CAMC Health System, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2014, and Schedule of Expenditures of State of West Virginia Awards for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Reports in Connection with OMB Circular A-133 for the Year Ended December 31, 2014

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of CAMC Health System, Inc. and its subsidiaries (the "System"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CAMC Health System, Inc. and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2014 and 2013 Schedules of the State of West Virginia Awards are presented for purposes of additional analysis as required by State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide and the 2014 Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government, and Non-Profit Organizations*, and they are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2015 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide in considering the System's internal control over financial reporting and compliance.

Deloitte & Touche LLP

April 22, 2015

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,213	$ 28,831
Short-term investments	237,000	205,578
Current portion of assets limited as to use	5,300	5,900
Patient receivables — net of allowances for uncollectible accounts of $13,229 in 2014 and $19,982 in 2013	115,468	106,601
Other receivables	10,086	10,138
Estimated amounts due from third-party payors	6,988	7,751
Inventories	17,862	17,555
Prepaid expenses and other	11,207	8,644
Total current assets	422,124	390,998
ASSETS LIMITED AS TO USE	346,972	361,461
OTHER INVESTMENTS	20,742	20,742
PROPERTY, EQUIPMENT AND INFORMATION SYSTEMS:		
Land	46,604	42,797
Buildings and improvements	394,784	371,111
Equipment and software costs	495,333	477,497
Construction in progress	68,698	40,723
Total property, equipment and information systems	1,005,419	932,128
Less accumulated depreciation and amortization	(649,779)	(616,601)
Property, equipment and information systems — net	355,640	315,527
OTHER ASSETS	14,630	16,950
TOTAL	$ 1,160,108	$ 1,105,678

(Continued)

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(In thousands)

LIABILITIES AND NET ASSETS	2014	2013
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 56,526	$ 55,295
Self-insurance reserves	5,300	5,900
Derivative obligation	27,233	14,170
Accrued payroll and payroll-related expenses	48,356	41,638
Estimated amounts due to third-party payors	15,565	16,990
Current maturities of long-term debt and capital lease obligations	17,884	12,667
Total current liabilities	170,864	146,660
LONG-TERM LIABILITIES:		
Long-term debt and capital lease obligations — less current maturities	388,941	404,235
Retirement obligations	13,337	13,845
Self-insurance reserves	15,191	13,378
Other	9,854	10,610
Total long-term liabilities	427,323	442,068
Total liabilities	598,187	588,728
NET ASSETS:		
Unrestricted	498,855	447,356
Noncontrolling interest in joint ventures	442	358
Unrestricted — total	499,297	447,714
Temporarily restricted	39,959	47,776
Permanently restricted	22,665	21,460
Total net assets	561,921	516,950
TOTAL	$ 1,160,108	$ 1,105,678

See notes to consolidated financial statements. (Concluded)

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Patient service revenue (net of contractual allowances and discounts)	$ 959,101	$ 961,721
Provision for bad debts	(44,257)	(85,515)
Net patient service revenues less provision for bad debts	914,844	876,206
Other revenue	37,385	40,996
Investment income — net	20,542	49,822
Net assets released from restrictions	999	1,845
Total unrestricted revenue and other support	973,770	968,869
EXPENSES:		
Salaries and wages	378,026	346,445
Employee benefits	104,621	104,261
Professional compensation and fees	8,429	19,614
Supplies and other	358,905	362,729
Depreciation and amortization	34,787	36,107
Medicaid provider tax	19,115	22,503
Interest and debt expense	16,285	16,312
Change in fair value of derivatives	10,579	(14,083)
Total expenses	930,747	893,888
EXCESS OF REVENUES OVER EXPENSES — Controlling and noncontrolling interest	43,023	74,981
LESS EXCESS OF REVENUES OVER EXPENSES — Noncontrolling interest	(69)	(97)
EXCESS OF REVENUES OVER EXPENSES — Net of noncontrolling interest	42,954	74,884
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net assets released from restrictions for capital expenditures	8,100	242
Change in retirement obligations actuarial loss and prior service cost	(447)	951
Fund transfers	1,213	-
Distributions to noncontrolling interest	(306)	65
Contributions for capital expenditures	-	220
INCREASE IN UNRESTRICTED NET ASSETS	$ 51,583	$ 76,459

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses — Controlling and noncontrolling interest	$ 43,023	$ 74,981
Change in retirement obligations actuarial loss and prior service cost	(447)	951
Net assets released from restrictions for capital expenditures	8,100	242
Distribution to noncontrolling interest	(306)	65
Fund transfers	1,213	-
Contributions for capital expenditures	-	220
Increase in unrestricted net assets	51,583	76,459
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,141	3,002
Investment income — net	2,172	7,814
Fund transfers	(2,031)	-
Net assets released from restrictions for:		
Programs	(999)	(1,773)
Capital expenditures	(8,100)	(213)
Increase in temporarily restricted net assets	(7,817)	8,830
PERMANENTLY RESTRICTED NET ASSETS — Contributions		
Contributions	387	230
Fund transfers	818	-
Increase in permanently restricted net assets	1,205	230
INCREASE IN NET ASSETS	44,971	85,519
NET ASSETS — Beginning of year	516,950	431,431
NET ASSETS — End of year	$ 561,921	$ 516,950

See notes to consolidated financial statements.

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
OPERATING ACTIVITIES:		
Increase in net assets	$ 44,971	$ 85,519
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of derivatives	10,579	(14,083)
Loss (gain) on disposal of fixed assets	34	(491)
Change in retirement obligations actuarial loss and prior service cost	447	(951)
Depreciation and amortization	34,787	36,107
Provision for bad debts	44,257	85,515
Loss on debt extinguishment	1,325	
Realized gains on alternative securities	(525)	(496)
Realized and unrealized gain on limited as to use trading investments	(4,056)	(26,300)
Net restricted contributions and investment income	(3,700)	(11,046)
Distributions to noncontrolling interest	306	(65)
Changes in assets and liabilities:		
Patient receivables	(53,124)	(73,229)
Other receivables	52	2,946
Short term trading investments	(31,422)	(58,521)
Inventories, prepaid expenses, and other	2,588	4,696
Estimated amounts due from/to third-party payors	(662)	1,305
Accounts payable and accrued expenses	1,099	2,551
Accrued payroll and payroll-related expenses	6,718	319
Other liabilities	102	(279)
Net cash provided by operating activities	53,776	33,497
INVESTING ACTIVITIES:		
Capital expenditures	(46,462)	(38,332)
Capital expenditures — Cancer Center	(28,940)	(10,589)
Purchases of alternative investments	(3,000)	(5,909)
Limited as to use trading investments	28,824	(67,491)
Proceeds from the sale of alternative investments	1,906	4,845
Restricted cash as collateral	(10,420)	(7,500)
Restricted cash from collateral	2,360	22,820
Net cash used in investing activities	(55,732)	(102,156)
FINANCING ACTIVITIES:		
Principal payments on debt obligations and capital lease obligations	(62,073)	(8,066)
Borrowings of debt obligations	50,671	80,000
Issuance costs	(654)	-
Borrowings under lines of credit	1,126	1,096
Repayment under lines of credit	(1,126)	(1,096)
Distributions to noncontrolling interest	(306)	65
Net restricted contributions and investment income	3,700	11,046
Net cash (used in) provided by financing activities	(8,662)	83,045
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,618)	14,386
CASH AND CASH EQUIVALENTS — Beginning of year	28,831	14,445
CASH AND CASH EQUIVALENTS — End of year	$ 18,213	$ 28,831
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 10,870	$ 11,918
Capital assets acquired under capital lease obligations	$ -	$ 3,695
Capital expenditures remaining in accounts payable at year-end	$ 2,750	$ 3,218

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, located in Kanawha County, West Virginia and Teays Valley Hospital ("CAMC Teays") located in Putnam County, West Virginia. CAMC is a general partner in two medical office building partnerships, each organized as general partnerships. CAMC owns an 84.0% interest in the General division medical office building partnership and an 90.1% interest in the Women and Children's medical office building partnership. The residual interest is reflected as noncontrolling interest in the consolidated financial statements.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Investments in companies in which the System owns 20% to 50% of the voting interest and has the ability to exercise significant influence over operating and financial policies of the investee are accounted for using the equity method of accounting. As a result, the System's share of the earnings or losses of such equity affiliates is included in the accompanying consolidated statements of operations and the System's share of these companies' shareholders' equity is included in investments in the accompanying consolidated balance sheets. The investment balances and equity earnings were not material in 2014 or 2013.

Cash and Cash Equivalents and Short-Term Investments—Cash and cash equivalents represent cash and temporary investments with original maturities of three months or less. Cash and cash equivalents exclude cash maintained in board-designated, restricted, self-insurance, and trustee-held funds. Short-term investments represent investments that management has identified as available to meet current operating needs. Short-term investments are stated at fair value.

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

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

Gross patient service revenue is recognized based on the System's standard billing rates. Gross patient service billings is reduced to "patient service revenue (net of contractual allowances and discounts)", through (1) a provision for contractual allowances for patients who have third-party coverage with contracted rates less than standard billed charges for the services rendered, including federal and state indemnity and managed care programs and commercial insurance and (2) a provision for patients who meet the charity care criteria and are provided services at amounts less than the established rates. Patient service revenue (net of contractual allowances and discounts) for the years ended December 31, 2014 and 2013, by major primary payor sources, is as follows:

	Patient Service Revenue (Net of Contractual Allowances and Discounts)	
	2014	**2013**
Medicare	$ 327,682	$ 359,260
Medicaid	120,976	93,879
Other Government third-party payors	67,388	35,132
Other third-party payors	402,019	388,638
Self-pay	41,036	84,812
Total	$ 959,101	$ 961,721

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

Allowance for Uncollectible Accounts—The System recognizes a significant amount of patient service revenue at the time the services are rendered even though the System does not assess the patient's ability to pay at that time. As a result, the provision for bad debts is presented as a deduction from patient services revenue (net of contractual allowances and discounts). The System does not require collateral or other security on its patient receivables. Self-pay accounts for patients with no insurance and patient deductibles and co-payments on third-party accounts are reduced by an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. This allowance is established based on the length of time the account has been past due and historical experience. The System considers the patient portion of accounts receivable for write-off beginning 90 days after billing.

Analysis —The System's allowance for doubtful accounts for self-pay patients and patient responsibility decreased to 70% of self-pay and patient responsibility accounts receivable as of December 31, 2014, from 80% of self-pay and patient responsibility accounts receivable as of December 31, 2013. The System's allowance for uncollectible accounts decreased by $6,753 to $13,229 as of December 31, 2014, from $19,982 as of December 31, 2013, including a decrease in self-pay gross accounts receivable to $18,960 as of December 31, 2014, from $25,006 as of December 31, 2013. The decrease in the self-pay gross accounts receivable balance (and resulting decrease in the allowance for doubtful accounts) is primarily the result of the Patient Protection & Affordable Care Act (PPACA). In West Virginia, implementation of the PPACA resulted in a significant decrease in the uninsured population (self-pay) due to the expansion of the Medicaid program within the state. As a result, self-pay receivables and the allowance for doubtful accounts related to such receivables have decreased. 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.

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

Payments received under the reimbursement arrangements with Medicare and Medicaid are subject to retroactive audit and adjustment. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. Settlement of prior year cost reports and revisions to other prior-year settlement estimates increased net patient service revenue by $3,246 and $3,793 in 2014 and 2013, respectively.

The U.S. Federal Balanced Budget Act of 1997 created a “rural floor,” which was intended to ensure that the wage-adjusted Inpatient Prospective Payment System (“IPPS”) rates for providers in urban areas in a state are not lower than the wage-adjusted IPPS rates for rural providers in the same state. Congress required that the rural floor adjustment, which would otherwise increase aggregate IPPS payments, be administered in a budget neutral manner. Centers for Medicare and Medicaid Services (“CMS”) included a rural floor budget neutrality adjustment in annual IPPS updates to the base payment rate; however, it did so in a manner that went beyond what was required to achieve budget neutrality. During 2014, the System executed a settlement agreement with CMS for the 1998 to 2011 cost report years which resolved all claims and appeals the System had with respect to the matter. The settlement increased net patient service revenue by $6,850 in 2014.

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, 2014 and 2013, is as follows:

	2014	2013
Medicare	28 %	30 %
Commercial Insurance and other third-party payment programs	50	51
Medicaid	16	13
Self-pay	1	1
PEIA	5	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.

The System did not change its charity care or uninsured discount policies during fiscal year 2014. The System increased the uninsured discount to 50% in 2013. The uninsured discount is provided pursuant to the System's established charity care policy and recorded in charity care allowances.

Pledges Receivable—The Foundation's pledges receivable (unconditional promises to give) consist of the following:

	2014	2013
Amounts expected to be collected in:		
Less than one year (included in other receivables)	$ 1,540	$ 2,167
One to five years (included in other assets)	1,081	1,906
	2,621	4,073
Discount to present value of future cash flows	108	243
Allowance for uncollectible accounts	-	-
Total unconditional promises to give — net	$ 2,513	$ 3,830

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 securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk and market uncertainty associated with certain 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, and unrealized gains and losses) is included in unrestricted investment income or loss, unless the income or loss is restricted by donor or law.

The System invests in alternative investments that primarily represent ownership in limited partnerships that invest in hedge funds, real asset funds, and private equity/venture capital funds. In order to liquidate such investments, management is required to provide notice ranging from 45 to 90 days to withdraw from the partnerships and in certain cases may only withdraw from the partnership quarterly or annually. There are no unfunded commitments. Substantially all of the System's alternative investments are redeemable at net asset value per ownership unit or its equivalent. Fair value for alternative investments is based on the net asset value per ownership unit, as published and determined by the fund manager at least quarterly using the estimated fair value of the underlying investments.

The System's alternative investments are accounted for utilizing the lower of cost or market method as the System's actual or effective ownership percentage is less than 5%, and the System has virtually no influence over the partnership's operating and financial policies. Alternative investments consist of the following at December 31, 2014 and 2013:

	2014		2013	
	Recorded Value (Cost)	Fair Value	Recorded Value (Cost)	Fair Value
Included within assets limited as to use	$ 17,713	$ 23,025	$ 16,061	$ 24,835
Included within other investments	20,742	31,391	20,742	29,404
	$ 38,455	$ 54,416	$ 36,803	$ 54,239

The Systems' investment policy establishes reasonable expectations, objectives, and guidelines; sets forth an investment structure detailing permitted asset classes and expected allocation among asset classes; encourages effective communication; and creates a framework for a well-diversified asset mix, which can be expected to generate acceptable long-term returns at a level of risk suitable to the investment committee. The System's investments are pooled to obtain maximum use of funds and higher interest rates. Investment income from this pool is allocated to unrestricted and temporarily restricted net assets based on the percentage of total investments.

Derivatives—CAMC has entered into interest rate swap agreements 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. None of CAMC's current derivatives are designated as an accounting hedge and the asset or liability is presented as current as CAMC has the right to settle the agreements prior to expiration and periodically evaluates the interest rate environment to determine if the agreements are consistent with its debt management program.

Property, Equipment and Information Systems—Amounts capitalized as part of property, equipment and information systems, including additions and improvements to existing facilities, are recorded at acquisition cost. Capital lease assets included in equipment in the accompanying consolidated balance sheets are $10,145, net of $3,868 and $3,144 of accumulated amortization, as of December 31, 2014, and 2013. Capitalized software costs are $42,063, net of $39,729 accumulated amortization as of December 31, 2014 and $40,225, net of $36,587 accumulated amortization as of December 31, 2013. Total related amortization expense was $3,142 and $4,109 for the years ended December 31, 2014 and 2013, respectively.

During 2014 and 2013, approximately $1,256 and $1,974, respectively, of internal labor costs and $1,822 and $1,088, respectively of interest were capitalized.

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

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any write-downs due to impairment are charged to operations at the time impairment is identified. Management determined that no impairment write-downs were necessary in 2014 and 2013.

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

Deferred Financing Costs—Costs related to long-term financing, included in other assets, are being amortized over the life of the bonds. The carrying value of deferred financing costs was $4,056 and $4,159 as of December 31, 2014 and 2013.

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

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

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

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

	2014	2013
Patient Related Projects	$ 29,403	$ 34,901
Scholarships and Education	5,205	5,046
Various other Healthcare Related Activities	5,351	7,829
	$ 39,959	$ 47,776

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

	2014	2013
Patient Related Projects	$ 10,793	$ 9,588
Scholarships and Education	7,847	7,847
Various other Healthcare related activites	4,025	4,025
	$ 22,665	$ 21,460

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.

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, and the Institute 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 $313 and $373 has been made in the accompanying consolidated statements of operations for the years ended December 31, 2014 and 2013, respectively, for estimated unrelated business income tax. The IRS has audited CAMC's unrelated business income ("UBI") tax liability through December 31, 2010. The System has not been audited nor has CAMC other than UBI.

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, 2014 and 2013, Integrated had cumulative net operating losses (NOLs) available for carryforward approximating $66,348 and $61,391, respectively. The deferred tax assets related to these 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, 2014 and 2013.

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

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the System to make assumptions, estimates and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The more significant judgments and estimates including the following: recognition of net patient service revenue, which includes contractual allowances; provisions for bad debts and charity care; recorded values of investments; and reserves for losses and expenses related to health care professional and general liability. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates and are recorded in the period in which they are determined.

New Accounting Pronouncements—In April 2013, the FASB issued ASU 2013-06, "*Services Received from Personnel of an Affiliate*." The guidance requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The System adopted ASU 2013-06 effective January 1, 2014. The adoption did not have a material effect on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue From Contracts With Customers." This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance is effective for the System beginning January 1, 2017. The System is evaluating, but has not yet determined the impact this guidance may have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Presentation of Debt Issuance Costs." This guidance changes the presentation of debt issuance costs in the financial statements. The entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. This guidance is effective for the System beginning January 1, 2016. The System is evaluating, but has not yet determined the impact this guidance may have on its consolidated financial statements.

3. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended December 31, 2014 and 2013, consists of the following:

	2014				2013
	CAMC	Integrated	Elimination	Total	
Gross patient service billings	$ 2,389,854	$ 92,878	$ 15	$ 2,482,747	$ 2,330,968
Charity care allowances	(32,101)	(383)	-	(32,484)	(73,413)
Contractual allowances	(1,467,960)	(50,180)	-	(1,518,140)	(1,325,250)
Medicaid upper payment limit program	13,969	-	-	13,969	16,109
Medicaid-enhanced payment program revenue	12,703	-	-	12,703	13,023
Medicaid disproportionate share hospital payment program revenue	306	-	-	306	284
Patient service revenue	916,771	42,315	15	959,101	961,721
Provision for bad debts	(39,676)	(4,581)	-	(44,257)	(85,515)
Net patient service revenue	$ 877,095	$ 37,734	$ 15	$ 914,844	$ 876,206

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, 2012, and for CAMC Teays through September 30, 2012.

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 fee schedule with no retrospective adjustment.

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

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

Rate Regulation—The Health Care Authority (HCA) is empowered, by provisions of the West Virginia Code, to regulate CAMC's 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 on a periodic basis.

Medicaid-Upper Payment Limit Program—On May 23, 2012, the West Virginia Medicaid Program received federal CMS approval to implement the Upper Payment Limit (UPL) program proposed by the West Virginia Hospital Association. The UPL program was initially limited to the state fiscal years 2012 and 2013, unless extended. The UPL program is currently extended for state fiscal year ending June 30, 2015. 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.

Medicaid Provider Tax —During 2014 and 2013, the System recorded, $19,043 and $22,503, respectively related to Medicaid Provider Taxes in the accompanying consolidated statements of operations. The 2014 recorded balance was reduced by a $3,553 credit related to the filing of 2010 and 2011 amended returns. Such taxes include the following:

Medicaid UPL Program Tax—The West Virginia Department of Tax and Revenue imposes a tax on licensed general acute care hospitals to generate revenue that is used as the State contribution toward drawing down additional federal matching dollars for Medicaid to enhance current hospital payment rates under the UPL program. The tax rate increased in 2014 to .62% of net patient service revenue from .45% in 2013 of net patient service revenue.

Broad-Based Health Care-Related 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.

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.

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 $32,484 and $73,413 for the years ended December 31, 2014 and 2013, respectively. The cost associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care and amounted to $11,045 and $24,960 for the years ended December 31, 2014 and 2013, respectively.

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

5. ASSETS LIMITED AS TO USE AND INVESTMENTS

Investments and assets limited as to use as of December 31, 2014 and 2013, consist of the following:

	2014	2013
Short term investments:		
Cash and cash equivalents	$ 13,454	$ 57,620
Corporate stocks and equity mutual funds	125,085	74,888
Fixed income securities and mutual funds	98,461	73,070
Total short term investments	$ 237,000	$ 205,578
Assets Limited as to Use:		
Self-insurance:		
Cash and cash equivalents	2,032	2,000
U.S. treasury and U.S. government agency obligations	2,290	2,046
Corporate stocks	15,576	14,176
Alternative investments	2,748	2,748
Equity mutual funds	13,783	12,847
Fixed income securities and mutual funds	6,230	5,910
Total self-insurance	42,659	39,727
Board-designated and restricted funds:		
Cash and cash equivalents	20,334	20,247
Corporate stocks and equity mutual funds	151,468	150,738
Corporate bonds and fixed income mutual funds	69,027	91,278
Alternative investments	14,966	13,313
Total board-designated and restricted funds	255,795	275,576
Trustee-held funds:		
Debt service reserve fund — cash equivalents and U.S. government agency obligations	12,492	15,543
Acquisition fund — cash equivalents	13,922	23,485
Collateral on derivatives — cash equivalents	11,920	3,860
Other assets:		
Cash equivalents	6,846	601
Other fixed income	8,638	8,569
Total trustee-held funds	53,818	52,058
Total assets limited as to use and investments	352,272	367,361
Less current portion	(5,300)	(5,900)
Assets limited as to use and investments — net of current portion	$ 346,972	$ 361,461
Other Investments:		
Alternative investments	$ 20,742	$ 20,742

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. The trustee-held acquisition project fund was set aside from the proceeds of the 2008 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). The Board has also designated the majority of proceeds received in 2013 from two taxable notes for use toward future capital projects.

6. INVESTMENT INCOME

Investment income and unrealized and realized gains and losses on investments for the years ended December 31, 2014 and 2013, are composed of the following:

	2014	2013
Unrestricted:		
Interest and dividends	$ 19,574	$ 13,708
Realized gain on investments — net	8,888	20,031
Net unrealized (loss) gain	(7,920)	16,083
Total unrestricted investment income — net	20,542	49,822
Temporarily restricted:		
Interest and dividends	1,528	1,025
Realized gain on investments — net	2,554	2,270
Net unrealized (loss) gains	(1,910)	4,519
Total temporarily restricted investment income — net	2,172	7,814
Net investment income and realized and unrealized gains	$ 22,714	$ 57,636

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

Obligations under long-term debt and capital lease obligations as of December 31, 2014 and 2013, consist of the following:

	2014	2013
2014 Series A Bonds	$ 45,625	$ -
2013 Taxable Debt Notes	78,640	80,000
2010 Bank Loan	6,657	7,135
2009 Series A Bonds	116,290	170,390
2008 Series A Bonds	123,494	124,540
2008 CAMC Teays Bonds	21,006	22,124
2006 Promissory Note	5,244	5,525
Other	-	1,931
Capital lease obligations	6,316	7,209
Total	403,272	418,854
Plus Unamortized Bond Premium	4,870	-
Less Unamortized Bond Discount	(1,317)	(1,952)
Total — net of unamortized discount and premium	406,825	416,902
Less current maturities	(17,884)	(12,667)
Total long-term debt and lease obligations	$ 388,941	$ 404,235

The fair value of the System's debt obligations was $400,417 and $363,440 as of December 31, 2014 and 2013, respectively. In determining the fair value of debt, the System considers its credit standing and does not take into account the credit standing of the financial institution that participated in the issuance of the debt instruments. Additional considerations for valuing the debt include the maturity date and the coupon and yield of the debt instrument.

Obligated Group—The CAMC and the Foundation are members of the obligated group in accordance with the provisions of the 1993 restated master trust indenture and are jointly and severally liable for the performance of all covenants and obligations contained in the 1993 restated master trust indenture and in the related notes and guarantees. The 2013 Taxable notes, 2008 Series A bonds, 2008 CAMC Teays bonds, 2009 Series A bonds, 2014 Series A bonds, and various notes, lines and letters of credit are obligations under the 1993 restated master trust indenture. The Foundation's restricted net assets are not available to satisfy obligations of the obligated group. The obligations of the Obligated Group are evidenced and secured by a promissory notes issued pursuant to a 1993 restated master trust indenture dated January 1, 1993, as supplemented from time to time. All notes issued under the 1993 restated master trust indenture are secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

The obligated group is subject to certain restrictive covenants that require, among other items, the obligated group to maintain certain financial ratios as defined in the debt agreements and to make certain informational filings with its creditors. Effective March 1, 2014, CAMC Teays was merged with and into CAMC and the combined entity is part of the obligated group due to CAMC's membership.

2014 Series A Bonds – In June 2014, CAMC entered into a loan agreement with the West Virginia Hospital Authority (the “Authority”) pursuant to which CAMC borrowed the proceeds of the Authority’s $45,625 fixed-rate hospital revenue refunding bonds 2014 Series A. The bonds were issued at a premium of $5,046, which will be amortized to interest and debt expense over the 14-year life of the issue. Interest on the bonds is payable semiannually and principle is payable annually beginning September, 2024. The coupon rates of the bonds range from 3.5% to 5.0% depending on maturity.

The proceeds of the 2014 Series A Bonds were used to currently refund and extinguish a portion of the 2009 Series A Bonds in the principle amount of $48,655 and pay issuance cost of $640. As a result of the refunding, CAMC recognized a loss on debt refinancing of $1,325 which is reported in interest and debt expense in the consolidated statement of operations.

2013 Taxable Debt Notes—On March 22, 2013, CAMC issued and sold $60,000 4.5% taxable Master Note 2013-1 with final maturity on March 14, 2043, utilizing level debt amortization over 30 years. On May 21, 2013, CAMC issued and sold $20,000 4.02% taxable Master Note 2013-2 with final maturity on March 15, 2038, utilizing level debt amortization over 25 years. These notes are issued and secured under the 1993 restated master trust indenture and secured primarily by a security interest in revenue and a deed of trust on the primary hospital facilities.

2010 Bank Loan—In December 2010, CAMC entered into a bank loan agreement for $9,000. Principal and interest are payable in equal monthly installments sufficient to fully amortize the debt in 15 years with the outstanding balance of the note being due and payable in full on December 10, 2015. Interest accrues at a variable rate equal to 30-day London InterBank Offered Rate (LIBOR), plus 1.75%. The rate aggregated to 1.9375% as of December 31, 2014.

2009 Series A Bonds—In September 2009, CAMC entered into a loan agreement with the West Virginia Hospital Finance Authority (the “Authority”) pursuant to which CAMC borrowed the proceeds of the Authority’s $179,925 fixed-rate hospital revenue refunding and improvement bonds 2009 Series A. The coupon rates of the bonds range from 3% to 5.62% depending on maturity. In aggregate, the bonds sold at a net discount of $2,406, which is being amortized to interest and debt expense over the 23-year life of the issue. Interest on the bonds is payable semiannually and principle 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 principle of, and the interest on, the Series 2009 bonds. In June 2014, approximately $49,000 of these bonds were called at 100% par and extinguished using proceeds from the 2014 Series A Bonds.

2008 Series A Bonds—In June 2008, CAMC entered into a loan agreement with the Authority pursuant to which CAMC borrowed the proceeds of the Authority’s $127,355 variable-rate revenue bonds 2008 Series A. The bonds require the payment of principle and interest through September 1, 2037. The bonds are multimodal variable-rate demand obligations supported by credit enhancement and a liquidity facility.

The timely payment of principal and interest on the 2008 Series A bonds and the purchase price of tendered bonds are secured by an irrevocable, transferable direct pay letter of credit issued by a bank. The letter of credit will expire on June 19, 2018, 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 2014. 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 principle amount thereof, plus interest accrued through the rate period. As of December 31, 2014, the interest rate was 0.068%.

2008 CAMC Teays Bonds—On September 30, 2008, CAMC Teays entered into a loan agreement with the Authority pursuant to which CAMC Teays borrowed the proceeds of the Authority's $26,000 variable-rate revenue bonds. CAMC is a guarantor of this debt. The bonds require the payment of principal and interest through October 31, 2018. Principle is amortizing as if the debt is repaying over 21 years in equal monthly installments. On October 31, 2018, a balloon payment is due for the remaining principle and accrued interest. Interest is accrued on a monthly basis. The associated note carries a variable monthly interest rate equal to 78% of LIBOR, plus 85-basis points (0.85%). As of December 31, 2014, the interest rate was 0.98%.

2006 Promissory Note—Taxable note for CAMC Teays with a financial institution guaranteed by CAMC. The 2006 Promissory Note carries a variable monthly interest rate equal to the LIBOR, plus 100-basis points (1.00%), which aggregated 1.17% as of December 31, 2014. Interest on the note is paid monthly in arrears on the first business day of each month through an amended maturity date of January 1, 2020.

Other—CAMC maintains a $10,000 working capital line of credit with a local bank which expires December 31, 2016. As of December 31, 2014 and 2013, there was no outstanding balance. A note securing the line of credit has been issued under the 1993 restated master trust indenture.

As of December 31, 2014 and 2013, there was $3,497 and $3,497, respectively, committed to three undrawn reoccurring letters of credit related to workers' compensation. These letters of credit are renewed annually and currently expire on August 20, 2015.

CAMC is one of three charter members of HealthNet, Inc. (HNET), a West Virginia nonprofit corporation that provides air medical transportation service to CAMC's primary patient population. HNET is not a consolidated entity within the Parent. CAMC has issued guarantees in the aggregate amount of $8,908 to support the acquisition, renovation, and replacement of two medical helicopters. The guarantees reduce as HNET's lease liability for each of the helicopters is repaid. As of December 31, 2014, CAMC had not been called upon to make payments under the guarantee agreement.

CAMC has recorded $6,316 and $7,209 as of December 31, 2014 and 2013, respectively, as a capital lease obligation for these helicopters as a result of the lease guarantees and the helicopters being primarily used by CAMC. The related asset is included in property, equipment and information systems in the accompanying consolidated balance sheets.

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

	2015	2016	2017	2018	2019	Thereafter	Total
2014 Series A Bonds						$ 45,625	$ 45,625
2013 Taxable Debt Notes	$ 1,530	$ 1,595	$ 1,665	$ 1,740	$ 1,810	70,300	78,640
2010 Bank Loan	6,657	-	-	-	-	-	6,657
2009 Series A Bonds	5,935	6,150	6,425	6,735	6,735	84,310	116,290
2008 Series A Bonds	1,455	1,600	1,650	1,725	2,135	114,929	123,494
2008 CAMC Teays Bonds	1,118	1,118	1,118	17,652	-	-	21,006
2006 Promissory Note	280	280	280	280	280	3,844	5,244
Capital lease obligations	909	927	945	964	983	1,588	6,316
Total	$17,884	$11,670	$12,083	$29,096	$11,943	$320,596	$403,272

Advanced Refundings—The outstanding balance of advanced refunded bonds excluded from the consolidated balance sheets was $14,815 as of December 31, 2014 and $16,000 as of December 31, 2013. The System advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustee is solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in U.S. government securities.

Derivatives—The System has entered into floating-to-fixed and floating-to-floating interest rate swap agreements in connection with its debt management program. The objective is to reduce the amount of interest related to outstanding debt obligations. Such agreements are not designated as hedging instruments. Net interest paid or received under the swap agreements is included in the consolidated statements of operations as a component of interest and debt expense while the change in the fair value of the derivative is reported separately in the consolidated statements of operations.

The System's interest rate swap agreements as of December 31, 2014 and 2013, are as follows:

Swap Type	Expiration Date	System Pays	Notional Amount 2014	Notional Amount 2013
Floating	September 1, 2032	BMA municipal Bond index rate	$ 140,700	$ 145,775
Floating	September 4, 2027	USD-securities industry and financial markets Association Municipal Bond Index	50,000	50,000
Fixed	September 1, 2037	4.19 %	101,665	102,570
			$ 292,365	$ 298,345

Net interest paid and received on the System's interest rate swap transactions was an expense of $4,320 and $4,797 for the years ended December 31, 2014 and 2013, respectively. This is included in interest and debt expense in the accompanying consolidated statements of operations.

Under the terms of certain of the derivative contracts, the System is required to maintain collateral posted with the counterparty to secure a portion of the estimated value of the derivative instruments when said instruments are valued in favor of the counterparty, as periodically determined by the counterparty. Collateral must be posted when the applicable aggregate derivative values exceed $10,000 in favor of the counterparty. As of December 31, 2014 and 2013, $11,920 and $3,860, respectively, of collateral had been posted. The System's accounting policy is not to offset collateral amounts against amounts recognized for derivative obligations. Accordingly, the posted collateral is included in assets limited as to use in the accompanying consolidated balance sheets.

Generally, the counterparties to the transactions could force an early termination if the obligated group's underlying credit rating declines from A3 to Baa2 or below as determined by Moody's Investors Service, if the obligated group fails to post collateral or if the obligated group fails to make swap payments. Aggregate termination payments would approximate the fair market value of the outstanding instruments as reported above. CAMC's bonds issued through the West Virginia Hospital Finance Authority carry a current credit rating as of December 31, 2014, of A3.

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

The following table summarizes the estimated fair value of the Corporation's derivative financial instruments at December 31, 2014:

Derivatives not Designated as Hedging Instruments	Consolidated Balance Sheet Location	2014	2013
		(In thousands)	
Asset derivatives — Interest rate swaps	Prepaid expenses and other	$ 5,442	$ 2,958
Liability derivatives — Interest rate swaps	Derivative obligation	$ 27,233	$ 14,170

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, 2014, are as follows:

Years Ending December 31	
2015	$ 4,107
2016	2,635
2017	2,030
2018	1,577
2019	224
Thereafter	2,166
	$ 12,739

Total expense for operating leases, which is included in supplies and other in the accompanying consolidated statements of operations, was $4,794 and $5,799 for the years ended December 31, 2014 and 2013, respectively.

8. LIABILITIES FOR SELF-INSURANCE RESERVES

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

Obligations of the Trust are determined using statistical analysis by an independent actuarial valuation of occurrence-based risks, which includes consideration of incurred but not reported claims exposure. The System's methodology for estimating this self-insured obligation is a simulation modeling approach largely dependent on the System's actual loss history and certain national, regional, and state specific claim statistics. As of December 31, 2014 and 2013, the System has recorded $19,879 and $18,392, respectively, as the liability for self-insured asserted and unasserted professional malpractice and general liability claims. The estimated current portion of $5,300 in 2014 and $5,900 in 2013 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 1.00% and 0.75% in 2014 and 2013, respectively. While the ultimate amount of costs incurred under the System's self-insured programs is dependent on future developments, in management's opinion, recorded reserves are adequate to cover the future settlement value of claims. However, it is reasonably possible that recorded reserves may not be adequate to cover the future settlement of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in operations in the periods in which such adjustments are known.

The malpractice self-insurance limits are a maximum $3,000 per occurrence and a maximum annual aggregate limit of $12,000 for May 1 2001, through April 30, 2002; $5,000 per occurrence and a maximum annual aggregate limit of $20,000 for May 1 2002, through April 30, 2003; $7,000 per occurrence and a maximum annual aggregate limit of $25,000 for May 1, 2003, through April 30, 2004; $10,000 per occurrence and a maximum annual aggregate limit of $30,000 for May 1, 2004, through April 30, 2005; $10,000 per reported claim and a maximum annual aggregate limit of $30,000 for the six years from May 1, 2005, through April 30, 2011; and $10,000 per reported claim and a maximum annual aggregate limit of $25,000 for May 1, 2011, through April 30, 2015.

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 $851 and $886 as of December 31, 2014 and 2013, respectively. The current portion of the obligation recorded in accrued expenses for workers' compensation was $606 and $368 as of December 31, 2014 and 2013, respectively. Beginning, January 1, 2012, all system members became insured for workers' compensation. Self-insured workers' compensation obligations are reserved for claims prior to the effective date of January 1, 2012, including incurred but not reported claims. Claims, beginning on January 1, 2012, are administered under a deductible insured program with limits of $1,000 per occurrence and $3,000 annual aggregate.

Prior to 2012, the System was subject to risk pools (security and guaranty) for the benefit of self-insured employers in West Virginia. The risk pools were utilized to fund the claims payments of default and bankrupt self-insured employers. The System maintains a required $1,741 letter of credit in favor of the West Virginia Insurance Commission to secure claims with dates of injury on or prior to June 30, 2004. 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 $5 and $2 for 2014 and 2013, respectively. The amount of the System's liability in respect to potential assessments cannot be estimated. Accordingly, no accrual for such liability has been reflected in the consolidated financial statements.

9. RETIREMENT OBLIGATIONS

Supplemental Executive Retirement Program (SERP)—The System has adopted several SERPs for the benefit of corporate officers. The SERPs, when combined with the retirement savings plan, are intended to provide corporate officers with a retirement benefit from all System sources (including 50%

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

The table below sets forth the change in the benefit obligation of the SERPs for the years ended December 31, 2014 and 2013, using a December 31 valuation date.

Change in Projected Benefit Obligation	**2014**	**2013**
Benefit obligation at beginning of year	$ 9,867	$ 10,709
Service cost	552	534
Interest cost	365	285
Actuarial loss	720	192
Benefits paid	-	(1,853)
Plan amendments	115	-
Projected benefit obligation (underfunded status) at end of year	$ 11,619	$ 9,867

The accumulated benefit obligation for the SERPs was $10,168 and $8,599 as of December 31, 2014 and 2013, respectively.

Included in unrestricted net assets as of December 31, 2014 and 2013, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of $3,853 and $3,429, respectively, and unrecognized net prior service cost of $1,085 and $1,062, respectively.

Certain assets approximating $2,939 and $2,738 as of December 31, 2014 and 2013, respectively, are maintained in a separate account to fund benefits under the plans and are recorded in other assets limited as to use in the accompanying consolidated balance sheets. Contributions of $143 and $145 were made into this account in 2014 and 2013, respectively. Such assets are subject to general creditors of the System. The System expects to contribute approximately $143 to these accounts in 2015.

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

2015	$ 1,424
2016	1,882
2017	4,612
2018	498
2019-2024	3,589

The components of net periodic benefit cost for SERP plans for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Service cost	$ 552	$ 534
Interest cost	365	285
Settlement charge	-	644
Actuarial loss	296	401
Amortization of prior service cost	92	98
Net periodic benefit cost	$ 1,305	$ 1,962

Actuarial plan assumptions for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	3.50 %	2.75 %
Expected rate of compensation increase	4.00	4.00
Weighted-average assumptions used to determine benefit obligations as of December 31:		
Discount rate	3.10 %	3.50 %
Expected rate of compensation increase	4.00	4.00
Lump-sum interest rate	1.50	1.50

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

The table below sets forth the change in the benefit obligation of the postretirement benefits for the years ended December 31, 2014 and 2013, using a December 31 valuation date.

Benefit obligation — beginning of year	$ 3,314	$ 3,760
Service cost	40	51
Interest cost	121	106
Actuarial loss (gain)	(81)	(397)
Contributions	14	15
Benefits paid	(299)	(221)
Plan Change	52	-
Benefit obligation (underfunded status) — end of year	$ 3,161	$ 3,314

The postretirement benefits are not funded.

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

2015	$ 292
2016	326
2017	348
2018	324
2019	318
2020-2024	1,109

The postretirement benefit expense for the years ended December 31, 2014 and 2013, was as follows:

Service cost of benefits earned	$ 40	$ 51
Interest cost	121	106
Actuarial loss	25	87
Net periodic postretirement expense	$ 186	$ 244

For measurement purposes, an annual rate of increase in the per capita cost of covered health care benefits of 7% in 2015, reducing .25% per year for 8 years reaching 5% in 2023 and thereafter.

Retirement Savings Plan —Employees of the System 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 $12,404 and $11,470 during 2014 and 2013, 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 2014 and 2013, CAMC provided $15,264 and $14,732, respectively, to WVU for the physicians who teach and supervise the resident physicians for call pay, income guarantees, fees for services, and other expenses. The fees paid are included in either professional compensation and fees or supplies and other, depending on the nature of the transaction. CAMC has committed $19,385 to further support WVU during 2015 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, 2014 and 2013, Healthnet expenses exceeded revenues by $1,158 and $1,584, respectively. Amounts due from Healthnet included in other receivables were $427 and $1,571 as of December 31, 2014 and 2013, respectively.

11. FUNCTIONAL EXPENSES

The functional expenses related to the System's operations as of December 31, 2014 and 2013, are as follows:

	2014	2013
Provision of health care and related services	$ 678,146	$ 675,395
General and administrative	242,022	232,576
Change in fair value of derivative	10,579	(14,083)
	$ 930,747	$ 893,888

12. COMMITMENTS, CONTINGENCIES, AND LITIGATION

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

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

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

In February 2015, Cerner Corp. acquired Siemens' health information technology business unit. On April 3, 2015, CAMC signed an agreement with Cerner to obtain perpetual licenses for certain licensed software, support services for certain catalogue software, and the right to use certain subscription software. Included in the plan is the right to use, support and implementation of all Cerner products needed to: replace the Siemens and NextGen software and third party products obtained through Siemens in use at any CAMC or affiliate facility; replace existing third party laboratory software in use at any CAMC or affiliate facility; replace all other clinical or business software now in use at any CAMC or affiliate facility for which an adequate Cerner replacement exists; and deliver functionality to meet Meaningful Use Stage 2 requirements, Healthcare Information and Management Systems Society (HIMSS) Level 6 requirements, and ICD 10 requirements.

The agreement provides a planned implementation of July 1, 2016. As a result, the depreciation of the net book value of the Siemens software, totaling approximately $9,290 at December 31, 2014, will be accelerated prospectively to result in a fully depreciated net book value on the planned date of conversion. The Cerner agreement requires CAMC to pay $12,622 over the first 2 years of the 10 year agreement for the initial perpetual license of the underlying software, implementation, and related support. During the remaining 8 years of the 10 year agreement, CAMC is required to pay $6,611 per year for the perpetual license of the underlying software, implementation and related annual support.

The agreement also provides that Cerner will not charge CAMC for conversion and training of the Cerner software.

CAMC also has an IT outsourcing agreement (the "Outsourcing Agreement") with Siemens executed concurrently with the license, implementation, and support agreement. Under the outsourcing agreement, CAMC outsourced to Siemens services, including maintaining software and hardware and providing information systems and telecommunications services, to CAMC and its affiliates. The outsourcing agreement expires on September 30, 2020 and may be terminated by CAMC with 30-day notice if Siemens fails to meet or exceed service-level standards, as defined in the agreement. Siemens may terminate the agreement under certain defined conditions with notice that varies by condition.

On February 6, 2015, CAMC consented to the assignment of the Outsourcing Agreement to Cerner, conditioned on Cerner's agreement to allow CAMC to terminate the Outsourcing Agreement by August 31, 2015. CAMC offered employment to the Siemens employees who were providing IT services pursuant to the Outsourcing Agreement and such individuals became CAMC employees on the transition date, March 1, 2015.

Total fees incurred during the years ended December 31, 2014 and 2013, related to the Siemens agreements were $18,842 and $18,733, respectively. Of this amount, $3,528 and $3,342 was capitalized on December 31, 2014 and 2013, respectively, related to capitalized computer hardware and software costs.

Other Commitments—As of December 31, 2014, the System has committed approximately $181,000 in the aggregate over a five-year period for current and planned projects, including new construction, renovations, and equipping of facilities at its Memorial, General, Women and Children's, and CAMC Teays hospitals, including a new cancer care facility. These commitments will be funded with a combination of cash generated from operating activities, fund raising, and existing debt proceeds with approximately $73,000 currently on deposit. Existing debt proceeds originated from 2013 and 2008 debt transactions on deposit with a trustee or in a board designated investment account and included in assets limited as to use.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Level 2—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Corporate bonds are valued using pricing models maximizing the use of observable inputs for similar securities. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments.

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

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

The financial instruments carried at fair value as of December 31, 2014, 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	$ 60,881	$ -	$ -	$ 60,881
Equity securities	81,947	-	-	81,947
Equity mutual funds	223,965	-	-	223,965
Debt securities issued by U.S. Treasury and other U.S. government corporations and agencies	-	19,632	-	19,632
Debt securities issued by states of the United States and political subdivisions of the states	-	4,020	-	4,020
Corporate debt securities	-	26,956	-	26,956
Fixed income mutual funds	140,408	-	-	140,408
Total investments at fair value	$ 507,201	$ 50,608	$ -	$ 557,809
Assets — derivative asset	$ -	$ 5,442	$ -	$ 5,442
Liabilities — derivative obligation	$ -	$ 27,233	$ -	$ 27,233
Total liabilities at fair value	$ -	$ 27,233	$ -	$ 27,233

The financial instruments carried at fair value as of December 31, 2013, by caption, in the consolidated statements of financial position by the three-level valuation hierarchy defined above are as follows:

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

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

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

Cash Equivalents—The carrying amounts reported in the accompanying consolidated balance sheets for cash equivalents approximate their fair value.

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

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

The System is required to assess its credit risk versus its counterparties, this assessment resulted in a decrease in the liability of $1,093 and $697, which increased the System's excess of revenues over expenses for the years ended December 31, 2014 and 2013, respectively.

14. ENDOWMENT—RESTRICTED NET ASSETS

The System's endowment is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and consists of approximately 162 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 absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and accumulations to the permanent endowment required by the donor gift instrument, if applicable. 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. 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's investment and spending policies for endowment assets are structured to provide a predictable stream of funding to programs supported by the endowment and maintain purchasing power of the endowment assets. 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. Therefore, the desired minimum rate of return is equal to the consumer price index plus, 600 basis points (6%) on an annualized basis. Actual returns in any given year will vary.

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.

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% are scheduled for transfer to the Foundation's main cash account.

Changes in endowment funds for the year ended December 31, 2014, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Net assets — beginning of the year	$ 32,220	$ 21,460	$ 53,680
Investment return:			
Investment income	1,458	-	1,458
Net appreciation (realized and unrealized)	614	-	614
Total investment return	2,072	-	2,072
Contributions	11	387	398
Fund Transfers	(1,177)	818	(359)
Appropriation of endowment assets for expenditure	(387)	-	(387)
Net assets — end of year	$ 32,739	$ 22,665	$ 55,404

Changes in endowment funds for the year ended December 31, 2013, consisted of the following:

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

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 can result from unfavorable market fluctuations that occur 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, 2014 and 2013.

15. INTANGIBLES

Intangible assets, other than software which is included in property, equipment and information systems, are included in other assets. The System's identifiable intangible assets with finite lives are being amortized over their estimated useful lives and are as follows:

	December 31, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net	Amortization Period
Trade name/trademark	$ 140	$ (112)	$ 28	5 years
Noncompete	1,396	(1,117)	279	5 years
Noncontract relationships	4,131	(826)	3,305	20 years
Intangibles — software	42,063	(39,729)	2,334	3 years
	$ 47,730	$ (41,784)	$ 5,946	

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

Amortization expense for finite lived intangible assets was $3,640 and $4,561 at December 31, 2014 and 2013, respectively. The following is a schedule of estimated future amortization of finite lived intangible assets as of December 31, 2014:

Years Ending December 31, 2014	
2015	1,769
2016	929
2017	470
2018	318
Thereafter	2,470
	$ 5,956

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 10, 2015, the date the consolidated financial statements were available to be issued, and no subsequent events require recognition or disclosure

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SUPPLEMENTAL SCHEDULES

CAMC HEALTH EDUCATION AND RESEARCH INSTITUTE

SCHEDULE OF EXPENDITURES OF STATE OF WEST VIRGINIA AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Funding Source	Grant #	CHERI Activity #	Amount Received	Amount Expended	Difference
State of WV/DHHR/BPH/OMCFH	G140372/G150359	68657	$219,247	$246,724	$ (27,477)
State of WVDHHR/BPH/OEPS	G150424	68659	41,000	38,906	2,094
State of WV/DJCS	15-CAC-02	63024	32,669	35,705	(3,036)
State of WVDHHR/BPH/OCHS	G140754	63041	19,600	19,600	-
State of WVDHHR/BPH/OEPS	G140446	68659	50,000	55,838	(5,838)
			$362,516	$396,773	$ (34,257)

CAMC HEALTH EDUCATION AND RESEARCH INSTITUTE

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

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

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Federal Grantor/Program Title	Source	Federal CFDA No.	Pass-Through Entity Identification Number	Indirect Agency	Federal Expenditures
Funding from Department of Health and Human Services					
Terrorism Preparedness	I	93.003	CAMC2014	WV DHHR/WV Hospital Association	$ 89,282
Asthma Program	I	93.07	G140592	WV DHHR/WV BPH/OEHP	46,224
ARRA—Rural Health Conference	I	93.913	G140571	WVDHHR/BPH/OCHSHP	21,188
ARRA—Rural Health Conference	I	93.241	G140571	WVDHHR/BPH/OCHSHP	26,967
Administration of the Right From the Start Project	I	93.778	G140372/G150359	WV DHHR/BPH/OMCFH	246,724
Grant Program to Provide Outpatients DIS with Respect to HIV Disease	D	93.918	Not applicable		431,060
Partnership In Health	I	93.940	G140749	WVDHHR/BPH/OEHP/AIDS Program	10,975
2014 WV Conference on Infectious Diseases Public Health Symposium	I	93.268	G150424	WV DHHR/ BPH/ OEPS	38,906
Total Department of Health and Human Services					911,326
Funding from Department of Justice:					
National Children's Alliance	I	16.758	3-CHAR-WV-SA14	National Children's Alliance	9,000
Total Department of Justice					9,000
Funding from the Department of Agriculture					
Supplemental Nutrition Assistance Program – SNAP	I	10.561	99-046A-K4HK-2	WVDHHR/BPH/OCHSHP	221,819
Total Department of Agriculture					221,819
Research and Development Cluster:					
Nurse Anesthetist Traineeship	D	93.124	Not Applicable		37,986
WV IDEA Center	I	93.859	12-303-CAMC	West Virginia University Research Corporation	88,474
Total Research and Development Cluster					126,460
Total federal expenditures					$1,268,605

See Notes to Schedule of Expenditures of Federal Awards.

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, 2014. The information in this Schedule is presented in accordance with the requirements of the *U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. 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.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *OMB Circular A-122, Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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. RECENT REGULATORY CHANGES

In December 2013, the OMB issued comprehensive grant reform rules titled, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The new requirements consolidate what was previously in eight separate OMB Circulars into a single new document. This consolidation resulted in various areas of change to the previous requirements. The grant reform rules are intended to streamline the federal government's guidance on administrative requirements, cost principles, and audit requirements for federal awards. The final guidance supersedes *OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122, and A-133*, and is effective for federal awards made after December 26, 2014. The Organization is in the process of evaluating the impact that the final guidance will have on the Organization's federal grant programs.

3. SUBRECIPIENT DISBURSEMENTS

The Institute did not make any subrecipient disbursements during the year ended December 31, 2014.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide, the consolidated financial statements of CAMC Health System, Inc. (the "System"), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 22, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 opinion on the consolidated 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and "State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide."

Purpose of this Report

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

Deloitte & Touche LLP

April 22, 2015

Deloitte.

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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, 2014. 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 Governments, and Non-Profit Organizations* and the State of West Virginia, Department of Health and Human Resources Grantee Audit Compliance Guide. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of 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, 2014.

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 of compliance, 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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 significant 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.

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

August 10, 2015

CAMC HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

PART I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _______ yes ___X__ no

Federal Awards

Internal control over major programs:

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

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

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

Identification of Major Programs:

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

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

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

PART II—FINANCIAL STATEMENT FINDINGS

No matters were reported.

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PART IV—SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Number

2013-1

Finding—Cash flows statement preparation and review.

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

Contact—Debbie McClure

Number

2013-2

Finding—Single Audit Report timely review and filing.

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

Contact—Sharon Hall