



CENTRA HEALTH, INC.

Audit Requirements under the Single Audit Act of 1984 and
Amendments of 1996 and OMB Circular A-133,
Audits of States, Local Governments, and Nonprofit Organizations,
Including the Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

(With Independent Auditors' Reports Thereon)

CENTRA HEALTH, INC.

Table of Contents

	Page(s)
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 <i>Government Auditing Standards</i>	1–2
Independent Auditors' Report on Compliance for the Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>	3–5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8–9
Schedule of Prior Year Audit Findings	10



KPMG LLP
Suite 1010
10 S. Jefferson Street
Roanoke, VA 24011-1331

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*

The Board of Directors
Centra Health, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Centra Health, Inc. and Subsidiaries (Centra), which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 27, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

KPMG LLP

Roanoke, Virginia
April 27, 2015



KPMG LLP
Suite 1010
10 S. Jefferson Street
Roanoke, VA 24011-1331

Independent Auditors' Report on Compliance for the Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Directors
Centra Health, Inc.:

Report on Compliance for the Major Federal Program

We have audited Centra Health, Inc.'s (Centra) 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 Centra's major federal program for the year ended December 31, 2014. Centra's major federal program is 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 Centra's major federal program 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 Centra'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 the major federal program. However, our audit does not provide a legal determination of Centra's compliance.

Opinion on the Major Federal Program

In our opinion, Centra Health, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on the major federal program is not modified with respect to this matter.

Centra's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Centra's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Centra 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 Centra's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Centra'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

Centra's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Centra's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of Centra Health, Inc. and Subsidiaries as of and for the year ended December 31, 2014, and have issued our report thereon dated April 27, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Roanoke, Virginia
September 30, 2015

CENTRA HEALTH, INC.

Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

<u>Grantor/pass-through grantor/program or cluster title</u>	<u>Federal CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Grant expenditures</u>	<u>Loan disbursements</u>	<u>Total</u>
Federal awards:					
Student Financial Assistance Programs Cluster:					
U.S. Department of Education:					
Federal Pell Grant Program	84.063	N/A	\$ 295,192	—	295,192
Federal Direct Loan Program	84.268	N/A	—	942,229	942,229
Total student financial assistance programs cluster			295,192	942,229	1,237,421
Department of Health and Human Services:					
Ryan White Title II (passed through the Infectious Disease Center of Central Virginia)					
	93.917	*	209,165	—	209,165
National Bioterrorism Hospital Preparedness Program	93.889	N/A	16,347	—	16,347
Ryan White Title III Outpatient EIS Program	93.918	N/A	192,311	—	192,311
Total expenditures of federal awards			\$ 713,015	942,229	1,655,244

* Contract numbers: DDP-611 AU-45416-03-SS-CH (April 1, 2013 to March 31, 2014), DDP-611-AX-45416-2011 (April 1, 2013 to March 31, 2014), CENRWB611GY14 (April 1, 2014 through March 31, 2015), and CENMAI611GY14 (April 1, 2014 through March 31, 2015).

See accompanying notes to schedule of expenditures of federal awards.

See accompanying Independent Auditors' Report on Compliance for the Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

CENTRA HEALTH, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

(1) Presentation and Basis of Accounting

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant and student loan activity of Centra Health, Inc. (Centra) and has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

(2) Federal Direct Loan Program

Centra participates in the Federal Direct Loan Program (CFDA Number 84.268) (the Program), which includes the Federal Direct Subsidized Loan Program, the Federal Direct Unsubsidized Loan Program, and the Federal Direct PLUS Program. The Program requires Centra to request cash from the U.S. Department of Education and disburse such funds.

Centra is responsible only for the performance of certain administrative functions with respect to the Program, and accordingly, these loans are not included in Centra's consolidated financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the Centra College of Nursing under the Program at December 31, 2014.

(3) Subrecipients

Centra did not provide federal awards to any subrecipients for the year ended December 31, 2014.

(4) Reconciliation of Schedule of Expenditures of Federal Awards to Statement of Operations

Federal expenditures per the Schedule	\$	1,655,244
Less federal grants considered agency transactions		(1,237,421)
Add nonfederal grants and contracts		<u>372,471</u>
Governmental and other grants per the consolidated statement of operations	\$	<u><u>790,294</u></u>

CENTRA HEALTH, INC.

Schedule of Findings and Questioned Costs

Year ended December 31, 2014

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unmodified opinion**
- (b) Significant deficiencies in internal control over financial reporting disclosed by the audit of the financial statements that are not considered to be material weaknesses: **None reported**

Material weaknesses: **None**

- (c) Noncompliance, which is material to the financial statements: **None**
- (d) Significant deficiencies in internal control over major programs that are not considered to be material weaknesses: **Yes, finding 2014-001**

Material weaknesses: **None**

- (e) The type of report issued on compliance for major programs: **Unmodified opinion**
- (f) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, finding 2014-001**
- (g) Major programs: **Student Financial Assistance Programs Cluster (CFDA Nos. 84.063 and 84.268)**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: None

(3) Findings and Questioned Costs Relating to Federal Awards

2014-001 Special Tests and Provisions: Enrollment Reporting

Program – Federal Pell Grant Program; 84.063

Condition – While performing testwork related to enrollment reporting, we noted a single instance where the Centra College of Nursing did not report a certain student's attendance change to the National Student Loan Data System (NSLDS) within 30 days of the attendance change or within 60 days within the submitted roster.

Criteria – Under the Pell grant and loan programs, institutions must complete and return within 30 days the Enrollment Reporting roster file, formerly the Student Status Confirmation Report (SSCR), placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via NSLDS. The institution determines how often it receives the Enrollment Reporting roster file, with the default set at every 2 months, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

CENTRA HEALTH, INC.

Schedule of Findings and Questioned Costs

Year ended December 31, 2014

Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence. As explained in the NSLDS Enrollment Reporting Guide, the Enrollment Reporting roster file is due within 30 days from the creation of the file that is placed in the institution's SAIG.

Effect – The Centra College of Nursing is not in compliance with the requirements related to enrollment reporting.

Questioned Costs – Since the attendance change was ultimately reported to the NSLDS, although late, we do not believe this finding results in questioned costs.

Recommendation – We recommend that the Centra College of Nursing ensure that enrollment is reported to the NSLDS within 60 days on the roster submission or 30 days for other submissions.

Views of Responsible Officials – Management agrees with this finding. Centra College of Nursing has implemented changes and developed a more detailed and accurate reporting method to ensure that all student attendance changes are reported to the NSLDS within the required timeframe.

CENTRA HEALTH, INC.
Schedule of Prior Year Audit Findings
Year ended December 31, 2014

Prior Year Audit Findings

2013-001 Financial Reporting

Program – Federal Pell Grant Program; 84.063

Status

Prior year comment update:

The Financial Aid Office has updated its procedures as disclosed. Beginning in September 2014, management implemented policies and procedures to ensure that student payment data is reported to the COD system within 30 calendar days after the school makes a payment. Management formed an ad hoc committee that recommended procedural changes and the training of key personnel in revised procedures. The testwork performed for the year ended December 31, 2014 included sample items after September 2014 where no findings were identified.

2013-002 Special Tests and Provisions: Disbursements To or On Behalf of Students

Program – Federal Direct Student Loans; 84.268

Status

Prior year comment update:

The College of Nursing has updated its procedures as disclosed. Beginning in September 2014, management implemented policies and procedures to ensure that students receive the required notification of Direct Loan disbursements within 30 days, and a copy of the notification is kept on file within the student's records. The testwork performed for the year ended December 31, 2014 included sample items after September 2014 where no findings were identified.

2013-003 Special Tests and Provisions: Return of Title IV Funds

Program – Federal Pell Grant Program; 84.063

Status

Prior year comment update:

The College of Nursing has updated its procedures as disclosed. Beginning in September 2014, management implemented policies and procedures to ensure that Title IV funds are returned within 45 days after the date a student withdraws from the college. The testwork performed for the year ended December 31, 2014 included sample items after September 2014 where no findings were identified.



CENTRA HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

CENTRA HEALTH, INC. AND SUBSIDIARIES

Officers

Walker P. Sydnor, Jr.	Chairman of the Board
Amy G. Ray	Vice-Chairman of the Board
E.W. Tibbs	President/CEO
David D. Adams	Senior Vice President/Secretary
Lewis C. Addison	Senior Vice President/Treasurer

Board of Directors

Terms Expiring in 2015

Albert M. Baker, MD	Sharon L. Harrup	E.W. Tibbs
Michael V. Bradford	Stephen C. Keith Ed. D	

Terms Expiring in 2016

Julie P. Doyle	Verna R. Sellers, MD	R. Sackett Wood
Hank Hubbard	Walker P. Sydnor, Jr	

Terms Expiring in 2017

H.C. Eschenroeder Jr., MD	Amy G. Ray	George R. Zippel
John R. Mack	Richard J. Tugman	

President of Medical Staff
Shawn Hayes, MD

CENTRA HEALTH, INC. AND SUBSIDIARIES

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	4-5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-40
Supplementary Information	
Independent Auditors' Report on Supplementary Information	41
Consolidating Balance Sheet Information	42-43
Consolidating Statement of Operations Information	44-45
Bedford Memorial Hospital Statement of Operations and Changes in Net Assets	46
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	47-48



KPMG LLP
Suite 1010
10 S. Jefferson Street
Roanoke, VA 24011-1331

Independent Auditors' Report

The Board of Directors
Centra Health, Inc.:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Centra Health, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2015 on our consideration of Centra'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 Centra's internal control over financial reporting and compliance.

KPMG LLP

Roanoke, VA
April 27, 2015

CENTRA HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 21,124,397	32,697,840
Patient accounts receivable, net	85,743,101	67,820,417
Estimated receivables from third-party payors	9,099,365	3,633,340
Investments and assets whose use is limited	8,250,504	2,720,597
Inventories	18,567,581	15,536,851
Prepaid expenses and other current assets	16,261,671	14,217,564
Total current assets	159,046,619	136,626,609
Investments and assets whose use is limited	453,010,247	436,275,401
Property, plant and equipment, net	348,702,486	297,406,915
Investments in joint ventures	3,826,762	17,092,978
Other assets	11,762,511	7,995,837
Total assets	\$ 976,348,625	895,397,740
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 43,933,431	35,466,835
Employee compensation and benefits	28,534,519	34,493,425
Estimated settlements to third-party payors	21,605,140	12,718,767
Current portion of long-term obligations	10,661,826	10,223,665
Other current liabilities	3,071,248	3,832,398
Total current liabilities	107,806,164	96,735,090
Long-term obligations, net of current portion	239,702,435	211,104,443
Interest rate swap agreements	21,896,414	15,122,589
Retirement obligations	48,614,709	22,138,122
Other long-term liabilities	27,146,107	25,638,269
Total liabilities	445,165,829	370,738,513
Net assets:		
Unrestricted	470,128,269	465,637,364
Temporarily restricted	32,176,149	30,143,485
Permanently restricted	28,878,378	28,878,378
Total net assets	531,182,796	524,659,227
Total liabilities and net assets	\$ 976,348,625	895,397,740

See accompanying notes to consolidated financial statements.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2014 and 2013

	2014	2013
Operating revenues and other support:		
Net patient service revenue (net of contractual allowances and discounts)	\$ 728,678,659	671,575,087
Provision for bad debts	(46,341,498)	(43,740,102)
Net patient service revenue less provision for bad debts	682,337,161	627,834,985
Outside lab revenue	9,435,301	9,604,673
Foundation revenue and support	1,330,560	1,312,816
Net assets released from restrictions for operations	1,492,224	1,316,818
Other operating revenue	44,981,359	41,995,600
Total operating revenues and other support	739,576,605	682,064,892
Operating expenses:		
Salaries and wages	330,033,044	301,844,549
Benefits	78,417,287	83,711,027
Medical supplies and drugs	97,099,744	81,957,078
Professional services	31,232,670	24,591,708
Other purchased services	69,594,369	66,789,223
Other operating expenses	66,584,379	60,269,001
Depreciation and amortization	44,651,383	42,627,244
Interest	5,565,520	5,565,697
Total operating expenses	723,178,396	667,355,527
Net operating income	16,398,209	14,709,365
Nonoperating gains (losses):		
Investment income	28,137,538	33,110,632
Change in value of interest rate swap agreements	(6,773,825)	12,199,842
Other	13,809	(56,052)
Net nonoperating gains	21,377,522	45,254,422
Excess of revenues and other support over expenses	\$ 37,775,731	59,963,787

CENTRA HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Excess of revenues and other support over expenses	\$ 37,775,731	59,963,787
Net unrealized gains/(losses) on investments	(7,320,770)	6,525,649
Change in funded status of defined benefit plan	(26,210,464)	42,660,385
Net assets released from restrictions for capital acquisitions	246,408	1,184,029
Change in unrestricted net assets	<u>4,490,905</u>	<u>110,333,850</u>
Temporarily restricted net assets:		
Gifts and bequests	2,011,830	2,562,674
Net unrealized gains on investments	245,783	4,379,436
Net investment income	1,513,682	3,734,040
Net assets released from restrictions	(1,738,631)	(2,500,847)
Change in temporarily restricted net assets	<u>2,032,664</u>	<u>8,175,303</u>
Change in net assets	6,523,569	118,509,153
Net assets at beginning of year	<u>524,659,227</u>	<u>406,150,074</u>
Net assets at end of year	<u>\$ 531,182,796</u>	<u>524,659,227</u>

See accompanying notes to consolidated financial statements.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 6,523,569	118,509,153
Adjustments to reconcile changes in net assets to net cash provided by operations:		
Depreciation and amortization	45,668,460	42,627,244
Net realized and unrealized gains on investments and assets whose use is limited	(21,269,567)	(44,192,161)
Provision for bad debts	46,341,498	43,740,102
Change in funded status of defined benefit plan	26,210,464	(42,660,385)
Change in fair value of interest rate swap agreement	6,773,825	(12,199,842)
Gains on equity investments in joint ventures	(2,290,965)	(3,481,290)
Gains on sale of property, buildings and equipment	(31,915)	(118,478)
Proceeds from advance fees	2,279,258	2,730,095
Changes in operating assets and liabilities:		
Patient accounts receivable	(64,264,182)	(49,560,505)
Estimated settlements with third-party payors	2,602,871	(6,303,568)
Inventories	(2,536,845)	(1,173,912)
Prepaid expenses and other current assets	(1,950,058)	(1,351,475)
Other assets	(629,155)	(4,325)
Accounts payable and other accrued expenses	6,370,749	871,786
Employee compensation and benefits	(5,958,906)	3,862,525
Retirement obligations	266,123	267,483
Other liabilities	(400,258)	583,188
Net cash provided by operating activities	43,704,966	52,145,635
Cash flows from investing activities:		
Net change in investments and assets whose use is limited	(343,376)	(164,660)
Acquisition of Bedford Memorial Hospital (plus cash acquired)	1,391,412	—
Acquisition of property, buildings and equipment	(79,254,623)	(57,193,314)
Proceeds on sale of property, buildings and equipment	31,915	118,478
Distributions from joint ventures	2,625,838	1,117,496
Return of investments	—	210,000
Net decrease in cash used in investing activities	(75,548,834)	(55,912,000)
Cash flows from financing activities:		
Proceeds from issuance of long-term obligations	32,866,613	—
Principal payments on long-term obligations	(11,207,949)	(8,686,438)
Resident refunds	(1,388,239)	(1,846,279)
Net cash provided by (used in) financing activities	20,270,425	(10,532,717)
Net decrease in cash and cash equivalents	(11,573,443)	(14,299,082)
Cash and cash equivalents at beginning of year	32,697,840	46,996,922
Cash and cash equivalents at end of year	\$ 21,124,397	32,697,840

See accompanying notes to consolidated financial statements.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization*

Centra Health, Inc. and Subsidiaries' (Centra) operations consist of four acute care hospitals, a long-term acute care hospital, four nursing homes, a continuing care retirement community, and a residential adolescent psychiatric facility. Centra is a not-for-profit corporation with a commitment to promote and develop health care services and the general well-being of the community. Centra also coordinates the activities and interactions of related entities.

(b) *Principles of Consolidation*

The consolidated financial statements include the accounts of Centra Health, Inc. and its wholly owned taxable subsidiary, General Business Concerns, Inc. The consolidated financial statements also include the tax-exempt organizations of Centra Health Foundation (the Foundation), Centra Medical Group LLC, Central Virginia Hospital for Restorative and Rehabilitative Care, LLC (Centra Specialty Hospital), Centra Southside Community Hospital, Inc., Centra Health Indemnity Company LLC, Centra Bedford Memorial Hospital (Bedford), Centra Panoramic, and CCRC, Inc., a majority-owned (91%) subsidiary of Centra. All significant intercompany transactions and account balances have been eliminated in consolidation.

(c) *Use of Estimates*

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

(d) *Cash and Cash Equivalents*

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less when purchased. Centra will routinely invest its surplus funds in money market accounts. At various times throughout the year, Centra maintains deposits at financial institutions in excess of amounts covered by federal depository insurance (FDIC) limits.

(e) *Assets Whose Use is Limited and Investments*

Assets whose use is limited include assets set aside by the Board of Directors for future capital improvements, assets held by the trustee under the Master Indenture, assets restricted by donors and funds designated for construction projects. The portion required for payment of current liabilities is classified as current.

Investments include marketable debt and equity securities and are carried at fair value. Fair value is based on quoted market prices. Realized gains and losses on the sale of investments are determined based on the cost of the specific investment sold.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(f) *Perpetual and Charitable Remainder Trusts*

The Foundation has entered into several types of agreements with donors under which the Foundation will receive future benefits. The Foundation has two types of agreements: perpetual trusts held by a third party and charitable remainder trusts. Under the perpetual trusts, a donor establishes and funds a perpetual trust administered by a trustee other than the Foundation. The Foundation has the irrevocable right to receive the income earned on the trust assets in perpetuity but never receives the assets held in trust. Distributions received by the Foundation may be restricted by the donor. Under the charitable remainder trusts, the donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, the Foundation receives the assets remaining in the trust. The Foundation may ultimately have unrestricted use of those assets, or the donor may place permanent or temporary restrictions on their use. The Foundation's beneficial interest in trusts is recorded at fair value within assets whose use is limited and other assets.

(g) *Interest Rate Swap Agreements*

Investments in interest rate swap agreements are carried at fair value, estimated using a discounted cash flow method at a rate commensurate with the risk involved. Changes in the fair value of the interest rate swap agreements are reported as nonoperating gains (losses) in the consolidated statements of operations and changes in net assets. Net cash settlements are included in interest expense.

(h) *Property, Buildings and Equipment*

Property, buildings and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The general range of estimated useful lives for buildings and land improvements is 20 – 40 years and the general range for equipment is 3 – 15 years. Leasehold improvements are depreciated over the life of the related lease, or the useful life of the asset, whichever is shorter.

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets. Revenue and maintenance is expensed as incurred. Gain or losses on disposal of property, plant and equipment are included in other operating revenue.

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as an increase in unrestricted net assets, and excluded from excess of unrestricted revenues and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted gifts.

(i) *Inventories*

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

(j) *Deferred Financing Costs*

Costs of obtaining financing are deferred and amortized over the terms of the related indebtedness to which they apply.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(k) Advance Fees and Deposits

Under the CCRC, Inc. Residency Agreement, a reservation fee of 10% of the advance fee is required with each reservation. The reservation fee is refundable in full if, before the occupancy date, (i) the applicant terminates the Residency Agreement within seven days of either signing the Residency Agreement or making the reservation deposit, (ii) the applicant is not admitted or dies, or (iii) CCRC, Inc. terminates the Residency Agreement; otherwise, the reservation fee is refundable to the applicant net of a \$500 administrative fee. Upon occupancy, reservation fees are reclassified as deferred revenue from advance fees in other liabilities.

The Residency Agreement provides for partial refunds of the advance fee under the circumstances outlined below. CCRC, Inc. offers residents a choice of one of the following two options:

1. Declining Refund Resident Fee – After the occupancy date, if the Residency Agreement is terminated for any reason, all fees are refundable less an amount equal to 2% of such fees per month of occupancy.

Advance fees received under declining refund resident contracts are amortized into revenue over the actuarially determined life expectancy of each individual resident or couple, adjusted annually.

2. 90% Guaranteed Refund Resident Fee – After the occupancy date, if the Residency Agreement is terminated for any reason, 90% of the fee is refundable upon reoccupancy of the resident's unit.

Advance fees received under the 90% guaranteed refund resident contracts are amortized into revenue as follows:

- The nonrefundable portion is amortized over the actuarially determined life expectancy of each individual resident or couple adjusted annually.
- The refundable portion is not amortized.

The portion of advance fees subject to refund provisions amounted to approximately \$10,042,000 and \$10,203,000 at December 31, 2014 and 2013, respectively, and is included in other long term liabilities on the accompanying consolidated balance sheets.

(l) Temporarily and Permanently Restricted Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. Temporarily restricted net assets are those whose use by Centra has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Centra in perpetuity. Related income is classified as temporarily restricted until expended.

(m) Net Patient Service Revenue

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, including revisions to

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

estimated settlements as a result of audits by the intermediary, are accrued on an estimated basis in the period their related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue was increased by approximately \$1,275,000 and \$3,600,000 for the years ended December 31, 2014 and 2013, respectively, as a result of changes in estimates associated with settlements and other revisions to prior years for third-party settlement accounts.

Centra recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, Centra recognizes revenue on the basis of its discounted rates. Uninsured patients receive a 30% discount from billed charges. On the basis of historical experience, a portion of the patients will be unable or unwilling to pay for the services provided. Thus, Centra records a provision for bad debts/charity related to patient responsibility in the period the services are provided.

(n) *Charity Care*

Centra provides care without charge to patients who meet certain criteria under its charity care policy. Because Centra does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue. Centra maintains records to identify and monitor the level of charity care it provides. The cost to provide services and supplies furnished under Centra charity care policy was approximately \$23,109,000 and \$23,773,000 for 2014 and 2013, respectively. The estimated costs of providing charity services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing charity to patients. The ratio of cost to charges is calculated based on Centra's total expenses (less bad debt expense) divided by gross patient service revenue.

The following information measures the level of charity care provided during the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Charges foregone, based on established rates	\$ 47,730,300	48,779,896
Equivalent percentage of charity care patients to all patients served	3.2%	4.1%

(o) *Meaningful Use of Electronic Health Records (EHR)*

Centra recognizes revenues for incentives earned under the Medicare program in the period in which it is reasonably assured that it has complied with the applicable EHR meaningful use requirements. Incentive payments received under the Medicare program include a discharge-related portion, which is calculated by Centers for Medicare & Medicaid Services based on Centra's most recently filed cost report. Such amounts are subject to adjustment at the time of settling the 12-month cost report for Centra's fiscal year that begins after the beginning of the payment year. Centra achieved compliance with the Year 1, Year 2, and Year 3 meaningful use requirements under the Medicare program during 2014 and 2013 and, accordingly, recognized other operating revenues of approximately \$1,997,000 and \$3,467,000 in the consolidated statements of operations for the years ended December 31, 2014

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

and 2013, respectively. Under the Medicaid program, Centra achieved compliance with the Year 1 and Year 2 meaningful use requirements and, accordingly, recognized other revenues of approximately (\$1,220,000) and \$2,100,000 in the consolidated statements of operations for the year ended December 31, 2014 and 2013, respectively. Centra participated in a post payment Medicaid audit that resulted in a reduction of the estimated incentive. The three year reduction was recognized in total during 2014.

(p) Donor-Restricted Gifts

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

(q) Mission Statement and Nonoperating Gains and Losses

Centra's primary mission is to provide the highest quality care based on the medical needs of the citizens of the communities served. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in gains or losses unrelated to Centra's primary mission are considered to be nonoperating. Nonoperating gains and losses include principally unrestricted contributions and grants, income and expenses associated with investments, realized gains and losses on sales of investments and other nonrecurring items that are considered extraordinary or unusual in nature.

Other changes in unrestricted net assets, which are excluded from excess of unrestricted revenues and other support over expenses include contributions of long-term assets, unrealized gains and losses on investments, changes related to the defined benefit plan and net assets released from restrictions for capital acquisitions.

(r) Defined Benefit Plan

Accounting standards require Centra to: (a) recognize in its consolidated balance sheets an asset for the plan's over-funded status or a liability for the plan's under-funded status; (b) measure the plan's assets and its obligations that determine its funded status as of the end of Centra's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes are reported in other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(s) **Recently Issued Accounting Standards**

On January 1, 2013, Centra adopted the provisions of Accounting Standards Update No. 2012-01, Health Care Entities (Topic 954): *Continuing Care Retirement Communities – Refundable Advance Fees* (ASU No. 2012-01). ASU No. 2012-01 provides continuing care retirement communities with clarification that Centra should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. The adoption of ASU No. 2012-01 was accounted for as a change in accounting principle and applied retroactively to January 1, 2012.

(t) **Subsequent Events**

Centra evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2014 consolidated financial statements through April 27, 2015, the date the consolidated financial statements were issued.

(2) **Net Patient Service Revenue**

Net patient service revenue consists of the following for the years ended December 31:

	2014	2013
Gross inpatient service charges	\$ 730,528,732	717,347,963
Gross outpatient service charges	763,156,564	651,981,416
Charity care	(47,730,300)	(48,779,895)
Total gross patient service revenue	1,445,954,996	1,320,549,484
Deductions from gross patient service revenue:		
Contractual adjustments:		
Medicare	475,193,078	419,545,109
Medicaid	122,549,732	120,425,340
Anthem	54,171,635	52,349,571
Other	50,380,683	43,641,356
Total contractual adjustments	702,295,128	635,961,376
Policy and administrative adjustments	14,981,209	13,013,021
Total deductions from gross patient service revenue	717,276,337	648,974,397
Net patient service revenue	\$ 728,678,659	671,575,087

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

A summary of the payment arrangements with major third-party payors is as follows:

Anthem. Inpatient services rendered to Anthem subscribers are reimbursed at prospectively determined per case or per diem rates and outpatient services are reimbursed at prospectively determined discounted rates. The amounts reimbursed are not subject to retroactive adjustment.

Medicare. Inpatient acute care services, defined capital costs, and certain outpatient services rendered to Medicare 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. Inpatient nonacute services and certain outpatient services, related to Medicare beneficiaries are paid based on predetermined reimbursement methodologies. Centra is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Centra and audits thereof by the Medicare fiscal intermediary. Centra's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2009.

Medicaid. Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates based on a blend of per patient day and per discharge payments. Inpatient nonacute services and certain outpatient services rendered to Medicaid beneficiaries are paid based on a cost reimbursement methodology. Centra is reimbursed at a tentative rate with final settlements determined after submission of annual cost reports by Centra and audits thereof by Medicaid. Centra's Medicaid cost reports have been desk settled by Medicaid through December 31, 2013.

Revenues from Anthem, and the Medicare and Medicaid programs, accounted for approximately 24%, 43% and 11%, respectively, of Centra's net patient service revenue for the year ended December 31, 2014 (23%, 44% and 12%, respectively, for the year ended December 31, 2013).

Patient service revenue, net of contractual allowances and discounts, but before the provision for bad debts, recognized in fiscal year 2014 from these major payor sources is as follows:

	<u>2014</u>	<u>Percentage</u>	<u>2013</u>	<u>Percentage</u>
Commercial payors	\$ 292,088,337	40.1%	263,816,679	39.3%
Medicare	310,915,758	42.7%	291,549,609	43.4
Medicaid	81,119,419	11.1%	80,894,746	12.0
Other third-party payors	44,555,145	6.1%	35,314,053	5.3
Total	<u>\$ 728,678,659</u>	<u>100.0%</u>	<u>671,575,087</u>	<u>100.0%</u>

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(3) Patient Accounts Receivable

Patient accounts receivable, net at December 31 consists of the following:

	2014	2013
Patient accounts receivable	\$ 195,074,808	173,212,808
Less:		
Allowance for bad debts	(16,915,672)	(17,439,011)
Allowance for charity	(16,169,684)	(14,107,367)
Allowance for contractual adjustments	(76,246,351)	(73,846,013)
Patient accounts receivable, net	\$ 85,743,101	67,820,417

Patient accounts receivable are reduced by an allowance for bad debts. In evaluating the collectability of accounts receivable, Centra analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for bad debts. For receivables associated with services provided to patients who have third-party coverage, Centra analyzes contractually due amounts and provides an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and provision for contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, Centra records a provision for bad debts in the period of service on the basis of its historical collections, which indicates that some patients are unwilling to pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debt.

The activity in the allowance for bad debts is as follows:

	2014	2013
Beginning balance	\$ 17,439,011	15,662,312
Provision for bad debts	46,341,498	43,740,102
Less net write-offs	(46,864,837)	(41,963,403)
Ending balance	\$ 16,915,672	17,439,011

Centra's net write-offs increased approximately \$4,901,000 from fiscal year 2013 to fiscal year 2014. This increase in write-offs was mainly due to the write-off of accounts previously reserved along with the increase in patient volume. The Hospital has not changed its charity care or uninsured discount policies during fiscal year 2013 or 2014.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(4) Investments and Assets Whose Use is Limited

Investments and assets whose use is limited at December 31 comprised the following:

	<u>2014</u>	<u>2013</u>
Internally designated by the Board of Directors for capital acquisition	\$ 359,891,242	347,910,431
Internally designated for future investment	7,376,184	—
Internally designated for self-insurance	17,609,938	16,771,173
Escrow under interest rate swap agreement	1,470,547	—
Held by trustee under bond indenture agreement	—	1,846,800
Temporarily restricted by donor	30,089,749	27,973,246
Permanently restricted by donor	28,878,378	28,878,378
Unrestricted – designated as endowment	920,000	920,000
Unrestricted	14,836,885	14,516,986
Other	187,828	178,984
	<u>\$ 461,260,751</u>	<u>438,995,998</u>

Investment income at December 31 consists of the following:

	<u>2014</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Investment income	\$ 2,165,879	711,444	2,877,323
Net realized gains	27,720,316	1,276,048	28,996,364
Net unrealized (losses) gains	(7,320,770)	245,783	(7,074,987)
Investment fees	(1,748,657)	(473,810)	(2,222,467)
	<u>\$ 20,816,768</u>	<u>1,759,465</u>	<u>22,576,233</u>

	<u>2013</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Investment income	\$ 4,502,872	879,696	5,382,568
Net realized gains	29,988,640	3,298,436	33,287,076
Net unrealized gains	6,525,649	4,379,436	10,905,085
Investment fees	(1,380,880)	(444,092)	(1,824,972)
	<u>\$ 39,636,281</u>	<u>8,113,476</u>	<u>47,749,757</u>

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

All securities are classified as available for sale. In accordance with accounting standards, Centra periodically evaluates whether any declines in the fair value of investments that are not classified as trading securities are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: the length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near term prospects for recovery of the fair value of a security; and the intent and ability of Centra to hold the security until the fair value recovers. Declines in fair value below cost that are deemed to be other-than-temporary are included in the accompanying consolidated statements of operations and changes in net assets as nonoperating losses.

The following tables show the gross unrealized losses and fair value of Centra's investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2014 and 2013:

2014 Description of securities	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Private pooled investments	\$ 190,564	(6,197)	4	(1)	190,568	(6,198)

2013 Description of securities	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Private pooled investments	\$ 187,164	(1,697)	—	—	187,164	(1,697)

Unrealized losses on Centra's private pooled investments are related to current economic conditions. As of December 31, 2014 and 2013, Centra has the ability to hold such investments until recovery of their fair value and intends to do so, and does not consider the investments to be other-than-temporarily impaired.

(5) Fair Values of Assets and Liabilities

Fair value as defined under generally accepted accounting principles is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. Generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Centra's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Assets and Liabilities at Fair Value on a Recurring Basis

When quoted prices are available in active markets for identical instruments, investment securities are classified within Level 1 of the fair value hierarchy. Level 1 investments include common stocks, mutual funds, corporate bonds, and U.S. Treasury obligations which are valued based on prices readily available in the active markets in which those securities are traded, and money market funds, which are based on their transacted values. Level 2 investments include private pooled investments, government debt obligations, municipal bonds, hedge funds, and interest rate swap agreements, which are valued on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Level 3 investments include private pooled investments in real estate, which are valued based on unobservable inputs about which little or no market data exists. There were no transfers in or out of Level 3 during 2014 or 2013.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 14,122,959	14,122,959	—	—
Money markets	1,116,086	1,116,086	—	—
Common stocks:				
Consumer discretionary	530,090	530,090	—	—
Consumer staples	233,231	233,231	—	—
Energy sector	457,296	457,296	—	—
Financials	538,798	538,798	—	—
Health care sector	427,015	427,015	—	—
Industrials	295,267	295,267	—	—
Information technology	656,047	656,047	—	—
Materials	35,950	35,950	—	—
Telecommunication services	146,974	146,974	—	—
Utilities	34,014	34,014	—	—
Real estate	133,477	133,477	—	—
Other	632,718	632,718	—	—
Total common stocks	<u>4,120,877</u>	<u>4,120,877</u>	<u>—</u>	<u>—</u>
Mutual funds:				
Domestic equity	15,194,502	15,194,502	—	—
International equity	1,489,655	1,489,655	—	—
Fixed income	2,625,909	2,625,909	—	—
Total mutual funds	<u>19,310,066</u>	<u>19,310,066</u>	<u>—</u>	<u>—</u>
Private pooled investments:				
Domestic equity	100,686,340	—	100,686,340	—
International equity	79,358,070	—	79,358,070	—
Fixed income	183,934,635	—	183,934,635	—
Real estate	33,540,448	—	—	33,540,448
Total private pooled investments	<u>397,519,493</u>	<u>—</u>	<u>363,979,045</u>	<u>33,540,448</u>
Debt securities:				
Corporate bonds	1,309,705	1,309,705	—	—
U.S. treasury obligations	—	—	—	—
Government debt obligations	19,246	—	19,246	—
Municipal bonds	10,529	—	10,529	—
Total debt securities	<u>1,339,480</u>	<u>1,309,705</u>	<u>29,775</u>	<u>—</u>
Beneficial interest in trusts	23,731,790	—	23,731,790	—
Total	<u>\$ 461,260,751</u>	<u>39,979,693</u>	<u>387,740,610</u>	<u>33,540,448</u>

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

		December 31, 2014			
		Total	Level 1	Level 2	Level 3
Liabilities:					
Interest rate swap agreements	\$	21,896,414	—	21,896,414	—
		December 31, 2013			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$	6,754,100	6,754,100	—	—
Money markets		729,011	729,011	—	—
Common stocks:					
Consumer discretionary		412,530	412,530	—	—
Consumer staples		227,688	227,688	—	—
Energy sector		449,622	449,622	—	—
Financials		496,838	496,838	—	—
Health care sector		400,548	400,548	—	—
Industrials		564,019	564,019	—	—
Information technology		617,776	617,776	—	—
Materials		54,541	54,541	—	—
Telecommunication services		127,896	127,896	—	—
Utilities		49,246	49,246	—	—
Real estate		126,499	126,499	—	—
Other		608,457	608,457	—	—
Total common stocks		4,135,660	4,135,660	—	—
Mutual funds:					
Domestic equity		12,961,570	12,961,570	—	—
International equity		3,973,336	3,973,336	—	—
Fixed income		2,365,147	2,365,147	—	—
Total mutual funds		19,300,053	19,300,053	—	—
Private pooled investments:					
Domestic equity		101,994,649	—	101,994,649	—
International equity		65,145,431	—	65,145,431	—
Fixed income		192,284,567	—	192,284,567	—
Real estate		21,551,893	—	—	21,551,893
Total private pooled investments		380,976,540	—	359,424,647	21,551,893

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Debt securities:				
Corporate bonds	\$ 1,336,155	1,336,155	—	—
U.S. treasury obligations	1,846,800	—	1,846,800	—
Government debt obligations	17,952	—	17,952	—
Municipal bonds	10,032	—	10,032	—
Total debt securities	3,210,939	1,336,155	1,874,784	—
Beneficial interest in trusts	23,889,695	—	23,889,695	—
Total	438,995,998	32,254,979	385,189,126	21,551,893
Liabilities:				
Interest rate swap agreements	\$ 15,122,589	—	15,122,589	—

The following table illustrates the activity of Level 3 assets measured at fair value on a recurring basis for December 31, 2014 and December 31, 2013:

	2014	2013
Beginning balance	\$ 21,551,893	19,287,234
Net purchases and sales	11,333,453	—
Net unrealized gains	655,102	2,264,659
Total	\$ 33,540,448	21,551,893

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(6) Property, Buildings and Equipment

Property, buildings and equipment at December 31 consist of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 18,692,508	16,062,163
Land improvements	17,041,941	15,893,582
Buildings and leasehold improvements	456,881,038	412,695,186
Equipment	409,150,836	369,184,411
	<u>901,766,323</u>	<u>813,835,342</u>
Less accumulated depreciation	<u>577,193,702</u>	<u>534,143,756</u>
	324,572,621	279,691,586
Construction in progress	<u>24,129,865</u>	<u>17,715,329</u>
	<u>\$ 348,702,486</u>	<u>297,406,915</u>

Depreciation expense for the years ended December 31, 2014 and 2013 is approximately \$44,600,000 and \$43,700,000, respectively.

Construction in progress primarily consists of various in-house construction projects along with the Nationwide Ambulatory project, the Farmville Ambulatory project and the Pulmonary East Tower project. The estimated cost to complete these construction projects as of December 31, 2014 is approximately \$25,049,000.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(7) Long-Term Obligations

Long-term obligations at December 31 consist of the following:

	2014	2013
Mortgage note payable issued in September 2014 to the Economic Development Authority of the City of Lynchburg, Virginia, who in turn issued tax-exempt Hospital Revenue Bond (Series 2014A Bonds). The 2014A Series Bond bears interest at 4.55%. Payment of interest is due quarterly for the 27 year term. Principal commences on March 2017 with final payment on March 2041.	\$ 25,000,000	—
Notes payable issued in January 2012 by CCRC, Inc. to the Industrial Development Authority of the City of Lynchburg, who in turn issued tax-exempt Residential Care Facility Revenue Refunding Bonds (The Summit, Series 2012 Bonds) Interest will be set the first day of each month and ending on the last day of the month. Interest is payable on the first of the month and principal on January 1 of each year. The bonds are due in full in 2034. The Series 2012 Bonds bear interest at a variable rate (0.89% at December 31, 2014).	8,945,710	9,175,710
Notes payable issued June 2011 by Southside and Centra to the Industrial Development Authority of the Town of Farmville, who in turn issued tax-exempt Hospital Revenue Refunding Bonds (Series 2011 Bonds) and bearing interest at 2.89%.	6,740,981	7,583,602
Mortgage note payable issued in December 2010 to the Industrial Development Authority of the City of Lynchburg, Virginia, who in turn issued a tax-exempt Hospital Revenue Bond (Series 2010 Bond). The Series 2010 Bond bears interest at a variable rate (0.11% at December 31, 2014). Payment of interest and principal is due monthly for the 15 year amortization schedule. At the end of 7 years, the terms of the loan will be renegotiated.	23,187,084	24,962,418
Industrial Development Authority of the County of Campbell, Virginia, who in turn issued tax-exempt Healthcare Facilities Revenue Bond (Series 2007 Bond). The Series 2007 Bond bears interest at 4.13% until 2019 at which time the rate is reset. Payment of interest and principal is due quarterly for the 20 year term.	5,411,661	5,729,460

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

	2014	2013
Mortgage note payable issued in June 2007 to the Industrial Development Authority of the Town of Amherst, Virginia, who in turn issued tax-exempt Healthcare Facilities Revenue Bond (Series 2007 Bond). The Series 2007 Bond bears interest at 4.13% until 2019 at which time the rate is reset. Payment of interest and principal is due quarterly for the 20 year term.	\$ 5,771,061	6,110,102
Mortgage note payable issued in November 2007 to the Industrial Development Authority of the County of Appomattox, Virginia, who in turn issued tax-exempt Healthcare Facilities Revenue Bond (Series 2007 Bond). The Series 2007 Bond bears interest at 4.13% until 2019 at which time the rate is reset. Payment of interest and principal is due quarterly for the 20 year term.	5,569,372	5,880,770
Mortgage note payable issued in December 2004 to the Industrial Development Authority of the City of Lynchburg, Virginia, who in turn issued tax-exempt Hospital Auction Rate Securities Revenue and Refunding Bonds (Series 2004 Bonds). The Series 2004 Bonds comprise serial bonds maturing in graduated annual amounts ranging from \$2,225,000 in 2007 to \$10,275,000 in 2035 and bear interest at variable rates (3.15% for the year ended December 31, 2014). In June 2008, Centra elected the conversion of these auction rate securities to variable rate demand securities.	154,775,000	159,100,000
Mortgage note payable issued in June 1998 to the Industrial Development Authority of the City of Lynchburg, Virginia, who in turn issued tax-exempt Healthcare Facilities Revenue and Refunding Bonds (Series 1998 Bonds). The Series 1998 Bonds comprise serial bonds maturing in graduated annual amounts ranging from \$1,555,000 in 2007 to \$1,800,000 in 2014 and bear interest at various rates, ranging from 4.40% to 5.375%.	—	1,800,000
Notes Payable due to Carilion Clinic for Bedford Memorial Hospital, bearing interest at 4% to 5%	3,049,274	—
Notes Payable due to Carilion Clinic for Bedford Memorial Hospital, bearing interest at 5%	3,774,490	—
Taxable Promissory Note, variable interest rate payable quarterly	6,088,938	—
Other notes payable	2,050,690	986,046
Total long-term obligations	250,364,261	221,328,108
Less current portion of long-term obligations	(10,661,826)	(10,223,665)
Total long-term obligations, net of current portion	\$ 239,702,435	211,104,443

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

The Obligated Group at Centra is made up of the following entities: Centra Medical Group LLC, Centra Medical Group Bedford LLC, Centra Medical Group Southside, LLC, Southside Community Hospital, Inc., Bedford Memorial Hospital, Centra Outpatient Rehabilitation Services, LLC, and CCRC, Inc.

The Series 1998 Bonds, Series 2004 Bonds, Series 2007 Bonds, Series 2010 Bonds, Series 2011 Bonds, and Series 2014 Bonds are secured by substantially all property and equipment of the Obligated Group. The Series 2002 Bonds are secured by a Deed of Trust on the property and equipment of CCRC, Inc.

In September 2014 Centra Health issued \$25,000,000 (Series 2014A) and \$54,895,000 (Series 2014B) in tax-exempt Hospital Revenue Bonds. The Series 2014A bears interest at a fixed rate of 4.55% and Series 2014B bears interest at a variable rate both payable quarterly. Proceeds of the sale of the bonds are to be used for the acquisition, construction and equipment as the follows: 1) 51,000 square foot medical center and 24 hour emergency room located in Gretna, Virginia, 2) 52,000 square foot medical center in Farmville Virginia, 3) 17,500 square foot primary care and specialty care clinic locate Amherst Virginia, 4) 46,500 square foot primary care and medical center located in Lynchburg Virginia, 5) new 36 bed pulmonary unit on the fifth floor of the LGH East Tower, and 6) 37,750 square foot comprehensive neurosciences center located in Lynchburg, Virginia. As of December 31, 2014, Centra has borrowed \$25,000,000 on Series 2014A and none from the 2014B Series bonds.

In September 2014 Centra Health issued a taxable promissory note in the amount of \$20,105,000, variable interest rate payable quarterly. Proceeds of the sale of the bonds are to be used for the acquisition, construction and equipment of a 32,000 square foot ambulatory medical center located in Danville, Virginia along with supplementing the costs of the ambulatory centers in Gretna, Farmville, and Lynchburg, Virginia. On the taxable note Centra borrowed \$6,088,938 as of December 31, 2014.

On June 30, 2014 Bedford Memorial Hospital and Centra Health entered into a Debt Service Agreement with Carilion Clinic to provide for the payment of debt service for Bedford Memorial Hospital portion of the Series 2005C Hospital Revenue Bonds and the Series 2012 Hospital Revenue Bonds of Carilion Clinic. Bedford Memorial Hospital will make Debt Service payments to Carilion Clinic based on the terms set forth in the Purchase Agreement. Interest rate ranges from 4% to 5% with final payment in 2022.

In January 2012, CCRC issued \$9,455,000 in Residential Care Facility Revenue Refunding Bonds (Series 2012). The proceeds of the sale of the 2012 Bonds, along with \$720,000 from the Debt Service Reserve Fund, were used to refund the outstanding principal balance of the Series 2002 Bonds. A loss of \$446,844 was recognized on the refunding. The interest rate for the 2012 Bonds will be set on the first day of each month and ending on the last day of the month as follows: interest rate shall be established at a rate equal to the sum of 75% of the one-month LIBOR rate plus 77.5 basis points.

In June 2011, Southside issued \$9,619,940 in Hospital Revenue Refunding Bonds (Series 2011). The proceeds of the sale of the 2011 Bonds were used to refund the outstanding principal balance of the Medical Facility Revenue Bonds Series 1997 and Series 1998 and to pay the costs of issuing the 2011 Series Bonds. The bond purchase and loan agreement between the Industrial Development Authority of the Town of Farmville, Southside Community Hospital, and Branch Banking and Trust Company (BB&T), as purchaser was entered into on June 1, 2011.

During December 2010, Centra issued \$30,000,000 in Hospital Revenue Bond, 2010 Series. An interest rate swap agreement was also entered into at a fixed rate of interest of 2.85% for a period of seven years. The

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

proceeds of the bonds are to be used for the purchase and construction of the School of Nursing, completion of the fifth floor of the bed tower at Lynchburg General, purchase of new information technology for the organization and to finance routine capital expenditures.

During 2007, Centra issued \$23,000,000 in Healthcare Facilities Revenue Bonds, 2007 Series. The proceeds of the 2007 Series were used to help finance the construction of the Summit Assisted Living Facility, purchase of a physician office building and construction of the regional cancer center.

In December 2004, Centra issued \$179,125,000 in Hospital Auction Rate Securities, (2004 Series A, 2004 Series B, 2004 Series C, 2004 Series D, 2004 Series E and 2004 Series F bonds, collectively, the 2004 Bonds). The proceeds of the sale of the 2004 Bonds were used together with other funds available, to (a) refund the outstanding principal of the VHA Note and to advance refund a portion of the 1998 bonds, (b) to finance the costs of acquisition and construction of improvements to the hospital facilities and the acquisition of equipment, and (c) to pay the costs of issuing the 2004 Bonds, including the premium for the issuance of the insurance policy by the bond insurer. In June 2008, Centra elected the conversion of each series of the 2004 Bonds (the Conversion) from auction rate securities to variable rate demand securities. The 2004 Bonds are payable from, and secured by, a pledge of payment to be made to the Industrial Development Authority of the City of Lynchburg, Virginia, under the original loan. In connection with the Conversions, each series of 2004 Bonds are payable from irrevocable direct-pay letters of credit issued by two financial institutions for a term to expire on December 16, 2016 and June 15, 2017, respectively, at which time or earlier, management intends to renew or extend the letters of credit. The terms of these letters of credit allow for repayment periods of 5 years.

In June 1998, Centra issued \$70,745,000 in Healthcare Facilities Revenue and Refunding Bonds. The proceeds of the sale of the 1998 Bonds were used to finance new construction, renovation of existing facilities, and purchase of equipment along with the refunding of the Series 1988 Bonds. In conjunction with the issuance of the Series 2004 Bonds, \$46,450,000 of the Series 1998 Bonds were refunded.

Pursuant to the Master Indenture, Centra agreed to certain operational and financial restrictions, which currently apply only to members of the Obligated Group. Each entity that becomes a member of the Obligated Group will be subjected to the Obligated Group restrictions. The operational and financial restrictions contained in the Master Indenture relate primarily to debt service coverage requirements; the incurrence, directly or by guaranteeing the debt of others, of additional indebtedness; the ability to transfer assets, including both physical and liquid assets; and the ability to affect mergers and consolidations. The Master Indenture also creates a security interest in the unconditional promises to give revenues of the Obligated Group.

In addition to the operational and financial restrictions contained in the Master Indenture, Centra has entered into a Supplemental Indenture with the Master Trustee, in which it agreed to maintain days cash on hand of 60 days or greater at June 30 and December 31 of each year. Centra is required to report semi-annually to the Master Trustee on compliance with this provision. The Supplemental Indenture also requires Centra to deposit an amount equal to the maximum annual debt service if the Long-Term Debt Service Coverage Ratio falls below 1.35. As of December 31, 2014 and 2013, Centra is in compliance with these covenants.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Maturities of long-term obligations as of December 31, 2014 are as follows:

	Centra Series 2004	Local IDA 2007	Local IDA 2010	Capital leases	Centra Series 2014	CCRC Series 2012 Bonds	Total Southside Hospital	Total Bedford Hospital	Total
Year:									
2015	\$ 4,500,000	1,023,289	1,825,685	1,590,199	—	240,000	864,599	618,054	10,661,826
2016	4,700,000	1,066,210	1,877,466	266,082	—	255,000	866,187	530,936	9,561,881
2017	5,525,000	1,110,931	1,930,715	—	112,500	270,000	867,891	625,476	10,442,513
2018	5,700,000	1,157,529	1,985,474	—	132,500	285,000	869,717	629,806	10,760,026
2019	5,900,000	1,206,080	2,041,786	—	156,250	305,000	871,676	581,239	11,062,031
Thereafter	<u>128,450,000</u>	<u>11,188,055</u>	<u>13,525,958</u>	<u>—</u>	<u>30,687,688</u>	<u>7,590,710</u>	<u>2,595,320</u>	<u>3,838,253</u>	<u>197,875,984</u>
Balance									
December 31, 2014	154,775,000	16,752,094	23,187,084	1,856,281	31,088,938	8,945,710	6,935,390	6,823,764	250,364,261
Less current	<u>(4,500,000)</u>	<u>(1,023,289)</u>	<u>(1,825,685)</u>	<u>(1,590,199)</u>	<u>—</u>	<u>(240,000)</u>	<u>(864,599)</u>	<u>(618,054)</u>	<u>(10,661,826)</u>
Long-term portion	<u>150,275,000</u>	<u>15,728,805</u>	<u>21,361,399</u>	<u>266,082</u>	<u>31,088,938</u>	<u>8,705,710</u>	<u>6,070,791</u>	<u>6,205,710</u>	<u>239,702,435</u>

During the years ended December 31, 2014 and 2013, Centra paid approximately \$5,552,000 and \$5,590,000, respectively, in interest.

(8) Interest Rate Swap Agreements

Centra entered into various interest rate swap agreements with certain investment companies, which reduce the exposure of volatility in interest rates on certain variable rate debt. As such, Centra pays a fixed rate of interest, as noted in the following table, while the investment company pays based on a floating London Inter-Bank Offered Rate (LIBOR). The floating rate resets every seven days for the 2004 swap agreements and monthly for the 2010 and 2011 swap agreement. The difference between the fixed and floating rates is accrued and recorded in interest expense in the accompanying consolidated statements of operations and changes in net assets beginning on the effective date.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

The following are schedules outlining the terms and fair market values of the derivative instruments on December 31:

	<u>Series 2004 swap</u>	<u>Series 2004 swap</u>	<u>Series 2004 swap</u>	<u>Series 2010 swap</u>	<u>Series 2010 swap</u>	<u>Total</u>
Notional amount – original	\$ 52,700,000	39,500,000	39,125,000	30,000,000	9,619,940	170,944,940
Notional amount – 12/14	46,950,000	39,475,000	32,075,000	23,187,084	6,740,980	148,428,064
Trade date	11/17/04	11/17/04	11/17/04	12/14/10	06/22/11	
Effective date	12/08/04	12/08/04	12/08/04	12/17/10	06/30/11	
Termination date	01/01/28	01/01/35	01/01/35	12/17/17	12/15/22	
Fixed rate	3.00%	3.00%	3.00%	3.00%	3.00%	
Fair value at December 31, 2012	\$ (8,166,408)	(10,445,637)	(6,566,068)	(1,583,800)	(560,518)	(27,322,431)
Change in fair value	<u>3,327,411</u>	<u>4,976,359</u>	<u>2,982,690</u>	<u>620,192</u>	<u>293,190</u>	<u>12,199,842</u>
Fair value at December 31, 2013	(4,838,997)	(5,469,278)	(3,583,378)	(963,608)	(267,328)	(15,122,589)
Change in fair value	<u>(1,016,134)</u>	<u>(4,187,092)</u>	<u>(1,803,457)</u>	<u>242,042</u>	<u>(9,184)</u>	<u>(6,773,825)</u>
Fair value at December 31, 2014	<u>\$ (5,855,131)</u>	<u>(9,656,370)</u>	<u>(5,386,835)</u>	<u>(721,566)</u>	<u>(276,512)</u>	<u>(21,896,414)</u>

By using an interest rate swap to limit exposure to changes in interest rates, Centra exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with an interest rate swap is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Centra has included the fair market value of these derivative instruments of approximately \$21,896,000 and \$15,123,000 as a noncurrent liability in the accompanying consolidated balance sheets at December 31, 2014 and 2013, respectively. Unrealized gains on derivative instruments were approximately \$6,774,000 and \$12,200,000 for the years ended December 31, 2014 and 2013, respectively, and are included with net nonoperating gains on the consolidated statements of operations and changes in net assets.

Subsequent to year end, per the Series 2004 interest rate swap agreements, Centra posted additional collateral of approximately \$3,411,000 as of March 31, 2015.

(9) Retirement Plans

Centra and its not-for-profit subsidiaries (except Bedford and Southside) have a defined benefit pension plan covering substantially all of its employees (the Plan). The benefits are based on years of service and the average compensation during the highest five consecutive calendar years of service. 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. Centra elected to freeze the Plan as of December 31, 2009 to new participants and no future accruals will be earned.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

A summary of the projected benefit obligation, change in plan assets and net periodic pension cost follows:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 211,096,859	239,298,139
Interest cost	9,865,848	9,094,451
Actuarial (gain) loss	41,574,070	(30,898,008)
Benefits paid	<u>(6,898,676)</u>	<u>(6,397,723)</u>
Projected benefit obligation, end of year	<u>255,638,101</u>	<u>211,096,859</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	188,958,737	174,767,115
Actual return on plan assets	21,663,331	13,589,345
Employer contributions	3,300,000	7,000,000
Benefits paid	<u>(6,898,676)</u>	<u>(6,397,723)</u>
Fair value of plan assets, end of year	<u>207,023,392</u>	<u>188,958,737</u>
Funded status of plan (under-funded)	<u>\$ (48,614,709)</u>	<u>(22,138,122)</u>
Reconciliation of accrued pension costs:		
Prepaid pension costs	\$ 11,009,115	11,276,598
Employer contributions	3,300,000	7,000,000
Net periodic pension costs	<u>(3,566,123)</u>	<u>(7,267,483)</u>
Prepaid pension costs, end of year	10,742,992	11,009,115
Amounts recognized as other change in net assets	<u>(59,357,701)</u>	<u>(33,147,237)</u>
Funded status of plan (under-funded)	<u>\$ (48,614,709)</u>	<u>(22,138,122)</u>
Components of net periodic benefit cost:		
Interest cost	\$ 9,865,848	9,094,451
Expected return on plan assets	(10,794,131)	(10,097,505)
Amortization of net actuarial loss	<u>4,494,406</u>	<u>8,270,537</u>
Net periodic pension cost	<u>\$ 3,566,123</u>	<u>7,267,483</u>
Other changes in plan assets and benefit obligations recognized in other changes in net assets:		
Net actuarial gain (loss)	\$ (30,704,870)	34,389,848
Amortization of net actuarial loss	<u>4,494,406</u>	<u>8,270,537</u>
Total recognized in other changes in net assets	<u>\$ (26,210,464)</u>	<u>42,660,385</u>

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(a) Assumptions

Weighted average assumptions used to determine benefit obligations:

	<u>2014</u>	<u>2013</u>
Discount rate	4.10%	4.75%
Expected long-term return on assets	6.00	6.00
Compensation rate increase	N/A	N/A

Weighted average assumptions used to determine net periodic benefit cost:

	<u>2014</u>	<u>2013</u>
Discount rate	4.75%	3.85%
Expected long-term return on assets	6.00	6.00
Compensation rate increase	N/A	N/A

The expected long-term rate of return for the Plan's total assets is based on an analysis of anticipated returns for equity and fixed income investments for the portfolio allocation.

(b) Plan Assets

The asset allocation for Centra's funded retirement plan at December 31, 2014 and 2013, and the target allocation for 2015 by asset category are as follows:

	<u>Target allocation 2015</u>	<u>Percentage of plan assets at year end</u>	
		<u>2014</u>	<u>2013</u>
Equity securities	40.0%	39.1%	33.8%
Fixed income securities	60.0	60.9	58.8
Real estate	—	—	7.4
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The policy, as established by the Investment Committee, is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The assets will be reallocated quarterly to meet the above target allocations. The investment policy will be reviewed on a quarterly basis, under the advisement of a certified investment advisor to determine if the policy should be changed.

As disclosed in note 5, U.S. generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Prices for certain common collective trusts are determined on a recurring basis based on inputs that are readily available in public

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

markets or can be derived from information available in publicly quoted markets and are categorized as Level 2. Prices for real estate common collective trusts and hedge funds are classified as Level 3.

The following table sets forth by level the fair value hierarchy the Plan's financial assets accounted for at fair value as of December 31, 2014 and 2013, respectively. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Centra's assessment of the significance of a particular input to the fair value measurement for Plan assets requires judgment, and may affect the valuation of fair value of Plan investments and their placement within the fair value hierarchy levels.

December 31, 2014				
	Total	Level 1	Level 2	Level 3
Common collective trusts:				
Equity securities	\$ 80,992,550	—	80,992,550	—
Fixed income	126,030,842	—	126,030,842	—
Total	\$ 207,023,392	—	207,023,392	—

December 31, 2013				
	Total	Level 1	Level 2	Level 3
Common collective trusts:				
Equity securities	\$ 63,789,753	—	63,789,753	—
Fixed income	110,810,800	—	110,810,800	—
Real estate	14,358,184	—	—	14,358,184
Total	\$ 188,958,737	—	174,600,553	14,358,184

A reconciliation of Plan assets held classified as Level 3 follows:

	2014	2013
Balance, beginning of year	\$ 14,358,184	12,786,036
Net unrealized gains	152,525	1,572,148
Sale of real estate	(14,510,709)	—
Balance, end of year	\$ —	14,358,184

(c) Cash Flows

Centra expects to make contributions of \$4,600,000 to the Plan during 2015.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Estimated future benefit payments – The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2015	\$	8,309,000
2016		9,035,000
2017		9,834,000
2018		10,580,000
2019–2022		63,313,000

(d) Section 403(b) Plan

Centra and its not-for-profit subsidiaries have a tax sheltered annuity program qualified under Section 403(b) of the Internal Revenue Code covering all employees meeting age and service requirements. The program allows Centra to make discretionary contributions to the Plan, subject to certain limitations. Centra’s contributions for 2014 and 2013 were approximately \$17,889,000 and \$17,737,000, respectively. As a result of the defined benefit plan freeze, Centra provided an additional annual contribution of 4% of base pay into each eligible employee’s personal retirement savings account in 2014 and 2013. In addition, Centra continues to match up to 3% on employee contributions.

(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

		2014	2013
Indigent care	\$	1,244,060	1,065,382
Capital acquisitions		4,035,897	3,815,153
Program services		26,896,192	25,262,950
	\$	32,176,149	30,143,485

Permanently restricted net assets at December 31 are restricted to:

		2014	2013
Indigent care	\$	830,012	830,012
Capital acquisitions		1,800,730	1,800,730
Program services		20,971,930	20,971,930
Endowment		5,275,706	5,275,706
	\$	28,878,378	28,878,378

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

During 2014 and 2013, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of indigent care, capital acquisitions and program expenses, which totaled approximately \$1,739,000 and \$2,501,000, respectively.

(11) Endowment Funds

The Foundation's endowment consists of approximately 45 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) *Interpretation of Relevant Law*

The Board of Directors of the Foundation 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 of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Foundation 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 Foundation and 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
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net asset composition by type of fund as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds:				
Donor-restricted	\$ —	13,209,513	28,878,378	42,087,891
Board-designated	920,000	—	—	920,000
Total funds	<u>\$ 920,000</u>	<u>13,209,513</u>	<u>28,878,378</u>	<u>43,007,891</u>

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Changes in endowment net assets for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 920,000	13,250,603	28,878,378	43,048,981
Investment returns:				
Investment income	—	501,833	—	501,833
Appropriation of endowment assets for expenditure	—	(542,923)	—	(542,923)
Endowment net assets, end of year	<u>\$ 920,000</u>	<u>13,209,513</u>	<u>28,878,378</u>	<u>43,007,891</u>

Endowment net asset composition by type of fund as of December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds:				
Donor-restricted	\$ —	13,250,603	28,878,378	42,128,981
Board-designated	920,000	—	—	920,000
Total funds	<u>\$ 920,000</u>	<u>13,250,603</u>	<u>28,878,378</u>	<u>43,048,981</u>

Changes in endowment net assets for the year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 920,000	8,454,024	28,878,378	38,252,402
Investment returns:				
Investment income	—	5,134,898	—	5,134,898
Appropriation of endowment assets for expenditure	—	(338,319)	—	(338,319)
Endowment net assets, end of year	<u>\$ 920,000</u>	<u>13,250,603</u>	<u>28,878,378</u>	<u>43,048,981</u>

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(b) *Return Objectives and Risk Parameters*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return on equity investments of 6% and a fixed income yield of 2% annually. Actual returns in any given year may vary from this amount.

(c) *Strategies Employed for Achieving Objectives*

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

(d) *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Foundation has a policy of requesting for distribution each year either net income of the asset or a percentage of the assets average fair value, which results in an average net cash distribution of 2.4% of total assets. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4.3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

(12) Tax Status

Centra Health, Inc., Centra Health Foundation, CCRC, Inc., Southside Community Hospital, Inc., Bedford Memorial Hospital, and Lynchburg Family Practice Residency Program, Inc. are exempt from income tax under Section 501 (a) of the Internal Revenue Code. Accordingly, no income taxes have been provided for these entities in the accompanying consolidated financial statements except for taxes related to certain unrelated business income engaged in by Centra.

Centra Medical Group LLC, Centra Health Indemnity Company LLC, and Central Virginia Hospital for Restorative and Rehabilitative Care, LLC are disregarded for federal income tax purposes and therefore are included under Centra's tax return.

Centra has adopted relevant accounting standards related to taxes for its subsidiary, General Business Concerns, Inc. Under the asset and liability method for these standards, deferred tax assets and liabilities are recognized for the temporary differences between the financial statement carrying amounts and the tax basis of the subsidiary's assets and liabilities at income tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Centra Health Indemnity Company LLC is wholly owned by Centra Health, Inc. Any liability for taxes are passed through to Centra Health, Inc. A provision will be made when operations of this subsidiary indicates a liability for taxes.

Centra has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2014. Centra believes they are no longer subject to income tax examinations for years prior to December 31, 2011.

(13) Functional Expenses

Centra provides a broad range of health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 640,221,857	590,653,110
General and administrative	82,956,539	76,702,417
	<u>\$ 723,178,396</u>	<u>667,355,527</u>

(14) Investments in Joint Ventures

(a) *Piedmont Community Health Plan*

Piedmont Community Health Plan (PCHP) is an organized network of health care providers established to offer health care services to the community. PCHP, a Virginia stock corporation, has two shareholders, Centra (50%) and Integrated Healthcare, Inc. (50%). Integrated Healthcare, Inc. is owned by physicians in the Lynchburg, Virginia market. At December 31, 2013, Centra was at risk for approximately \$1,500,000 for amounts withheld from payments by PCHP for services provided by Centra to PCHP members. Centra's investment in PCHP is accounted for under the equity method. At December 31, 2014 and 2013, PCHP had total net assets of approximately \$644,000 and \$13,640,000, respectively. On January 1, 2015 Centra purchased the remaining 50% interest in PCHP by acquiring Integrated Healthcare, Inc. for cash consideration of approximately \$7,300,000.

(b) *Central Virginia Imaging, L.L.C.*

Central Virginia Imaging, L.L.C. (CVI) is a Virginia nonstock corporation established June 8, 1998. This corporation has two members, Centra (50%), and Radiology Consultants of Lynchburg, Inc. (50%). The corporation was established to provide CT scanning and magnetic resonance imaging services. Centra's investment in CVI is accounted for under the equity method. At December 31, 2014 and 2013, CVI had total net assets of approximately \$75,000 and \$171,000, respectively.

(c) *Bedford Memorial Hospital*

Bedford Memorial Hospital (Bedford) is a nonprofit, nonstock corporation, which operates an acute care hospital and a long-term care facility in Bedford, Virginia. Prior to July 9, 2001, Bedford was operated solely by Carilion Clinic (Carilion). Effective July 9, 2001, Centra entered into a joint venture arrangement with Carilion to operate Bedford in order to maintain and strengthen a community

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

hospital that effectively integrates the resources, efficiencies and capabilities of the two organizations to offer the best chance for Bedford to preserve its longstanding commitment of providing quality healthcare services to its community. In connection with the joint venture formation, Centra and Carilion each contributed \$1,500,000 to Bedford. Centra and Carilion each have a 50% interest in Bedford. Centra's investment in Bedford was accounted for under the equity method. At December 31, 2013, Bedford had total net assets of approximately \$15,748,000.

On July 1, 2014 Centra Health, Inc. acquired Carilion Clinic's 50% membership interest in Bedford Memorial Hospital for a purchase price of approximately \$12,900,000. The acquisition was accounted for under the acquisition method of accounting prescribed in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combinations* (ASC 805). The purchase price was allocated to the assets and liabilities based on the estimated fair value on the date of acquisition, with the remainder allocated to goodwill.

A summary of the estimated fair value of the assets and liabilities assumed in the acquisition are as follows:

Estimated fair value of assets and liabilities as of purchase date:

Assets:	
Cash and cash equivalents	\$ 14,322,762
Assets whose use is limited	651,810
Inventory	493,884
Prepaid expenses	94,043
Property and equipment	16,692,332
Goodwill	<u>3,137,519</u>
Total assets	<u>35,392,350</u>
Liabilities and net assets:	
Current portion of notes payable	489,000
Estimated settlements to third party payors	817,477
Other liabilities	1,334,697
Notes payable	<u>6,888,490</u>
Total liabilities	<u>9,529,664</u>
Unrestricted net assets	<u>\$ 25,862,686</u>

(d) ***The Surgery Center of Lynchburg***

The Surgery Center of Lynchburg, L.L.C. (the Surgery Center) is a Virginia limited liability company organized on January 29, 1999 to provide outpatient surgical services in the central Virginia area. Centra owns 50% of the Surgery Center and the remaining 50% is owned by individual physicians. Centra's investment in the Surgery Center is accounted for under the equity method. At December 31, 2014 and 2013, the Surgery Center had total net assets of approximately \$3,200,000 and \$3,256,000, respectively.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(15) Fair Value of Financial Instruments

The carrying amounts of Centra's financial instruments, excluding long-term obligations, approximate their fair values. The fair values of Centra's long-term obligations are estimated based on the quoted market prices for the same or similar issues or using discounted cash flow analyses.

The carrying amount and fair value of Centra's long-term obligations at December 31 are as follows:

	2014		2013	
	Fair value	Carrying value	Fair value	Carrying value
Long-term obligations	\$ 250,364,261	250,364,261	220,548,467	221,328,108

(16) Commitments and Contingencies

(a) Lease Commitments

Total rental expense in 2014 and 2013 for all operating leases and software maintenance agreements was approximately \$21,881,000 and \$19,409,000, respectively.

Future minimum payments for the next five years on operating lease agreements at December 31, 2014 are as follows:

2015	\$	2,918,803
2016		2,497,091
2017		2,164,314
2018		1,901,717
2019		1,437,902
Thereafter		4,004,012
	\$	14,923,839

(b) Compliance

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Centra believes that 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 effect on the consolidated financial statements. Compliance with such laws and regulations is subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Centra has identified possible overpayments as a result of potential Stark Law noncompliance which generally prohibits a financial relationship between a referring physician and healthcare facilities receiving any such referrals absent specific contractual language. Centra has self-disclosed these

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

possible overpayments to relevant regulatory authorities, and expects to work collaboratively with these authorities to determine what, if any, repayments might be appropriate. Management believes that the ultimate outcome to this matter will not have a material effect on Centra's consolidated financial statements.

(c) ***Litigation***

Centra is subject to various legal proceedings and claims that are inherent to the provision of healthcare services. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Centra's consolidated financial statements.

(d) ***Affiliation Agreement***

On January 3, 2006, Centra entered into an affiliation agreement with Southside, a 116 bed hospital located in Farmville, Virginia. Under the terms of the affiliation agreement, Centra became the sole corporate member of Southside. Southside remains the licensed owner and operator of the hospital and its operating board continues to serve as the governing board of the hospital, subject to reserved powers maintained by Centra. Under the agreement, Centra agreed to make available \$35,500,000 for capital expenditures over a period of ten years. This commitment has been fulfilled as of December 31, 2014. In addition, Centra will also provide Southside with funds to make the principal and interest payments on the outstanding Series 2011 Hospital Revenue Refunding Bonds as the payments come due.

(17) **Concentrations of Credit Risk**

Centra grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The approximate mix of receivables from patients and third-party payors at December 31 was as follows:

	<u>2014</u>	<u>2013</u>
Medicare	40%	39%
Medicaid	13	15
Anthem	12	11
Commercial and managed care	17	16
Patients and other	18	19
Totals	<u>100%</u>	<u>100%</u>

(18) **Self-Insurance**

(a) ***General Liability and Malpractice Insurance***

Prior to December 31, 2002, Centra maintained professional liability insurance coverage with a reciprocal insurance company (the Insurer), which insured Centra and a coalition of other hospitals, physicians and attorneys. The Insurer experienced significant losses over the last few years and its risk-based capital dropped below specified levels, which has resulted in the State Corporation Commission and Bureau of Insurance of the Commonwealth of Virginia placing the Insurer into receivership and subsequently liquidation. Should the Insurer no longer be able to pay the claims of

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Centra, Centra would be required to purchase coverage to insure these claims. Centra elected not to purchase tail coverage to insure itself for incidents that occurred prior to December 31, 2002, but which may be reported subsequent to that date.

From January 1, 2003 through October 1, 2009, Centra was a member of Virginia Health Systems Alliance Inter-Insurance Exchange, a multi-provider captive insurance company. Effective October 1, 2009, Centra formed a single member limited liability company, Centra Health Indemnity Company, LLC (CHIC), that operates as an insurance company, whose sole purpose is to provide general, professional and excess liability along with terrorism risk coverage. Professional, general, and excess liability risks are primarily insured on a claims-made basis. CHIC policy limits are \$32,150,000, \$52,000,000, and \$51,000,000 per occurrence (\$32,100,000, \$32,000,000 and \$31,000,000 prior to January 1, 2014) for professional, general, and excess liability, respectively, and \$36,000,000, \$56,000,000, and 53,000,000 in the aggregate per year (\$36,000,000, \$36,000,000, and \$33,000,000 prior to January 1, 2014) for professional, general, and excess liability, respectively. Accrued professional liability costs on a discounted basis as of December 31, 2014 and 2013 amounted to \$10,575,000 and \$9,615,000, respectively, and is included in other long-term liabilities on the consolidated balance sheets.

Centra's professional liability insurance coverage is on a claims-made basis with a retroactive coverage date of October 1, 1975. Should the claims-made policy not be renewed or replaced with equivalent insurance, occurrences during its term, but asserted subsequently, would be uninsured unless Centra obtains tail coverage. The basic level of coverage limits claims paid to \$2,000,000 per occurrence and \$6,000,000 in aggregate. Centra has recorded an actuarially determined liability of approximately \$4,922,000 and \$4,159,000 as of December 31, 2014 and 2013, respectively, for those claims incurred but not yet reported, and is included in other long-term liabilities on the consolidated balance sheets.

Professional liability policies entered into 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. The estimated liability for professional and general liability claims will be significantly affected if current and future claims differ from historical trends. While management monitors reported claims closely and considers potential outcomes as estimated by its actuaries when determining its professional and liability accruals, the complexity of the claims, the extended period of time to settle the claims, and the wide range of potential outcomes complicate the estimation. In the opinion of management, adequate provision has been made for the related risk.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(b) *Employee Health Benefits*

Centra is self-insured for employee health benefits. Payments under the plan are limited to \$300 per participant per year. The liabilities associated with these claims totaled \$4,112,000 and \$3,867,000 at December 31, 2014 and 2013, respectively.

(c) *Workers' Compensation Insurance*

Centra is self-insured for workers' compensation insurance. The liability associated with these claims totaled \$600,000 and \$618,000 at December 31, 2014 and 2013, respectively.



KPMG LLP
Suite 1010
10 S. Jefferson Street
Roanoke, VA 24011-1331

Independent Auditors' Report on Supplementary Information

The Board of Directors
Centra Health, Inc. and Subsidiaries:

We have audited the consolidated financial statements of Centra Health, Inc. and Subsidiaries as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated April 27, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules listed under "Supplementary Information" are presented for the purposes of additional analysis rather than to present the financial position and results of operations of the individual organizations and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Roanoke, Virginia
April 27, 2015

CENTRA HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

December 31, 2014

Assets	Centra Health	Southside Community Hospital	Bedford Memorial Hospital	CCRC	Centra Medical Group	Eliminations	Subtotal Obligated Group
Current assets:							
Cash and cash equivalents	\$ 9,414,369	2,662,223	2,833,092	547,284	1,534,612	—	16,991,580
Patient accounts receivable, net	64,921,009	7,266,549	6,454,621	—	6,424,938	(341,246)	84,725,871
Estimated settlements from third-party payors	8,102,298	746,705	250,362	—	—	—	9,099,365
Investments and assets whose use is limited	7,376,184	874,320	—	—	—	—	8,250,504
Inventories	15,856,755	1,583,549	796,660	—	303,220	—	18,540,184
Prepaid expenses and other current assets	12,119,877	1,097,237	571,595	144,801	1,386,205	(842,622)	14,477,093
Total currents assets	<u>117,790,492</u>	<u>14,230,583</u>	<u>10,906,330</u>	<u>692,085</u>	<u>9,648,975</u>	<u>(1,183,868)</u>	<u>152,084,597</u>
Investments and assets whose use is limited	359,270,431	1,345,613	—	8,052,382	—	—	368,668,426
Property, plant and equipment, net	269,802,830	25,033,372	22,443,719	9,261,039	20,127,966	—	346,668,926
Investments in joint ventures	3,826,762	—	—	—	—	—	3,826,762
Invested capital, controlled entities	129,664,705	—	—	—	—	(50,089,469)	79,575,236
Due from related parties	25,477,425	5,913,753	—	—	796,139	(30,842,627)	1,344,690
Other assets	9,083,290	76,002	3,137,519	87,293	—	—	12,384,104
Total other assets	<u>797,125,443</u>	<u>32,368,740</u>	<u>25,581,238</u>	<u>17,400,714</u>	<u>20,924,105</u>	<u>(80,932,096)</u>	<u>812,468,144</u>
Total assets	<u>\$ 914,915,935</u>	<u>46,599,323</u>	<u>36,487,568</u>	<u>18,092,799</u>	<u>30,573,080</u>	<u>(82,115,964)</u>	<u>964,552,741</u>
Liabilities and Net Assets (Deficit)							
Current liabilities:							
Accounts payable and accrued expenses	\$ 37,410,949	2,573,731	1,076,521	384,417	2,729,877	(341,246)	43,834,249
Employee compensation and benefits	18,840,534	2,133,379	1,354,855	36,277	5,815,436	—	28,180,481
Estimated settlements to third-party payors	18,108,536	2,015,387	796,111	—	188,495	—	21,108,529
Current portion of long-term obligations	9,781,795	864,599	618,054	240,000	—	(842,622)	10,661,826
Due to related parties	—	—	—	121,554	—	(121,554)	—
Other current liabilities	927,127	140,471	1,780	1,986,870	—	—	3,056,248
Total current liabilities	<u>85,068,941</u>	<u>7,727,567</u>	<u>3,847,321</u>	<u>2,769,118</u>	<u>8,733,808</u>	<u>(1,305,422)</u>	<u>106,841,333</u>
Long-term obligations, net of current portion	218,720,225	6,070,789	6,205,711	8,705,710	—	—	239,702,435
Interest rate swap agreements	21,619,902	276,512	—	—	—	—	21,896,414
Retirement obligations	48,614,709	—	—	—	—	—	48,614,709
Other long-term liabilities	9,709,362	7,593,001	2,371,095	11,598,962	15,763,707	(30,721,073)	16,315,054
Total liabilities	<u>383,733,139</u>	<u>21,667,869</u>	<u>12,424,127</u>	<u>23,073,790</u>	<u>24,497,515</u>	<u>(32,026,495)</u>	<u>433,369,945</u>
Net assets (deficit):							
Unrestricted	470,128,269	24,802,878	24,063,441	(4,980,991)	6,075,565	(49,960,893)	470,128,269
Temporarily restricted	32,176,149	64,427	—	—	—	(64,427)	32,176,149
Permanently restricted	28,878,378	64,149	—	—	—	(64,149)	28,878,378
Total net assets (deficit)	<u>531,182,796</u>	<u>24,931,454</u>	<u>24,063,441</u>	<u>(4,980,991)</u>	<u>6,075,565</u>	<u>(50,089,469)</u>	<u>531,182,796</u>
Total liabilities and net assets	<u>\$ 914,915,935</u>	<u>46,599,323</u>	<u>36,487,568</u>	<u>18,092,799</u>	<u>30,573,080</u>	<u>(82,115,964)</u>	<u>964,552,741</u>

See accompanying independent auditors' report.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

December 31, 2014

Assets	Subtotal Obligated Group	General Business Concerns	Centra Health Foundation	Centra Specialty Hospital	Centra Health Indemnity Company	Centra Panoramic	Eliminations	Consolidated totals
Current assets:								
Cash and cash equivalents	\$ 16,991,580	164,639	250,820	849,955	2,842,764	24,639	—	21,124,397
Patient accounts receivable, net	84,725,871	—	—	1,127,622	—	—	(110,392)	85,743,101
Estimated settlements from third-party payors	9,099,365	—	—	—	—	—	—	9,099,365
Investments and assets whose use is limited	8,250,504	—	—	—	—	—	—	8,250,504
Inventories	18,540,184	—	—	27,397	—	—	—	18,567,581
Prepaid expenses and other current assets	14,477,093	135,134	1,142,817	39,341	463,460	3,826	—	16,261,671
Total currents assets	<u>152,084,597</u>	<u>299,773</u>	<u>1,393,637</u>	<u>2,044,315</u>	<u>3,306,224</u>	<u>28,465</u>	<u>(110,392)</u>	<u>159,046,619</u>
Investments and assets whose use is limited	368,668,426	—	66,731,883	—	17,609,938	—	—	453,010,247
Property, plant and equipment, net	346,668,926	1,544,839	689	473,212	—	14,820	—	348,702,486
Investments in joint ventures	3,826,762	—	—	—	—	—	—	3,826,762
Invested capital, controlled entities	79,575,236	—	—	—	—	—	(79,575,236)	—
Due from related parties	1,344,690	711,567	—	26,575	—	—	(2,082,832)	—
Other assets	12,384,104	470,287	1,854,108	—	—	417,900	(3,363,888)	11,762,511
Total other assets	<u>812,468,144</u>	<u>2,726,693</u>	<u>68,586,680</u>	<u>499,787</u>	<u>17,609,938</u>	<u>432,720</u>	<u>(85,021,956)</u>	<u>817,302,006</u>
Total assets	<u>\$ 964,552,741</u>	<u>3,026,466</u>	<u>69,980,317</u>	<u>2,544,102</u>	<u>20,916,162</u>	<u>461,185</u>	<u>(85,132,348)</u>	<u>976,348,625</u>
Liabilities and Net Assets (Deficit)								
Current liabilities:								
Accounts payable and accrued expenses	\$ 43,834,249	—	19,992	136,671	52,470	441	(110,392)	43,933,431
Employee compensation and benefits	28,180,481	—	53,897	300,141	—	—	—	28,534,519
Estimated settlements to third-party payors	21,108,529	—	—	496,611	—	—	—	21,605,140
Current portion of long-term obligations	10,661,826	—	—	657,346	—	—	(657,346)	10,661,826
Due to related parties	—	—	—	1,459,666	234,941	—	(1,694,607)	—
Other current liabilities	3,056,248	—	15,000	—	—	—	—	3,071,248
Total current liabilities	<u>106,841,333</u>	<u>—</u>	<u>88,889</u>	<u>3,050,435</u>	<u>287,411</u>	<u>441</u>	<u>(2,462,345)</u>	<u>107,806,164</u>
Long-term obligations, net of current portion	239,702,435	—	—	2,706,542	—	—	(2,706,542)	239,702,435
Interest rate swap agreements	21,896,414	—	—	—	—	—	—	21,896,414
Retirement obligations	48,614,709	—	—	—	—	—	—	48,614,709
Other long-term liabilities	16,315,054	—	213,298	—	10,574,983	430,997	(388,225)	27,146,107
Total liabilities	<u>433,369,945</u>	<u>—</u>	<u>302,187</u>	<u>5,756,977</u>	<u>10,862,394</u>	<u>431,438</u>	<u>(5,557,112)</u>	<u>445,165,829</u>
Net assets (deficit):								
Unrestricted	470,128,269	3,026,466	8,752,179	(3,212,875)	10,053,768	29,747	(18,649,285)	470,128,269
Temporarily restricted	32,176,149	—	32,111,722	—	—	—	(32,111,722)	32,176,149
Permanently restricted	28,878,378	—	28,814,229	—	—	—	(28,814,229)	28,878,378
Total net assets (deficit)	<u>531,182,796</u>	<u>3,026,466</u>	<u>69,678,130</u>	<u>(3,212,875)</u>	<u>10,053,768</u>	<u>29,747</u>	<u>(79,575,236)</u>	<u>531,182,796</u>
Total liabilities and net assets	<u>\$ 964,552,741</u>	<u>3,026,466</u>	<u>69,980,317</u>	<u>2,544,102</u>	<u>20,916,162</u>	<u>461,185</u>	<u>(85,132,348)</u>	<u>976,348,625</u>

See accompanying independent auditors' report.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Consolidating Statements of Operations Information

Year ended December 31, 2014

	Centra Health	Southside Community Hospital	Bedford Memorial Hospital	CCRC	Centra Medical Group	Eliminations	Subtotal Obligated Group
Unrestricted revenues and other support:							
Net patient service revenue (net of contractuals and discounts)	\$ 553,322,371	79,006,165	17,629,704	—	69,943,430	—	719,901,670
Provision for bad debts	(25,905,442)	(9,777,953)	(1,611,554)	—	(9,021,617)	—	(46,316,566)
Net patient service revenue less provision for bad debts	527,416,929	69,228,212	16,018,150	—	60,921,813	—	673,585,104
Outside lab revenue	9,435,301	—	—	—	—	—	9,435,301
Foundation revenue and support	—	—	—	—	—	—	—
Net assets released from restrictions for operations	1,149,791	—	874	—	118,636	—	1,269,301
Other operating revenue	46,168,739	1,324,259	429,301	3,597,566	7,903,309	(11,888,262)	47,534,912
Total unrestricted revenues and other support	584,170,760	70,552,471	16,448,325	3,597,566	68,943,758	(11,888,262)	731,824,618
Expenses:							
Salaries and wages	211,810,210	32,523,601	9,228,389	724,454	71,190,564	—	325,477,218
Benefits	55,957,636	6,581,766	1,999,268	194,093	12,455,765	—	77,188,528
Medical supplies and drugs	87,778,258	5,730,898	1,211,048	—	2,180,711	(152,205)	96,748,710
Professional services	12,557,649	4,630,769	845,094	—	15,284,948	(2,085,790)	31,232,670
Other purchased services	52,298,291	9,874,052	2,704,605	1,216,667	10,658,456	(6,460,411)	70,291,660
Other operating expenses	57,840,814	5,157,854	1,381,067	879,530	3,287,685	(3,189,856)	65,357,094
Depreciation and amortization	37,309,670	4,367,820	791,802	1,025,873	876,303	—	44,371,468
Interest	5,173,959	224,322	86,380	80,859	—	—	5,565,520
Net assets released from restrictions used for operations	—	—	—	—	—	—	—
Total expenses	520,726,487	69,091,082	18,247,653	4,121,476	115,934,432	(11,888,262)	716,232,868
Operating income (loss)	63,444,273	1,461,389	(1,799,328)	(523,910)	(46,990,674)	—	15,591,750
Nonoperating gains (losses):							
Investment income	26,269,247	98,089	83	720,117	—	—	27,087,536
Income from controlled entities	(45,768,553)	—	—	—	—	47,261,890	1,493,337
Change in value of interest rate swap agreements	(6,764,641)	(9,184)	—	—	—	—	(6,773,825)
Other	3,927	9,882	—	—	—	—	13,809
Total net nonoperating gains	(26,260,020)	98,787	83	720,117	—	47,261,890	21,820,857
Excess (deficiency) of unrestricted revenues and other support over expenses	\$ 37,184,253	1,560,176	(1,799,245)	196,207	(46,990,674)	47,261,890	37,412,607

See accompanying independent auditors' report.

CENTRA HEALTH, INC. AND SUBSIDIARIES

Consolidating Statements of Operations Information

Year ended December 31, 2014

	<u>Subtotal Obligated Group</u>	<u>General Business Concerns</u>	<u>Centra Health Foundation</u>	<u>Centra Specialty Hospital</u>	<u>Centra Health Indemnity Company</u>	<u>Centra Panoramic</u>	<u>Eliminations</u>	<u>Consolidated totals</u>
Unrestricted revenues and other support:								
Net patient service revenue (net of contractuales and discounts)	\$ 719,901,670	—	—	9,580,799	—	—	(803,810)	728,678,659
Provision for bad debts	(46,316,566)	—	—	(24,932)	—	—	—	(46,341,498)
Net patient service revenue less provision for bad debts	673,585,104	—	—	9,555,867	—	—	(803,810)	682,337,161
Outside lab revenue	9,435,301	—	—	—	—	—	—	9,435,301
Foundation revenue and support	—	—	1,330,560	—	—	—	—	1,330,560
Net assets released from restrictions for operations	1,269,301	—	1,492,224	—	—	—	(1,269,301)	1,492,224
Other operating revenue	47,534,912	703,379	—	12,106	4,003,478	43,462	(7,315,978)	44,981,359
Total unrestricted revenues and other support	<u>731,824,618</u>	<u>703,379</u>	<u>2,822,784</u>	<u>9,567,973</u>	<u>4,003,478</u>	<u>43,462</u>	<u>(9,389,089)</u>	<u>739,576,605</u>
Expenses:								
Salaries and wages	325,477,218	—	567,980	3,987,846	—	—	—	330,033,044
Benefits	77,188,528	—	144,326	1,084,433	—	—	—	78,417,287
Medical supplies and drugs	96,748,710	—	—	859,600	—	—	(508,566)	97,099,744
Professional services	31,232,670	—	—	—	—	—	—	31,232,670
Other purchased services	70,291,660	236,969	261,764	2,775,212	3,620,235	10,353	(7,601,824)	69,594,369
Other operating expenses	65,357,094	151,114	767,587	288,971	28,613	398	(9,398)	66,584,379
Depreciation and amortization	44,371,468	111,545	227	165,179	—	2,964	—	44,651,383
Interest	5,565,520	—	—	222,140	—	—	(222,140)	5,565,520
Net assets released from restrictions used for operations	—	—	1,269,301	—	—	—	(1,269,301)	—
Total expenses	<u>716,232,868</u>	<u>499,628</u>	<u>3,011,185</u>	<u>9,383,381</u>	<u>3,648,848</u>	<u>13,715</u>	<u>(9,611,229)</u>	<u>723,178,396</u>
Operating income (loss)	<u>15,591,750</u>	<u>203,751</u>	<u>(188,401)</u>	<u>184,592</u>	<u>354,630</u>	<u>29,747</u>	<u>222,140</u>	<u>16,398,209</u>
Nonoperating gains (losses):								
Investment income	27,087,536	—	—	427	1,271,715	—	(222,140)	28,137,538
Income from controlled entities	1,493,337	—	—	—	—	—	(1,493,337)	—
Change in value of interest rate swap agreements	(6,773,825)	—	—	—	—	—	—	(6,773,825)
Other	13,809	—	—	—	—	—	—	13,809
Total net nonoperating gains	<u>21,820,857</u>	<u>—</u>	<u>—</u>	<u>427</u>	<u>1,271,715</u>	<u>—</u>	<u>(1,715,477)</u>	<u>21,377,522</u>
Excess (deficiency) of unrestricted revenues and other support over expenses	<u>\$ 37,412,607</u>	<u>203,751</u>	<u>(188,401)</u>	<u>185,019</u>	<u>1,626,345</u>	<u>29,747</u>	<u>(1,493,337)</u>	<u>37,775,731</u>

See accompanying independent auditors' report.

BEDFORD MEMORIAL HOSPITAL

Statement of Operations and Changes in Net Assets

Six-months ended December 31, 2014

	Three months ended September 30, 2014	Three months ended December 31, 2014	Six months ended December 31, 2014
Unrestricted operating revenues and gains:			
Patient service revenue (net of contractual allowances and discounts)	\$ 7,972,496	9,657,208	17,629,704
Provisions for bad debts	(788,728)	(822,826)	(1,611,554)
Net patient service revenue	<u>7,183,768</u>	<u>8,834,382</u>	<u>16,018,150</u>
Net assets released from restrictions for operations	874	—	874
Other operating revenue	<u>310,635</u>	<u>118,666</u>	<u>429,301</u>
Total unrestricted operating revenues and gains	<u>7,495,277</u>	<u>8,953,048</u>	<u>16,448,325</u>
Operating expenses:			
Salaries and outside labor	4,408,477	4,819,912	9,228,389
Benefits	968,246	1,031,022	1,999,268
Supplies and other expenses	2,544,324	2,847,490	5,391,814
Depreciation	350,475	441,327	791,802
Management fees	375,000	375,000	750,000
Interest expense	<u>43,190</u>	<u>43,190</u>	<u>86,380</u>
Total operating expenses	<u>8,689,712</u>	<u>9,557,941</u>	<u>18,247,653</u>
Operating loss	<u>(1,194,435)</u>	<u>(604,893)</u>	<u>(1,799,328)</u>
Nonoperating income:			
Investment income	<u>46</u>	<u>37</u>	<u>83</u>
Total nonoperating income	<u>46</u>	<u>37</u>	<u>83</u>
Excess of unrestricted revenues and gains over operating expenses	<u>\$ (1,194,389)</u>	<u>(604,856)</u>	<u>(1,799,245)</u>

See accompanying independent auditors' report.



KPMG LLP
Suite 1010
10 S. Jefferson Street
Roanoke, VA 24011-1331

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*

The Board of Directors
Central Health, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements Centra Health Inc. and Subsidiaries (Centra), which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 27, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

KPMG LLP

Roanoke, VA
April 27, 2015