Schedule of Expenditures of
Federal Awards
Year Ended
September 30, 2012

Carilion Medical Center

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Carilion Medical Center

Contents

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report on Schedule of Expenditures of Federal Awards

Board of Directors
Carilion Medical Center

We have audited the accompanying schedule of expenditures of federal awards of ***Carilion Medical Center*** for the year ended September 30, 2012. This schedule is the responsibility of ***Carilion Medical Center's*** management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of expenditures of federal awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of expenditures of federal awards. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of ***Carilion Medical Center*** as of September 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of ***Carilion Medical Center'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 should be considered in assessing the results of our audit.

Dixon Hughes Goodman LLP

Roanoke, Virginia
June 28, 2013

111 Franklin Road, SE, Suite 501, Roanoke, VA 24011 | T 540.989.6144 | F 540.989.6613 | dhgllp.com

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Carilion Medical Center

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2012

Federal Grantor	Grant Name	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Justice				
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault and Stalking on Campus		16.525		$ 59,671
Pass Through Department of Criminal Justice Services	Project Back on Track	16.540	11-A2242JJ09	55,963
	Total Department of Justice			115,634
Department of Health and Human Services				
Pass Through Children's Oncology Group - The Research Institute at Nationwide Children's Hospital	Cancer Treatment Research	93.395	18583, 19568	42,810
Pass Through Gynocologic Oncology Group - University of Oklahoma	Cancer Treatment Research	93.395	27469-83	83,110
	Total Cancer Treatment Research			125,920
Pass Through Virginia Department of Health, Division of Women's and Infants' Health	Breast and Cervical Cancer Early Detection Program	93.283	705DD82639	239,185
Outpatient Early Intervention Services with Respect to HIV Disease		93.918		281,767
Advanced Education Nursing Traineeships		93.358		27,135
Modeling Risk and Reducing Liability Through Better Communication and Teamwork		93.226		49,262
Special Projects of National Significance: Ryan White Treatment Expansion		93.928		55,199
Pass Through Virginia Department of Health	Hospital Preparedness Program	93.889	FY11	40,208
Pass Through Virginia Department of Health, Division of Disease Prevention	HIV Care Formula Grant	93.917	DDP-611-45416-CON-2	378,828
Pass Through Virginia Department of Health, Division of Women's and Infants' Health	Maternal and Child Health Services Block Grant	93.994	705Z82667	141,314
Pass Through Virginia Polytechnic Institute and State University	Maintaining Resistance Training in Older Prediabetic Adults: Theoretical Approach	93.847	431585-19858	26,694
Pass Through Georgia State University	Selection of Boronic Acid-Modified Aptamber for Glycoprotiens	93.859	5P000J3814-02	1,611
Pass Through Virginia Polytechnic Institute and State University	Dynamic Interactions of Monetary and Nonmonetary Incentives in Weight Loss Intervention	93.837	431655-19858	41,929
Affordable Care Act: Primary Care Residency Expansion		93.510		175,588
Pass Through NHLBI of NIH	PROspective Multicenter Imaging Study for Evaluation of Chest Pain (Promise Trial)	93.701	DUKE SPS#173530	25,292
Patient Navigator Services in the Southwest Region Under the	Special Projects of National Significance (SPNS)	93.829		16,649
National Institutes of Health:	The Reach and Effectiveness of Technology-Enhanced Diabetes Prevention Programs	93.847		48,245
Affordable Care Act: Health Center Planning Grants		93.527		77,275
	Total Department of Health and Human Services			1,752,101
	Total Expenditures of Federal Awards			$ 1,867,735

The accompanying notes are an integral part of this schedule.

September 30, 2012

1. Organization and Nature of Activities

Carilion Medical Center (Organization) is a not-for-profit organization which specializes in patient-centered care, medical education and clinical research, with a goal of providing the best possible health outcome and healthcare experience for each patient. The Organization is a wholly owned subsidiary of Carilion Clinic.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

3. Grant Contingencies

The federal grant programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agencies for expenditures disallowed under terms of the grants. Management believes disallowances, if any, will not be material.

4. Subsequent Events

The Organization evaluated the effect subsequent events would have on the Schedule through June 28, 2013, which is the date the report was available to be issued.

* * * * *

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Carilion Medical Center

We have audited the schedule of expenditures of federal awards of ***Carilion Medical Center*** for the year ended September 30, 2012, and have issued our report thereon dated June 28, 2013. We did not audit the consolidated financial statements of ***Carilion Medical Center and Subsidiaries*** (of which ***Carilion Medical Center*** is a member). Those statements were audited by other auditors whose reported dated January 28, 2013, expressed an unqualified opinion on those consolidated financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The consolidated financial statements of ***Carilion Medical Center and Subsidiaries*** were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of ***Carilion Medical Center*** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ***Carilion Medical Center***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the schedule of expenditures of federal awards, but not for the purpose of expressing an opinion on the effectiveness of ***Carilion Medical Center's*** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Carilion Medical Center's*** internal control over financial reporting.

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

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***Carilion Medical Center's*** schedule of expenditures of federal awards is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule of expenditures of federal awards 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.*

111 Franklin Road, SE, Suite 501, Roanoke, VA 24011 | T 540.989.6144 | F 540.989.6613 | dhgllp.com

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Purpose of this Report

The purpose of this report is soley 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Roanoke, Virginia
June 28, 2013

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Carilion Medical Center

Compliance

We have audited ***Carilion Medical Center's*** compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ***Carilion Medical Center's*** major federal programs for the year ended September 30, 2012. ***Carilion Medical Center's*** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of ***Carilion Medical Center's*** management. Our responsibility is to express an opinion on ***Carilion Medical Center's*** compliance based on our audit.

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

In our opinion, ***Carilion Medical Center*** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of ***Carilion Medical Center*** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered ***Carilion Medical Center's*** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ***Carilion Medical Center's*** internal control over compliance.

111 Franklin Road, SE, Suite 501, Roanoke, VA 24011 | T 540.989.6144 | F 540.989.6613 | dhgllp.com

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Roanoke, Virginia
June 28, 2013

Year Ended September 30, 2012

1. Summary of Auditors' Results

Financial Statements

An unqualified opinion was issued on the schedule of expenditures of federal awards. We did not audit the consolidated financial statements of ***Carilion Medical Center and Subsidiaries*** (of which ***Carilion Medical Center*** is a member). Those statements were audited by other auditors.

Internal control over financial reporting;

The audit did not disclose any material noncompliance.

Federal Awards

There were no significant deficiencies reported in internal control over major programs to disclose.

An unqualified opinion was issued on compliance for major programs.

The audit did not disclose any audit findings required to be reported.

The major programs were Breast and Cervical Cancer Early Detection Program (CFDA 93.283), Cancer Treatment Research (CFDA 93.395), Affordable Care Act: Primary Care Residency Expansion (CFDA 93.510), Outpatient Early Intervention Services with Respect to HIV Disease (CFDA 93.918), and Maternal and Child Health Services Block Grant (CFDA 93.994).

The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

The auditee did not qualify as a low-risk auditee.

2. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

3. Findings Related to Compliance for Major Federal Award Programs

None

Carilion Clinic and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended September 30, 2012 and 2011, and Independent Auditors' Report

CARILION CLINIC AND SUBSIDIARIES

Roanoke, Virginia
A Nonstock, Nonprofit Corporation
Chartered by the Commonwealth of Virginia

OFFICERS OF THE BOARD OF DIRECTORS

James A. Hartley	Chairman
Nancy H. Agee	President
Donald E. Lorton	Treasurer
Briggs W. Andrews	Secretary

BOARD OF DIRECTORS

Nancy H. Agee
R. Steve Blanks
John A. Bond
J. Alexander Boone
Abney S. Boxley, III
George B. Cartledge, Jr.
Ronald C. Evans
Victor Iannello
James A. Hartley
Daniel R. Jones, MD
Raymond D. Smoot, Jr., PhD
James C. Thompson
James M. Turner, Jr.
William White, Sr.
Danielle H. Yarber

CARILION CLINIC AND SUBSIDIARIES

TABLE OF CONTENTS

Deloitte & Touche LLP
550 South Tryon Street
Suite 2500
Charlotte, NC 28202
USA

Tel: +1 704 887 1500
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Carilion Clinic
Roanoke, Virginia

We have audited the accompanying consolidated balance sheets of Carilion Clinic and Subsidiaries (the "Clinic") as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Clinic's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Clinic's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Clinic as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1, 4, and 16 to the consolidated financial statements, the consolidated financial statements include investments valued at $273,957,000 (17% of total assets) and $278,869,000 (18% of total assets) as of September 30, 2012 and 2011, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. In addition, the defined benefit postretirement plan assets disclosed in Notes 9 and 16 include investments of $174,191,000 and $188,929,000 as of September 30, 2012 and 2011, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on net asset values reported by the fund managers or the general partners.

As discussed in Note 1 to the consolidated financial statements, the Clinic adopted new accounting guidance related to the presentation of the provision for bad debts associated with patient service revenue in the consolidated statements of operations.

Deloitte & Touche LLP

January 28, 2013

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,792	$ 3,560
Assets whose use is limited		658
Accounts receivable — net of allowance for doubtful accounts of $75,324 in 2012 and $73,162 in 2011	191,140	180,414
Inventories	14,256	12,481
Prepaid expenses and other current assets	14,489	12,507
Total current assets	221,677	209,620
INVESTMENTS	137,271	132,119
INTEREST RATE SWAPS	3,935	208
ASSETS WHOSE USE IS LIMITED — Net of current portion	652,500	541,172
PROPERTY AND EQUIPMENT — Net	606,586	640,459
OTHER ASSETS	27,155	33,103
TOTAL	$1,649,124	$1,556,681
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 40,394	$ 41,925
Accounts payable	41,088	41,058
Due to third-party payors	34,207	24,870
Accrued salaries and wages	43,513	37,110
Accrued vacation	34,589	32,116
Other current liabilities	85,758	70,527
Total current liabilities	279,549	247,606
LONG-TERM DEBT — Net of current portion	598,566	610,831
INTEREST RATE SWAPS	90,954	85,548
PENSION AND OTHER LIABILITIES	394,851	292,426
Total liabilities	1,363,920	1,236,411
COMMITMENTS AND CONTINGENCIES (Notes 4, 5, 8, 14, and 15)		
NET ASSETS:		
Unrestricted:		
Carilion Clinic and subsidiaries	261,649	298,105
Noncontrolling interests	2,793	2,409
Total unrestricted net assets	264,442	300,514
Temporarily restricted	8,886	7,871
Permanently restricted	11,876	11,885
Total net assets	285,204	320,270
TOTAL	$1,649,124	$1,556,681

See notes to consolidated financial statements.

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012	2011
UNRESTRICTED OPERATING REVENUES AND GAINS:		
Patient service revenue (net of contractual allowances and discounts)	$1,266,647	$1,190,352
Provision for bad debts	(78,443)	(66,722)
Net patient service revenue	1,188,204	1,123,630
Medical supplies and services	17,230	11,791
Other operating revenue	116,039	74,867
Net assets released from restrictions	2,487	1,847
Total unrestricted operating revenues and gains	1,323,960	1,212,135
OPERATING EXPENSES:		
Salaries and outside labor	647,976	606,016
Benefits	142,534	124,445
Supplies and other expenses	415,429	377,683
Depreciation and amortization	75,740	78,286
Interest expense	28,858	31,939
Total operating expenses	1,310,537	1,218,369
OPERATING INCOME (LOSS)	13,423	(6,234)
NONOPERATING INCOME (LOSS):		
Investment income (loss)	60,681	(55,637)
Other nonoperating loss	(3,235)	(21,822)
Total nonoperating income (loss)	57,446	(77,459)
EXCESS (DEFICIT) OF UNRESTRICTED REVENUES AND GAINS OVER EXPENSES	70,869	(83,693)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(107,356)	(95,017)
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASES OF PROPERTY AND EQUIPMENT	415	49
DECREASE IN UNRESTRICTED NET ASSETS FROM CONSOLIDATED OPERATIONS	(36,072)	(178,661)
CHANGE IN UNRESTRICTED NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	384	93
CHANGE IN UNRESTRICTED NET ASSETS ATTRIBUTABLE TO CARILION CLINIC AND SUBSIDIARIES	$ (36,456)	$ (178,754)

See notes to consolidated financial statements.

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012	2011
UNRESTRICTED NET ASSETS:		
Excess (deficit) of unrestricted revenues and gains over expenses attributable to Carilion Clinic and subsidiaries	$ 70,869	$ (83,693)
Pension-related changes other than net periodic pension cost	(107,356)	(95,017)
Net assets released from restrictions for purchases of property and equipment	415	49
Decrease in unrestricted net assets	(36,072)	(178,661)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	2,240	2,187
Investment income	1,677	624
Net assets released from restrictions for purchase of property and equipment	(415)	(49)
Net assets released from restrictions used for operations	(2,487)	(1,847)
Increase in temporarily restricted net assets	1,015	915
PERMANENTLY RESTRICTED NET ASSETS — Net assets transferred to Jefferson College of Health Sciences Education Foundation	(9)	
DECREASE IN NET ASSETS	(35,066)	(177,746)
NET ASSETS — Beginning of year	320,270	498,016
NET ASSETS — End of year	$ 285,204	$ 320,270

See notes to consolidated financial statements.

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	$ (35,066)	$ (177,746)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	75,740	78,286
Deferred compensation	5,068	(745)
Provision for bad debts	78,443	66,722
Net realized and unrealized (gains) losses on investments and interest rate swaps	(42,030)	38,247
Equity in (earnings) losses of affiliates	(501)	30,505
Losses (gains) on sale of assets	4,612	(365)
Restricted contributions and restricted investment income	(3,917)	(2,811)
Pension-related changes other than net periodic pension cost	107,356	95,017
Funding in excess of net periodic pension cost	(3,487)	(2,680)
Loss on extinguishment of debt	3,047	2,584
Changes in:		
Accounts receivable — net	(89,169)	(85,128)
Inventories, prepaid expenses, and other current assets	(3,757)	7,360
Other assets	5,269	(1,082)
Accounts payable and accrued expenses	8,246	(11,461)
Due to third-party payors	9,337	911
Other current liabilities	15,228	9,454
Other liabilities	(7,588)	7,371
Net cash provided by operating activities	126,831	54,439
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(45,893)	(38,757)
Proceeds from sale of property and equipment	78	1,112
Acquisitions		(1,708)
Purchases of investments and assets whose use is limited	(239,326)	(4,623,983)
Proceeds from sale of investments and assets whose use is limited	166,368	4,609,919
Net cash used in investing activities	(118,773)	(53,417)

(Continued)

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted contributions and restricted investment income	$ 3,917	$ 2,811
Deferred financing costs	(1,022)	(2,704)
Proceeds from issuance of long-term debt	96,349	257,301
Principal payments and retirements of long-term debt	(109,070)	(266,863)
Net cash used in financing activities	(9,826)	(9,455)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,768)	(8,433)
CASH AND CASH EQUIVALENTS — Beginning of year	3,560	11,993
CASH AND CASH EQUIVALENTS — End of year	$ 1,792	$ 3,560

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:
Cash paid for interest (net of amount capitalized) in 2012 and 2011 was $29,498 and $29,464, respectively.
Noncash acquisitions of property and equipment in 2012 and 2011 totaled $659 and $1,992, respectively.

See notes to consolidated financial statements. (Concluded)

1. CORPORATE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Carilion Clinic is the sole member of Carilion Medical Center (CMC) (t/a Carilion Roanoke Memorial Hospital and Carilion Roanoke Community Hospital); Carilion New River Valley Medical Center (CNRV); Carilion Franklin Memorial Hospital (CFMH); Carilion Giles Community Hospital (CGCH); Carilion Tazewell Community Hospital (CTCH); Carilion Clinic Properties, LLC (formerly known as Carilion Clinic Physicians, LLC); Carilion Clinic Foundation; and Carilion Services, Inc. (collectively, "Carilion").

Carilion and the entities for which it serves as sole member are not-for-profit, nonstock membership corporations exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Carilion Services, Inc., is the sole stockholder of CHS, Inc. (CHSI). CHSI is the holding company for the other taxable Carilion entities.

Carilion owns an 80% interest in Carilion Stonewall Jackson Hospital ("Stonewall"), with the noncontrolling interest remaining with a community-based foundation. Carilion and Centra Health ("Centra") have a joint ownership agreement with Bedford Memorial Hospital ("Bedford"). Under the terms of the agreement, Carilion and Centra each have a 50% equity interest in Bedford (see Note 6).

During 2009, Carilion formed Carilion Clinic Medicare Resources, LLC, (CCMR) a health maintenance organization that began offering Medicare Advantage health plans to residents of southwest Virginia as of October 1, 2009. CCMR has also established a Medicaid managed care health plan with coverage effective January 1, 2012.

The accounts of Carilion Medical Center, Bedford, Carilion New River Valley Medical Center, Carilion Franklin Memorial Hospital, Carilion Giles Community Hospital, Carilion Stonewall Jackson Hospital, and Carilion Clinic Properties, LLC, are collectively referred to as the Obligated Group as a result of the Master Trust Indenture executed by and among the members of the Obligated Group in connection with the issuance of certain long-term debt obligations.

Presentation of Consolidated Financial Statements — The consolidated financial statements of Carilion have been prepared under the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as set forth in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Carilion and changes therein are classified and reported as follows:

Unrestricted Net Assets — Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets — Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Temporarily restricted net assets held by Carilion as of September 30, 2012 and 2011, were restricted primarily for indigent care, clinical research, trauma operations, and neonatal and pediatric care.

Permanently Restricted Net Assets — Permanently restricted net assets have been restricted by donors to be maintained by Carilion in perpetuity. Permanently restricted net assets held by Carilion as of September 30, 2012 and 2011, were restricted primarily for neonatal and pediatric care.

In the accompanying consolidated statements of operations, all revenues have been reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Cash and noncash contributions are recorded at fair value when made with the exception of unconditional promises, which are recognized on the date the promise is made.

The consolidated statements of operations include excess (deficit) of unrestricted revenues and gains over expenses. Changes in unrestricted net assets, which are excluded from excess (deficit) of unrestricted revenues and gains over expenses, include net assets released from restrictions for purchase of property and equipment and pension-related changes other than net periodic pension costs.

Consolidation — The consolidated financial statements include all subsidiaries for which Carilion has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

Patient Service Revenue — Carilion recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Carilion has agreements with third-party payors that provide for payments to Carilion at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments, under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

For uninsured patients that do not qualify for charity care, Carilion recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of Carilion’s uninsured patients will be unable or unwilling to pay for the services provided. Thus, Carilion records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Allowance for Doubtful Accounts — Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. Carilion estimates the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable by aging category, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. The percentage used to reserve for all self-pay accounts is based on Carilion’s collection history. Carilion collects substantially all of its third-party insured receivables, which include receivables from governmental agencies.

Carilion’s allowance for doubtful accounts remained consistent as a percentage of accounts receivable (net of contractuals) at September 30, 2012 and 2011; however, there was an overall increase in the allowance for doubtful accounts. The increase in the balance was largely the result of the overall increase in patient receivables in 2012 as compared to 2011.

Premium Revenues — Premiums for Medicare Advantage and Medicaid managed care health plans are recognized as revenues over the contract period.

Electronic Health Records (EHR) Incentives — The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified EHR technology. The EHR incentive payments to hospitals include a base amount, plus a discharge-related portion, which is calculated by the Centers for Medicare and Medicaid Services based on the hospital's most recently filed cost report and are subject to adjustment upon settlement of the cost report for the hospital's fiscal year that begins after the beginning of the payment year. A hospital may receive incentive payments for up to four years, provided that it successfully demonstrates meaningful use for each applicable EHR reporting period. Carilion recognizes revenue for EHR incentive payments in the period in which it is reasonably assured that it will comply with the applicable EHR meaningful use requirements. EHR incentive revenues are recognized ratably over the applicable meaningful use reporting period and are included in other operating revenues in the consolidated statements of operations. Carilion recognized EHR incentive revenues of $16,078 and $9,015 for the years ended September 30, 2012 and 2011, respectively. Carilion's attestations regarding the meaningful use of EHR technology are subject to audit by the federal government or its designee.

Charity Care — Carilion provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because Carilion does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or included in patient accounts receivable. Carilion estimates the direct and indirect costs to provide charity care using a calculated ratio of costs to gross charges for each facility.

Cash and Cash Equivalents — Cash and cash equivalents consist primarily of demand deposits, temporary investments in bank repurchase agreements, certificates of deposit, and overnight master notes with banks. Carilion considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Carilion's cash deposits are held at local and regional banks. Carilion had short-term investments of approximately $40,095 and $46,207 at September 30, 2012 and 2011, respectively, at a regional bank, which are included in the system-wide investment pool (see Note 4) and, therefore, are classified as noncurrent assets.

Inventories — Inventories are stated at the lower of cost (first-in, first-out) or market.

Investments and Assets Whose Use is Limited — Carilion combines its investments in a system-wide investment pool, which includes investments and assets whose use is limited. Assets whose use is limited primarily includes assets held by trustees under a Master Trust Indenture agreement and assets designated by the board of directors (the "Board") for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Carilion's investments and assets whose use is limited, excluding alternative investments, are classified as trading securities and measured at fair value on the consolidated balance sheets with the related interest and dividends and realized and unrealized holding gains and losses reported in investment income (loss) in the consolidated statements of operations, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Management determined that the trading security category is appropriate based on Carilion's investment strategy and policies. Investment managers may execute individual purchases and sales of investments without prior approval from Carilion, as long as they comply with Carilion's investment strategy and policies.

Alternative investments, which are not readily marketable and are less liquid compared to Carilion's other investments, include hedge funds, limited partnerships, limited liability corporations, and offshore investment funds, and represent 35% and 41% of total investments and assets whose use is limited as of September 30, 2012 and 2011, respectively (see Notes 4 and 16). These instruments may contain elements of both credit and market risk. Such risks could include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both interest rate swaps and nonmarketable investments), and nondisclosure of portfolio composition. Investments of the limited partnerships include certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance-sheet risk for the limited partnerships, limited liability corporations, and offshore investment funds, may result in a loss due to changes in the market (market risk).

Carilion has elected the fair value option to account for its alternative investments. Management estimates the fair value of its alternative investments based on information provided by the fund managers or the general partners.

U.S. GAAP permits, as a practical expedient, a reporting entity to measure the fair value of certain investments without readily determinable fair values by using the reported net asset value (NAV) per share of the investment without further adjustment if the investment is in an entity that meets the description of an investment company whose underlying investments are measured at fair value as set forth in the ASC. Accordingly, Carilion generally estimates the fair value of its alternative investments using the NAV per share reported by the respective fund managers or the general partners.

The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations performed prior to the balance sheet date by the external investment managers and adjusted for cash receipts, cash disbursements, and securities distributions through September 30. Because alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Equity Method Investments — The equity method of accounting is used for investments in entities for which Carilion has the ability to exercise significant influence over the operating and financial policies of the investee, but does not have a controlling financial interest via majority voting rights, sole corporate membership, or by other means. The carrying value of equity method investments is adjusted for Carilion's proportionate share of changes in net assets of the investee, with adjustments as applicable for intraentity profit and losses, amortization of basis differences, investee capital transactions, and the effect of investee cumulative preferred stock.

Carilion's proportionate share of the earnings of equity method investees is reported in investment income (loss) in the consolidated statements of operations. Carilion's proportionate share of the investee's extraordinary items, changes in accounting principle, and pension-related changes other than pension expense are recognized within the corresponding line item in Carilion's consolidated statements of operations and statements of changes in net assets (as applicable).

Equity method investments are initially measured at cost. Carilion evaluates the carrying value of equity method investments for other-than-temporary impairment. If the equity method investment is determined to be other-than-temporarily impaired, an impairment charge would be recognized for the amount by which the carrying amount exceeds fair value.

Property and Equipment — Property and equipment is stated at cost, less accumulated depreciation. Donated property and equipment is recorded at fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the depreciable assets, except for leasehold improvements, which are amortized over the shorter of the expected useful life of the improvement or the term of the related lease. The estimated useful life of buildings is 39 years. The estimated useful life of fixed equipment is 10 to 20 years. The estimated useful life of movable equipment is 3 to 15 years.

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that their carrying amount may not be recoverable. The recoverability of long-lived assets is evaluated by comparing the carrying amount to the estimated undiscounted cash flows. If the carrying amount exceeds the estimated undiscounted cash flows, an impairment charge would be recognized for the amount by which the carrying amount exceeds the fair value of the long-lived asset. Management determined there was no impairment of long-lived assets as of or during the years ended September 30, 2012 and 2011.

Interest Costs — Interest costs incurred on borrowed funds, net of interest income earned on the unexpended bond proceeds during the period of construction of capital assets, are capitalized as a component of the costs of acquiring those assets. Such amounts were not material to the consolidated financial statements as of and for the years ended September 30, 2012 and 2011.

Bond Issue Costs and Original Issue Bond Premium and Discount — Unamortized bond issue costs of $7,233 and $7,875 at September 30, 2012 and 2011, respectively, are included in other assets in the accompanying consolidated balance sheets. Unamortized original issue premiums and discounts are netted against long-term indebtedness in the accompanying consolidated balance sheets. Bond issue costs, original issue premiums, and original issue discounts are amortized over the period the obligation is outstanding.

Derivative Instruments — Carilion uses interest rate swap instruments to manage its exposure to movements in interest rates. Interest rate swaps are contractual agreements between two parties for the exchange of interest payments on a notional principal amount at agreed-upon fixed or floating rates for defined periods. Interest rate swaps are measured at fair value in the accompanying consolidated balance sheets, with the change in fair value recorded as realized gains (losses) and included in investment income (loss) in the accompanying consolidated statements of operations. Carilion does not enter into derivative financial instruments for trading purposes.

Income Taxes — The Internal Revenue Service has determined that Carilion Clinic, the members of the Obligated Group, Carilion Tazewell Community Hospital, Carilion Clinic Foundation, and Carilion Services, Inc., qualify under Section 501(c)(3) of the IRC and are, therefore, not generally subject to income taxes under present tax laws. CHSI and its subsidiaries are taxable corporations.

Carilion recognizes a tax liability or asset for the estimated taxes payable or refundable on tax returns for current and prior years. Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A tax benefit from an uncertain tax position is recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Uncertain tax positions may include the characterization of income, such as a characterization of income as passive, a decision to exclude reporting taxable income in a tax return, or a decision to classify a transaction, entity, or other position in a tax return as tax exempt.

Carilion had no material unrecognized tax benefits and no adjustments to its consolidated financial statements were required as of and for the years ended September 30, 2012 and 2011. Carilion does not expect that unrecognized tax benefits will materially increase within the next 12 months.

Interest and penalties related to uncertain tax positions, if any, would be reported in the consolidated financial statements as income tax expense. Fiscal years from 2009 through 2011 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Conditional Asset Retirement Obligations — Carilion recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred if a reasonable estimate of the fair value of the obligation can be made. The obligation is accreted to its present value each period. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations. Liabilities for conditional asset retirement obligations related to the abatement of asbestos in clinical and administrative facilities are $2,007 and $2,027 at September 30, 2012 and 2011, respectively, and are included in pension and other liabilities in the accompanying consolidated balance sheets.

Physician Guarantees — Consistent with its policy on physician relocation and recruitment, Carilion has provided income guarantee agreements to certain physicians who agree to relocate to its communities to fill a need in Carilion’s service area and commit to remain in practice there. Under such agreements, Carilion is required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. The income guarantee periods are typically 12 months. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically three years. Carilion forgives the payments if the physician completes the full commitment period. Physician guarantees are not material to the consolidated financial statements.

Use of Estimates — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to, recognition of net patient service revenue; valuation of accounts receivable, including contractual allowances and provisions for doubtful accounts; liabilities for losses and expenses related to employee health care and professional and general liability risks; valuation of investments and interest rate swap instruments; depreciation of property and equipment; and estimated third-party settlements. Future events and their effects cannot be predicted with certainty; accordingly, management’s accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the accompanying consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as the operating environment changes. Management regularly evaluates the accounting policies and estimates it uses. In general, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances and may employ outside experts to assist in the evaluation, as considered necessary. Although management believes all adjustments considered necessary for fair presentation have been included, actual results may vary from those estimates.

Subsequent Events — Carilion has evaluated subsequent events from the end of the most recent fiscal year through January 28, 2013, the date of issuance of the consolidated financial statements.

Adoption of New Accounting Pronouncements — In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 adds additional disclosure requirements related to transfers of Level 1 and Level 2 fair value measurements, as well as additional disclosure around activity in Level 3 fair value measurements. The ASU also provides amendments to existing disclosures by adding clarification around the level of disaggregation and disclosures about inputs and valuation techniques. The disclosure requirements in ASU No. 2010-06 are effective for reporting periods beginning after December 15, 2009, except for the requirement to present the Level 3 rollforward on a gross basis, which is effective for reporting periods beginning after December 15, 2010. The adoption of this guidance was limited to the form and content of disclosures and did not have a material effect on the consolidated financial statements. Carilion adopted the requirement to present the Level 3 rollforward on a gross basis in fiscal year 2012.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The objective of ASU No. 2010-24 is to address the current diversity in practice related to the accounting by health care entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. The amendments of this ASU clarify that a health care entity should not net insurance recoveries against a related claim liability. The adoption of this guidance did not have a material effect on the consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. ASU No. 2010-23 provides amendments to require that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing charity care. This update also requires disclosure of the methodology used to determine such costs. The adoption of this guidance was limited to the form and content of disclosures and did not have a material effect on the consolidated financial statements. The provisions of the standard related to the disclosure of charity care were applied retrospectively to all periods presented.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Services Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU No. 2011-07 requires certain health care entities to change the presentation of their statements of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. ASU No. 2011-07 also requires disclosures of patient service revenue (net of contractual allowances and discounts), as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. ASU No. 2011-07 is effective for nonpublic entities for fiscal years ending after December 15, 2012, with early adoption permitted. Carilion elected to early adopt this guidance in fiscal year 2012. Upon adoption, the provision for bad debts associated with patient service revenue was presented as a reduction of patient service revenue (net of contractual adjustments and discounts). The provisions of the standard related to the presentation of the provision for bad debts are required to be applied retrospectively to all periods presented. Accordingly, the consolidated statement of operations for the fiscal year ended September 30, 2011 has been restated to present the provision for bad debts as a reduction of patient service revenue for comparative purposes with the September 30, 2012 presentation.

Recently Issued Accounting Guidance — In April 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 results in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting

Standards (IFRS). Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU No. 2011-04 is effective for fiscal years beginning after December 15, 2011. Carilion is currently evaluating the provisions of this update and their impact on the consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities (Topic 210).* ASU No. 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the consolidated statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The requirements of ASU No. 2011-11 are required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Carilion is currently evaluating the provisions of this update and their impact on its consolidated financial statements.

2. CHARITY CARE AND COMMUNITY SERVICES

Carilion is committed to providing quality health care to all, regardless of ability to pay. Under Carilion's charity care policy, patients meeting certain criteria receive care without charge or at a significant discount. The estimated cost of providing charity care to patients was $67,080 and $61,377 for 2012 and 2011, respectively.

Also, management believes that a portion of the provision for bad debts relating to patient service revenue represents amounts due from patients who would otherwise qualify for charity benefits, but do not respond to attempts to obtain the necessary financial information. The cost of providing these services is not included in the charity care amounts disclosed above.

To support its mission to improve the health of the communities it serves, Carilion also operates emergency rooms open 24 hours per day, seven days a week; sponsors community health screenings and educational classes; and promotes health and provides preventive care through partnerships with schools, community centers, and medical clinics in underserved areas. Carilion also provides facilities and subsidizes operations to train medical personnel through support of the Jefferson College of Health Sciences, the CMC School of Clinical Laboratory Science, and the Virginia Tech Carilion School of Medicine.

3. NET PATIENT SERVICE REVENUE

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

Medicare — Inpatient acute care services and exempt rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge for all hospitals, except CGCH and Stonewall, which are reimbursed based on reasonable cost. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. When the estimated cost of treatment for certain patients is higher than the average, Carilion receives additional "outlier" payments. Inpatient nonacute services and defined medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Certain outpatient service costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology, subject to certain limitations. Pursuant to federal legislation, the Medicare program makes payments for outpatient services on a prospective basis for certain hospitals of Carilion. This payment system classifies outpatient procedures into predetermined groups, ambulatory payment classifications (APCs), with each APC having a predetermined payment amount. Capital costs are paid on a prospective basis based on a predetermined rate per discharge. Carilion is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medicare fiscal intermediary has audited and final settled the Medicare costs reports for CMC through September 30, 2006, for CNRV and CFMH through September 30, 2007, for CTCH through June 30, 2008, and for CGCH and Stonewall through September 30, 2009.

Medicaid — Inpatient acute care services rendered to Medicaid program beneficiaries 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 and certain other costs are reimbursed based on a percentage of reasonable cost. Carilion is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by Medicaid. All hospitals' Medicaid cost reports have been final settled through September 30, 2008.

Anthem — Services rendered to Anthem subscribers 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.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The effect of settlement adjustments was not material to the consolidated financial statements as of and for the years ended September 30, 2012 and 2011.

Carilion also has agreements with Medicare, Medicaid, and Anthem to provide physician services, which are primarily reimbursed based on established fee schedules and/or predetermined percentages of covered charges, within certain limitations, and are not subject to retroactive adjustment.

In addition, Carilion has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and other third-party payors. The basis for payment to Carilion under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates.

Patient service revenue (net of contractual allowances and discounts) for the years ended September 30, 2012 and 2011, is summarized as follows:

	2012	2011
Third party payors	$1,182,621	$1,119,715
Self pay	84,026	70,637
	$1,266,647	$1,190,352

4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Carilion combines its investments in a system-wide investment pool, which includes investments and assets whose use is limited. Bedford's investments totaling $5,566 and $10,349 and assets whose use is limited totaling $10,072 and $1,764 as of September 30, 2012 and 2011, respectively, are also included in the investment pool. The carrying values of the components of the system-wide investment pool at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Investments	$ 142,837	$ 142,468
Assets whose use is limited	662,572	543,594
	$ 805,409	$ 686,062

The assets in the system-wide investment pool at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Short-term money market investments	$ 63,008	$ 62,603
Mutual funds:		
Fixed income	100,007	86,559
Domestic equity		18,651
Global equity	45,451	40,419
Multi-strategy	81,212	
International equity	90,957	82,566
Domestic common stocks	60,135	38,056
Alternative investments (Note 1):		
Core hedge funds	106,622	94,597
Low volatility hedge funds	11,707	13,734
Real estate and commodities funds limited partnerships	85,138	77,409
Inflation sensitive funds	22,410	29,182
Macro trading funds	18,191	29,118
Private equity limited partnerships and limited liability corporations	29,889	34,829
Total investment pool	714,727	607,723
Less amounts held for Bedford	(15,638)	(12,113)
Total investment pool — net of amounts held for Bedford	699,089	595,610
Assets whose use is limited under bond indenture agreements		3,272
Assets whose use is limited under interest rate swap agreements	22,903	11,988
Assets held by BRIC	30,004	22,821
Assets whose use is limited under rabbi trust agreement	33,249	28,778
Assets on deposit with regulatory authorities	2,000	2,000
Assets held by CCMR	2,526	9,480
Investments and assets whose use is limited	$ 789,771	$ 673,949

At September 30, 2012, Carilion was committed to invest an additional $8,849 in limited partnership funds at an unspecified future date. There were no other unfunded investment commitments at September 30, 2012.

Assets whose use is limited that are available for obligations classified as current liabilities are reported as current assets. The fair values of Carilion's assets whose use is limited at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Assets whose use is limited under board designations	$ 564,344	$ 472,971
Assets whose use is limited under bond indenture agreements		3,272
Assets whose use is limited under interest rate swap agreements	22,903	11,988
Assets whose use is limited for BRIC	30,004	22,821
Assets whose use is limited under rabbi trust agreement	33,249	28,778
CCMR assets on deposit with regulatory authorities	2,000	2,000
	652,500	541,830
Less portion required for current liabilities		658
Assets whose use is limited — net of current portion	$ 652,500	$ 541,172

Unrestricted investment income (loss) for the years ended September 30, 2012 and 2011, is summarized as follows:

	2012	2011
Dividends and interest	$ 17,993	$ 13,189
Net realized (losses) gains on investments	(4,766)	23,569
Net change in unrealized gains (losses) in investments and hedges	48,476	(35,811)
Equity in gains (losses) of affiliates	501	(34,382)
Net change in unrealized losses in interest rate swaps	(1,523)	(22,202)
Unrestricted investment income (loss)	$ 60,681	$ (55,637)

5. PROPERTY AND EQUIPMENT — NET

Property and equipment — net at September 30, 2012 and 2011, consists of the following:

	2012	2011
Land and improvements	$ 40,142	$ 39,413
Buildings and fixed equipment	905,151	884,035
Movable equipment	755,914	732,230
Total depreciable assets	1,701,207	1,655,678
Less accumulated depreciation and amortization	(1,099,839)	(1,032,526)
	601,368	623,152
Construction in progress	5,218	17,307
Property and equipment — net	$ 606,586	$ 640,459

Depreciation expense totaled $75,740 and $78,244 for the years ended September 30, 2012 and 2011, respectively.

Unexpended contractual commitments for projects under construction at September 30, 2012 and 2011, approximated $668 and $7,292, respectively.

6. EQUITY INVESTMENTS IN AFFILIATES

Bedford and Carilion have a joint ownership agreement with Centra. Under the terms of the agreement, Carilion has a 50% equity interest in Bedford that is accounted for under the equity method. Carilion's investment in Bedford was $4,584 and $4,579 at September 30, 2012 and 2011, respectively, and is included in other assets in the accompanying consolidated balance sheets.

At September 30, 2012 and 2011, Carilion owned approximately 16% of the common stock of Luna Innovations, Inc. ("Luna"), which is accounted for under the equity method. Luna filed for Chapter 11 bankruptcy during July 2009 and emerged from bankruptcy on January 12, 2010. Carilion's investment in Luna was reduced to zero as of September 30, 2009, as a result of recording its share of Luna's losses under the equity method of accounting. Additional equity method losses are not recognized as Carilion is not further obligated or committed financially to Luna. In connection with Luna's emergence from bankruptcy on January 12, 2010, Carilion agreed to exchange its notes receivable due from Luna for 1,321,514 shares of Luna Series A convertible preferred stock and warrants to purchase 356,000 shares of Luna common stock for $2.50 per share, exercisable beginning February 1, 2013, and continuing until December 31, 2020. The Series A convertible preferred stock carries a dividend of 6% payable in shares of common stock and maintains a liquidation preference up to $6.2 million. Carilion has not recorded an asset for any of its interests in the common stock of Luna, the Series A convertible preferred stock, or the warrants to purchase shares of Luna common stock at September 30, 2012 and 2011, due to Luna's continued operating and cash flow losses. The quoted market price of Luna's common stock was $1.66 and $1.21 per share as of September 30, 2012 and 2011, respectively.

Effective March 5, 2010, Carilion contributed Carilion Labs, LLC, a formerly consolidated subsidiary, to Laboratories Group Holding, LLC (LGH), a previously unrelated lab company, in exchange for 86,483,000 common units of LGH, which represented approximately 86.5% of the LGH common units outstanding as of September 30, 2010. The remaining equity interests in LGH include preferred units held primarily by a private equity investor. The preferred units carry a 10% cumulative accretion compounded quarterly and maintain a liquidation preference over the common units. Carilion's ownership interest was reduced to 80.2% and 83.5% of the common units outstanding at September 30, 2012 and 2011, respectively, as a result of additional equity transactions by LGH. Both the common units and the preferred units are nonvoting. Carilion's investment in LGH is accounted for under the equity method as it has the ability to exercise significant influence over the entity through its right to appoint three of nine members of LGH's board of managers, but does not have a controlling financial interest.

The carrying amount of Carilion's investment in LGH was reduced to zero through equity method losses of $34,336 in fiscal year 2011. Additional losses are not recognized as Carilion is not further obligated or committed financially to LGH.

7. NET ASSETS

A summary of changes in consolidated unrestricted net assets attributable to Carilion Clinic and subsidiaries and to the noncontrolling interest for the year ended September 30, 2012, is as follows:

	Total	Carilion Clinic and Subsidiaries	Noncontrolling Interests
Balance — beginning of year	$ 300,514	$ 298,105	$ 2,409
Excess of unrestricted revenues and gains over expenses	70,869	70,503	366
Pension-related changes other than net periodic pension cost	(107,356)	(107,356)	
Pension-related changes other than net periodic pension cost related to noncontrolling interest	-	(18)	18
Net assets released from restrictions for purchases of property and equipment	415	415	
Balance — end of year	$ 264,442	$ 261,649	$ 2,793

A summary of changes in consolidated unrestricted net assets attributable to Carilion Clinic and subsidiaries and to the noncontrolling interest for the year ended September 30, 2011, is as follows:

	Total	Carilion Clinic and Subsidiaries	Noncontrolling Interests
Balance — beginning of year	$479,175	$476,859	$ 2,316
(Deficit) excess of unrestricted revenues and gains over expenses	(83,693)	(83,786)	93
Pension-related changes other than net periodic pension cost	(95,017)	(95,017)	
Net assets released from restrictions for purchases of property and equipment	49	49	
Balance — end of year	$300,514	$298,105	$ 2,409

8. LONG-TERM DEBT

Long-term debt at September 30, 2012 and 2011, consists of the following:

	2012	2011
Hospital Revenue Bonds — Series 2012 — Serial Bonds, 4.0% to 5.0% fixed rate interest, maturing from 2013 to 2030	$ 80,238	$ -
Hospital Revenue Bonds — Series 2010 — Term Bonds, 5.0% fixed rate interest, maturing from 2021 to 2033	95,740	95,740
Hospital Revenue Bonds — Series 2008A — Variable Rate Demand Bonds, variable rate interest (0.20% at September 30, 2012), maturing from 2027 to 2042	50,000	50,000
Hospital Revenue Bonds — Series 2008B — Variable Rate Demand Bonds, variable rate interest (0.19% at September 30, 2012), maturing from 2027 to 2042	110,000	110,000
Hospital Revenue Bonds — Series 2005A — Variable Rate Demand Bonds, variable rate interest (0.20% at September 30, 2012), maturing from 2028 to 2036	123,110	125,000
Hospital Revenue Bonds — Series 2005B — Serial Bonds, 3.0% to 5.0% fixed rate interest, maturing from 2013 to 2020	27,360	30,345
Hospital Revenue Bonds — Series 2005B — Term Bonds, 4.375% to 5.0% fixed rate interest, maturing from 2026 to 2038	65,310	66,340
Hospital Revenue Bonds — Series 2005C — Serial Bonds, 5.0% fixed rate interest, maturing from 2013 to 2020	21,013	23,880
Hospital Revenue Bonds — Series 2005C — Term Bonds, 4.0% to 5.0% fixed rate interest, maturing from 2024 to 2027	26,039	26,039
Hospital Revenue Bonds — Series 2002A — Serial Bonds 4.25% to 5.75% fixed rate interest, refunded on February 9, 2012		50,879
Hospital Revenue Bonds — Series 2002A — Term Bonds, 5.0% fixed rate interest, refunded on February 9, 2012		13,825
Hospital Revenue Bonds — Series 2000 — Serial Bonds, 6.35% to 6.625% fixed rate interest, refunded on February 9, 2012		3,235
Hospital Revenue Bonds — Series 2000 — Term Bonds, 6.875% to 7.00% fixed rate interest, refunded on February 9, 2012		24,260
Other long-term debt	20,555	23,831
	619,365	643,374
Unamortized bond premium	19,595	9,846
Unamortized bond discount		(464)
Scheduled payments due within one year	(12,083)	(13,425)
Additional current portion of Series 2008A and B Bonds	(16,000)	(16,000)
Additional current portion of Series 2005A Bonds	(12,311)	(12,500)
Long-term debt — net of current portion	$ 598,566	$ 610,831

On February 9, 2012, the Obligated Group issued $88,460 of Hospital Revenue Bonds ("Series 2012 Bonds") through the Economic Development Authority of the City of Roanoke, Virginia. The proceeds of the issue were used to refund all of the outstanding Series 2000 Hospital Revenue Bonds and Series 2002A Hospital Revenue Bonds, as well as provide funds to finance a portion of the costs of renovating certain portions of CMC and acquiring certain capital equipment for use in CMC. The Series 2012 Bonds are Serial Bonds with a fixed interest rate of 1% to 5% and mature from 2012 to 2030.

The resulting loss on extinguishment of debt was $3,047 for the year ended September 30, 2012, and is included in other nonoperating (loss) income in the consolidated statement of operations.

On October 13, 2010, the Obligated Group issued $95,740 of Hospital Revenue Bonds (“Series 2010 Bonds”) through the Economic Development Authority of the City of Roanoke, Virginia. The proceeds of the issue were used to refund all of the outstanding Series 2003A, B, and C Hospital Revenue Bonds then outstanding. The Series 2010 Bonds are Term Bonds with a fixed interest rate of 5.0% and mature from 2021 to 2033. In addition, on October 13, 2010, the Obligated Group converted the Series 2005B and C variable rate demand bonds to fixed rate bonds with interest ranging from 3.0% to 5.0%, maturing from 2011 to 2038.

The resulting loss on extinguishment of debt was $2,584 for the year ended September 30, 2011, and is included in other nonoperating (loss) income in the consolidated statement of operations.

Each member of the Obligated Group is jointly and severally liable for the repayment of the principal and interest as they become due on the Hospital Revenue Bonds (collectively, the “Bonds”), including $3,978 of the Series 2005 A, B, and C Bonds and $3,212 of the Series 2012 Bonds related to Bedford at September 30, 2012 that is not included in the debt of Carilion in the accompanying consolidated balance sheet. The Bonds are governed by a Master Trust Indenture, as amended and restated (the “Indenture”), by and among the members of the Obligated Group and U.S. Bank, (the “Master Trustee”). The repayment of principal and interest on the Series 2005A, B, and C Bonds is guaranteed by a municipal bond insurance policy.

The Bonds are collateralized by a pledge of revenues of the Obligated Group, and the Master Trustee holds a security interest in the gross receipts of the Obligated Group. During 2010, a deed of trust was established for the benefit of the Master Trustee to secure all current and future obligations issued under the Indenture with substantially all land, buildings, and fixtures of CMC. The deed of trust is supported by $45,000 of title insurance acquired by CMC. In addition, CNRV has pledged that it will not create, or permit to exist, a lien against its land, buildings, and fixtures.

The Series 2008A and B Bonds and Series 2005A Bonds are puttable variable rate demand obligations and are remarketed daily. The Obligated Group has entered into two separate standby bond purchase agreements for the Series 2008A and 2005A bonds and a letter of credit for the 2008B bonds (collectively, the “Liquidity Facilities”) to provide credit and liquidity support for the respective bonds. In the event the bonds are tendered for purchase and cannot be remarketed, the Liquidity Facilities provide that the respective bank will provide funds to purchase the unremarketed bonds. Bonds purchased with Liquidity Facility funds bear interest at variable rates determined based on the London InterBank Offered Rate (LIBOR) index plus 100 to 200 basis points and are payable to the bank in equal quarterly installments over five years. Principal payments are due beginning the first business day of the seventh calendar month following the bank purchase. Accordingly, Carilion has included $16,000 of the Series 2008A and B Bonds and $12,311 of the Series 2005A Bonds within the current portion of long-term debt as of September 30, 2012, to reflect the principal that would be payable to the liquidity facility providers if the bonds were tendered for purchase as of the balance sheet date and not remarketed during fiscal year 2013. The Obligated Group may prepay Liquidity Facility funds at any time without penalty. The Liquidity Facilities supporting the Series 2008A and B Bonds and the Series 2005A Bonds expire on July 16, 2015, June 30, 2014, and August 31, 2015, respectively. In the event the Liquidity Facility agreements are not extended or replaced with an alternative liquidity facility prior to expiration, the Indenture provides for mandatory tender of the bonds for purchase with Liquidity Facility funds repayable to the respective bank in equal quarterly installments over five years.

The aggregate principal maturities of long-term debt, including the additional current portion of Series 2008A and B Bonds and Series 2005A Bonds at September 30, 2012, are as follows:

Years Ending September 30	
2013	$ 40,394
2014	68,757
2015	68,892
2016	69,576
2017	70,066
Thereafter	301,680
	$ 619,365

Sinking Fund Requirements — The Series 2012 Bonds are subject to mandatory annual sinking fund requirements through 2030 in varying amounts ranging from $1,325 to $8,337. The Series 2010 Bonds are subject to mandatory annual sinking fund requirements beginning in 2021 through 2033 in varying amounts ranging from $5,025 to $13,435. The Series 2008A and B Bonds are subject to mandatory annual sinking fund requirements beginning in 2027 through 2042 in varying amounts ranging from $425 to $32,870. The Series 2005A, B, and C Bonds are subject to mandatory annual sinking fund requirements through 2038 in varying amounts ranging from $2,370 to $22,355.

Debt Service Reserve Fund — The Obligated Group is required to maintain with the Master Trustee a debt service reserve fund to secure all obligations under the Indenture in the event that (a) the Obligated Group’s days cash on hand falls below 120 days at any semiannual test date or (b) the Obligated Group’s long-term debt service coverage ratio is below 1.35 for fiscal year 2012 and 1.40 for fiscal year 2013 and thereafter. The debt service reserve fund amount, if required, would be equal to the maximum annual debt service for the obligations then outstanding under the Indenture and must be deposited within 90 days of the applicable test date or constitute an event of default under the Indenture, unless such requirement is waived by the bond insurers.

Debt Covenants — The Obligated Group is subject to certain covenants under the Indenture, the municipal bond insurance policies, and the Liquidity Facility agreements that, among other covenants, place restrictions on the members of the Obligated Group relative to operating ratios, the incurrence of additional indebtedness, and limitations on transfers of cash and investments from the Obligated Group. The Indenture requires that the Obligated Group maintain a debt-to-capitalization ratio of not more than 67% for fiscal year 2011, 66% for fiscal year 2012, and 65% for fiscal year 2013 and thereafter. In addition, the Liquidity Facility agreements require that the Obligated Group maintain a minimum long-term debt service coverage ratio of not less than 1.0, with fiscal year-to-date testing performed quarterly. The Obligated Group has maintained compliance with these covenants as of and during the years ended September 30, 2012 and 2011.

Interest Rate Swap Agreements — At September 30, 2012 and 2011, Carilion had interest rate swap agreements with financial institutions to hedge a portion of the interest rate risk related to certain Hospital Revenue Bonds. Under the terms of the interest rate swap agreements in place at September 30, 2012, Carilion receives and pays interest based on the following:

Current Notional Amount (In Thousands)	Hedged Bonds	Maturity Date	Type of Derivative	Pay Rate	Receive Rate	Collateral Posting Threshold
$62,500	2005A	2036	Fixed payor	3.43%	67% 1m LIBOR(1)	
62,500	2005A	2036	Fixed payor	3.43%	67% 1m LIBOR(1)	
48,200	2005B	2031	Fixed payor	3.22%	67% 1m LIBOR(1)	
62,500	2008A/B	2042	Fixed payor	3.29%	67% 1m LIBOR(1)	10,000
62,500	2008A/B	2042	Fixed payor	3.29%	67% 1m LIBOR(1)	10,000
22,200	2005C	2020	Fixed payor	4.25%	68% 3m LIBOR + 0.23% (2)	5,000
32,145	2002A	2023	Basis swap	SIFMA Municipal Swap Index (3)	67% 3m LIBOR + 0.43% (2)	
32,145	2002A	2023	Basis swap	SIFMA Municipal Swap Index (3)	67% 3m LIBOR + 0.43% (2)	
71,680	2005B-C, 2010	2038	Basis swap	SIFMA Municipal Swap Index (3)	67% 3m LIBOR + 0.57% (2)	
97,545	2005B-C, 2010	2038	Basis swap	SIFMA Municipal Swap Index (3)	67% 3m LIBOR + 0.62% (2)	

(1) The 1m LIBOR was 0.21% and 0.24% at September 30, 2012 and 2011, respectively.
(2) The 3m LIBOR was 0.36% and 0.37% at September 30, 2012 and 2011, respectively.
(3) The SIFMA Municipal Swap Index was 0.18% and 0.16% at September 30, 2012 and 2011, respectively.

At September 30, 2012 and 2011, the Obligated Group posted $22,903 and $11,988, respectively, in collateral as part of the fixed payor swap agreements associated with the Series 2008 bonds (see Note 4).

The interest rate swap used to hedge a portion of the interest rate risk on the Series 2000 Bonds was terminated on March 12, 2012. Carilion received $157 from the counterparty.

The estimated fair values of the interest rate swap agreements at September 30, 2012 and 2011, are as follows:

	Fair Value of Asset Derivatives		Fair Value of Liability Derivatives		Amount of (Loss) Gain Recognized	
Type of Derivative	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Fixed payor	$ -	$ -	$ 90,954	$ 84,718	$ (6,236)	$ (21,813)
Basis swap	3,935	90		830	4,675	(750)
Floating rate payor		118			38	361
	$ 3,935	$208	$ 90,954	$ 85,548	$ (1,523)	$ (22,202)

9. EMPLOYEE BENEFIT PLANS

Carilion maintains a funded, defined benefit pension plan (the "Plan"), which covers substantially all employees of Carilion and Bedford. The benefits are based on years of service and the employee's highest average of total earnings for five consecutive Plan years or the employee's compensation during 5 of the last 10 years of employment. Carilion contributes to the Plan annually based on actuarially determined funding guidelines. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Carilion maintains two nonqualified pension plans, a restoration plan for key members of management, and a supplemental plan for certain retired employees of CMC. Net periodic pension cost for the nonqualified plans was $597 and $1,234 for the years ended September 30, 2012 and 2011, respectively. The net pension liability for the plans was $8,388 and $8,060 as of September 30, 2012 and 2011, respectively, and is included in pension and other liabilities in the accompanying consolidated balance sheets.

The amounts reported in the accompanying consolidated financial statements related to Carilion's defined benefit plans reflect the net periodic pension cost, pension-related changes other than net periodic pension cost, and the funded status of the three plans described above, excluding amounts related to employees of Bedford (as applicable).

The Plan's change in benefit obligation, change in plan assets, current funded status, components of net periodic benefit cost, and pension-related changes other than net periodic pension cost as of and for the years ended September 30, 2012 and 2011, are as follows:

	2012	2011
Change in benefit obligation:		
Benefit obligation — beginning	$ 716,429	$ 608,908
Assumption changes	116,547	54,612
Service cost	31,907	27,690
Interest cost	37,742	34,840
Actuarial loss	24,739	7,181
Effect of acquisitions	214	658
Benefit payments	(19,191)	(17,460)
Benefit obligation — ending	$ 908,387	$ 716,429
Change in plan assets:		
Fair value of plan assets — beginning	$ 466,855	$ 455,284
Actual return on plan assets	61,987	(3,804)
Employer contributions	43,008	32,835
Benefit payments	(19,191)	(17,460)
Fair value of plan assets — ending	$ 552,659	$ 466,855
Funded status	$ (355,728)	$ (249,574)
Components of net periodic pension cost:		
Service cost	$ 31,907	$ 27,690
Interest cost	37,742	34,840
Expected return on plan assets	(41,527)	(39,015)
Prior service benefit recognized	38	14
Recognized actuarial losses	14,322	6,570
Net periodic pension cost	$ 42,482	$ 30,099
Other changes in plan assets and benefit obligations not yet recognized in net periodic pension cost:		
Net loss arising during the period	$ 120,825	$ 104,611
Prior service cost	214	659
Amortization of loss	(14,322)	(6,570)
Amortization of prior service credit	(38)	(14)
Pension-related changes other than net periodic pension cost	$ 106,679	$ 98,686
Total recognized in net periodic pension cost and other pension-related changes	$ 149,161	$ 128,785

The accumulated benefit obligation was $792,607 and $630,571 at September 30, 2012 and 2011, respectively.

Carilion’s portion of the Plan liability, net of the liability recorded by Bedford, was $346,855 and $243,333 as of September 30, 2012 and 2011, respectively, and is included in pension and other liabilities in the accompanying consolidated balance sheets. Carilion’s portion of net periodic pension cost, net of the cost recorded by Bedford, was $41,428 and $29,304 and is included in benefits in the accompanying consolidated statements of operations.

During 2012 and 2011, Carilion contributed $43,008 and $32,835, respectively, to the Plan. Carilion expects to contribute approximately $40,000 to $70,000 to the Plan in fiscal year 2013.

Amounts recognized as changes in unrestricted net assets, but not yet reclassified as components of net periodic pension cost at September 30, 2012, consist of net loss and prior service cost of $380,117 and $600, respectively.

The estimated net loss and prior service credit recognized as changes in unrestricted net assets that will be amortized to net periodic pension cost over the next fiscal year are $14,322 and $38, respectively.

Significant assumptions used in determining the actuarial present value of the projected benefit obligation of the Plan for the years ended September 30, 2012 and 2011, are as follows:

	2012	**2011**
Weighted-average discount rate	4.4 %	5.3 %
Expected long-term rate of return on assets	7.7	7.7
Rate of compensation increase	3.0	3.0

The weighted-average discount rates used to determine net periodic pension cost for the years ended September 30, 2012 and 2011, were 5.3% and 5.8%, respectively.

The investment policy for the Plan is structured to maintain a diversified portfolio of equity securities, debt securities, cash equivalents, and alternative investment strategies, including real estate, private equity, fund-of-fund hedge funds, and global trading. The structure is designed to reduce risk and generate absolute returns in various market conditions. The portfolio is rebalanced periodically throughout the year.

Plan assets include alternative investments of $174,191 and $188,929 at September 30, 2012 and 2011, respectively (see Note 16).

Carilion's overall expected long-term rate of return on assets is 7.7%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The expected long-term rate of return reflects management's estimate of future returns for the target asset allocation and is based primarily on historical returns. The Plan's target allocation for 2012 and plan asset allocation at September 30, 2012 and 2011, is as follows:

Asset Category	Target Allocation 2012	Percentage of Plan Assets at September 30, 2012	Percentage of Plan Assets at September 30, 2011
Equity securities	30 %	31 %	34 %
Hedge funds	25	30	21
Fixed-income securities	20	15	22
Inflation sensitive	20	20	20
Other investments	5	4	3
	100 %	100 %	100 %

The Plan benefits expected to be paid in fiscal years 2013 to 2017 are $21,691, $23,895, $26,716, $29,414, and $32,929, respectively. The aggregate benefits expected to be paid in the five years from 2018 to 2022 are $228,753. The expected benefits are based on the same assumptions used to measure Carilion's benefit obligation at September 30 and include estimated future employee service.

Carilion also maintains three defined contribution retirement plans, which cover substantially all Carilion employees. Carilion matches a percentage of contributions made by the employees. Carilion's matching contributions were $515 and $2,617 for the years ended September 30, 2012 and 2011, respectively, and are included in benefits in the accompanying consolidated statements of operations. The plans qualify under Section 403(b) or Section 401(k) of the IRC.

Carilion has a nonqualified deferred compensation plan for certain members of management and physicians to defer a portion of their compensation until retirement. The deferred amounts are invested in accordance with the participant's designation. The deferred compensation liability of $33,249 and $28,778, respectively, is included in pension and other liabilities in the September 30, 2012 and 2011, consolidated balance sheets. Carilion has placed certain assets in a rabbi trust to be used to pay benefits to certain deferred compensation plan participants. The carrying amount of the trusteed assets was $33,249 and $28,778 at September 30, 2012 and 2011, respectively, and is included in assets whose use is limited in the accompanying consolidated balance sheets. Plan assets consist of investments in fixed-income mutual funds, domestic equity mutual funds, and international equity mutual funds (see Note 4).

10. OTHER OPERATING REVENUE

Other operating revenue for the years ended September 30, 2012 and 2011, is summarized as follows:

	2012	2011
Grants to reimburse operating costs	$ 2,364	$ 2,169
Rental revenue	4,593	4,715
College revenue	20,241	18,419
Athletic clubs revenue	4,701	4,899
In-kind contributions to Virginia Tech Carilion School of Medicine	1,813	2,036
Laundry services	1,153	952
Management services to equity affiliates	4,505	4,566
Collection services income	5,735	5,504
Cafeteria sales	3,092	2,761
EHR meaningful use revenues	16,078	9,015
Medicare Advantage plan premium revenue	11,550	4,278
Medicaid managed care plan premium revenue	22,958	
Other	17,256	15,553
	$116,039	$74,867

Other includes revenue from gift shop sales, management services, health care-related equity interests, and various health care services provided on a contract basis.

11. INCOME TAXES

Due to the losses incurred by Carilion's taxable subsidiaries, there was no income tax expense or benefit for the years ended September 30, 2012 and 2011. The primary differences between the expected income tax benefit at the statutory federal rate with the reported income tax benefit for the years ended September 30, 2012 and 2011, were due to the effect of state income taxes and the changes in the balance of the valuation allowance for deferred tax assets. Deferred income taxes at September 30, 2012 and 2011, relate to temporary differences in the asset and liability basis for financial and income tax reporting purposes and were calculated at income tax rates currently in effect. Temporary differences have primarily resulted from differences in the accounting for allowances for accounts and notes receivable, accrued expenses, depreciation, and net operating losses.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable losses and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Carilion will not realize the benefits of these deductible differences and loss carryforwards in excess of the amount that can be offset by the reversal of future taxable items. Accordingly, at September 30, 2012 and 2011, the net deferred tax asset has been reduced to zero by a valuation allowance.

At September 30, 2012, CHSI and its subsidiaries had net operating loss carryforwards of approximately $302,321, which expire on various dates from 2013 to 2032.

12. FUNCTIONAL EXPENSES

Carilion provides various health care services to patients within its geographic location. Expenses related to providing these services for the years ended September 30, 2012 and 2011, are as follows:

	2012	2011
Health care services	$1,107,858	$1,042,969
General and administrative	202,679	175,400
	$1,310,537	$1,218,369

13. CONCENTRATION OF CREDIT RISK

Carilion provides health care services through its inpatient and outpatient care facilities located primarily in southwest Virginia. The facilities grant credit to patients, substantially all of whom are local residents. The facilities generally do not receive collateral or other security in extending credit to patients; however, they routinely obtain assignment of patients' benefits payable under their health insurance programs, plans, or policies. The mix of receivables from patients and third-party payors at September 30, 2012 and 2011, was as follows:

	2012	2011
Medicare	35 %	30 %
Medicaid	13	14
Anthem	16	16
Other third-party payors	19	21
Patients	17	19
	100 %	100 %

14. COMMITMENTS AND CONTINGENCIES

Litigation — Carilion is involved in litigation arising in the ordinary course of business. It is the opinion of management and Carilion's legal counsel that these cases will be resolved without material effect on Carilion's consolidated financial position, results of operations, or cash flows.

Other Industry Risks — The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for amounts previously received for patient services. Carilion believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material impact on its financial position or results of operations. Compliance with these and other laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

In March 2010, the Patient Protection and Affordability Care Act (the “Act”), a comprehensive health care reform bill, was signed into law. The legislation is complex and will be phased in over several years, with the most significant parts not taking effect until 2014. Carilion is in the process of assessing the potential impact of this reform on its consolidated financial position, results of operations, and cash flows.

Lease Commitments — Certain Carilion entities are parties to operating leases for various property and medical and other equipment. Lease expense was approximately $7,624 and $8,240 for the years ended September 30, 2012 and 2011, respectively, and is included in supplies and other expenses in the accompanying consolidated statements of operations.

A schedule of future minimum lease payments under operating leases at September 30, 2012, is as follows:

Years Ending September 30	Amount
2013	$ 3,174
2014	1,800
2015	898
2016	638
2017	38
Thereafter	1,479
Total	$ 8,027

Virginia Tech Carilion School of Medicine and Research Institute — Carilion and Virginia Polytechnic Institute and State University (“Virginia Tech”) entered into a memorandum of understanding (MOU) agreement during fiscal year 2008 to establish a medical school (the “Virginia Tech Carilion School of Medicine” or the “Medical School”) and a research institute (the ”Virginia Tech Carilion Research Institute” or the “Research Institute”) in order to address long-term regional health care needs and advance medical research in southwest Virginia. Under the original agreement, Carilion and Virginia Tech each agreed to contribute up to $35,000 to fund start-up costs for the Medical School and Research Institute and up to $2,000 annually (subject to adjustment based on the Consumer Price Index (CPI)) to fund operating deficits of the Medical School, if any. In addition, Carilion agreed to facilitate funding for excess annual operating deficits in the form of a nonrecourse loan to the Medical School made directly by Carilion or a loan arranged through a financial institution and guaranteed by Carilion. Carilion would have no claim to repayment of such loans except to the extent that there are future operating surpluses generated by the Medical School. Carilion has agreed that such surpluses shall first be used to accumulate cash reserves by the Medical School up to the amount of $5,000 prior to loan repayment.

The facility housing the Medical School and Research Institute was paid for by Virginia Tech with funding from the Commonwealth of Virginia and is located on CMC’s campus in Roanoke, Virginia. Virginia Tech owns the facility and leases the underlying land from Carilion under a long-term ground lease. The Medical School admitted its first class of students in August 2010. The Research Institute opened in September 2010. The Medical School is a nonstock, nonprofit corporation. The Research Institute is constituted as a center of Virginia Tech.

During fiscal year 2011, the MOU was amended to include the Medical School as a party to the agreement and to restructure the Medical School’s board composition to include two members each appointed by Carilion and Virginia Tech and six independent members. Under the revised MOU, Carilion's funding will solely support the Medical School and Virginia Tech's funding will solely support the Research Institute. There was no change in the amount of Carilion's commitment to provide funding for up to $35,000 of start-up costs and operating deficits of up to $2,000 annually indexed to the CPI; however, Carilion's commitment to provide excess funding, through nonrecourse loans to the Medical School or loans arranged through a financial institution and guaranteed by Carilion, was limited to a maximum of $1,000 annually. The amended MOU also made Carilion's commitments to fund the Medical School's start-up costs and operating deficits unconditional through June 30, 2014, at which time the MOU will terminate if the Medical School has not received accreditation. The amended MOU provides for termination prior to June 30, 2014, if certain other events or circumstances occur that are not solely under Carilion's control.

Accordingly, during fiscal year 2011, Carilion recognized a liability and contribution expense of $13,800 for the estimated contributions to the Medical School for start-up and operating costs to be made through June 30, 2014. The contribution expense of $13,800 was included in other nonoperating loss in the accompanying consolidated statement of operations for 2011.

During fiscal year 2011, Carilion paid $3,951 and $2,000 to fund start-up costs and operating deficits, respectively, for the Medical School and Research Institute. These amounts were also included in other nonoperating loss in the accompanying consolidated statement of operations for fiscal year 2011.

During fiscal year 2012, Carilion paid $2,482 and $2,637 to fund start-up costs and operating deficits, respectively, for the Medical School. These amounts were recorded as reductions to the $13,800 liability for Carilion's unconditional promises to fund the Medical School through June 30, 2014. The remaining liability was $8,681 at September 30, 2012.

The remaining unrecognized portion of Carilion's commitment to fund start-up costs after June 30, 2014 was $13,300 at September 30, 2012 and 2011. Carilion has not recognized a liability or contribution expense for this amount in its consolidated financial statements because the funding is conditional upon several factors set forth in the MOU, including the accreditation of the Medical School by June 30, 2014.

15. MEDICAL MALPRACTICE CLAIMS

Carilion is self-insured for medical malpractice losses through its wholly-owned subsidiary Blue Ridge Indemnity Company, LLC (BRIC). BRIC is licensed as a captive insurance company by the Vermont Commissioner of Banking, Insurance, Securities, and Health Care Administration. Through various independent carriers, BRIC carries reinsurance coverage of up to $50,000 per each loss or medical incident and in the annual aggregate, excess of a limit up to $2,050 per loss or medical incident and $15,000 in the annual aggregate.

Carilion has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. The liability for medical malpractice losses, discounted at 4%, was $28,514 and $26,859 as of September 30, 2012 and 2011, respectively, and is included in other current liabilities in the accompanying consolidated balance sheets. In the opinion of management, adequate liabilities for medical malpractice claims have been established.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with U.S. GAAP, certain assets and liabilities are required to be measured at fair value on a recurring basis. For Carilion, the assets and liabilities that are adjusted at fair value on a recurring basis are investments, assets whose use is limited, and interest rate swap agreements.

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Valuations based on unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date

Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement

Investments and Assets Whose Use is Limited — Valuations classified as Level 1 include short-term money market investments, common stocks, and publicly traded mutual funds for which unadjusted quoted market prices for identical securities are available as of the measurement date. Valuations classified as Level 2 include short-term investments, such as certain money market funds, certificates of deposit, and U.S. government agency securities, for which fair values are determined based on observable inputs. Carilion did not have any investments measured using Level 2 inputs as of September 30, 2012 and 2011. Valuations classified as Level 3 include alternative investments, for which fair values are determined based on inputs that are unobservable and significant to the overall fair value measurement (see Note 1).

The fair value hierarchy classification of assets in the system-wide investment pool and assets whose use is limited at September 30, 2012, is summarized in the table below:

	Fair Value Measurement at September 30, 2012			
	September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term money market investments	$ 63,008	$ 63,008	$ -	$ -
Mutual funds	317,627	317,627		
Domestic equity securities	60,135	60,135		
Alternative investments (Note 1)	273,957			273,957
Assets whose use is limited	88,682	88,682		
Assets on deposit with regulatory authorities	2,000	2,000		
Total	$805,409	$531,452	$ -	$273,957

The fair value hierarchy classification of assets in the system-wide investment pool and assets whose use is limited at September 30, 2011, is summarized in the table below.

	Fair Value Measurement at September 30, 2011			
	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term money market investments	$ 62,603	$ 62,603	$ -	$ -
Mutual funds	145,629	145,629		
Domestic and international equity securities	120,622	120,622		
Alternative investments (Note 1)	278,869			278,869
Assets whose use is limited	76,339	76,339		
Assets on deposit with regulatory authorities	2,000	2,000		
Total	$686,062	$407,193	$ -	$278,869

The table below discloses the redemption frequency and redemption notice period for each applicable investment class as of September 30, 2012 and 2011, for which fair value is measured using the reported NAV per share of the investment. Such investments are classified within Level 3 of the fair value hierarchy because they cannot be redeemed by Carilion at the reported NAV as of the measurement date, but, rather, are subject to the redemption frequency and notice periods described in the table below.

	2012	2011	Redemption Frequency	Redemption Notice Period
Core hedge funds	$ 37,019	$ 57,321	Quarterly	60–91 days
Core hedge funds	69,603	37,276	Annually	105 days
Low volatility hedge funds	11,707	13,734	Scheduled liquidation	n/a
Private equity funds	29,889	34,829	n/a	n/a
Real estate funds	85,138	77,409	Quarterly	45–90 days
Inflation sensitive funds	22,410	24,713	Monthly	10 days
Inflation sensitive funds		4,469	Scheduled liquidation	n/a
Macro trading funds	18,191	29,118	Monthly-quarterly	10–90 days
Total	$ 273,957	$ 278,869		

Pension Plan Assets — The fair value hierarchy classification of pension plan assets at September 30, 2012 and 2011, is summarized in the tables below.

	Fair Value Measurement at September 30, 2012			
	September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term money market investments	$ 33,249	$ 33,249	$ -	$ -
Common stocks	53,895	53,895		
Mutual funds:				
Fixed income	128,416	128,416		
Global equity	111,914	111,914		
Multi-strategy	50,994	50,994		
Alternative investments (Note 1):				
Private equity securities	14,986			14,986
Core hedge funds	68,436			68,436
Low volatility hedge funds	7,490			7,490
Real estate funds	50,727			50,727
Inflation sensitive funds	15,973			15,973
Macro trading funds	16,579			16,579
Total	$552,659	$378,468	$ -	$174,191

	Fair Value Measurement at September 30, 2011			
	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term money market investments	$ 34,157	$ 34,157	$ -	$ -
Mutual funds:				
Fixed income	84,977	84,977		
Domestic equity	14,670	14,670		
Global equity	113,005	113,005		
Domestic and international equity securities	31,117	31,117		
Alternative investments (Note 1):				
Private equity securities	12,904			12,904
Core hedge funds	72,100			72,100
Low volatility hedge funds	8,891			8,891
Real estate funds	51,535			51,535
Inflation sensitive funds	23,527			23,527
Macro trading funds	19,972			19,972
Total	$466,855	$277,926	$ -	$188,929

A reconciliation of changes in beginning and ending balances for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2012 and 2011, is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs Level 3						
	Private Equity Securities (a)	Core Hedge Funds (b)	Low Volatility Hedge Funds (c)	Real Estate (d)	Inflation Sensitive (e)	Macro Trading (f)	Total
Beginning balance — September 30, 2010	$33,551	$100,266	$19,723	$38,140	$ 5,966	$ 45,268	$242,914
Total gains (losses)	2,618	860	(703)	9,106	(4,361)	(1,900)	5,620
Purchases	1,305	30,000		30,163	30,000		91,468
Sales	(2,645)	(36,529)	(5,286)		(2,423)	(14,250)	(61,133)
Ending balance — September 30, 2011	34,829	94,597	13,734	77,409	29,182	29,118	278,869
Total gains	825	6,374	670	8,102	2,843	1,727	20,541
Purchases	376	29,500					29,876
Sales	(6,141)	(23,849)	(2,697)	(373)	(9,615)	(12,654)	(55,329)
Ending balance — September 30, 2012	$29,889	$106,622	$11,707	$85,138	$22,410	$ 18,191	$273,957

A reconciliation of changes in beginning and ending balances for Plan investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2012 and 2011, is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs Level 3						
	Private Equity Securities (a)	Core Hedge Funds (b)	Low Volatility Hedge Funds (c)	Real Estate (d)	Inflation Sensitive (e)	Macro Trading (f)	Total
Beginning balance — September 30, 2010	$11,272	$ 84,717	$13,332	$30,188	$ 3,181	$21,202	$163,892
Total gains (losses)	2,116	1,283	(675)	4,849	(3,662)	(1,230)	2,681
Purchases	330	20,000		20,000	25,000		65,330
Sales	(814)	(33,900)	(3,766)	(3,502)	(992)		(42,974)
Ending balance — September 30, 2011	12,904	72,100	8,891	51,535	23,527	19,972	188,929
Total gains	6,624	4,053	619	6,746	2,626	2,114	22,782
Purchases	102	9,000					9,102
Sales	(4,644)	(16,717)	(2,020)	(7,554)	(10,180)	(5,507)	(46,622)
Ending balance — September 30, 2012	$14,986	$ 68,436	$ 7,490	$50,727	$ 15,973	$16,579	$174,191

a) This class includes several private equity funds and cannot be directly redeemed. Instead, the nature of the investments in this category class is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over five to eight years.

b) This class includes investments in fund-of-fund hedge funds that invest both long and short primarily in domestic common stocks. The funds' strategy is to maintain a low correlation to the market and low volatility.

c) This class includes investments in fund-of-fund hedge funds that seek to achieve long-term, nonmarket directional returns with low relative volatility by utilizing a variety of defensive hedge fund strategies.

d) This class includes a real estate investment trust and a fund made up of participating mortgages.

e) This class invests primarily in liquid asset categories that offer negative correlation in a rising-inflation environment.

f) This class invests in a global macro hedge fund strategy that combines both systematic and discretionary trading in global asset classes and financial markets and also invests in the leveraged bank loan market.

Interest Rate Swap Agreements — The fair values of Carilion's interest rate swap agreements are determined using a standard valuation model based on observable inputs, including interest rate indices, and unobservable inputs, including extrapolations of observable inputs over the unobservable portion of the duration of the instrument. Interest rate swap agreements are classified as Level 3 fair value measurements because the unobservable inputs are significant to the overall fair value measurement.

Long-Term Debt — Fair values of Carilion's long-term debt are estimated using standard valuation models and/or quoted market prices for its bonds available close to the measurement date and were $638,910 and $635,713 as of September 30, 2012 and 2011, respectively.

Other Assets and Liabilities — The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, and accrued expenses and other liabilities approximate fair value because of the short maturity of these instruments.

Nonrecurring Fair Value Measurements — In addition to assets and liabilities that are recorded at fair value on a recurring basis, Carilion records assets and liabilities at fair value on a nonrecurring basis as required by U.S. GAAP. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. There were no material nonrecurring fair value measurements as of or during the years ended September 30, 2012 and 2011.

17. RELATED-PARTY TRANSACTIONS

Expenses for lab services provided by LGH, formerly Carilion Labs, LLC, were $36,171 and $35,362 for the years ended September 30, 2012 and 2011, and are included in supplies and other expenses in the accompanying consolidated statements of operations.

Revenues for services provided to Bedford were $4,722 and $4,770 for the years ended September 30, 2012 and 2011, respectively, and are included in other operating revenue in the accompanying consolidated statements of operations.

Carilion paid $77 and $760 to a related party for construction services during the years ended September 30, 2012 and 2011, respectively, which is included in property and equipment, net in the accompanying consolidated balance sheets.

18. ENDOWMENT FUNDS

Carilion's permanently restricted net assets consist primarily of one endowment fund. The income derived from the endowment fund is required by donor stipulations to be used for neonatal and pediatric care. Management has determined that assets whose use is limited that have been designated by the board for future capital improvements are not endowments because such assets are not required to be maintained permanently or for a specified term.

Management has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, Carilion classifies as permanently restricted net assets at the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Carilion consistent with the donor's wishes. Losses on the investments of donor-restricted endowment funds are recorded as a reduction of temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets and are excluded from the excess (deficit) of unrestricted revenues and gains over expenses.

In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income, and the appreciation of investments and other resources of Carilion.

Endowment net assets are held in the system-wide investment pool (see Note 4) and are subject to Carilion's investment policies. The endowment net asset composition at September 30, 2012 and 2011, is composed of the following:

	2012	**2011**
Endowment net asset composition:		
Temporarily restricted	$ 1,778	$ 1,077
Permanently restricted	11,876	11,885
Total	$ 13,654	$ 12,962

Changes in endowment assets for the year ended September 30, 2012, consisted of the following:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets — beginning of year	$ -	$ 1,077	$ 11,885	$ 12,962
Investment income		1,074		1,074
Net assets transferred to Jefferson College of Health Sciences Education Foundation			(9)	(9)
Appropriations of endowment assets for expenditure		(373)		(373)
Endowment net assets — end of year	$ -	$ 1,778	$ 11,876	$ 13,654

Changes in endowment assets for the year ended September 30, 2011, consisted of the following:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets — beginning of year	$ -	$ 1,296	$ 11,885	$ 13,181
Investment income		245		245
Appropriations of endowment assets for expenditure		(464)		(464)
Endowment net assets — end of year	$ -	$ 1,077	$ 11,885	$ 12,962

* * * * * *