Carilion Medical Center

Schedule of Expenditures of Federal Awards for the Year Ended September 30, 2014 and Independent Auditors' Report

DIXON HUGHES GOODMAN LLP

Carilion Medical Center

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DHG
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INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
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Report on Schedule of Expenditures of Federal Awards
We have audited the accompanying schedule of expenditures of federal awards of Carilion Medical Center for the year ended September 30, 2014.

Management's Responsibility
Management is responsible for the preparation and fair presentation of the schedule of expenditures of federal awards in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a schedule of expenditures of federal awards that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on the schedule of expenditures of federal awards based on our audit. We conducted our audit 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 the schedule of expenditures of federal awards is free from material misstatement.

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

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

DIXON HUGHES GOODMAN LLP

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, 2014, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015, 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* in considering Carilion Medical Center's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Roanoke, Virginia
June 25, 2015

Carilion Medical Center

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2014

Federal Grantor	Grant Name	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Expenditures
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	42,827
	Pass Through Gynecologic Oncology Group - University of Oklahoma			
	Cancer Treatment Research	93.395	27469-83	86,444
	Total Cancer Treatment Research			**129,271**
	Pass Through Virginia Department of Health, Division of Women's and Infants' Health			
	Maternal and Child Health Services Block Grant	93.994	705Z82667	197
	Pass Through Virginia Department of Health			
	Roanoke Care Connection for Children	93.994	706W03070	370,562
	Pass Through Virginia Department of Health			
	Child Development Clinic Services	93.994	706T03070	591,869
	Total Maternal and Child Health Services Block Grant			**962,628**
	Pass Through Virginia Polytechnic Institute and State University			
	Maintaining Resistance Training in Older Prediabetic Adults: Theoretical Approach	93.847	431585-19858	11,450
	National Institutes of Health			
	The Reach and Effectiveness of Technology-Enhanced Diabetes Prevention Programs	93.847		118,113
	Total Diabetes, Digestive, and Kidney Diseases Extramural Research			**129,563**
	Pass Through Virginia Department of Health Patient Navigator Services in the Southwest Region Under the Special Projects of National Significance (SPNS)	93.928	DDP-611BZ-45416-12-SPNS-CC	126,234
	Pass Through Virginia Department of Health, Office of Epidemiology			
	Data Management Services for SPNS Reporting	93.928	CCLSPNS611GY13	141,000
	Total Special Projects of National Significance (SPNS)			**267,234**
	Pass Through Virginia Department of Health, Division of Women's and Infants' Health			
	Breast and Cervical Cancer Early Detection Program	93.283	705DD82639, 709L332196	$ 200,798
	Outpatient Early Intervention Services with Respect to HIV Disease	93.918		284,039
	Pass Through Virginia Department of Health			
	Hospital Preparedness Program	93.889	FY09, FY10	35,126
	Pass Through Virginia Department of Health, Division of Disease Prevention			
	HIV Care Formula Grant	93.917	DDP-611-45416-09-CON-2 and CC-RW611CM45701-1	321,822
	Affordable Care Act: Primary Care Residency Expansion	93.510		481,801

The accompanying notes are an integral part of this schedule

Carilion Medical Center

Schedule of Expenditures of Federal Awards (*continued*)

Year Ended September 30, 2014

Federal Grantor	Grant Name	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Expenditures
	Pass Through NHLBI of National Institutes of Health PROspective Multicenter Imaging Study for Evaluation of Chest Pain (Promise Trial)	93.701	DUKE SPS#173530	9,342
	Pass Through Virginia Commonwealth University My Own Health Report (MOHR)	93.393	PD300552-SC104325-SC104982	18,071
	Total Department of Health and Human Services			**2,839,695**
Department of Justice				
	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault and Stalking on Campus	16.525		$ 90,031
	Pass Through Department of Criminal Justice Services Project Back on Track	16.540	MOU	21,020
	Total Department of Justice			**111,051**
Department of Education				
	Pass Through Commonwealth of Virginia, State Council of Higher Education for Virginia Pathways to Success: Increasing Adult Degree Completion in Health Sciences	84.378A	FY13	**3,094**
	Total Expenditures of Federal Awards			**$ 2,953,840**

The accompanying notes are an integral part of this schedule

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 of expenditures of federal awards through June 25, 2015, which is the date the report was available to be issued.

DIXON HUGHES GOODMAN LLP

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

Board of Directors
Carilion Medical Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the schedule of expenditures of federal awards of Carilion Medical Center (a nonprofit organization) for the year ended September 30, 2014, and have issued our report thereon dated June 25, 2015. We did not audit the consolidated financial statements of Carilion Clinic and Subsidiaries (of which Carilion Medical Center is a member). Those statements were audited by other auditors whose report dated January 27, 2015, expressed an unmodified opinion on those consolidated financial statements. The consolidated financial statements of Carilion Clinic and Subsidiaries were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit of the schedule of expenditures of federal awards, we considered Carilion Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Roanoke, Virginia
June 25, 2015

DIXON HUGHES GOODMAN LLP

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

Board of Directors
Carilion Medical Center

Report on Compliance for Each Major Federal Program

We have audited Carilion Medical Center's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Carilion Medical Center's major federal programs for the year ended September 30, 2014. 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.

Management's Responsibility

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

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Carilion Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

DHG
DIXON HUGHES GOODMAN LLP

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

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

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

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

Dixon Hughes Goodman LLP

Roanoke, Virginia
June 25, 2015

Year Ended September 30, 2014

1. Summary of Auditors' Results

Financial Statements

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

The audit did not disclose any material weaknesses in internal controls.

This report does not include any significant deficiencies in internal controls.

The audit did not disclose any material noncompliance.

Federal Awards

An unmodified opinion was issued on compliance for major programs.

The audit did not disclose any material weaknesses for major programs.

This report does not include any significant deficiencies for major programs.

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

The major programs were Maternal and Child Health Services Block Grant (CFDA 93.994), Primary Care Residency Grant (CFDA 93.510), and HIV Care Formula Grants (CFDA 93.918).

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

Finding 2013-01

Federal Program: HIV Care Formula Grant CFDA number 93.917
Status: Planned corrective action completed this fiscal year.

Finding 2013-02

Federal Program: HIV Care Formula Grant CFDA number 93.917
Status: Planned corrective action completed this fiscal year.

Carilion Clinic and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended September 30, 2014 and 2013, 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

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Nancy H. Agee	President
G. Robert Vaughan, Jr.	Treasurer
Briggs W. Andrews	Secretary

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CARILION CLINIC AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Carilion Clinic
Roanoke, Virginia

We have audited the accompanying consolidated financial statements of Carilion Clinic and subsidiaries (the "Clinic"), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Clinic's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Clinic's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Clinic as of September 30, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Notes 1, 4, and 16 to the consolidated financial statements, the consolidated financial statements include investments valued at $442,330,000 (23% of total assets) and $322,725,000 (18% of total assets) as of September 30, 2014 and 2013, 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 $249,770,000 and $193,563,000 as of September 30, 2014 and 2013, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

January 27, 2015

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2014 AND 2013
(In thousands)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,466	$ 2,954
Accounts receivable — net of allowance for doubtful accounts of $110,649 in 2014 and $87,462 in 2013	200,662	195,689
Inventories	14,908	13,533
Prepaid expenses and other current assets	17,356	18,823
Total current assets	238,392	230,999
INVESTMENTS	162,415	107,628
INTEREST RATE SWAPS	2,719	1,050
ASSETS WHOSE USE IS LIMITED	889,309	796,805
PROPERTY AND EQUIPMENT — Net	599,503	588,675
OTHER ASSETS	29,598	30,143
TOTAL	$1,921,936	$1,755,300
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 12,766	$ 41,437
Accounts payable	38,171	35,652
Due to third-party payors	34,641	30,882
Accrued salaries and wages	57,631	49,843
Accrued vacation	38,257	37,041
Other current liabilities	94,328	90,687
Total current liabilities	275,794	285,542
LONG-TERM DEBT — Net of current portion	604,620	584,616
INTEREST RATE SWAPS	52,932	48,067
PENSION AND OTHER LIABILITIES	404,321	234,444
Total liabilities	1,337,667	1,152,669
COMMITMENTS AND CONTINGENCIES (Notes 4, 5, 8, 14, and 15)		
NET ASSETS:		
Unrestricted:		
Carilion Clinic and subsidiaries	555,141	576,532
Noncontrolling interests	4,050	3,481
Total unrestricted net assets	559,191	580,013
Temporarily restricted	13,202	10,742
Permanently restricted	11,876	11,876
Total net assets	584,269	602,631
TOTAL	$1,921,936	$1,755,300

See notes to consolidated financial statements.

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)

	2014	2013
UNRESTRICTED OPERATING REVENUES AND GAINS:		
Patient service revenue — net of contractual allowances and discounts	$1,443,456	$1,346,093
Provision for bad debts	(115,030)	(90,044)
Net patient service revenue	1,328,426	1,256,049
Other operating revenue	162,009	175,731
Net assets released from restrictions	2,725	2,299
Total unrestricted operating revenues and gains	1,493,160	1,434,079
OPERATING EXPENSES:		
Salaries and outside labor	726,209	683,634
Benefits	140,462	153,614
Supplies and other expenses	472,806	475,547
Depreciation	74,324	74,412
Interest expense	24,672	26,552
Total operating expenses	1,438,473	1,413,759
OPERATING INCOME	54,687	20,320
NONOPERATING INCOME:		
Investment income	78,857	123,087
Other nonoperating loss	(16,893)	(423)
Total nonoperating income	61,964	122,664
EXCESS OF UNRESTRICTED REVENUES AND GAINS OVER EXPENSES FROM CONSOLIDATED OPERATIONS	116,651	142,984
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(137,304)	172,666
DISTRIBUTION TO STONEWALL JACKSON COMMUNITY HEALTH FOUNDATION AND OTHER	(195)	(298)
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASES OF PROPERTY AND EQUIPMENT	26	219
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS FROM CONSOLIDATED OPERATIONS	(20,822)	315,571
CHANGE IN UNRESTRICTED NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	569	688
CHANGE IN UNRESTRICTED NET ASSETS ATTRIBUTABLE TO CARILION CLINIC AND SUBSIDIARIES	$ (21,391)	$ 314,883

See notes to consolidated financial statements.

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)

	2014	2013
UNRESTRICTED NET ASSETS:		
Excess of unrestricted revenues and gains over expenses from consolidated operations	$ 116,651	$ 142,984
Pension-related changes other than net periodic pension cost	(137,304)	172,666
Distribution to Stonewall Jackson Community Health Foundation and other	(195)	(298)
Net assets released from restrictions for purchases of property and equipment	26	219
(Decrease) increase in unrestricted net assets	(20,822)	315,571
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	2,246	2,360
Investment income	3,077	2,014
Net assets released from restrictions for purchase of property and equipment	(26)	(219)
Net assets released from restrictions used for operations	(2,725)	(2,299)
Transfers to Bedford Memorial Hospital	(112)	
Increase in temporarily restricted net assets	2,460	1,856
(DECREASE) INCREASE IN NET ASSETS	(18,362)	317,427
NET ASSETS — Beginning of year	602,631	285,204
NET ASSETS — End of year	$ 584,269	$ 602,631

See notes to consolidated financial statements.

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (18,362)	$ 317,427
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	74,324	74,412
Deferred compensation	17,242	4,115
Provision for bad debts	115,030	90,044
Net realized and unrealized gains on investments and interest rate swaps	(46,016)	(111,085)
Equity in earnings and gain on sale of affiliates	(20,018)	(1,002)
Losses (gains) on sale of assets	297	(3,374)
Restricted contributions and restricted investment income	(5,323)	(4,374)
Pension-related changes other than net periodic pension cost	137,304	(172,666)
Funding in deficit of net periodic pension cost	1,085	12,615
Loss on extinguishment of debt	122	
Changes in:		
Accounts receivable	(120,003)	(94,594)
Inventories, prepaid expenses, and other current assets	92	(3,611)
Other assets	(534)	(1,924)
Accounts payable and accrued expenses	12,459	4,013
Due to third-party payors	3,759	(3,326)
Other current liabilities	(2,961)	5,142
Other liabilities	12,423	(3,022)
Net cash provided by operating activities	160,920	108,790
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(87,616)	(58,369)
Proceeds from sale of property and equipment	1,153	4,363
Purchases of investments and assets whose use is limited	(214,192)	(426,634)
Proceeds from sale of investments and assets whose use is limited	150,111	383,291
Net cash used in investing activities	(150,544)	(97,349)

(Continued)

CARILION CLINIC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted contributions and restricted investment income	$ 5,323	$ 4,374
Deferred financing costs	85	
Change in annuity obligation	50	48
Distribution to Stonewall Jackson Community Health Foundation and other	(195)	(298)
Proceeds from issuance of long-term debt	283,110	
Principal payments and retirements of long-term debt	(296,237)	(14,403)
Net cash used in financing activities	(7,864)	(10,279)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,512	1,162
CASH AND CASH EQUIVALENTS — Beginning of year	2,954	1,792
CASH AND CASH EQUIVALENTS — End of year	$ 5,466	$ 2,954

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:
Cash paid for interest (net of amount capitalized) in 2014 and 2013 was $26,416 and $28,471, respectively.
Noncash acquisitions of property and equipment in 2014 and 2013 totaled $937 and $666, 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 (CCP); Carilion Clinic Foundation (CF); and Carilion Services, Inc. (CSI) (collectively, "Carilion").

Carilion has an 80% interest in Carilion Stonewall Jackson Hospital (CSJH), with the noncontrolling interest remaining with Stonewall Jackson Community Health Foundation.

The accounts of CMC, CNRV, CFMH, CGCH, CSJH, and CCP 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.

Carilion and Centra Health ("Centra") had a joint ownership agreement with Bedford Memorial Hospital (BMH) under which Carilion and Centra each had a 50% equity interest in BMH (see Note 6). As of June 30, 2014 Carilion sold their interest in BMH to Centra and ended the joint ownership agreement. When Centra acquired full ownership of BMH, BMH withdrew as a member of the Obligated Group. At that time, Carilion Clinic and the remaining members of the Obligated Group entered into a Debt Service and Guaranty Agreement with BMH, guaranteed by Centra, to provide for the payment of debt service on the portions of the Series 2005C Bonds and the Series 2012 Bonds that were previously allocated to BMH (Note 8).

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). CSI is the sole stockholder of Blue Ridge Indemnity Company, LLC (BRIC), Carilion Clinic Medicare Resources, LLC (CCMR), and CHS, Inc. (CHSI), a holding company for taxable subsidiaries.

CCMR is a health maintenance organization for residents of southwest Virginia that began offering Medicare Advantage health plans as of October 1, 2009 and a Medicaid managed care health plan beginning January 1, 2012. Effective January 1, 2014, CCMR no longer offered the Medicare Advantage health plans and effective November 30, 2014, CCMR will no longer offer the Medicaid managed care health plan.

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, 2014 and 2013, 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, 2014 and 2013, 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 of unrestricted revenues and gains over expenses. Changes in unrestricted net assets that are excluded from excess of unrestricted revenues and gains over expenses, include net assets released from restrictions for purchase of property and equipment, pension-related changes other than net periodic pension costs, and distributions to noncontrolling interests.

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. Carilion collects substantially all of its third-party insured receivables, which include receivables from governmental agencies.

Carilion's allowance for doubtful accounts increased as a percentage of patient accounts receivable (net of contractuals) from September 30, 2013 (37%), to 2014 (42%). The increase in the balance was largely the result of a 16% increase in accounts receivable due from patients in 2014 as compared to 2013.

Premium Revenues and Claims Expense — Premiums for Medicare Advantage and Medicaid managed care health plans are recognized as other operating revenue over the contract period (see Note 10). Claims expense is recognized as incurred and is reported within supplies and other expenses. CCMR incurred claims expense of $53,719 and $74,414 for the years ended September 30, 2014 and 2013, respectively.

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 revenue in the consolidated statements of operations. Carilion recognized EHR incentive revenues of $5,713 and $10,885 for the years ended September 30, 2014 and 2013, 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 $14,371 and $3,834 at September 30, 2014 and 2013, 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, including investments and assets whose use is limited, in a system-wide investment pool. Assets whose use is limited primarily includes 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 in the consolidated balance sheets with the related interest and dividends and realized and unrealized holding gains and losses reported in investment income 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 42% and 36% of total investments and assets whose use is limited as of September 30, 2014 and 2013, 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. 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, and other sources of information.

Management, with the assistance of a third-party investment consultant, where appropriate, evaluates the valuations provided by external fund managers or general partners for appropriateness through review of the most recently available annual audited financial statements and unaudited interim reporting for the fund, review of the methodologies used to determine fair value, and comparisons of fund performance to market benchmarks.

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 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 net periodic pension cost 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 are stated at cost, less accumulated depreciation. Donated property and equipment are 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, 2014 and 2013.

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, 2014 and 2013.

Bond Issue Costs and Original Issue Bond Premium and Discount — Unamortized bond issue costs of $6,729 and $6,862 at September 30, 2014 and 2013, 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 included in investment income 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, CTCH, CF, and CSI qualify under Section 501(c)(3) of the IRC and are, therefore, not generally subject to income taxes under present tax laws. CCMR and 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, 2014 and 2013. 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 2011 through 2013 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

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 pension plan liabilities; 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 27, 2015, the date of issuance of the consolidated financial statements.

Recently Issued Accounting Guidance — In February 2013, the FASB issued ASU No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* ("ASU 2013-04"). ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. ASU 2013-04 requires entities to measure these obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. ASU 2013-04 is effective for fiscal years ending after December 15, 2014. Carilion is currently evaluating the impact on its consolidated financial statements from the adoption of this guidance.

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU 2014-08"). ASU 2014-08 changes the requirements for reporting discontinued operations, such that a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations, if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. ASU 2014-08 requires an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position, as well as additional disclosures about discontinued operations. Additionally, ASU 2014-08 requires disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements and expands the disclosures about an entity's significant continuing involvement with a discontinued operation. ASU 2014-08 is effective for fiscal years beginning after December 15, 2014. Carilion is currently evaluating the impact on its consolidated financial statements from the adoption of this guidance.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2016. Carilion is currently evaluating the impact on its consolidated financial statements from the adoption of this guidance.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about the reporting entity's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about the reporting entity's ability to continue as a going concern within one year from the date the financial statements are issued. ASU 2014-15 is effective for fiscal years ending after December 15, 2016. Carilion is currently evaluating the impact on its consolidated financial statements from the adoption of this guidance.

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 $58,616 and $67,816 for 2014 and 2013, 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 continues to work with key partners in its service area to respond to the findings of the Carilion-led Roanoke Community Health Needs Assessment (the "Assessment"). The Assessment was designed to examine the needs of the community and to identify appropriate solutions to these needs. The Assessment findings focused on three priority areas: (1) access to services; (2) coordination of care; and (3) wellness. Working with community partners, these priorities were used to identify goals and strategies that will help improve the health for residents of communities served by Carilion. Carilion assisted and is participating with similar assessments in communities it serves outside of the Roanoke Valley.

On an ongoing basis, Carilion 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 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 CSJH, 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 cost reports for CMC through September 30, 2008, for CNRV and CFMH through September 30, 2009, for CTCH through September 30, 2011, and for CGCH and CSJH through September 30, 2012. However, cost reports are subject to reopening for three years from the date of final settlement.

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. Through December 31, 2013 outpatient services and certain other costs were reimbursed based on a percentage of reasonable cost. Effective January 1, 2014 outpatient costs are reimbursed on a blended rate, transitioned over four years, of outpatient costs and Enhanced Ambulatory Patient Groups (EAPGs). EAPGs are an outpatient visit classification system which places patients and services into clinically coherent groups. 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, 2013.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. The effect of settlement adjustments was not material to the consolidated statements of operations for the years ended September 30, 2014 and 2013.

Anthem — Services rendered to Anthem subscribers are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

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.

Net patient service revenue for the years ended September 30, 2014 and 2013, is summarized as follows:

	2014	**2013**
Third-party payors	$1,324,519	$1,251,601
Self pay	118,937	94,492
Patient service revenue — net of contractual allowances and discounts	1,443,456	1,346,093
Provision for bad debts	(115,030)	(90,044)
Net patient service revenue	$1,328,426	$1,256,049

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. BMH's investments totaling $5,651 and assets whose use is limited totaling $11,144 as of September 30, 2013, are also included in the investment pool. The carrying values of the components of the system-wide investment pool at September 30, 2014 and 2013, are summarized as follows:

	2014	2013
Investments	$ 162,415	$ 113,279
Assets whose use is limited	889,309	807,949
	$ 1,051,724	$ 921,228

The assets in the system-wide investment pool at September 30, 2014 and 2013, are summarized as follows:

	2014	2013
Short-term money market investments	$ 14,371	$ 3,834
Domestic common stocks	54,533	78,966
Mutual funds:		
Fixed income	184,981	149,133
Global equity	69,598	59,065
Multi-strategy	37,556	116,057
International equity	142,651	112,963
Alternative investments (Note 1):		
Core hedge funds	232,603	130,135
Low volatility hedge funds	6,975	9,381
Real estate limited partnerships	105,756	95,395
Inflation sensitive funds	34,155	28,794
Macro trading funds	28,174	23,249
Private equity limited partnerships and limited liability corporations	34,667	35,771
Total investment pool	946,020	842,743
Less amounts held for BMH		(16,795)
Total investment pool — net of amounts held for BMH	946,020	825,948
Assets whose use is limited under interest rate swap agreements	8,589	268
Assets held by BRIC	30,132	33,984
Assets whose use is limited under deferred compensation arrangements	54,475	37,233
Assets on deposit with regulatory authorities	2,000	2,000
Assets held by CCMR	10,508	5,000
Investments and assets whose use is limited	$ 1,051,724	$ 904,433

At September 30, 2014, Carilion was committed to invest an additional $23,024 in limited partnership funds at an unspecified future date. There were no other unfunded investment commitments at September 30, 2014.

The fair values of Carilion's assets whose use is limited at September 30, 2014 and 2013, are summarized as follows:

	2014	2013
Assets whose use is limited under board designations	$794,113	$723,320
Assets whose use is limited under interest rate swap agreements	8,589	268
Assets whose use is limited for BRIC	30,132	33,984
Assets whose use is limited under deferred compensation arrangements	54,475	37,233
CCMR assets on deposit with regulatory authorities	2,000	2,000
Assets whose use is limited	$889,309	$796,805

Investment income for the years ended September 30, 2014 and 2013, is summarized as follows:

	2014	2013
Dividends and interest	$ 14,012	$ 11,000
Net realized gains on investments	42,828	9,680
Net change in unrealized gains in investments	13,163	61,403
Equity in earnings and gain on sale of affiliates	20,018	1,002
Net realized and unrealized (losses) gains on interest rate swaps	(11,164)	40,002
Investment income	$ 78,857	$123,087

5. PROPERTY AND EQUIPMENT — NET

Property and equipment — net at September 30, 2014 and 2013, consists of the following:

	2014	2013
Land and improvements	$ 41,503	$ 40,936
Buildings and fixed equipment	931,886	913,664
Movable equipment	745,972	780,210
	1,719,361	1,734,810
Less accumulated depreciation and amortization	(1,139,138)	(1,152,956)
	580,223	581,854
Construction in progress	19,280	6,821
Property and equipment — net	$ 599,503	$ 588,675

Depreciation expense totaled $74,324 and $74,412 for the years ended September 30, 2014 and 2013, respectively.

Unexpended contractual commitments for projects under construction at September 30, 2014 and 2013, approximated $0 and $2,599, respectively.

6. EQUITY INVESTMENTS IN AFFILIATES

As described in Note 1, Carilion had a 50% interest in BMH under a joint ownership agreement with Centra that was accounted for under the equity method. Carilion's investment in BMH was $7,870 at September 30, 2013, and is included in other assets in the accompanying consolidated balance sheet. On June 30, 2014, Carilion sold its 50% equity interest in BMH to Centra and recognized a related gain of $5,209, which is included in investment income in the accompanying consolidated statement of operations for the year ended September 30, 2014

At September 30, 2014 and 2013, Carilion owned approximately 14.9% and 15.5%, respectively, of the common stock of Luna Innovations, Inc. ("Luna"), which is accounted for under the equity method, as well as certain other interests in convertible preferred stock and warrants. Carilion's equity method investment in Luna was reduced to zero through equity method losses during fiscal year 2009. Carilion has not recorded an asset for any of its interests in Luna at September 30, 2014 and 2013, due to Luna's continued operating and cash flow losses.

As of September 30, 2013, Carilion owned 90.3% of the common units outstanding of Laboratory Group Holding, LLC (LGH). The remaining equity interests in LGH included preferred units held primarily by a private equity investor. Both the common units and the preferred units were nonvoting. Carilion's investment in LGH was accounted for under the equity method as it had 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 did not have a controlling financial interest. The carrying amount of Carilion's investment in LGH was reduced to zero through equity method losses in fiscal year 2011. In May 2014, Carilion divested itself of the common units it held in LGH. Carilion recognized a $14,000 gain on the sale of its common units, which is included in investment income in the accompanying consolidated statement of operations for the year ended September 30, 2014.

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, 2014, is as follows:

	Total	Carilion Clinic and Subsidiaries	Noncontrolling Interests
Balance — beginning of year	$ 580,013	$ 576,532	$ 3,481
Excess of unrestricted revenues and gains over expenses	116,651	115,984	667
Pension-related changes other than net periodic pension cost	(137,401)	(137,401)	
Pension-related changes other than net periodic pension cost related to noncontrolling interest	97		97
Distribution to Stonewall Jackson Community Health Foundation and other	(195)		(195)
Net assets released from restrictions for purchases of property and equipment	26	26	
Balance — end of year	$ 559,191	$ 555,141	$ 4,050

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, 2013, is as follows:

	Total	Carilion Clinic and Subsidiaries	Noncontrolling Interests
Balance — beginning of year	$264,442	$261,649	$2,793
Excess of unrestricted revenues and gains over expenses	142,984	142,021	963
Pension-related changes other than net periodic pension cost	172,643	172,643	
Pension-related changes other than net periodic pension cost related to noncontrolling interest	23		23
Distribution to Stonewall Jackson Community Health Foundation and other	(298)		(298)
Net assets released from restrictions for purchases of property and equipment	219	219	
Balance — end of year	$580,013	$576,532	$3,481

8. LONG-TERM DEBT

Long-term debt at September 30, 2014 and 2013, consists of the following:

	2014	2013
Hospital Revenue Bonds — Series 2012 — Serial Bonds, 3.0% to 5.0% fixed rate interest, maturing from 2015 to 2030	$ 73,475	$ 75,578
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 Bonds, variable rate interest (.16% at September 30, 2014), maturing from 2027 to 2042	50,000	50,000
Hospital Revenue Bonds — Series 2008B — Variable Rate Bonds, variable rate interest (.16% at September 30, 2014), maturing from 2027 to 2042	110,000	110,000
Hospital Revenue Bonds — Series 2005A — Variable Rate Bonds, variable rate interest (.16% at September 30, 2014), maturing from 2028 to 2036	123,110	123,110
Hospital Revenue Bonds — Series 2005B — Serial Bonds, 3.0% to 5.0% fixed rate interest, maturing from 2015 to 2020	21,950	24,705
Hospital Revenue Bonds — Series 2005B — Term Bonds, 4.375% to 5.0% fixed rate interest, maturing from 2026 to 2038	65,310	65,310
Hospital Revenue Bonds — Series 2005C — Serial Bonds, 5.0% fixed rate interest, maturing from 2015 to 2020	16,530	18,201
Hospital Revenue Bonds — Series 2005C — Term Bonds, 4.0% to 5.0% fixed rate interest, maturing from 2024 to 2027	28,240	26,039
Other long-term debt	17,103	19,619
	601,458	608,302
Unamortized bond premium	15,928	17,751
Scheduled payments due within one year	(12,766)	(13,126)
Additional current portion of Series 2008A and B Bonds		(16,000)
Additional current portion of Series 2005A Bonds		(12,311)
Long-term debt — net of current portion	$604,620	$584,616

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 $3,740 of the Series 2005C Bonds and $2,982 of the Series 2012 Bonds that were previously allocated to BMH and, thus, were not included in Carilion's consolidated balance sheet as of September 30, 2013.

As described in Note 1, BMH withdrew from the Obligated Group on June 30, 2014. At that time, Carilion and the remaining members of the Obligated Group entered into a Debt Service and Guaranty Agreement with BMH, guaranteed by Centra, to provide for the payments to Carilion for the debt service on the portions of the Series 2005C Bonds and the Series 2012 Bonds that were previously allocated to BMH. Accordingly, Carilion has recorded debt of $6,233 for the portions of the Series 2005C and 2012 Bonds that were previously allocated to BMH and a corresponding receivable due from BMH of $494 in accounts receivable and $5,739 in other assets on the accompanying consolidated balance sheet as of September 30, 2014.

The Bonds are governed by a Master Trust Indenture (the "Indenture"), as amended and restated, 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.

At September 30, 2013, the Series 2008A and 2008B Bonds and Series 2005A Bonds were variable rate demand obligations that were remarketed daily. Accordingly, Carilion included $16,000 of the Series 2008A and 2008B Bonds and $12,311 of the Series 2005A Bonds within the current portion of long-term debt as of September 30, 2013, to reflect the principal that would be payable during fiscal year 2014 under the related standby bond purchase agreements and letters of credit if the bonds were tendered for purchase as of the balance sheet date and not remarketed.

In March 2014, the Obligated Group tendered the Series 2008A and 2008B Bonds, terminated the related letters of credit and standby bond purchase agreements, and entered into direct purchase agreements with two financial institutions for those bonds in the aggregate principal amount of $50,000 and $110,000, respectively. During the term of the direct purchase agreements, the bonds bear interest at 67% of 1 month LIBOR and are not puttable. The direct purchase agreements expire in March 2017.

In April 2014, the Obligated Group tendered the Series 2005A Bonds, terminated the related letter of credit and standby bond purchase agreement, and entered into a direct purchase agreement with a financial institution for those bonds in the aggregate principal amount of $123,110. During the term of the direct purchase agreement, the bonds bear interest at 67% of 1 month LIBOR and are not puttable. The direct purchase agreement expires in April 2017.

Carilion intends to renew or replace the direct purchase agreements for the Series 2008A, 2008B, and 2005A bonds on or before their expiration. In the event the agreements are not renewed or replaced, the debt will become due at that time.

The aggregate principal maturities of long-term debt, including amounts due upon expiration of the direct purchase agreements in fiscal year 2017, are as follows:

Years Ending September 30	
2015	$ 12,766
2016	13,360
2017	297,066
2018	14,214
2019	14,341
Thereafter	249,711
	$ 601,458

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 $8,705. 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 2008B 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 $2,570 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 1.40 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 direct purchase 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, among other covenants, maintain a debt-to-capitalization ratio of not more than 65% for fiscal year 2013 and thereafter. The Obligated Group has maintained compliance with these covenants as of and during the years ended September 30, 2014 and 2013.

Interest Rate Swap Agreements — At September 30, 2014 and 2013, 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, 2014, 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)	
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
68,181	2005B-C, 2010	2038	Basis swap	SIFMA Municipal Swap Index (3)	67% 3m LIBOR + 0.57% (2)	
92,783	2005B-C, 2010	2038	Basis swap	SIFMA Municipal Swap Index (3)	67% 3m LIBOR + 0.62% (2)	
60,000	unassigned	2034	Basis swap	SIFMA Municipal Swap Index (3)	67% 3m LIBOR + 0.65% (2)	

(1) The 1m LIBOR was .16% and .18% at September 30, 2014 and 2013, respectively.
(2) The 3m LIBOR was .24% and .25% at September 30, 2014 and 2013, respectively.
(3) The SIFMA Municipal Swap Index was .04% and .07% at September 30, 2014 and 2013, respectively.

At September 30, 2014 and 2013, the Obligated Group posted $8,589 and $268, respectively, in collateral as part of the fixed payor swap agreements associated with the Series 2008 bonds (see Note 4). The Obligated Group is required to post collateral once the collateral threshold of $10,000 is exceeded. The posted amount is equal to the current valuation of the respective swap agreements minus the collateral threshold.

The basis interest rate swap used to hedge a portion of the interest rate risk on the Series 2002A Bonds was terminated in January 2014. Carilion received $662 from the counterparties.

The fixed payor interest rate swap used to hedge a portion of the interest rate risk on the Series 2005C Bonds was terminated in September 2014. Carilion paid $2,326 to the counterparty in September 2014.

The fixed payor interest rate swap used to hedge a portion of the interest rate risk on the Series 2005B Bonds was terminated in September 2014. Carilion paid $6,680 to the counterparty on October 1, 2014, the total of which is included in other current liabilities in the accompanying consolidated balance sheet.

The estimated fair values of the interest rate swap agreements at September 30, 2014 and 2013, are as follows:

	Fair Value of Asset Derivatives		Fair Value of Liability Derivatives		Amount of (Loss) Gain Recognized	
Type of Derivative	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Fixed payor	$ -	$ -	$ 52,932	$ 47,986	$ (13,515)	$ 42,968
Basis swap	2,719	1,050		81	2,351	(2,966)
	$2,719	$1,050	$ 52,932	$ 48,067	$ (11,164)	$ 40,002

9. EMPLOYEE BENEFIT PLANS

Carilion maintains a funded, defined benefit pension plan (the "Plan"), which covers substantially all employees of Carilion. 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 $1,238 and $1,925 for the years ended September 30, 2014 and 2013, respectively. The net pension liability for the plans was $8,142 and $5,049 as of September 30, 2014 and 2013, 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 BMH, as applicable as of September 30, 2013.

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, 2014 and 2013, are as follows:

	2014	2013
Change in benefit obligation:		
Benefit obligation — beginning	$ 832,260	$ 908,387
Assumption changes	120,844	(129,439)
Service cost	33,641	39,182
Interest cost	44,455	39,827
Actuarial loss (gain)	27,965	(5,117)
Effect of acquisitions		214
Benefit payments	(22,894)	(20,794)
Benefit obligation — ending	$ 1,036,271	$ 832,260
Change in plan assets:		
Fair value of plan assets — beginning	$ 637,316	$ 552,659
Actual return on plan assets	48,550	56,495
Employer contributions	44,000	48,956
Benefit payments	(22,894)	(20,794)
Fair value of plan assets — ending	$ 706,972	$ 637,316
Funded status	$ (329,299)	$ (194,944)
Components of net periodic pension cost:		
Service cost	$ 33,641	$ 39,182
Interest cost	44,455	39,827
Expected return on plan assets	(48,263)	(44,536)
Prior service benefit recognized	12	58
Amortization of actuarial losses	14,002	28,489
Net periodic pension cost	$ 43,847	$ 63,020
Other changes in plan assets and benefit obligations not yet recognized in net periodic pension cost:		
Net loss (gain) arising during the period	$ 148,522	$ (146,515)
Effect of acquisitions		214
Amortization of loss	(14,002)	(28,489)
Amortization of prior service credit	(12)	(58)
Pension-related changes other than net periodic pension cost	$ 134,508	$ (174,848)
Total recognized in net periodic pension cost and other pension-related changes	$ 178,355	$ (111,828)

The accumulated benefit obligation was $935,577 and $745,059 at September 30, 2014 and 2013, respectively.

Carilion's portion of the Plan liability, net of the liability recorded by BMH, was $190,190 as of September 30, 2013, and is included in pension and other liabilities in the accompanying consolidated balance sheet. Carilion's portion of net periodic pension cost, net of the cost recorded by BMH, was $61,564 as of September 30, 2013, and is included in benefits in the accompanying consolidated statement of operations. As part of the BMH sale, Carilion assumed the pension liability for BMH employees who were vested at the time of the sale, with their benefits being frozen as of June 30, 2014. The portion of the Plan liability attributable to these BMH employees is $8,031 as of September 30, 2014, and is included in pension and other liabilities in the accompanying consolidated balance sheet.

During 2014 and 2013, Carilion contributed $44,000 and $48,956, respectively, to the Plan. Carilion expects to contribute approximately $60,000 to the Plan in fiscal year 2015.

Amounts recognized as changes in unrestricted net assets, but not yet reclassified as components of net periodic pension cost for the pension plans at September 30, 2014, consist of net loss and prior service cost of $352,185 and $759, respectively.

The estimated net loss and prior service cost recognized as changes in unrestricted net assets that will be amortized to net periodic pension cost over the next fiscal year are $25,422 and $12, respectively.

Significant assumptions used in determining the actuarial present value of the projected benefit obligation of the Plan for the years ended September 30, 2014 and 2013, are as follows:

	2014	2013
Weighted-average discount rate	4.6 %	5.4 %
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, 2014 and 2013, were 5.4% and 4.4%, 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 Level 3 alternative investments of $249,770 and $193,563 at September 30, 2014 and 2013, 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 2014 and plan asset allocation at September 30, 2014 and 2013, is as follows:

Asset Category	Target Allocation 2014	Percentage of Plan Assets at September 30, 2014	Percentage of Plan Assets at September 30, 2013
Equity securities	30 %	33 %	32 %
Hedge funds	10	15	22
Fixed-income securities	30	28	22
Inflation sensitive	15	18	21
Other investments	15	6	3
	100 %	100 %	100 %

The Plan benefits expected to be paid in fiscal years 2015 to 2019 are $28,629, $32,235, $36,671, $40,902, and $44,933, respectively. The aggregate benefits expected to be paid in five years from 2020 to 2024 are $286,774. 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. The plans qualify under Section 403(b) or Section 401(k) of the IRC.

Carilion has several nonqualified deferred compensation plans 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 $54,475 and $37,233 as of September 30, 2014 and 2013, respectively, is included in pension and other liabilities in the accompanying 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 $54,475 and $37,233 as of September 30, 2014 and 2013, 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, 2014 and 2013, is summarized as follows:

	2014	2013
Grants to reimburse operating costs	$ 6,508	$ 8,078
Rental revenue	4,876	4,838
College revenue	23,462	21,777
Athletic clubs revenue	5,222	4,897
In-kind contributions to Virginia Tech Carilion School of Medicine	1,628	1,714
Laundry services	567	828
Management services to equity affiliates	3,797	5,171
Collection services income	5,020	5,434
Cafeteria sales	3,546	3,289
EHR meaningful use revenues	5,713	10,885
Medical supplies and services	23,051	18,324
Medicare Advantage plan premium revenue	6,413	22,246
Medicaid managed care plan premium revenue	52,112	50,542
Other	20,094	17,708
Total	$ 162,009	$ 175,731

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, 2014 and 2013. 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, the net deferred tax asset has been reduced to zero by a valuation allowance.

At September 30, 2014, CHSI and its subsidiaries had net operating loss carryforwards of approximately $328,079 which expire on various dates from 2018 to 2034.

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, 2014 and 2013, are as follows:

	2014	2013
Health care services	$1,199,543	$1,164,606
General and administrative	238,930	249,153
	$1,438,473	$1,413,759

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, 2014 and 2013, is as follows:

	2014	2013
Medicare	36 %	35 %
Medicaid	15	13
Anthem	13	13
Other third-party payors	17	20
Patients	19	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.

The Patient Protection and Affordability Care Act of 2010 (the "Reform Legislation"), a comprehensive health care reform bill, mandates that substantially all US citizens maintain medical insurance coverage. The Reform Legislation expands health insurance coverage through a combination of public program expansion and private sector health insurance reforms. The Reform Legislation also makes a number of other changes to Medicare and Medicaid, such as reductions to the Medicare annual market basket update for federal fiscal years 2010 through 2019; a productivity offset to the Medicare market basket update, which began October 1, 2011; and a reduction to the Medicare and Medicaid disproportionate share payments, that could adversely impact the reimbursement received under these programs. Also included in the Reform Legislation are provisions aimed at reducing fraud, waste, and abuse in the health care industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The legislation is complex and is being phased in over several years. Management continues to evaluate the impact of the Reform Legislation and its impact on Carilion's 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 \$6,540 and \$6,303 for the years ended September 30, 2014 and 2013, 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, 2014, is as follows:

Years Ending September 30	Amount
2015	\$ 3,373
2016	2,093
2017	692
2018	354
2019	138
Thereafter	695
Total	\$ 7,345

Virginia Tech Carilion School of Medicine and Research Institute — In 2008, Carilion and Virginia Polytechnic Institute and State University ("Virginia Tech") entered into a memorandum of understanding (MOU) agreement to establish and fund a portion of the costs related to 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 MOU agreement, as amended, Carilion agreed to contribute up to \$35,000 to fund start-up costs for the Medical School and up to \$2,000 annually (subject to adjustment based on the Consumer Price Index) to fund operating deficits of the Medical School. The MOU agreement will expire on June 22, 2016 unless extended by mutual agreement of the parties.

Carilion's commitments to fund start-up costs and operating deficits under the MOU agreement was unconditional through June 30, 2014, at which time the MOU would terminate if the Medical School had not received accreditation. As of September 30, 2013, Carilion had recognized other current liabilities of \$2,534 and \$1,575 for the unconditional portion of start-up and operating deficit funding, respectively, expected to be paid through June 30, 2014. The remaining unrecognized portion of Carilion's conditional commitment to fund start-up costs after June 30, 2014, was $13,300 as of September 30, 2013.

The Medical School received accreditation in June 2014 and met other factors set forth in the MOU. Accordingly, during fiscal year 2014, Carilion recorded contribution expense for the remaining start-up costs up to $35,000 and the expected operating deficit funding expected to be paid through June 22, 2016, the current expiration date of the MOU agreement. The total contribution expense recognized for the year ended September 30, 2014 is $16,773 and is included in other nonoperating loss in the accompanying consolidated statement of operations.

At September 30, 2014, Carilion recorded other current liabilities of $6,311 and other long-term liabilities of $10,452 related to these obligations.

15. SELF-INSURANCE LIABILITIES

Employee Health — Carilion offers subsidized health and dental insurance to its employees through a self-insured plan. The related liabilities are not material to Carilion's consolidated financial statements.

Workers' Compensation — Carilion is self-insured for workers' compensation liability up to the first $500 per accident and has excess coverage up to applicable statutory limits on a claims-made basis. The related liabilities are not material to Carilion's consolidated financial statements.

Medical Malpractice — Carilion is self-insured for medical malpractice losses through its wholly owned subsidiary BRIC. BRIC is licensed as a captive insurance company by the Vermont Commissioner of Banking, Insurance, Securities, and Health Care Administration, pursuant to the provisions of the Vermont Statutes Annotated, and provides first-dollar coverage on a claims-made basis, with limits of $52,150 per loss or medical incident and $68,000 in the annual aggregate for professional and general liabilities. 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 $2,150 per loss or medical incident and $18,000 in the annual aggregate.

Policies on a claims-made basis must be renewed or replaced with equivalent insurance, if claims incurred during their term, but asserted after their expiration, are to be insured. Carilion has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of claims that have been incurred but not reported. The liability for medical malpractice losses, discounted at 4%, was $37,718 and $34,293 as of September 30, 2014 and 2013, 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. The consolidated statement of operations for the year ended September 30, 2014 reflects a change in estimate in the accrued cost to settle malpractice claims of approximately $4,420, primarily due to unfavorable development and settlement of historical outstanding claims. Such change is included in supplies and other expenses.

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

Transfers between Levels — The availability of market observable data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or valuation methodologies may require the transfer of financial instruments from one fair value hierarchy level to another. In such instances, the transfer would be reported at the beginning of the reporting period. Carilion evaluates the significance of transfers based on the nature of the financial instrument and the size of the transfer. There were no transfers of investments between levels for the years ending September 30, 2014 and 2013.

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, 2014 and 2013. 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, 2014, is summarized in the table below:

	Fair Value Measurement at September 30, 2014			
	September 30, 2014	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	$ 14,371	$ 14,371	$ -	$ -
Mutual funds	434,786	434,786		
Domestic equity securities	54,533	54,533		
Alternative investments (Note 1)	442,330			442,330
Assets whose use is limited:				
Short-term money market and treasury investments	28,439	28,439		
Debt and equity mutual funds	75,265	75,265		
Assets on deposit with regulatory authorities	2,000	2,000		
Total	$ 1,051,724	$609,394	$ -	$442,330

The fair value hierarchy classification of assets in the system-wide investment pool and assets whose use is limited at September 30, 2013, is summarized in the table below:

	Fair Value Measurement at September 30, 2013			
	September 30, 2013	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	$ 3,834	$ 3,834	$ -	$ -
Mutual funds	437,218	437,218		
Domestic equity securities	78,966	78,966		
Alternative investments (Note 1)	322,725			322,725
Assets whose use is limited:				
Short-term money market and treasury investments	16,744	16,744		
Debt and equity mutual funds	59,741	59,741		
Assets on deposit with regulatory authorities	2,000	2,000		
Total	$921,228	$598,503	$ -	$322,725

The table below discloses the redemption frequency and redemption notice period for each applicable investment class as of September 30, 2014 and 2013, 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:

	2014	2013	Redemption Frequency	Redemption Notice Period
Core hedge funds	$134,791	$ 41,429	Quarterly	45–91 days
Core hedge funds	97,812	88,706	Annually/Quarterly	90-105 days
Low volatility hedge funds	6,975	9,381	Scheduled liquidation	N/A
Private equity funds	34,667	35,771	N/A	N/A
Real estate funds	105,756	95,395	Quarterly	45–60 days
Inflation sensitive funds	34,155	28,794	Monthly	10 days
Macro trading funds	28,174	23,249	Quarterly	90 days
Total	$442,330	$322,725		

Pension Plan Assets — The fair value hierarchy classification of pension plan assets at September 30, 2014 and 2013, is summarized in the tables below:

	Fair Value Measurement at September 30, 2014			
	September 30, 2014	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	$ 6,267	$ 6,267	$ -	$ -
Common stocks	44,901	44,901		
Mutual funds:				
Fixed income	199,994	199,994		
Global equity	184,380	184,380		
Multi-strategy	21,660	21,660		
Alternative investments (Note 1):				
Private equity securities	38,654			38,654
Core hedge funds	98,598			98,598
Low volatility hedge funds	3,996			3,996
Real estate funds	63,030			63,030
Inflation sensitive funds	19,682			19,682
Macro trading funds	25,810			25,810
Total	$706,972	$457,202	$ -	$249,770

	Fair Value Measurement at September 30, 2013			
	September 30, 2013	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	$ 17,551	$ 17,551	$ -	$ -
Common stocks	72,798	72,798		
Mutual funds:				
Fixed income	160,273	160,273		
Global equity	134,647	134,647		
Multi-strategy	58,484	58,484		
Alternative investments (Note 1):				
Private equity securities	15,999			15,999
Core hedge funds	76,123			76,123
Low volatility hedge funds	5,653			5,653
Real estate funds	58,029			58,029
Inflation sensitive funds	16,487			16,487
Macro trading funds	21,272			21,272
Total	$637,316	$443,753	$ -	$193,563

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, 2014 and 2013, 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
Ending balance — September 30, 2012	$29,889	$106,622	$11,707	$ 85,138	$22,410	$18,191	$273,957
Total gains (losses)	6,580	11,513	698	10,257	(2,116)	5,058	31,990
Purchases	4,464	12,000			8,500		24,964
Sales	(5,162)		(3,024)				(8,186)
Ending balance — September 30, 2013	35,771	130,135	9,381	95,395	28,794	23,249	322,725
Total gains	5,296	9,660	44	10,361	361	4,925	30,647
Purchases	6,579	93,000			5,000		104,579
Sales	(12,979)	(192)	(2,450)				(15,621)
Ending balance — September 30, 2014	$34,667	$232,603	$ 6,975	$105,756	$34,155	$28,174	$442,330

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, 2014 and 2013, 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
Ending balance — September 30, 2012	$14,986	$ 68,436	$ 7,490	$50,727	$ 15,973	$16,579	$174,191
Total gains (losses)	209	7,876	18	7,302	(1,486)	4,693	18,612
Purchases	3,633				2,000		5,633
Sales	(2,829)	(189)	(1,855)				(4,873)
Ending balance — September 30, 2013	15,999	76,123	5,653	58,029	16,487	21,272	193,563
Total gains (losses)	3,920	7,860	(258)	5,001	195	4,538	21,256
Purchases	22,705	15,000			3,000		40,705
Sales	(3,970)	(385)	(1,399)				(5,754)
Ending balance — September 30, 2014	$38,654	$ 98,598	$ 3,996	$63,030	$ 19,682	$25,810	$249,770

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 $621,433 and $611,443 as of September 30, 2014 and 2013, respectively (Level 2).

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, 2014 and 2013.

17. RELATED-PARTY TRANSACTIONS

Expenses for lab services provided by LGH were $27,538 and $39,447 for the eight month period ended May 31, 2014 and the year ended September 30, 2013, respectively, and are included in supplies and other expenses in the accompanying consolidated statements of operations.

Revenues for services provided to BMH were $3,951 and $5,401 for the nine month period ended June 30, 2014 and the year ended September 30, 2013, respectively, and are included in other operating revenue in the accompanying consolidated statements of operations.

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 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 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 systemwide investment pool (see Note 4) and are subject to Carilion's investment policies. The endowment net asset composition at September 30, 2014 and 2013, is composed of the following:

	2014	2013
Endowment net asset composition:		
Temporarily restricted	$ 3,297	$ 2,723
Permanently restricted	11,876	11,876
Total	$ 15,173	$ 14,599

Changes in endowment assets for the year ended September 30, 2014, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ -	$ 2,723	$ 11,876	$ 14,599
Investment income		1,242		1,242
Appropriations of endowment assets for expenditure		(668)		(668)
Endowment net assets — end of year	$ -	$ 3,297	$ 11,876	$ 15,173

Changes in endowment assets for the year ended September 30, 2013, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ -	$ 1,778	$ 11,876	$ 13,654
Investment income		1,429		1,429
Appropriations of endowment assets for expenditure		(484)		(484)
Endowment net assets — end of year	$ -	$ 2,723	$ 11,876	$ 14,599

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