, Executive Risk Indemnity Co. (ERI) $8,050 and Employers Reinsurance Corporation (ERC) $1,495. The obligation previously recorded and reflected in the accompanying consolidated balance sheets as of December 31, 2010, was $9,545. This amount was relieved with $1,050 being paid to insurance company and $8,495 recorded as Litigation Settlement expense on the consolidated statements of operations during 2011.

Rate Regulation — The Health Care Authority (HCA) is empowered, by provisions of the West Virginia Code, to regulate CAMC and CAMC Teays' gross patient revenues from nongovernment payors and to evaluate health care entity financial performance. This is accomplished by issuing rate orders, based on facility operating budgets and rate schedules, and through evaluating performance and compliance reports submitted by CAMC and CAMC Teays on a periodic basis. The addition and deletion of services are also regulated by HCA. For the years ended December 31, 2012 and 2011, CAMC Teays had $377 and $479, respectively, of penalties being held in abeyance by the HCA. These penalties relate to underspent wages. These penalties may be used to reduce future rates at such times and in such amounts according to the HCA's discretion. These penalties against CAMC Teays may also be reduced based on an annual plan that CAMC Teays may submit to the Authority outlining community service projects. CAMC Teays must submit such plan to the Authority outlining the community services to be provided in future years along with the amount of the penalty CAMC Teays believes should be eliminated as a result of these services. An obligation is not recorded for such penalties in abeyance in the accompanying consolidated financial statements as the final resolution for such penalties is unknown and the corresponding obligation cannot be estimated. In 2013, the HCA waived all penalties against CAMC Teays.

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

Information Technology (IT) Outsourcing — In August 2003, CAMC entered into a 10-year agreement with Siemens Medical Solutions USA, Inc. ("Siemens"), for the license, implementation, and support of the software for its core information services applications. CAMC's total commitment related to this agreement, aggregating $41,031, is being paid in 120 monthly installments of $342, plus applicable sales tax and subject to an annual adjustment as described in the agreement during the 10-year term. Also, under this agreement $15,000 of penalty credits was accrued to the benefit of CAMC for purchase of additional services or products from Siemens. CAMC has recognized these credits as a reduction of expenses incurred under the Siemens' agreement over the anticipated benefit and usage period of the related modules ranging from 24 to 60 months. Siemens contract expenses, including expenses eligible for capitalization, were reduced by $294 related to the recognition of such credits for the years ended December 31, 2011, and were fully amortized as of that date.

Further, CAMC entered into an IT outsourcing agreement with Siemens concurrently with the execution of the license, implementation, and support agreement. Under the outsourcing agreement, CAMC outsourced to Siemens the services previously provided by its employees, including maintaining software and hardware and providing information systems and telecommunications services to CAMC and its affiliates. The term of the outsourcing agreement is 10 years and may be terminated by CAMC with 30-day notice if Siemens fails to meet or exceed service-level standards, as defined in the agreement. Siemens may terminate the agreement under certain defined conditions with notice that varies by condition. In September 2010, CAMC entered into an amended agreement with Siemens, whereby the original agreement was extended by seven years through September 30, 2020. CAMC's total commitment related to the amended agreement for the license, implementation, and support is $14,188.

Total fees incurred during the years ended December 31, 2012 and 2011, related to these agreements were $17,780 and $17,583, respectively. Of this amount, $3,747 and $4,540 was capitalized on December 31, 2012 and 2011, respectively, related to capitalized computer hardware and software costs.

Gain Contingency — CAMC believes that sales tax was improperly collected from CAMC by various vendors and remitted to the state of West Virginia (the "State") during the period July 2007 to June 2009 for radiopharmaceuticals, drugs, durable medical goods, mobility-enhancing equipment, and prosthetic devices exempt from tax pursuant to the WV Code 11-15-9i, other statutory provisions, and established case law. On August 11, 2009, CAMC submitted a claim for refund of approximately $9,600 to the State for sales taxes paid to vendors from July 2007 through June 2009. The State paid $2,276 and $360 of this claim in 2010 and 2011, respectively, and CAMC has recorded the amount paid as a reduction to expense in the year it was paid. The remainder of this claim has been denied by the State. On February 14, 2011, CAMC submitted another claim for refund to the State of sales tax paid to vendors in the amount of $1,700 from July 2009 to December 2010. The State paid $1,381 of this claim in 2011 and CAMC has recorded the amount paid as a reduction to expense in 2011. CAMC and TVH submitted a claim for sales tax refund to the State for January 2011 to December 2011 filed May 16, 2012, for $2,080. Future settlements will be treated as a reduction to expense in the year in which the claim was settled. CAMC and TVH have filed various claims in 2012 relating to other sales and use tax refunds from 2009 not previously included in a filing. At year-end 2012, these claims totaled $464, of which $61 was received and recorded as a reduction to expense in 2012. Any future refunds will be recorded as a reduction to expense in the year they are settled. In November 2011, CAMC and CAMC Teays entered into a direct pay agreement with the state to simplify the sales tax payment and reporting procedures. This agreement was effective beginning in January 2012.

On March 10, 2010, the IRS issued IR-2010-25. The issuance of this notice legally committed the IRS to refund Federal Insurance Contributions Act (FICA) tax and pay interest on valid refunds for medical residents FICA taxes for periods ending before April 1, 2005. CAMC filed approximately $3,500 of medical resident FICA tax refunds during 2010 and as such is subject to IRS determination. CAMC recorded a gain through operating expense during 2010 for the FICA tax refund filed and will record through a reduction to operating expense the interest associated with the FICA tax refund in the period received. The claim included $983 in FICA tax pertaining to medical residents who were paid by CAMC Health Education and Research Institute (CHERI). In 2011, CAMC reserved $983 of this claim as potentially being disallowed by the IRS as the protective claims originally submitted to the IRS were filed under CAMC's employer identification number. The IRS agreed to recognize the CHERI portion of claims in 2012 and the $983 reserve was reversed. In 2012, the IRS paid $3,100 toward the claim settlement and CAMC has recorded $1,760 in interest income received. The current receivable outstanding related to FICA claims is $238 as of December 31, 2012.

Other Commitments — As of December 31, 2012, the System has committed approximately $142,000 in the aggregate over a five-year period for current and planned projects, including new construction, renovations, and equipping of facilities at its Memorial, General, Women and Children's, and CAMC Teays hospitals, including a new cancer care facility. Plans are for these commitments to be funded with a combination of cash generated from operating activity, fund raising, new debt incurred in 2013 approximating $60,000 and existing bond proceeds. Existing bond proceeds originated from 2008 and 2009 bond transactions for CAMC and a 2008 CAMC Teays bond transaction, each on deposit with a trustee and included in assets limited as to use.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The System uses a three-level valuation hierarchy for disclosure of fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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

	Level 1	Level 2	Level 3	Total
Investments:				
Cash equivalents	$ 93,822	$ -	$ -	$ 93,822
Equity securities — domestic	215,726	-	5,963	221,689
Equity securities — international	2,137	-	-	2,137
Debt securities issued by U.S. Treasury and other U.S. government corporations and agencies	-	46,940	-	46,940
Debt securities issued by states of the United States and political subdivisions of the states	-	581	-	581
Corporate debt securities	-	53,650	-	53,650
Other	1,939	-	-	1,939
Total investments at fair value	$ 313,624	$ 101,171	$ 5,963	$ 420,758
Liabilities — derivative obligation	$ -	$ 25,296	$ -	$ 25,296
Total liabilities at fair value	$ -	$ 25,296	$ -	$ 25,296

US Treasury, governmental debt and corporate debt securities were classified as Level 2 during 2012 recognizing that there is a lack of transparency into the specific pricing of individual securities.

Effect of Level 3 Inputs on Net Assets	Other Investments	Other Assets Limited as to Use	Total
Beginning balance — December 31, 2011	$ 5,540	$ 119	$ 5,659
Total gain — net	297	7	304
Ending balance — December 31, 2012	$ 5,837	$ 126	$ 5,963

The financial instruments carried at fair value as of December 31, 2011, by caption, in the consolidated statements of financial position by the three-level valuation hierarchy defined above are as follows:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash equivalents	$ 73,211	$ -	$ -	$ 73,211
Equity securities — domestic	133,318	-	5,659	138,977
Equity securities — international	11,088	-	-	11,088
Debt securities issued by U.S. Treasury and other U.S. government corporations and agencies	41,856	-	-	41,856
Debt securities issued by states of the United States and political subdivisions of the states	494	-	-	494
Corporate debt securities	55,522	-	-	55,522
Other	1,651	-	-	1,651
Total investments at fair value	$ 317,140	$ -	$ 5,659	$ 322,799
Liabilities — derivative obligation	$ -	$ 28,006	$ -	$ 28,006
Total liabilities at fair value	$ -	$ 28,006	$ -	$ 28,006

Effect of Level 3 Inputs on Net Assets	Other Investments	Other Assets Limited as to Use	Total
Beginning balance — December 31, 2010	$ 5,796	$ 248	$ 6,044
Sale	-	(122)	(122)
Total loss — net	(256)	(7)	(263)
Ending balance — December 31, 2011	$ 5,540	$ 119	$ 5,659

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

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

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

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

Derivatives — The fair value of the derivative obligation is based on observable inputs from market sources that aggregate data based upon market transactions (see Note 7). In determining the fair value of the System's derivative instruments quoted price can be obtained from a number of dealer counterparties and other independent market sources based on observable interest rates and yield curves for the full term of the asset or liability. In order to determine the risk of nonperformance for our derivative instruments, the System will determine the credit spread for debt issues by entities with similar credit characteristics to the System. The fair value of the System's derivatives instruments will adjust based on the nonperformance risk of the System when the derivative instrument is a liability position or by each Counterparty when the derivative instrument is an asset to the System.

The System is required to access its credit risk versus its counterparties, this assessment resulted in a decrease in the liability of $686 and $1,500, which reduced the System's deficiency of revenues over expenses for the years ended December 31, 2012 and 2011, respectively.

14. ENDOWMENT

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

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

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

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

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

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

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

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

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

Changes in endowment funds for the year ended December 31, 2011, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Net assets — beginning of the year	$ 22,534	$ 20,785	$ 43,319
Investment return:			
Investment income	747	-	747
Net depreciation (realized and unrealized)	(899)	-	(899)
Total investment return	(152)	-	(152)
Contributions	2	245	247
Appropriation of endowment assets for expenditure	(756)	-	(756)
Net assets — end of year	$ 21,628	$ 21,030	$ 42,658

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor or UPMIFA requires the System to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees. There were no significant deficiencies of this nature that are reported in unrestricted net assets as of December 31, 2012 and 2011.

15. UNRESTRICTED NET ASSETS

Unrestricted Net Assets — Changes in consolidated unrestricted net assets attributable to the System and the noncontrolling interest in joint ventures for the years ended December 31, 2012 and 2011, are as follows (in thousands):

	The Parent and its Subsidiaries	Noncontrolling Interests in Joint Ventures	Total
Unrestricted net assets — December 31, 2010	$ 265,037	$ 327	$ 265,364
Excess of revenues over expenses	18,760	76	18,836
Other changes in unrestricted net assets:			
Net assets released from restrictions for capital expenditures	203	-	203
Change in retirement obligation actuarial loss and prior service cost	(1,454)	-	(1,454)
Distribution of noncontrolling interest	-	(199)	(199)
Contributions for capital expenditures	2,269	-	2,269
Increase in unrestricted net assets	19,778	(123)	19,655
Unrestricted net assets — December 31, 2011	284,815	204	285,019
Excess of revenues over expenses	86,833	101	86,934
Other changes in unrestricted net assets:			
Net assets released from restrictions for capital expenditures	249	-	249
Change in retirement obligation actuarial loss and prior service cost	(1,071)	-	(1,071)
Distribution of noncontrolling interest	(202)	12	(190)
Contributions for capital expenditures	314	-	314
Increase in unrestricted net assets	86,123	113	86,236
Unrestricted net assets — December 31, 2012	$ 370,938	$ 317	$ 371,255

16. INTANGIBLES

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

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

	December 31, 2011			
	Gross Carrying Amount	Accumulated Amortization	Net	Amortization Period
Trade name/trademark	$ 140	$ (28)	$ 112	5 years
Noncompete	1,396	(279)	1,117	5 years
Noncontract relationships	4,131	(206)	3,925	20 years
Intangibles — software	33,769	(26,795)	6,974	3 years
	$ 39,436	$ (27,308)	$ 12,128	

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 29, 2014, the date the consolidated financial statements were available to be issued, and no subsequent events require recognition or disclosure except as noted in Note 7 for 2013 Taxable note and Note 12 for waiving of CAMC Teays penalties.

* * * * * *

SUPPLEMENTAL SCHEDULES

CAMC HEALTH EDUCATION AND RESEARCH INSTITUTE

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

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

CAMC HEALTH EDUCATION AND RESEARCH INSTITUTE

SCHEDULE OF EXPENDITURES OF STATE OF WEST VIRGINIA AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Funding Source	Grant #	CHERI Activity #	Amount Received	Amount Expended	Difference
State of WV/DHHR/BPH/OEHP	G110245/G120024	68650	$ 78,485	$ 101,299	$ (22,814)
State of WV/DHHR/BPH/OEHP	G110254/G120082	68813	44,987	70,345	(25,358)
State of WV/DHHR/BPH/OEHP	G110281	63025	1,918	2,482	(564)
State of WV/DHHR/BPH/OMCFH	G110379/G120188	68657	189,242	173,663	15,579
State of WVDHHR/BPH/OEPS	G110647	63006	20,524	23,607	(3,083)
State of WV/DHHR/BPH/OCHS&PS	G110945/G120662	63068	8,580	1,339	7,241
State of WVDHHR/BPH/OEPS	G120509	68659	46,257	38,415	7,842
State of WV/DHHR/BPH/OEHP	G110467/G120465	63033	49,508	20,710	28,798
State of WVDHHR/BPH/OEPS	G111020	63054	53,018	23,844	29,174
			$ 492,519	$ 455,704	$ 36,815

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Program Title	Source	Federal CFDA No.	Pass-Through Entity Identification Number	Indirect Agency	Federal Expenditures
Funding from Health and Human Services:					
Terrorism Preparedness	I	93.003	CAMC2012	WV DHHR/WV Hospital Association	$ 141,688
ARRA — Vitals	I	93.048	21057	WV Bureau of Senior Services	5,211
WV ID conference	I	93.116	G130457	WV DHHR/WV BPH/WV OEHP/WV DSDC	55,577
WV ID conference	I	93.940	G130457	WV DHHR/WV BPH/WV OEHP/WV DSDC	18,526
Nurse Anesthetist Traineeship	D	93.124	Not applicable		5,385
Asthma Program	I	93.070	G120465/G130433	WV DHHR/WV BPH/OEHP	43,090
Nurse salary for Clinical Trials	I	93.389	P1101830	Marshall University Research Corporation	38,047
Reducing Cervical Cancer in Appalachia — CARE II	I	93.399	60039299	The Ohio State University	30,452
ARRA — Rural Health Conference	I	93.414	G120895	WVDHHR/BPH/OEHP/Health Promotion	6,244
ARRA — Rural Health Conference	I	93.913	G120896	WVDHHR/BPH/OEHP/Health Promotion	3,076
Administration of the Right From the Start Project	I	93.778	G120188/G130074	WV DHHR/BPH/OMCFH	234,418
Grant Program to Provide Outpatients DIS with Respect to HIV Disease	D	93.918	Not applicable		519,325
Partnership In Health	I	93.940	G120678	WVDHHR/BPH/OEHP/AIDS Program	26,549
Diabetes Control & Prevention Program	I	93.988	G110945	WVDHHR/BPH/OEHP/Health Promotion	49,936
Total federal expenditures					$1,177,524

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures on an accrual basis of CAMC Health Education and Research Institute (the "Institute") under programs financed by the U.S. government for the year ended December 31, 2012. Because the Schedule presents only a selected portion of the operations included in the System's consolidated financial statements, it is not intended to, and does not present the financial position, changes in net assets, and cash flows of the System and its subsidiaries.

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

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

2. BASIS OF PRESENTATION

The Institute did not make any subrecipient disbursements during the year ended December 31, 2012.

The Schedule, as originally presented, has been corrected for certain typographical changes:
1) correcting CDFA numbers for two grants, 2) identifying two grants with the ARRA designation, and 3) adding disclosure of the pass-through entity identification numbers for each of the indirect federal awards.

In addition, the accompanying Schedule of Expenditures of State of West Virginia Awards for the year ended December 31, 2012 has also been corrected to include the previously omitted grant number 6120887 with amount received and amount expended each of $49,861 for the year ended December 31, 2012.

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of CAMC Health System, Inc. (the "System"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated April 23, 2013 (April 29, 2014 as to the paragraph titled "Statement of Cash Flows" in Footnote 2 and the Supplemental Schedules on pages 41–44).

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency noted at 2012-1.

Compliance and Other Matters

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

The System's Response to the Finding

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

Purpose of this Report

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

Deloitte + Touche LLP

April 23, 2013 (April 29, 2014 as to Note 2 to the Schedule of Expenditures of Federal Awards)

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

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

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

Report on Compliance for Each Major Federal Program

We have audited CAMC Health System, Inc. and Subsidiaries (the "System") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2012. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significance deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency noted at 2012-2.

The System's Response to the Finding

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

Purpose of this Report

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

Deloitte + Touche LLP

May 6, 2013 (April 29, 2014 as to the Schedule of Findings and Questioned Costs, Part I, Part II and Part III)

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

PART I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _______ yes ___X___ no

- Significant deficiency(ies) identified not considered to be material weaknesses? ___X___ yes _______ none reported

Noncompliance material to financial statements noted? _______ yes ___X___ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _______ yes ___X___ no

- Significant deficiency(ies) identified not considered to be material weaknesses(es)? ___X___ yes _______ none reported

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
93.918B	Grant Program to Provide Outpatients DIS with Respect of HIV Disease
93.778	Administration of the Right From the Start Program

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

Auditee qualified as low-risk auditee? ___X___ yes _______ no

PART II — FINANCIAL STATEMENT FINDINGS

2012-1

Significant Deficiency

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

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

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

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

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

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

PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-2

Significant Deficiency

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

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

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

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

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

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