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Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code
(except black lung benefit trust or private foundation)

2010

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

The organization may have to use a copy of this return to satisfy state reporting requirements

A For the 2010 calendar year, or tax year beginning , 2010, and ending

B Check if applicable

- ☐ Address change
☐ Name change
☐ Initial return
☐ Terminated
☒ Amended return
☐ Application pending

VALLEY HEALTH SYSTEM GROUP RETURN
220 CAMPUS BLVD STE 310
WINCHESTER, VA 22601

D Employer Identification Number

80-0584319

E Telephone number

540-536-4302

G Gross receipts \$ 680,175,948.

F Name and address of principal officer
Same As C AboveH(a) Is this a group return for affiliates? ☒ Yes ☐ No

H(b) Are all affiliates included?

If 'No,' attach a list (see instructions) ☒ Yes ☐ NoI Tax-exempt status ☒ 501(c)(3) ☐ 501(c) () (insert no) ☐ 4947(a)(1) or ☐ 527

J Website: VALLEYHEALTHLINK.COM

H(c) Group exemption number 5602

K Form of organization ☒ Corporation ☐ Trust ☐ Association ☐ Other

L Year of Formation 1983

M State of legal domicile VA

Part I Summary

Activities & Governance	1	Briefly describe the organization's mission or most significant activities <u>Serving our regional community by improving health. Provision of healthcare and medical services.</u>	
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets	
	3	Number of voting members of the governing body (Part VI, line 1a)	106
	4	Number of independent voting members of the governing body (Part VI, line 1b)	84
	5	Total number of individuals employed in calendar year 2010 (Part V, line 2a)	0
	6	Total number of volunteers (estimate if necessary)	1,519
Revenue	7a	Total unrelated business revenue from Part VIII, column (C), line 12	-20,631.
	7b	Net unrelated business taxable income from Form 990-T, line 34	-20,631.
	8	Contributions and grants (Part VIII, line 1h)	Prior Year 3,056,708. Current Year 3,049,338.
	9	Program service revenue (Part VIII, line 2g)	355,673,317. 419,915,469.
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	15,857,473. 11,882,220.
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	164,302,294. 165,271,537.
	12	Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12)	538,889,792. 600,118,564.
	13	Grants and similar amounts paid (Part IX, column (A), lines 1-3)	1,066,927. 1,104,328.
	14	Benefits paid to or for members (Part IX, column (A), line 4)	
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)	242,885,634. 269,138,850.
Expenses	16a	Professional fundraising fees (Part IX, column (A), line 11e)	
	b	Total fundraising expenses (Part IX, column (D), line 25)	
	17	Other expenses (Part IX, column (A), lines 11a-11d, 11f-11g)	249,087,480. 282,725,353.
	18	Total expenses Add lines 13-17 (must equal Part IX, column (A), line 25)	493,040,041. 552,968,531.
Net Assets or Fund Balances	19	Revenue less expenses Subtract line 18 from line 12	45,849,751. 47,150,033.
	20	Total assets (Part X, line 16)	Beginning of Current Year 1069429430. End of Year 1,158,687,964.
	21	Total liabilities (Part X, line 26)	523,502,762. 526,037,700.
	22	Net assets or fund balances Subtract line 21 from line 20	545,926,668. 632,650,264.

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here	Signature of officer	Date	1/16/12
	J CRAIG LEWIS Type or print name and title	CFO	
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date
	Firm's name	VALLEY HEALTH SYSTEMS	Check <input type="checkbox"/> if self-employed
	Firm's address	220 CAMPUS BLVD STE 310 WINCHESTER, VA 22601-2889	PTIN N/A
	Firm's EIN	N/A	Phone no (540) 536-4302

May the IRS discuss this return with the preparer shown above? (see instructions)

☒ Yes ☐ No

BAA For Paperwork Reduction Act Notice, see the separate instructions.

TEEA0113L 12/21/10

Form 990 (2010)

167

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

☒ X

1 Briefly describe the organization's mission:

Serving our regional community by improving health. Provision of healthcare and
medical services.2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? ☐ Yes ☒ No

If 'Yes,' describe these new services on Schedule O.

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? ☐ Yes ☒ No

If 'Yes,' describe these changes on Schedule O.

4 Describe the exempt purpose achievements for each of the organization's three largest program services by expenses. Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code:) (Expenses \$ 356,540,344. including grants of \$ 1,104,328.) (Revenue \$)
ACUTE CARE SERVICES - 126,487 INPATIENT ACUTE CARE DAYS4b (Code:) (Expenses \$ 19,634,161. including grants of \$) (Revenue \$)
PHYSICIAN PRACTICE SERVICES - 139,632 OUTPATIENT REGISTRATIONS4c (Code:) (Expenses \$ 7,693,386. including grants of \$) (Revenue \$)
AMBULATORY SURGICAL SERVICES - 8,697 SURGICAL PROCEDURES4d Other program services (Describe in Schedule O.) See Schedule O
(Expenses \$ 16,829,281. including grants of \$) (Revenue \$)4e Total program service expenses 400,697,172.

Part IV Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If 'Yes,' complete Schedule A	X	
2 Is the organization required to complete Schedule B, Schedule of Contributors? (see instructions)	X	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If 'Yes,' complete Schedule C, Part I		X
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If 'Yes,' complete Schedule C, Part II		X
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If 'Yes,' complete Schedule C, Part III		
6 Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If 'Yes,' complete Schedule D, Part I		X
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? If 'Yes,' complete Schedule D, Part II		X
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If 'Yes,' complete Schedule D, Part III		X
9 Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If 'Yes,' complete Schedule D, Part IV		X
10 Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? If 'Yes,' complete Schedule D, Part V	X	
11 If the organization's answer to any of the following questions is 'Yes', then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable.		
a Did the organization report an amount for land, buildings and equipment in Part X, line 10? If 'Yes,' complete Schedule D, Part VI	X	
b Did the organization report an amount for investments— other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If 'Yes,' complete Schedule D, Part VII	X	
c Did the organization report an amount for investments— program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If 'Yes,' complete Schedule D, Part VIII		X
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If 'Yes,' complete Schedule D, Part IX		X
e Did the organization report an amount for other liabilities in Part X, line 25? If 'Yes,' complete Schedule D, Part X	X	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If 'Yes,' complete Schedule D, Part X		X
12a Did the organization obtain separate, independent audited financial statements for the tax year? If 'Yes,' complete Schedule D, Parts XI, XII, and XIII		X
b Was the organization included in consolidated, independent audited financial statements for the tax year? If 'Yes,' and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional	X	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? If 'Yes,' complete Schedule E		X
14a Did the organization maintain an office, employees, or agents outside of the United States?		X
b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, and program service activities outside the United States? If 'Yes,' complete Schedule F, Parts I and IV		X
15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the United States? If 'Yes,' complete Schedule F, Parts II and IV		X
16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the United States? If 'Yes,' complete Schedule F, Parts III and IV		X
17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If 'Yes,' complete Schedule G, Part I (see instructions)		X
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If 'Yes,' complete Schedule G, Part II		X
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If 'Yes,' complete Schedule G, Part III		X
20 a Did the organization operate one or more hospitals? If 'Yes,' complete Schedule H	X	
b If 'Yes' to line 20a, did the organization attach its audited financial statements to this return? Note. Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions)	X	

Part IV Checklist of Required Schedules (continued)

	Yes	No
21 Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If 'Yes,' complete Schedule I, Parts I and II</i>	21 X	
22 Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If 'Yes,' complete Schedule I, Parts I and III</i>	22 X	
23 Did the organization answer 'Yes' to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If 'Yes,' complete Schedule J</i>	23 X	
24a Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, and that was issued after December 31, 2002? <i>If 'Yes,' answer lines 24b through 24d and complete Schedule K. If 'No,' go to line 25</i>	24a X	
b Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b	X
c Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c	X
d Did the organization act as an 'on behalf of' issuer for bonds outstanding at any time during the year?	24d	X
25a Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If 'Yes,' complete Schedule L, Part I</i>	25a	X
b Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If 'Yes,' complete Schedule L, Part I</i>	25b	X
26 Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If 'Yes,' complete Schedule L, Part II</i>	26	X
27 Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If 'Yes,' complete Schedule L, Part III</i>	27	X
28 Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)		
a A current or former officer, director, trustee, or key employee? <i>If 'Yes,' complete Schedule L, Part IV</i>	28a	X
b A family member of a current or former officer, director, trustee, or key employee? <i>If 'Yes,' complete Schedule L, Part IV</i>	28b	X
c An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If 'Yes,' complete Schedule L, Part IV</i>	28c	X
29 Did the organization receive more than \$25,000 in non-cash contributions? <i>If 'Yes,' complete Schedule M</i>	29 X	
30 Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If 'Yes,' complete Schedule M</i>	30	X
31 Did the organization liquidate, terminate, or dissolve and cease operations? <i>If 'Yes,' complete Schedule N, Part I</i>	31	X
32 Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If 'Yes,' complete Schedule N, Part II</i>	32	X
33 Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If 'Yes,' complete Schedule R, Part I</i>	33 X	
34 Was the organization related to any tax-exempt or taxable entity? <i>If 'Yes,' complete Schedule R, Parts II, III, IV, and V, line 1</i>	34 X	
35 Is any related organization a controlled entity within the meaning of section 512(b)(13)?	35	X
a Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If 'Yes,' complete Schedule R, Part V, line 2</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
36 Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If 'Yes,' complete Schedule R, Part V, line 2</i>	36	X
37 Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If 'Yes,' complete Schedule R, Part VI</i>	37	X
38 Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O	38 X	

BAA

Form 990 (2010)

Part V Statements Regarding Other IRS Filings and Tax ComplianceCheck if Schedule O contains a response to any question in this Part V ☐

		Yes	No
1 a Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1 a 0		
b Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1 b 0		
c Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1 c		
2 a Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return.	2 a 0		
b If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2 b		
3 a Did the organization have unrelated business gross income of \$1,000 or more during the year?	3 a	X	
b If 'Yes,' has it filed a Form 990-T for this year? If 'No,' provide an explanation in Schedule O.	3 b	X	
4 a At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)? b If 'Yes,' enter the name of the foreign country: Cayman Islands See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.	4 a	X	
5 a Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5 a		X
b Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5 b		X
c If 'Yes,' to line 5a or 5b, did the organization file Form 8886-T?	5 c		
6 a Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6 a		X
b If 'Yes,' did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6 b		
7 Organizations that may receive deductible contributions under section 170(c).			
a Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7 a		X
b If 'Yes,' did the organization notify the donor of the value of the goods or services provided?	7 b		
c Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7 c		X
d If 'Yes,' indicate the number of Forms 8282 filed during the year.	7 d		
e Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7 e		X
f Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7 f		X
g If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7 g		
h If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7 h		
8 Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8		
9 Sponsoring organizations maintaining donor advised funds.			
a Did the organization make any taxable distributions under section 4966?	9 a		
b Did the organization make a distribution to a donor, donor advisor, or related person?	9 b		
10 Section 501(c)(7) organizations. Enter:			
a Initiation fees and capital contributions included on Part VIII, line 12.	10 a		
b Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10 b		
11 Section 501(c)(12) organizations. Enter:			
a Gross income from members or shareholders.	11 a		
b Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them.)	11 b		
12 a Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12 a		
b If 'Yes,' enter the amount of tax-exempt interest received or accrued during the year.	12 b		
13 Section 501(c)(29) qualified nonprofit health insurance issuers.			
a Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13 a		
b Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13 b		
c Enter the amount of reserves on hand.	13 c		
14 a Did the organization receive any payments for indoor tanning services during the tax year?	14 a		X
b If 'Yes,' has it filed a Form 720 to report these payments? If 'No,' provide an explanation in Schedule O.	14 b		

Part VI Governance, Management and Disclosure For each 'Yes' response to lines 2 through 7b below, and for a 'No' response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response to any question in this Part VI

☒**Section A. Governing Body and Management**

	Yes	No
1a Enter the number of voting members of the governing body at the end of the tax year		
1b Enter the number of voting members included in line 1a, above, who are independent		
2 Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee or key employee?		X
3 Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?		X
4 Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? See Sch O	X	
5 Did the organization become aware during the year of a significant diversion of the organization's assets?		X
6 Does the organization have members or stockholders? See Schedule O	X	
7a Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body? ... See Schedule O	X	
7b Are any decisions of the governing body subject to approval by members, stockholders, or other persons?		X
8 Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following:		
a The governing body?	X	
b Each committee with authority to act on behalf of the governing body?	X	
9 Is there any officer, director or trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If 'Yes,' provide the names and addresses in Schedule O		X

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

	Yes	No
10a Does the organization have local chapters, branches, or affiliates?		X
10b If 'Yes,' does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization?		
11a Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form?	X	
b Describe in Schedule O the process, if any, used by the organization to review this Form 990 See Schedule O		
12a Does the organization have a written conflict of interest policy? If 'No,' go to line 13	X	
b Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	X	
c Does the organization regularly and consistently monitor and enforce compliance with the policy? If 'Yes,' describe in Schedule O how this is done See Schedule O	X	
13 Does the organization have a written whistleblower policy?	X	
14 Does the organization have a written document retention and destruction policy?	X	
15 Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
a The organization's CEO, Executive Director, or top management official See Schedule O	X	
b Other officers of key employees of the organization	X	
If 'Yes' to line 15a or 15b, describe the process in Schedule O (See instructions)		
16a Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	X	
b If 'Yes,' has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements?	X	

Section C. Disclosure

17 List the states with which a copy of this Form 990 is required to be filed ▶ None

18 Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you make these available. Check all that apply.

☐ Own website ☒ Another's website ☒ Upon request

19 Describe in Schedule O whether (and if so, how) the organization makes its governing documents, conflict of interest policy, and financial statements available to the public. See Schedule O

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization

▶ SHELLY BOWMAN-ALLEN 220 CAMPUS BLVD, SUTE 310 WINCHESTER VA 22601 540-536-4302

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent ContractorsCheck if Schedule O contains a response to any question in this Part VII ☐**Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees****1 a** Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of 'key employee.'
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

☐ Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

(A) Name and title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1) WILLIAM F. BRANDT, JR. VICE CHAIR WMC	50	X						0.	0.	0.
(2) HARRY F. BYRD, III CHAIRMAN WMC	2	X						2,350.	0.	0.
(3) JAMES T. HOLLAND Vice Chair VH	2	X						0.	1,050.	0.
(4) PATRICK D. IRELAND, MD DIRECTOR/PHYS	2	X						201,000.	4,650.	0.
(5) DOUGLAS B. KEIM, MD Director	2	X						850.	2,775.	0.
(6) WILLIAM B. MAJOR, MD Director	2	X						0.	0.	0.
(7) MARK H. MERRILL CEO	50	X		X	X			0.	677,613.	157,616.
(8) KATHERINE P. NAPIER Director	2	X						0.	1,050.	0.
(9) JOHN S. SCULLY, IV Secretary VH	2	X						0.	1,050.	0.
(10) JOSEPH F. SILEK, JR. Director	2	X						1,050.	600.	0.
(11) F. DIXON WHITWORTH, JR. Chairman VH	2	X						0.	1,300.	0.
(12) ALFRED E. PILONG, JR. PRESIDENT WMC	50	X		X	X			424,034.	0.	78,761.
(13) PATRICK NOLAN VP/PRES WARREN	50	X		X	X			189,722.	0.	38,627.
(14) J.D. BERLIN CHAIRMAN WMCF	2	X						0.	0.	0.
(15) BYRON BRILL, DDS TREASURER WMCF	2	X						0.	0.	0.
(16) JAMES STUTZMAN, JR. Secretary WMCF	2	X						0.	0.	0.
(17) J. CRAIG LEWIS CFO	50	X		X	X			0.	394,993.	74,553.

Part VII Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (cont)

(A) Name and title	(B) Average hours per week (describe hours for related organizations in Sch O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(18) KAY BONYAK, RN Director	2	X						0.	0.	0.
(19) GEORGE CALEY Director	2	X						0.	0.	0.
(20) JIM LAIDLAW, MD Director	2	X						0.	0.	0.
(21) KATHY NERANGIS Director	2	X						0.	0.	0.
(22) JAMES R. WILKINS Director	2	X						0.	0.	0.
(23) GERALD BECHAMPS, MD DIR/PHYS EMPLOY	40	X						247,564.	2,450.	19,014.
(24) THOMAS GILPIN Director	2	X						1,650.	0.	0.
(25) ELIZABETH KELLAS Director	2	X						0.	0.	0.
(26) CLIFTON RUTHERFORD SECREATRY WMC	2	X						1,650.	0.	0.
(27) STEVEN CLUSS Director	2	X						600.	0.	0.
(28) HARRY S SMITH Director	2	X						0.	0.	0.
(29) GEORGE K. VAN OSTEN MD Director	2	X						5,640.	0.	0.
1 b Sub-total								1,076,110.	1,087,531.	368,571.
c Total from continuation sheets to Part VII, Section A								7,623,110.	542,924.	760,642.
d Total (add lines 1b and 1c)								8,699,220.	1,630,455.	1,129,213.

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 in reportable compensation from the organization **▶ 266**

3 Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? If 'Yes,' complete Schedule J for such individual

	Yes	No
3	X	
4	X	
5		X

4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? If 'Yes' complete Schedule J for such individual

5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? If 'Yes,' complete Schedule J for such person

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization.

(A) Name and business address	(B) Description of services	(C) Compensation

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization **▶ 0**

Part VIII Statement of Revenue

			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
CONTRIBUTIONS, GIFTS, GRANTS AND OTHER SIMILAR AMOUNTS	1 a Federated campaigns	1 a				
	b Membership dues	1 b				
	c Fundraising events	1 c				
	d Related organizations	1 d 884,312.				
	e Government grants (contributions)	1 e 936,004.				
	f All other contributions, gifts, grants, and similar amounts not included above	1 f 1,229,022.				
	g Noncash contributions included in lns 1a-1f: \$	39,336.				
	h Total. Add lines 1a-1f		3,049,338.			
PROGRAM SERVICE REVENUE	2 a ACUTE CARE SERVICES	Business Code	801775714.	801775714.		
	b PHYSICIAN SERVICES		44,170,536.	44,170,536.		
	c AMBULATORY SURGICAL SERV		17,275,239.	17,275,239.		
	d LONG TERM CARE		16,770,777.	16,770,777.		
	e HOME HEALTH SERVICES		7,885,671.	7,885,671.		
	f All other program service revenue		-467962468.	-467962468.		
	g Total. Add lines 2a-2f		419915469.			
	3 Investment income (including dividends, interest and other similar amounts)		12,161,853.		138,709.	12,023,144.
4 Income from investment of tax-exempt bond proceeds						
5 Royalties						
OTHER REVENUE	6 a Gross Rents	(i) Real 5,260,088.				
	b Less: rental expenses	3,731,754.				
	c Rental income or (loss)	1,528,334.				
	d Net rental income or (loss)		1,528,334.		62,973.	1,465,361.
	7 a Gross amount from sales of assets other than inventory	(i) Securities (ii) Other 44,953.				
	b Less: cost or other basis and sales expenses	324,586.				
	c Gain or (loss)	-279,633.				
	d Net gain or (loss)		-279,633.			-279,633.
	8 a Gross income from fundraising events (not including \$ of contributions reported on line 1c) See Part IV, line 18	a				
	b Less: direct expenses	b				
	c Net income or (loss) from fundraising events					
	9 a Gross income from gaming activities See Part IV, line 19	a				
	b Less: direct expenses	b				
	c Net income or (loss) from gaming activities					
	10 a Gross sales of inventory, less returns and allowances	a 231880714.				
	b Less: cost of goods sold	b 76001044.				
	c Net income or (loss) from sales of inventory		155879670.		-222,313.	156101983.
	11 a REFUNDS, REBATES, DISCOUNTS	Business Code	6,224,705.			6,224,705.
	b DIABETIC MGMT PROGRAMS		636,030.			636,030.
	c MEDICAL RECORDS/FEES		566,578.			566,578.
d All other revenue		436,220.			436,220.	
e Total. Add lines 11a-11d		7,863,533.				
12 Total revenue. See instructions		600118564.	419915469.	-20,631.	177174388.	

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)

<i>Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.</i>	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to governments and organizations in the U.S. See Part IV, line 21	1,093,307.	1,093,307.		
2 Grants and other assistance to individuals in the U.S. See Part IV, line 22	11,021.	11,021.		
3 Grants and other assistance to governments, organizations, and individuals outside the U.S. See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees	3,685,349.	0.	3,685,349.	0.
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	24,974.	0.	24,974.	0.
7 Other salaries and wages	215,890,438.	184,475,374.	31,415,064.	
8 Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	12,561,321.	10,754,813.	1,806,508.	
9 Other employee benefits	21,828,039.	18,651,755.	3,176,284.	
10 Payroll taxes	15,148,729.	12,819,770.	2,328,959.	
11 Fees for services (non-employees)				
a Management				
b Legal	661,632.		661,632.	
c Accounting	164,748.		164,748.	
d Lobbying				
e Professional fundraising services. See Part IV, line 17				
f Investment management fees	1,647,983.		1,647,983.	
g Other	95,512,193.	28,123,628.	67,388,565.	
12 Advertising and promotion	163,246.	43,957.	119,289.	
13 Office expenses	5,097,021.	1,917,103.	3,179,918.	
14 Information technology	164,041.	82,299.	81,742.	
15 Royalties				
16 Occupancy	11,072,681.	9,251,956.	1,820,725.	
17 Travel	1,022,452.	716,314.	306,138.	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings	430,698.	350,635.	80,063.	
20 Interest	10,314,905.	8,251,924.	2,062,981.	
21 Payments to affiliates				
22 Depreciation, depletion, and amortization	37,688,666.	30,150,933.	7,537,733.	
23 Insurance	5,536,362.	1,628,603.	3,907,759.	
24 Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24f. If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O.)				
a <u>BAD DEBT EXPENSE</u>	44,034,898.	44,034,898.		
b <u>MEDICAL SUPPLIES</u>	30,801,692.	26,790,895.	4,010,797.	
c <u>PURCHASED SERVICES</u>	18,630,520.	7,252,380.	11,378,140.	
d <u>EQUIP RENTAL & MAINT</u>	14,049,509.	10,459,892.	3,589,617.	
e <u>BIOMEDICAL SERVICES</u>	2,850,384.	2,850,384.		
f All other expenses	2,881,722.	985,331.	1,896,391.	
25 Total functional expenses. Add lines 1 through 24f	552,968,531.	400,697,172.	152,271,359.	0.
26 Joint costs. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720). Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

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Form 990 (2010)

Part X Balance Sheet

		(A) Beginning of year		(B) End of year
ASSETS	1 Cash — non-interest-bearing		1	
	2 Savings and temporary cash investments	35,353,908.	2	45,163,774.
	3 Pledges and grants receivable, net		3	
	4 Accounts receivable, net	67,302,647.	4	76,812,088.
	5 Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L		5	
	6 Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions)		6	
	7 Notes and loans receivable, net	13,183,681.	7	18,471,738.
	8 Inventories for sale or use	10,337,135.	8	11,127,425.
	9 Prepaid expenses and deferred charges	11,022,971.	9	9,728,256.
	10a Land, buildings, and equipment cost or other basis. Complete Part VI of Schedule D	10a 930,983,348.		
	b Less: accumulated depreciation	10b 418,060,945.	427,043,830.	10c 512,922,403.
	11 Investments — publicly traded securities		11	
	12 Investments — other securities. See Part IV, line 11	485,348,962.	12	459,202,304.
	13 Investments — program-related. See Part IV, line 11		13	
	14 Intangible assets		14	
	15 Other assets. See Part IV, line 11	19,836,296.	15	25,259,976.
16 Total assets. Add lines 1 through 15 (must equal line 34)	1,069,429,430.	16	1,158,687,964.	
LIABILITIES	17 Accounts payable and accrued expenses	47,241,360.	17	54,842,372.
	18 Grants payable		18	
	19 Deferred revenue	278,070.	19	338,365.
	20 Tax-exempt bond liabilities	413,379,366.	20	403,176,385.
	21 Escrow or custodial account liability. Complete Part IV of Schedule D		21	
	22 Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L		22	
	23 Secured mortgages and notes payable to unrelated third parties		23	
	24 Unsecured notes and loans payable to unrelated third parties		24	
	25 Other liabilities. Complete Part X of Schedule D	62,603,966.	25	67,680,578.
	26 Total liabilities. Add lines 17 through 25	523,502,762.	26	526,037,700.
NET ASSETS OR FUND BALANCES	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29 and lines 33 and 34.			
	27 Unrestricted net assets	530,513,517.	27	615,693,562.
	28 Temporarily restricted net assets	11,063,337.	28	12,355,035.
	29 Permanently restricted net assets	4,349,814.	29	4,601,667.
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.			
	30 Capital stock or trust principal, or current funds		30	
	31 Paid-in or capital surplus, or land, building, or equipment fund		31	
	32 Retained earnings, endowment, accumulated income, or other funds		32	
	33 Total net assets or fund balances	545,926,668.	33	632,650,264.
	34 Total liabilities and net assets/fund balances	1,069,429,430.	34	1,158,687,964.

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Form 990 (2010)

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI.

☒

1	Total revenue (must equal Part VIII, column (A), line 12)	1	600,118,564.
2	Total expenses (must equal Part IX, column (A), line 25)	2	552,968,531.
3	Revenue less expenses Subtract line 2 from line 1	3	47,150,033.
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	545,926,668.
5	Other changes in net assets or fund balances (explain in Schedule O) See Schedule O	5	39,573,563.
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	632,650,264.

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII

☐1 Accounting method used to prepare the Form 990: ☐ Cash ☒ Accrual ☐ Other _____

Yes No

If the organization changed its method of accounting from a prior year or checked 'Other,' explain in Schedule O

2a Were the organization's financial statements compiled or reviewed by an independent accountant?

2a X

b Were the organization's financial statements audited by an independent accountant?

2b X

c If 'Yes' to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?

2c X

If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O.

d If 'Yes' to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both

☐ Separate basis ☒ Consolidated basis ☐ Both consolidated and separate basis

3a As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?

3a X

b If 'Yes,' did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits

3b

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Form 990 (2010)

SCHEDULE A
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions.

The organization is not a private foundation because it is: (For lines 1 through 11, check only one box.)

- 1 ☐ A church, convention of churches or association of churches described in **section 170(b)(1)(A)(i).**
- 2 ☐ A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E.)
- 3 ☒ A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**
- 4 ☐ A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state _____
- 5 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II.)
- 6 ☐ A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**
- 7 ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi).** (Complete Part II.)
- 8 ☐ A community trust described in **section 170(b)(1)(A)(vi).** (Complete Part II.)
- 9 ☐ An organization that normally receives: (1) more than 33-1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions – subject to certain exceptions, and (2) no more than 33-1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See **section 509(a)(2).** (Complete Part III.)
- 10 ☐ An organization organized and operated exclusively to test for public safety. See **section 509(a)(4).**
- 11 ☐ An organization organized and operated exclusively for the benefit of, to perform the functions of, or carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2). See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h.
 - a ☐ Type I
 - b ☐ Type II
 - c ☐ Type III – Functionally integrated
 - d ☐ Type III – Other
- e ☐ By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2).
- f ☐ If the organization received a written determination from the IRS that is a Type I, Type II or Type III supporting organization, check this box.
- g ☐ Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

- (i) A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization?
- (ii) A family member of a person described in (i) above?
- (iii) A 35% controlled entity of a person described in (i) or (ii) above?

	Yes	No
11 g (i)		
11 g (ii)		
11 g (iii)		

h Provide the following information about the supported organization(s)

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1-9 above or IRC section (see instructions))	(iv) Is the organization in column (i) listed in your governing document?		(v) Did you notify the organization in column (i) of your support?		(vi) Is the organization in column (i) organized in the U.S.?		(vii) Amount of support
			Yes	No	Yes	No	Yes	No	
(A)									
(B)									
(C)									
(D)									
(E)									
Total									

BAA For Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990-EZ.

Schedule A (Form 990 or 990-EZ) 2010

Part II Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support

Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include 'unusual grants'.)						
2 Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public support. Subtract line 5 from line 4						

Section B. Total Support

Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
11 Total support. Add lines 7 through 10						
12 Gross receipts from related activities, etc (see instructions)					12	
13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and stop here ▶ <input type="checkbox"/>						

Section C. Computation of Public Support Percentage

14 Public support percentage for 2010 (line 6, column (f) divided by line 11, column (f))	14	%
15 Public support percentage from 2009 Schedule A, Part II, line 14	15	%
16a 33-1/3% support test – 2010. If the organization did not check the box on line 13, and the line 14 is 33-1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization. ▶ <input type="checkbox"/>		
b 33-1/3% support test – 2009. If the organization did not check a box on line 13 or 16a, and line 15 is 33-1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization. ▶ <input type="checkbox"/>		
17a 10%-facts-and-circumstances test – 2010. If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the 'facts-and-circumstances' test, check this box and stop here. Explain in Part IV how the organization meets the 'facts-and-circumstances' test. The organization qualifies as a publicly supported organization. ▶ <input type="checkbox"/>		
b 10%-facts-and-circumstances test – 2009. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the 'facts-and-circumstances' test, check this box and stop here. Explain in Part IV how the organization meets the 'facts-and-circumstances' test. The organization qualifies as a publicly supported organization. ▶ <input type="checkbox"/>		
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions. ▶ <input type="checkbox"/>		

BAA

Schedule A (Form 990 or 990-EZ) 2010

Part III Support Schedule for Organizations Described in Section 509(a)(2)

(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

Calendar year (or fiscal yr beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions and membership fees received. (Do not include any 'unusual grants'.)						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose.						
3 Gross receipts from activities that are not an unrelated trade or business under section 513.						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf.						
5 The value of services or facilities furnished by a governmental unit to the organization without charge.						
6 Total. Add lines 1 through 5.						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons.						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year.						
c Add lines 7a and 7b.						
8 Public support. (Subtract line 7c from line 6.)						

Section B. Total Support

Calendar year (or fiscal yr beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
9 Amounts from line 6.						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources.						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975.						
c Add lines 10a and 10b.						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on.						
12 Other income. Do not include gain or loss from the sale of capital assets. (Explain in Part IV.)						
13 Total support. (Add lines 9, 10c, 11, and 12.)						
14 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and stop here ▶ <input type="checkbox"/>						

Section C. Computation of Public Support Percentage

15 Public support percentage for 2010 (line 8, column (f) divided by line 13, column (f)).	15	%
16 Public support percentage from 2009 Schedule A, Part III, line 15.	16	%

Section D. Computation of Investment Income Percentage

17 Investment income percentage for 2010 (line 10c, column (f) divided by line 13, column (f)).	17	%
18 Investment income percentage from 2009 Schedule A, Part III, line 17.	18	%

- 19a 33-1/3% support tests – 2010.** If the organization did not check the box on line 14, and line 15 is more than 33-1/3%, and line 17 is not more than 33-1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization. ▶ ☐
- b 33-1/3% support tests – 2009.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33-1/3%, and line 18 is not more than 33-1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization. ▶ ☐
- 20 Private foundation.** If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions. ▶ ☐

Part IV **Supplemental Information.** Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

Department of the Treasury
Internal Revenue Service**2010**

Name of the Organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part VII Continuation: Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
JENNIFER BARRON, MD Director	2	X						0.	0.	0.
DAVID L. BLOUNT VICE CHAIR WMH	2	X						600.	0.	0.
RICHARD L. CHRISTOPH, MD Director	2	X						0.	0.	0.
PATRICIA A. DALY, MD Director	2	X						0.	0.	0.
BELITA FORD Secretary WMH	2	X						1,050.	0.	0.
RAYMOND C GRIMM, DVM VICE CHAIR WMHF	2	X						2,100.	0.	0.
MAJ GEN HENRY HOBGOOD CHAIR WMH	2	X						1,050.	0.	0.
CHARLES M HUBER, MD Director	2	X						0.	0.	0.
MARK R PIERCE, MD Director	2	X						0.	0.	0.
DIANE KEARNS Director	2	X						0.	0.	0.
JEAN M. TURNER Director	2	X						0.	0.	0.
JANET CHESHIRE Director	2	X						0.	0.	0.
BENJAMIN ELKINS Director	2	X						0.	0.	0.
EILEEN JOHNSON Director	2	X						0.	0.	0.
LES SHOEMAKER Director	2	X						0.	0.	0.
RAY STEIN Director	2	X						0.	0.	0.
WALTER LAYMAN CHAIRMAN HMH	2	X						0.	0.	0.
VIJAY CHOWDARY, MD DIR/CONTR EMPLOY	2	X						327,525.	0.	0.
WILLIAM SHABB, MD Director	2	X						50,909.	0.	0.
RICHARD FIEO, MD Chairman -Surgi	2	X						17,690.	0.	0.
CATHERINE SMITH, MD Director	2	X						46,646.	0.	0.

Department of the Treasury
Internal Revenue Service

Name of the Organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer Identification number

80-0584319

Part VII Continuation: Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W 2/1099-MISC)	(E) Reportable compensation from related organizations (W 2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
THOMAS WISE, MD Director	2	X						131,501.	0.	0.
INGRID IWANOW, MD Director	2	X						43,048.	0.	0.
KEVIN BLACK Director	2	X						0.	0.	0.
AUDREA H WYNN II, MD DIR/PHYS EMPLOY	40	X						468,847.	0.	32,331.
JERRY GERMROTH, MD VICE CHAIR SMH	2	X						600.	0.	0.
JOHN HOFFMAN, MD DIR/PHYS EMPLOY	40	X						197,198.	0.	20,325.
MICHAEL KOONTZ Director	2	X						600.	0.	0.
KEITH LANTZ Director	2	X						600.	0.	0.
TOM LINSKI, JR Director	2	X						1,050.	0.	0.
JIM ALLEN LONG CHAIRMAN SMH	2	X						0.	0.	0.
CHARLES MOORE Director	2	X						0.	0.	0.
JONATHAN O'NEAL, MD CHAIRMAN SMHF	2	X						1,050.	0.	0.
MARY BETH PRICE SECRETARY SMH	2	X						600.	0.	0.
CHARLES SHERIDAN Director	2	X						0.	0.	0.
ETHEL SHOWMAN Director	2	X						600.	0.	0.
KAREN WHETZEL Director	2	X						1,050.	0.	0.
FLOYD BRADD III Director	2	X						0.	0.	0.
JAMES M EASTHAM CHAIRMAN WMHF	2	X						0.	0.	0.
JONATHAN EZELL Director	2	X						0.	0.	0.
RON LLEWELLYN Director	2	X						0.	0.	0.
J. MICHAEL WILLIAMS SECRETARY WMHF	2	X						0.	0.	0.

Department of the Treasury
Internal Revenue Service

Name of the Organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part VII Continuation: Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
RICK GLADDING VICECHAIR SMHF	2	X						0.	0.	0.
BRUCE L. FLAX, MD Director	2	X						37,450.	0.	0.
C. WILLIAM LOCKE CHAIRMAN - WAR	2	X						0.	0.	0.
DEBORAH COHILL Director	2	X						0.	0.	0.
MIRIAM IRVIN Director	2	X						0.	0.	0.
TRACY MILLER Director	2	X						0.	0.	0.
P. DOUGLAS MOWERY, JR. Director	2	X						0.	0.	0.
MARVIN T WAY Vice President	50	X		X	X			0.	366,457.	87,342.
ANNE B. CALDWELL, MD Director	2	X						0.	0.	0.
NELSON GUSTIN MD VICE CHAIR VPE	2	X						0.	0.	0.
T. AVERY GIBBS, MD Director	2	X						0.	0.	0.
THOMAS OLIVER MD CHAIRMAN VPE	2	X						63,072.	0.	0.
RONALD REPASKY MD Director	2	X						29,004.	0.	0.
CATHERINE DOWLING Director	2	X						65,683.	0.	0.
SHERIF KAISER MD Director	2	X						600.	0.	0.
TAMMY DAVISON VICE CHAIR WAR	2	X						0.	0.	0.
JOSEPH HASHEM M.D DIR/PHYS EMPLOY	40	X						253,865.	0.	14,488.
REBECCA STOTLER SEC/TREAS WAR	2	X						0.	0.	0.
THOMAS SWAIM Director	2	X						0.	0.	0.
BECKY DAVISSON Director	2	X						0.	0.	0.
BRADLEY CLOSE Director	2	X						0.	0.	0.

Department of the Treasury
Internal Revenue Service**2010**

Name of the Organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part VII Continuation: Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
ROBERT P. BORGIE Director	2	X						0.	0.	0.
GARNETT K. BROCKMAN Director	2	X						0.	0.	0.
HELEN M. COCKRELL Director	2	X						0.	0.	0.
PATRICIA M. KITE Director	2	X						0.	0.	0.
MASON C. LOCKRIDGE Director	2	X						0.	0.	0.
DAVID R LONG SEC/TREAS PAGE	2	X						600.	0.	0.
RICHARD L MASINCUP CHAIRMAN-PAGE	2	X						600.	0.	0.
SHAWN C. PRINTZ VICE CHAIR PAGE	2	X						0.	0.	0.
JERRY M. SCHIRO Director	2	X						0.	0.	0.
DENNIS R STUTER Director	2	X						0.	0.	0.
DAVID S SWITZER Director	40	X						170,294.	0.	21,132.
BRIDGET G MADDEN Director	2	X						0.	0.	0.
BARBARA WALTER, MD Director	40	X						236,202.	0.	17,025.
KATHYRN TAGNESI CHIEF NURS OFF	50			X	X			241,860.	0.	46,557.
TONYA SMITH VP ANCIL SERVIC	50			X	X			217,256.	0.	40,413.
TERRY SINCLAIR, MD CHIEF MED OFFIC	50			X	X			225,559.	0.	73,563.
FLOYD HEATER VP/PRES SMH	50			X	X			223,485.	0.	46,060.
TIMOTHY W. WILLOX, MD PRESIDENT VPE	50			X	X			329,399.	0.	52,431.
ROBERTA MCCAULEY VP/PRES HMH	50			X				167,555.	0.	19,626.
CHRISTINE LOWMAN CFO HMH	50			X	X			137,022.	0.	12,212.
ROBERT AMOS CFO WMC	50			X	X			35,883.	176,467.	23,024.

2010

Name of the Organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer Identification number

80-0584319

Part VII Continuation: Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

[illegible]

**SCHEDULE D
(Form 990)**Department of the Treasury
Internal Revenue Service**Supplemental Financial Statements**

- **Complete if the organization answered 'Yes,' to Form 990, Part IV, lines 6, 7, 8, 9, 10, 11, or 12.**
► **Attach to Form 990. ► See separate instructions.**

OMB No 1545-0047

2010Open to Public
Inspection

Name of the organization

Employer identification number

VALLEY HEALTH SYSTEM GROUP RETURN

80-0584319

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered 'Yes' to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1 Total number at end of year		
2 Aggregate contributions to (during year)		
3 Aggregate grants from (during year)		
4 Aggregate value at end of year		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? ☐ Yes ☐ No

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds can be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit? ☐ Yes ☐ No

Part II Conservation Easements. Complete if the organization answered 'Yes' to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply)

<input type="checkbox"/> Preservation of land for public use (e g , recreation or education)	<input type="checkbox"/> Preservation of an historically important land area
<input type="checkbox"/> Protection of natural habitat	<input type="checkbox"/> Preservation of a certified historic structure
<input type="checkbox"/> Preservation of open space	

2 Complete lines 2a through 2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Tax Year
a Total number of conservation easements	2a
b Total acreage restricted by conservation easements	2b
c Number of conservation easements on a certified historic structure included in (a)	2c
d Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register	2d

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax year ► _____

4 Number of states where property subject to conservation easement is located ► _____

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

6 Staff and volunteer hours devoted to monitoring, inspecting, and enforcing conservation easements during the year ► _____

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ► \$ _____

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and section 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered 'Yes' to Form 990, Part IV, line 8.

1 a If the organization elected, as permitted under SFAS 116 (ASC 958), not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116 (ASC 958), to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items:

(i) Revenues included in Form 990, Part VIII, line 1	► \$ _____
(ii) Assets included in Form 990, Part X	► \$ _____

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 (ASC 958) relating to these items.

a Revenues included in Form 990, Part VIII, line 1	► \$ _____
b Assets included in Form 990, Part X	► \$ _____

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

3 Using the organization's acquisition, accession, and other records, check any of the following that are a significant use of its collection items (check all that apply)

- a ☐ Public exhibition
 b ☐ Scholarly research
 c ☐ Preservation for future generations

- d ☐ Loan or exchange programs
 e ☐ Other _____

4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV.

5 During the year, did the organization solicit or receive donations of art, historical treasures, or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? ☐ Yes ☐ No

Part IV Escrow and Custodial Arrangements. Complete if organization answered 'Yes' to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian, or other intermediary for contributions or other assets not included on Form 990, Part X? ☐ Yes ☐ No

b If 'Yes,' explain the arrangement in Part XIV and complete the following table:

- c Beginning balance
 d Additions during the year
 e Distributions during the year
 f Ending balance

	Amount
1c	
1d	
1e	
1f	

2a Did the organization include an amount on Form 990, Part X, line 21? ☐ Yes ☐ No

b If 'Yes,' explain the arrangement in Part XIV

Part V Endowment Funds. Complete if the organization answered 'Yes' to Form 990, Part IV, line 10.

	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
1a Beginning of year balance	15,413,150.	14,382,852.	17,231,209.		
b Contributions	1,264,697.	1,156,453.	2,243,774.		
c Net investment earnings, gains, and losses	1,193,581.	783,382.	-2,830,037.		
d Grants or scholarships					
e Other expenditures for facilities and programs	914,726.	909,537.	2,262,094.		
f Administrative expenses					
g End of year balance	16,956,703.	15,413,150.	14,382,852.		

2 Provide the estimated percentage of the year end balance held as

- a Board designated or quasi-endowment ☐ %
 b Permanent endowment ☒ 27.14 %
 c Term endowment ☒ 72.86 %

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

- (i) unrelated organizations
 (ii) related organizations

	Yes	No
3a(i)	X	
3a(ii)		X
3b		

b If 'Yes' to 3a(ii), are the related organizations listed as required on Schedule R?

4 Describe in Part XIV the intended uses of the organization's endowment funds See Part XIV

Part VI Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of investment	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		19,657,950.		19,657,950.
b Buildings		604,527,575.	222,476,631.	382,050,944.
c Leasehold improvements		42,507,276.	22,301,252.	20,206,024.
d Equipment		264,290,547.	173,283,062.	91,007,485.
e Other				
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c))				512,922,403.

BAA

Schedule D (Form 990) 2010

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation. Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
(3) Other <u>ALTERNATIVE INVESTMENTS</u>	125,867,352.	End of Year Market Value
(A) <u>CASH EQUIVALENTS</u>	35,037,136.	End of Year Market Value
(B) <u>MUTUAL FUNDS</u>	249,622,372.	End of Year Market Value
(C) <u>PRIVATE REALTY/RESOURCE</u>	21,858,030.	End of Year Market Value
(D) <u>MUNICIPAL BONDS</u>	551,043.	End of Year Market Value
(E) <u>COMMON STOCK</u>	26,266,372.	End of Year Market Value
(F) -----		
(G) -----		
(H) -----		
(I) -----		
Total. (Column (b) must equal Form 990 Part X, column (B) line 12.) ▶	459,202,304.	

Part VIII Investments—Program Related. (See Form 990, Part X, line 13) N/A

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		
Total. (Column (b) must equal Form 990, Part X, column (B) line 13.) ▶		

Part IX Other Assets. (See Form 990, Part X, line 15) N/A

(a) Description	(b) Book value
(1)	
(2)	
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
Total. (Column (b) must equal Form 990, Part X, column (B), line 15) ▶	

Part X Other Liabilities. (See Form 990, Part X, line 25)

(a) Description of liability	(b) Amount
(1) Federal income taxes	
(2) <u>ACCRUED PENSION</u>	30,445,259.
(3) <u>ATTENDING FACULTY PLAN FUND</u>	17,019,819.
(4) <u>EXEC DEF COMP LIABILITY</u>	498,545.
(5) <u>ML SWAP MARK TO MKT -BONDS</u>	19,716,955.
(6)	
(7)	
(8)	
(9)	
(10)	
(11)	
Total. (Column (b) must equal Form 990, Part X, column (B) line 25) ▶	67,680,578.

2. FIN 48 (ASC 740) Footnote. In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740).

Part XI Reconciliation of Change in Net Assets from Form 990 to Audited Financial Statements

N/A

1	Total revenue (Form 990, Part VIII, column (A), line 12)	
2	Total expenses (Form 990, Part IX, column (A), line 25)	
3	Excess or (deficit) for the year Subtract line 2 from line 1	
4	Net unrealized gains (losses) on investments	
5	Donated services and use of facilities	
6	Investment expenses	
7	Prior period adjustments	
8	Other (Describe in Part XIV)	
9	Total adjustments (net) Add lines 4 through 8	
10	Excess or (deficit) for the year per audited financial statements Combine lines 3 and 9	

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return N/A

1	Total revenue, gains, and other support per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	
b	Donated services and use of facilities	2b	
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1		
a	Investments expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV.)	4b	
c	Add lines 4a and 4b	4c	
5	Total revenue Add lines 3 and 4c. (This must equal Form 990, Part I, line 12)	5	

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return N/A

1	Total expenses and losses per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25:		
a	Donated services and use of facilities	2a	
b	Prior year adjustments	2b	
c	Other losses	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:		
a	Investments expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV)	4b	
c	Add lines 4a and 4b	4c	
5	Total expenses Add lines 3 and 4c. (This must equal Form 990, Part I, line 18)	5	

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9; Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4; Part X, line 2, Part XI, line 8, Part XII, lines 2d and 4b; and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Part V, Line 4 - Intended Uses Of Endowment Fund

Endowment funds will be used to purchase capital equipment and fund other projects which are intended to improve health delivery at Winchester Medical Center, Warren Memorial Hospital, Page Memorial Hospital, and Shenandoah Memorial Hospital. Funds will be used in accordance with the wishes of the donor per the governing documents of the gift.

Part XIV Supplemental Information *(continued)*

2010

Schedule D, Part XIV - Supplemental Information

Page 6

Client VHGROUP

VALLEY HEALTH SYSTEM GROUP RETURN

80-0584319

1/12/12

10 53AM

Schedule D, Part XII, Line 2d

Other Revenue Included In F/S But Not Included On Form 990

COGS	\$ 76,001,044.
HOME HEALTH	1,107,854.
RENTAL EXPENSES	3,732,227.
UNREAL GAIN ON INTEREST SWAP	-7,591,333.
VPE ALLOCATION	10,004,610.
Total	<u>\$ 83,254,402.</u>

Schedule D, Part XIII, Line 2d

Other Expenses And Losses Per Audited F/S

COGS	\$ 76,001,044.
HOME HEALTH	1,107,854.
RENTAL EXPENSES	3,732,227.
VPE ALLOCATION	10,004,610.
Total	<u>\$ 90,845,735.</u>

SCHEDULE H
(Form 990)Department of the Treasury
Internal Revenue Service**Hospitals**

- Complete if the organization answered 'Yes' to Form 990, Part IV, question 20.
► Attach to Form 990.
► See separate instructions.

OMB No 1545-0047

2010**Open to Public
Inspection**

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part I Financial Assistance and Certain Other Community Benefits at Cost

- 1a** Did the organization have a charity care policy? If 'No,' skip to question 6a
- b** If 'Yes,' was it a written policy?
- 2** If the organization had multiple hospital facilities, indicate which of the following best describes application of the financial assistance policy to the various hospital facilities during the tax year.
- ☒ Applied uniformly to all hospital facilities ☐ Applied uniformly to most hospital facilities
- ☐ Generally tailored to individual hospital facilities
- 3** Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year.
- a** Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing free care to low income individuals? If 'Yes,' indicate which of the following was the FPG family income limit for eligibility for free care
- ☐ 100% ☐ 150% ☒ 200% ☐ Other _____ %
- b** Did the organization use FPG to determine eligibility for providing discounted care to low income individuals? If 'Yes,' indicate which of the following was the family income limit for eligibility for discounted care
- ☐ 200% ☐ 250% ☒ 300% ☐ 350% ☐ 400% ☐ Other _____ %
- c** If the organization did not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care. Include in the description whether the organization used an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care
- 4** Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the 'medically indigent'?
- 5a** Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?
- b** If 'Yes,' did the organization's financial assistance expenses exceed the budgeted amount?
- c** If 'Yes' to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?
- 6a** Did the organization prepare a community benefit report during the tax year?
- b** If 'Yes,' did the organization make it available to the public?

	Yes	No
1a	X	
1b	X	
2		
3a	X	
3b	X	
3c		
4	X	
5a	X	
5b	X	
5c		X
6a	X	
6b	X	

Complete the following table using the worksheets provided in the Schedule H instructions. Do not submit these worksheets with the Schedule H.

7 Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial assistance at cost (from Worksheets 1 and 2)	8		31,072,714.		31,072,714.	5.62
b Unreimbursed Medicaid (from Worksheet 3, column a)	14		68,549,778.	50,805,612.	17,744,166.	3.21
c Unreimbursed costs — other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs	22	0	99,622,492.	50,805,612.	48,816,880.	8.83
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)	10,847	98,365	2,947,692.	319,403.	2,628,289.	0.48
f Health professions education (from Worksheet 5)	3,800	28,314	2,841,082.	17,046.	2,824,036.	0.51
g Subsidized health services (from Worksheet 6)	1		3,080,021.	2,072,110.	1,007,911.	0.18
h Research (from Worksheet 7)	1	141	3,496.		3,496.	0.
i Cash and in-kind contributions to community groups (from Worksheet 8)	754	5,900	1,869,090.	10,534.	1,858,556.	0.34
j Total. Other Benefits	15,403	132,720	10,741,381.	2,419,093.	8,322,288.	1.51
k Total. Add line 7d and 7j	15,425	132,720	110,363,873.	53,224,705.	57,139,168.	10.34

Part II Community Building Activities Complete this table if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1 Physical improvements and housing						
2 Economic development	3		1,334.		1,334.	
3 Community support	15	431	58,418.		58,418.	0.01
4 Environmental improvements	2	8	483.		483.	
5 Leadership development and training for community members	1	1	91.		91.	
6 Coalition building	25	414	2,626.		2,626.	
7 Community health improvement advocacy	21	21	5,456.		5,456.	
8 Workforce development	3	3	119.		119.	
9 Other						
10 Total	70	878	68,527.	0.	68,527.	0.01

Part III Bad Debt, Medicare, & Collection Practices**Section A. Bad Debt Expense**

1 Does the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?

2 Enter the amount of the organization's bad debt expense (at cost)

3 Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy

4 Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit. See Part VI

Yes No

1 X

2 21,544,664.

3

Section B. Medicare

5 Enter total revenue received from Medicare (including DSH and IME)

6 Enter Medicare allowable costs of care relating to payments on line 5

7 Subtract line 6 from line 5. This is the surplus (or shortfall)

8 Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used.

☐ Cost accounting system☒ Cost to charge ratio☐ Other

5 259,987,916.

6 275,848,987.

7 -15,861,071.

Section C. Collection Practices

9a Did the organization have a written debt collection policy during the tax year?

b If 'Yes,' did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI

9a X

9b X

Part IV Management Companies and Joint Ventures

	(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership %	(e) Physicians' profit % or stock ownership %
1	NORTHERN WV HOME HEALTH	HOME HEALTH SERVICES	100.0000		
2	MEDICAL CIRCLE, LLC	MRI	51.0000		
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					

Part VI Supplemental Information

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Part I, Line 6a - Related Organization Community Benefit Report

Valley Health (VH) has prepared a formal annual community benefits report for the last six years. In addition to developing its own community benefits report, VH has voluntarily provided its annual community benefits data to the Virginia Hospital and Healthcare Association in each of the last three years (2008, 2009 and 2010).

Part III, Line 4 - Bad Debt Expense

Management uses collection percentages based upon historical collection experience to determine its allowances for bad debts.

Management reviews troubled, aged accounts to determine collection potential.

Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

A cost to charge ratio is used to determine the organization's at cost, bad debt expense.

Part III, Line 9b - Provisions On Collection Practices For Qualified Patients

Throughout the collection process, Valley Health (VH) solicits information to determine if patients may qualify for charity or discounted assistance. Special attention is paid to patients who have qualified for charity assistance in the past

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Part III, Line 9b - Provisions On Collection Practices For Qualified Patients (continued)

six (6) months and/or have qualified at another facility within VH. For example, a patient who qualified within six months would not be required to submit an application or documentation to support assistance for the latest episode. Another example is a current patient would not be required to submit an application or documentation to support assistance if that documentation was on file from another VH hospital.

Part VI - Needs Assessment

Historically, Valley Health (VH) has used a number of methods to collect relevant data/information on the health needs of the communities it serves. In developing the system report, VH surveys patients, holds focus groups, explores state and federal health outcomes databases, and reviews internally-generated patient record and billing data. These initiatives have helped to identify pressing geographic and demographic health needs.

In the autumn of 2009, formal planning began, and in June 2010 the community health needs assessment was completed. During the second half of the year VH tabulated and reviewed the health and other needs identified through the research. These needs were prioritized by region and then the health system determined which needs it would take the lead in tackling and which to address through community

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Part VI - Needs Assessment (continued)

partnerships/collaboration. The scope of need is such that VH recognizes it lacks the resources and expertise to tackle all of the issues that the research uncovered. VH looped in a needs assessment that United Way of the Northern Shenandoah Valley was planning, underwriting research expenses that would have fallen to the not-for-profit organization otherwise. VH shared all the research data widely to help local providers of services - education, mental health, food aid, etc. - to get a big picture look at the dominant issues.

VH is aware of the new requirement to perform a community health needs assessment every three years. The recently completed needs assessment provides a baseline to measure against in 2013.

Part VI - Patient Education of Eligibility for Assistance

Valley Health (VH) rigorously applies the criteria set forth in Code of Virginia §32.1-137.01 regarding informing and educating patient regarding charity assistance opportunities and eligibility. This criteria is applied at all facilities:

1. Posting of policies regarding free and discounted care in conspicuous, public areas of our facilities.

Part VI Supplemental Information

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Part VI - Patient Education of Eligibility for Assistance (continued)

2. Providing/having a handout of the eligibility criteria and procedures for applying for assistance at the point of service or admission.

3. Notifying patients of the availability of assistance through messages on our billing statements.

4. Policy and eligibility statements and associated application(s) are available on the VH public web site (www.valleyhealthlink.com).

Financial packets are available at the point of admission and through financial counselors located throughout our facilities.

Part VI - Community Information

Valley Health (VH) serves an eighteen (18) county area of Virginia, West Virginia and Maryland and two independent cities in Virginia. The total coverage area is approximately 6,766 square miles. (Square miles are in parentheses.) In the northern Shenandoah Valley of Virginia, VH provides services to patients residing in Frederick (415), Clarke (177), Warren (214), Shenandoah (512), Page (311), Rappahannock (267), Fauquier (650) and Loudoun (520) counties and the independent cities of Winchester (9) and Harrisonburg (18). In the greater eastern panhandle of

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Part VI - Community Information (continued)

West Virginia, VH provides services to patients residing in Jefferson (210), Berkeley (321), Morgan (229), Hampshire (642), Hardy (583), Grant (477) and Mineral (328) Counties. In Maryland, VH facilities provide services for those residing in Washington (458) and Allegany (425) Counties. With the exception of several large population centers (Winchester, Harrisonburg and a major swath of Loudoun County, VA and Martinsburg, WV), the majority of the service area population resides in a rural-dominated environment.

VH has designated three service areas - a primary, a secondary and a tertiary service area - in which it provides healthcare services, or transportation to services. The primary service area consists of Frederick, Clarke, Warren, Shenandoah, Page and Rappahannock Counties of Virginia. The secondary service area consists of Jefferson, Berkeley, Morgan, Hampshire and Hardy Counties of West Virginia. The tertiary service area consists of Loudoun, Fauquier and Rockingham Counties and Harrisonburg City in Virginia, Grant and Mineral Counties of West Virginia and Washington and Allegany Counties of Maryland.

The total estimated population of the primary service area in 2010 was 227,479. The total estimated population of the secondary service area in 2010 was 212,404. For

Part VI Supplemental Information

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Part VI - Community Information (continued)

the tertiary service area in 2010 the total estimated population was 753,938. The total estimated catchment area population in 2010 was 1,193,821, representing a growth of approximately 22% or 2% per year since 2000. The primary service area is projected to grow to 243,016 or 6.8% by 2015. The secondary service area is projected to grow to 232,441 or 9.4% by 2015. By 2015, the tertiary service area population is projected to grow to 833,820 or 10.6%.

The overall catchment area population is approximately 84% white/Caucasian while the remaining 16% falls into other races/ethnic groups. According to population demographic data provided by Claritas, Inc., VH's primary and secondary service areas are aging at a faster rate than the aging rate of Virginia, West Virginia and the United States. With the rapid aging of the primary and secondary service area populations, VH is continuously planning for this impact. (Population demographic data sourced from Claritas, Inc.)

Since VH's service area is predominantly rural, many of the counties are designated as primary care, dental and/or mental health "health professional shortage areas" (HPSA's) and/or Medically Underserved Area/Populations by the federal government.

VH provides a wide range of clinical services to the communities it serves through a

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Part VI - Community Information (continued)

full network of acute care hospitals (including four critical access hospitals), rural health clinics and other support programs. VH provides patient access to leading-edge diagnostic and state-of-the-art clinical services to the residents of the regions served.

Part VI - Community Building Activities

Valley Health (VH) engages in a series of "Community Building Activities" every year including coalition building, community health improvement advocacy, community support, economic development, physical improvements and housing and workforce development programs. VH is a very active corporate citizen in its service area.

VH's Community Building Activities include but are not limited to the following:

Workforce Job Center Job Fair, United Way Day of Caring volunteer efforts, regional chambers of commerce board involvement, Rotary Club Family Fun Days, Our Health coalition building, Literacy Council volunteerism, Area Agencies on Aging programs, community sharps programs, Concern Hotline funding, Boys and Girls Club and Big Brothers-Big Sisters funding, Shelter for Abused Women funding, Youth Development Center activities, Parrish Nursing, and Blue Ridge Hospice programs.

Although many of its Community Building Activities do not provide any form of direct

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Part VI - Community Building Activities (continued)

patient care, VH believes that its community building programs provide significant indirect community benefit. For example, by having numerous volunteers go into the community on the United Way "Day of Caring," system employees are able to work on seniors' and disabled individuals' homes. Through simple household improvements, VH makes home safer and more secure, helping occupants avoid potential injuries. Through Literacy Council volunteerism, VH employees assist individuals learning to read and/or write, opening the door to better paying jobs, perhaps jobs with improved healthcare benefits. By way of a community sharps program, VH facilities reduce the risk to patients, family members and, potentially, landfill employees of incurring serious puncture wounds. A leftover medicine disposal program helps protect the Shenandoah Valley watershed from serious environmental pollutants.

VH is the largest employer in its service area, with the largest proportion of skilled workers. As a result, it has an out-sized economic impact on the communities where its employees live and work. VH is committed to being an engaged, dependable corporate citizen. Sometimes, this means engaging the community in ways other than the direct provision of healthcare services. The Community Building Activities that VH engages in have tangible benefits to the communities served.

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Part VI - Explanation Of How Organization Furthers Its Exempt Purpose

Valley Health (VH) and its affiliated entities contribute significantly to the health of the communities they serve. In the primary market, VH is generally the dominant health resource. In the secondary market, where the public typically has a wider range of choice within a similar driving distance, VH still provides a dominant portion of care to the population.

The medical staff of our combined entities numbers over 500 and includes independent practitioners and employed physicians. We have a relationship with Virginia Commonwealth University School of Medicine whereby surgical residents serve rotations in Winchester. We also provide hospital settings in Winchester and Front Royal for physicians in the Shenandoah Valley Family Practice Residency Program to hone their clinical skills.

We assist in recruiting new physicians to the community to fill gaps in coverage. VH also trains nurses and allied health professionals through relationships with over 50 colleges and universities.

VH's volunteer Board of Trustees provides direction for the organization. Similar groups of trustees are in place at each of our six hospitals and several subsidiaries (Valley Regional Enterprises, Valley Physician Enterprise, Surgi-Center, etc.).

VH reviews the facility needs of system entities on a regular basis and

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Part VI - Explanation Of How Organization Furthers Its Exempt Purpose (continued)

investments are made as appropriate using accrued surpluses, bonds and philanthropy.

Construction projects underway in 2010 included a major expansion of Winchester

Medical Center, and construction of replacement hospitals for 60-year old facilities

in Berkeley Springs, WV and Romney, WV. As Robert Hott, Hampshire County

Commissioner, said: "Everybody knew we needed a new hospital, but where was the

money [\$35 million] going to come from? I don't want to think how much longer we

would have had to wait if VH hadn't extended its hand."

Each hospital in the system offers community education programs and screenings to

identify health problems at their earliest and most easily treated phase. Some

exciting examples of our community

outreach include STAMINA, an exercise and nutrition program offered to fourth grade

students in Shenandoah County by Shenandoah Memorial Hospital. The program links

diet, exercise and long-term health into a stimulating class activity. We also

support Camp Super Kids in Winchester which provides a three-day,

physician-supervised camp experience for children with asthma. Project IMPACT is

funded by VH for athletes in Winchester and Frederick, Warren, and Clark counties.

We screen the athletes' neurological function prior to the start of competition.

Should a student incur a head injury and a concussion is suspected, the athlete's

neurological functioning is retested and compared to the baseline. Through the

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Part VI - Explanation Of How Organization Furthers Its Exempt Purpose (continued)

Internet we invite the public to take a free on-line Heart Aware survey that identifies their risk for heart disease. Those with troubling results are eligible for a free consultation. We provide substantial direct and in-kind support to Free Clinics in Winchester, Front Royal, Woodstock and Luray VA and Martinsburg, WV.

VH's Mission is "To Serve the Regional Community by Improving Health." The organization has embraced well-care as seriously as sick-care. We built the VH Wellness and Fitness Center in Winchester, we operate the Hampshire Wellness and Fitness Center, and we offer fitness programs in Front Royal, Luray and Berkeley Springs. The system is the lead organization in an annual Safety Fair for kids. VH provides numerous healthcare screening programs to detect such diseases as diabetes, hypertension and many forms of cancer. Screenings provide reassurance that individuals are healthy, or enable them to pursue treatment early in a disease process when it is easier to overcome. When acute health issues arise; VH is well positioned with six hospitals to provide the necessary acute care services. At discharge, if post-hospital care is considered necessary, VH offers a wide selection of post-acute and long-term service options.

Part VI - Affiliated Health Care System Roles and Promotion

Valley Health System is a six-hospital healthcare delivery system headquartered in Winchester, Virginia. The healthcare delivery system has a service area that

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Complete this part to provide the following information.

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II; Part III, lines 4, 5, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves.
- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.).
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Part VI - Affiliated Health Care System Roles and Promotion (continued)

encompasses approximately 18 counties in the northern Shenandoah Valley of Virginia and the greater eastern panhandle of West Virginia. All six hospitals, Winchester Medical Center (Winchester, VA), Shenandoah Memorial Hospital (Woodstock, VA), Warren Memorial Hospital (Front Royal, VA), Hampshire Memorial Hospital (Romney, WV), Page Memorial Hospital (Luray, VA), and War Memorial Hospital (Berkley Springs, WV) are included in this consolidated Form 990-Schedule H return for tax year 2010.

In addition to Valley Health System's hospital facilities, the healthcare delivery system also has the following subsidiaries: a freestanding ambulatory surgery center, the Surgi-Center of Winchester (Winchester, VA), Valley Physician Enterprises (subsidiary that manages all employed physicians) and Valley Wellness and Fitness Center.

Valley Health System's Mission is "To Serve the Regional Community by Improving Health." Through all of its affiliated organizations (subsidiaries), Valley Health System strives to promote health improvement in all of the communities it serves. Through the Valley Health System Wellness and Fitness Center, the Hampshire Wellness and Fitness Center and a whole host of other wellness and prevention programs, Valley Health System is dedicated to keeping the citizens in its service area in

Part VII Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 5, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.)
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

Part VI - Affiliated Health Care System Roles and Promotion (continued)

good health. Valley Health System provides numerous healthcare screening programs to detect such diseases as diabetes, hypertension and many forms of cancer. The desired outcome is to keep as many citizens in Valley Health System's service area healthy, however, should any acute health issues arise; Valley Health System is well positioned with its hospitals to provide the necessary acute care services. Upon discharge from any one of Valley Health System's acute care facilities, it offers a wide selection of post acute and long-term service options to its patients in order to continue their health improvement and maintenance.

Part VI - States Where Community Benefit Report Filed

VA

Part V - Explanation of Number of Facility Type

Three Hospital Foundations

Additional Information

Valley Health (VH) has affiliated hospitals located in Virginia and West Virginia. In the last three years, 2008, 2009 and 2010 (including this year's filing), VH has voluntarily participated in the statewide Virginia Hospital and Healthcare Association's Annual Community Benefit Survey by providing all relevant community benefit data for its Virginia-affiliated hospitals. Although the State of West Virginia does require certain financial data to be submitted annually, there is no

Part VI Supplemental Information

Complete this part to provide the following information

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 5, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3 Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves.
- 5 Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc).
- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Additional Information (continued)

known requirement to provide specific community benefit-related data to the State of
West Virginia or the West Virginia Hospital Association.

SCHEDULE I
(Form 990)

**Grants and Other Assistance to Organizations,
Governments and Individuals in the United States**

OMB No 1545-0047

2010

Complete if the organization answered 'Yes,' to Form 990, Part IV, lines 21 or 22.
▶ Attach to Form 990.

**Open to Public
Inspection**

Department of the Treasury
Internal Revenue Service

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part I General Information on Grants and Assistance

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance?

☒ **Yes** ☐ **No**

2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States. See **Part IV**

Part II Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered 'Yes' to Form 990, Part IV, line 21 for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000.

Part II can be duplicated if additional space is needed

1 (a) Name and address of organization or government	(b) EIN	(c) IRC section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
(1) FAITH IN ACTION 333 WEST CORK STREET WINCHESTER, VA 15143	26-2937544	501 (c) (3)	6,750.	0.			DIRECT GRANT SUPPORT
(2) FREE MEDICAL CLINIC CAMERON STREET WINCHESTER, VA 22601	54-1373296	501 (c) (3)	146,583.	0.			CHARITY CARE
(3) SHEN COUNTY FREE MEDICA 781 SPRING PARKWAY WOODSTOCK, VA 22664	54-2032008	501 (c) (3)	30,000.	0.			CHARITY CARE
(4) SHEN VALLEY COMP PHARM 1460 UNIVERSITY DRIVE WINCHESTER, VA 22601	04-3724034	501 (c) (3)	35,000.	0.			CHARITY CARE
(5) SHENANDOAH MEMORIAL HOS 759 S MAIN STREET WOODSTOCK, VA 22664	54-0490687	501 (c) (3)	40,602.	0.			CAPITAL EQUIP AND PROJECTS
(6) WARREN MEMORIAL HOSPITA 1000 SHENANDOAH DRIVE FRONT ROYAL, VA 22630	54-0488103	501 (c) (3)	38,388.	0.			CAPITAL EQUIP AND PROJECTS
(7) WINCHESTER MEDICAL CENT 1840 AMHERST STREET WINCHESTER, VA 22601	54-0505979	501 (c) (3)	605,243.	0.			CAPITAL EQUIP AND PROJECTS
(8) -----							

2 Enter total number of section 501(c)(3) and government organizations

7

3 Enter total number of other organizations

0

BAA For Paperwork Reduction Act Notice, see the Instructions for Form 990.

TEEA3901L 10/29/10

Schedule I (Form 990) 2010

Part III Grants and Other Assistance to Individuals in the United States. Complete if the organization answered 'Yes' to Form 990, Part IV, line 22.
Part III can be duplicated if additional space is needed.

(a) Type of grant or assistance	(b) Number of recipients	(c) Amount of cash grant	(d) Amount of non-cash assistance	(e) Method of valuation (book, FMV, appraisal, other)	(f) Description of non-cash assistance
1 EMPLOYEE ASSISTANCE FUND	11	11,021.		COST	LIVING EXPENSES
2					
3					
4					
5					
6					
7					

Part IV Supplemental Information. Complete this part to provide the information required in Part I, line 2, and any other additional information.

Part I, Line 2 - Procedures for Monitoring Use of Grants Funds in U.S.

VIRTUALLY ALL OF THE ORGANIZATIONS PROVIDED WITH GRANT FUNDS ARE LOCAL, AND CLOSELY MONITORED BY VALLEY HEALTH'S MANAGEMENT AND BOARD. PERIODIC REPORTS ARE OBTAINED AS WELL FROM THESE GRANTEEES WHICH DISCUSS OPERATIONS AND BENEFITS RENDERED TO THE COMMUNITIES SERVED. BEFORE FUNDING IS GRANTED, CONSISTENCY OF MISSION IS EVALUATED IN ORDER TO ASSURE LIKE DIRECTION WITH VALLEY HEALTH INITIATIVES.

SCHEDULE J
(Form 990)Department of the Treasury
Internal Revenue Service**Compensation Information****For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees**

- **Complete if the organization answered 'Yes' to Form 990, Part IV, line 23.**
► **Attach to Form 990.** ► **See separate instructions.**

OMB No 1545-0047

2010**Open to Public Inspection**

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part I Questions Regarding Compensation

- 1 a** Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a. Complete Part III to provide any relevant information regarding these items

- | | |
|---|---|
| <input type="checkbox"/> First-class or charter travel | <input checked="" type="checkbox"/> Housing allowance or residence for personal use |
| <input type="checkbox"/> Travel for companions | <input type="checkbox"/> Payments for business use of personal residence |
| <input checked="" type="checkbox"/> Tax indemnification and gross-up payments | <input type="checkbox"/> Health or social club dues or initiation fees |
| <input checked="" type="checkbox"/> Discretionary spending account | <input type="checkbox"/> Personal services (e.g., maid, chauffeur, chef) |

- b** If any of the boxes on line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If 'No,' complete Part III to explain

- 2** Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?

- 3** Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director. Check all that apply.

- | | |
|---|---|
| <input checked="" type="checkbox"/> Compensation committee | <input checked="" type="checkbox"/> Written employment contract |
| <input checked="" type="checkbox"/> Independent compensation consultant | <input checked="" type="checkbox"/> Compensation survey or study |
| <input type="checkbox"/> Form 990 of other organizations | <input checked="" type="checkbox"/> Approval by the board or compensation committee |

- 4** During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization

- a** Receive a severance payment or change-of-control payment from the organization or a related organization?
b Participate in, or receive payment from, a supplemental nonqualified retirement plan?
c Participate in, or receive payment from, an equity-based compensation arrangement?

If 'Yes' to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III **Part III**

Only section 501(c)(3) and 501(c)(4) organizations must complete lines 5-9.

- 5** For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of

- a** The organization?
b Any related organization?

If 'Yes' to line 5a or 5b, describe in Part III

Part III

- 6** For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of

- a** The organization?
b Any related organization?

If 'Yes' to line 6a or 6b, describe in Part III

Part III

- 7** For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If 'Yes,' describe in Part III

- 8** Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53.4958-4(a)(3)? If 'Yes,' describe in Part III

- 9** If 'Yes' to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?

	Yes	No
1a		
1b	X	
2	X	
3		
4a	X	
4b	X	
4c		X
5a	X	
5b	X	
6a	X	
6b	X	
7		X
8		X
9		

BAA For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Schedule J (Form 990) 2010

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii). Do not list any individuals that are not listed on Form 990, Part VII.

Note. The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a.

(A) Name	(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
	(i) Base compensation	(ii) Bonus and incentive compensation	(iii) Other reportable compensation				
1 PATRICK D. IRE	(i) 0.	0.	201,000.	0.	0.	201,000.	0.
(ii) 0.	0.	0.	4,650.	0.	0.	4,650.	0.
2 MARK H MERRILL	(i) 570,003.	67,550.	0.	120,363.	37,253.	835,229.	485,409.
(ii) 356,630.	59,495.	7,909.	47,785.	30,976.	502,795.	479,585.	0.
3 ALFRED E. PILO	(i) 0.	0.	0.	0.	0.	0.	0.
(ii) 211,925.	26,432.	3,503.	20,812.	25,745.	288,417.	279,026.	0.
4 KATHYRN TAGNES	(i) 0.	0.	0.	0.	0.	0.	0.
(ii) 189,485.	24,885.	2,886.	15,653.	24,760.	257,669.	229,286.	0.
5 TONYA SMITH	(i) 0.	0.	0.	0.	0.	0.	0.
(ii) 189,895.	29,608.	6,056.	48,485.	25,078.	299,122.	375,468.	0.
6 TERRY SINCLAIR	(i) 0.	0.	0.	0.	0.	0.	0.
(ii) 169,233.	16,565.	3,924.	14,928.	23,699.	228,349.	215,412.	0.
7 PATRICK NOLAN	(i) 0.	0.	0.	0.	0.	0.	0.
(ii) 205,870.	16,616.	999.	20,438.	25,622.	269,545.	270,162.	0.
8 FLOYD HEATER	(i) 0.	0.	0.	0.	0.	0.	0.
(ii) 288,766.	27,895.	12,738.	38,270.	14,161.	381,830.	376,816.	0.
9 TIMOTHY W. WIL	(i) 0.	0.	0.	0.	0.	0.	0.
(ii) 145,029.	14,497.	8,029.	9,448.	10,178.	187,181.	159,500.	0.
10 ROBERTA MCCAUL	(i) 0.	0.	0.	0.	0.	0.	0.
(ii) 0.	0.	0.	0.	0.	0.	0.	0.
11 J. CRAIG LEWIS	(i) 0.	0.	0.	0.	0.	0.	0.
(ii) 339,998.	48,950.	6,045.	44,062.	30,491.	469,546.	457,192.	0.
12 GERALD BECHAMP	(i) 207,656.	0.	39,908.	0.	19,014.	266,578.	0.
(ii) 0.	0.	2,450.	0.	0.	0.	2,450.	0.
13 VIJAY CHOWDARY	(i) 0.	0.	327,525.	0.	0.	327,525.	328,577.
(ii) 0.	0.	0.	0.	0.	0.	0.	0.
14 AUDREA H WYNN	(i) 400,005.	59,908.	8,934.	0.	32,331.	501,178.	0.
(ii) 0.	0.	0.	0.	0.	0.	0.	0.
15 JOHN HOFFMAN,	(i) 135,013.	46,318.	15,867.	0.	20,325.	217,523.	0.
(ii) 0.	0.	0.	0.	0.	0.	0.	0.
16 ROBERT AMOS	(i) 35,772.	0.	111.	0.	3,985.	39,868.	40,403.
(ii) 153,647.	22,340.	480.	0.	19,039.	195,506.	168,845.	0.

TEEA4102L 11/15/10

Schedule J (Form 990) 2010

BAA

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Part I, Line 4 - Received Severance, Supplemental NQ Retirement, Equity-Based Compensation

Roberta McCauley received \$ 7,502 in severance pay in 2010. Her last date of employment was December 3, 2010.

and will be paid severance for nine months ending September 3, 2011. She will be compensated approximately

\$122,540 in 2011.

Dr. Marc Stam received \$ 70,469 in severance pay in 2010.

Both of these amounts are reported on Form 990, Part VII under reportable W2/1099 compensation (Column D).

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Part I, Line 5 - Compensation Contingent On Revenues Or Related Organization

A portion of senior management bonuses are based on the financial results of any given year with a residual

on quality, patient safety, patient satisfaction, and project completion.

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Part I, Line 6 - Compensation Contingent On Net Earnings Or Related Organization

A portion of senior management bonuses are based on the financial results of any given year with a residual
on quality, patient safety, patient satisfaction, and project completion.

Continuation Sheet for Schedule J (Form 990)

2010

Continuation Page 1 of 1

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part II Continuation of Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (Schedule J, Part II)

(A) Name	(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
	(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
VIRGINIA KILMER	(i) 127,266. (ii) 0.	10,903. 0.	2,650. 0.	0. 0.	12,450. 0.	153,269. 0.	150,649. 0.
PHILLIP E. GRAYB	(i) 114,857. (ii) 0.	13,075. 0.	1,610. 0.	0. 0.	20,791. 0.	150,333. 0.	68,580. 68,580.
MARVIN T WAY	(i) 0. (ii) 315,408.	0. 45,410.	0. 5,639.	0. 57,579.	0. 29,763.	0. 453,799.	0. 440,057.
JOSEPH HASHEM M.	(i) 186,567. (ii) 0.	49,081. 0.	18,217. 0.	0. 0.	14,488. 0.	268,353. 0.	0. 0.
DAVID S SWITZER	(i) 120,610. (ii) 0.	49,456. 0.	228. 0.	0. 0.	21,132. 0.	191,426. 0.	0. 0.
BARBARA WALTER,	(i) 235,007. (ii) 0.	0. 0.	1,195. 0.	0. 0.	17,025. 0.	253,227. 0.	0. 0.
NELSON T. CLARK	(i) 144,336. (ii) 0.	19,859. 0.	7,175. 0.	14,175. 0.	12,006. 0.	197,551. 0.	0. 0.
ANDREW COHEN	(i) 152,309. (ii) 0.	25,000. 0.	10,386. 0.	13,131. 0.	4,916. 0.	205,742. 0.	0. 0.
MARK A. BENNINGH	(i) 225,014. (ii) 0.	0. 0.	1,104. 0.	0. 0.	13,080. 0.	239,198. 0.	0. 0.
CHARISSE SPARKS,	(i) 677,886. (ii) 0.	25,000. 0.	463. 0.	0. 0.	26,682. 0.	730,031. 0.	0. 0.
MARC STAM, MD	(i) 361,961. (ii) 0.	9,500. 0.	300,738. 0.	0. 0.	30,755. 0.	702,954. 0.	0. 0.
STEVEN CUMMINGS,	(i) 396,633. (ii) 0.	8,000. 0.	102,660. 0.	0. 0.	32,146. 0.	539,439. 0.	0. 0.
ANDRE FREDIEU, M	(i) 310,099. (ii) 0.	105,987. 0.	113,561. 0.	0. 0.	20,067. 0.	549,714. 0.	0. 0.
CHARLES S ROBERT	(i) 394,960. (ii) 0.	8,500. 0.	83,618. 0.	0. 0.	32,101. 0.	519,179. 0.	423,792. 0.
CARL S NAPPS	(i) 0. (ii) 0.	0. 0.	24,974. 0.	0. 0.	0. 0.	24,974. 0.	0. 0.
	(i) 0. (ii) 0.	0. 0.	0. 0.	0. 0.	0. 0.	0. 0.	0. 0.

TEEA4201L 02/08/11

Schedule J Cont (Form 990) 2010

SCHEDULE K
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

► Complete if the organization answered 'Yes' to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Part V.
► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part I Bond Issues

(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date issued	(e) Issue price	(f) Description of purpose	(g) Defeased		(h) On behalf of issuer		(i) Pooled financing	
						Yes	No	Yes	No	Yes	No
A IDA OF CITY OF WINCHESTER	52-1232253	973129DW6	1/31/2007	91,415,663.	SEE STATEMENT						
B IDA OF CITY OF WINCHESTER	52-1232253	973129EQ8	12/17/2009	74,256,930.	SEE STATEMENT						
C WEST VIRGINIA HOSPITAL FIN		956622C28	12/17/2009	24,811,955.	SEE STATEMENT						
D											

Part II Proceeds

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
1 Amount of bonds retired								
2 Amount of bonds legally defeased								
3 Total proceeds of issue		91,415,663.		74,256,930.		24,811,955.		
4 Gross proceeds in reserve funds								
5 Capitalized interest from proceeds								
6 Proceeds in refunding escrows		14,508,990.						
7 Issuance costs from proceeds		3,128,218.		1,301,587.		469,612.		
8 Credit enhancement from proceeds								
9 Working capital expenditures from proceeds								
10 Capital expenditures from proceeds		73,778,455.		8,205,260.		16,646,642.		
11 Other spent proceeds								
12 Other unspent proceeds				64,750,083.		7,695,701.		
13 Year of substantial completion								

14 Were the bonds issued as part of a current refunding issue?	Yes	No	Yes	No	Yes	No	Yes	No
15 Were the bonds issued as part of an advance refunding issue?		X		X		X		
16 Has the final allocation of proceeds been made?		X		X		X		
17 Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X		X			

Part III Private Business Use

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
1 Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?		X		X		X		
2 Are there any lease arrangements that may result in private business use of bond-financed property?		X		X		X		

BAA For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Schedule K (Form 990) 2010

Part III Private Business Use (Continued)

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
3a Are there any management or service contracts that may result in private business use of bond-financed property?		X		X		X		
b Are there any research agreements that may result in private business use of bond-financed property?		X		X		X		
c Does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property?	X		X		X			
4 Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government								%
5 Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government								%
6 Total of lines 4 and 5								%
7 Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X		X		X			

Part IV Arbitrage

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
1 Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X	X		X			
2 Is the bond issue a variable rate issue?	X			X		X		
3a Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?	X		X		X			
b Name of provider								
c Term of hedge								
d Was the hedge superintegrated?		X		X		X		
e Was the hedge terminated?		X		X		X		
4a Were gross proceeds invested in a GIC?		X		X		X		
b Name of provider								
c Term of GIC								
d Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?	X		X		X			
5 Were any gross proceeds invested beyond an available temporary period?		X		X		X		
6 Did the bond issue qualify for an exception to rebate?		X		X		X		

Part V Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).**Additional Information**

PART I LINE A Funds used to refinance 2003 of Warren Memorial Hospital and Shenandoah Memorial Hospital; purchase of equipment; construction of ambulatory care center at Warren; renovations and upgrades at Warren, Shenandoah, and Winchester Medical Center.

Part III Private Business Use (Continued)

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
3a Are there any management or service contracts that may result in private business use of bond-financed property?								
b Are there any research agreements that may result in private business use of bond-financed property?								
c Does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property?								
4 Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government		%		%		%		%
5 Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government		%		%		%		%
6 Total of lines 4 and 5		%		%		%		%
7 Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

Part IV Arbitrage

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
1 Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?								
2 Is the bond issue a variable rate issue?								
3a Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?								
b Name of provider								
c Term of hedge								
d Was the hedge superintegrated?								
e Was the hedge terminated?								
4a Were gross proceeds invested in a GIC?								
b Name of provider								
c Term of GIC								
d Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5 Were any gross proceeds invested beyond an available temporary period?								
6 Did the bond issue qualify for an exception to rebate?								

Part V Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).**Additional Information (continued)**

PART I LINE B Funds used for WMC Campus expansion, East Parking Garage and reimbursement for Diagnostic Center and CE infrastructure.

PART I LINE C Funds used to build new Hampshire Memorial Hospital.

BAA

**SCHEDULE M
(Form 990)**Department of the Treasury
Internal Revenue Service**Noncash Contributions**

- **Complete if the organizations answered 'Yes'**
on Form 990, Part IV, lines 29 or 30.
► **Attach to Form 990.**

OMB No 1545-0047

2010**Open To Public
Inspection**

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Part I Types of Property

	(a) Check if applicable	(b) Number of contributions or items contributed	(c) Noncash contribution amounts reported on Form 990, Part VIII, line 1g	(d) Method of determining noncash contribution amounts
1 Art—Works of art				
2 Art—Historical treasures				
3 Art—Fractional interests				
4 Books and publications				
5 Clothing and household goods				
6 Cars and other vehicles				
7 Boats and planes				
8 Intellectual property				
9 Securities—Publicly traded	X	1	5,116.	
10 Securities—Closely held stock				
11 Securities—Partnership, LLC, or trust interests				
12 Securities—Miscellaneous				
13 Qualified conservation contribution— Historic structures				
14 Qualified conservation contribution—Other				
15 Real estate—Residential				
16 Real estate—Commercial				
17 Real estate—Other				
18 Collectibles				
19 Food inventory				
20 Drugs and medical supplies				
21 Taxidermy				
22 Historical artifacts				
23 Scientific specimens				
24 Archeological artifacts				
25 Other ► ()				
26 Other ► ()				
27 Other ► ()				
28 Other ► ()				

29 Number of Forms 8283 received by the organization during the tax year for contributions for which the organization completed Form 8283, Part IV, Donee Acknowledgement

29

30a During the year, did the organization receive by contribution any property reported in Part I, lines 1-28 that it must hold for at least three years from the date of the initial contribution, and which is not required to be used for exempt purposes for the entire holding period?

b If 'Yes,' describe the arrangement in Part II

31 Does the organization have a gift acceptance policy that requires the review of any non-standard contributions?

32a Does the organization hire or use third parties or related organizations to solicit, process, or sell noncash contributions?

b If 'Yes,' describe in Part II.

33 If the organization did not report an amount in column (c) for a type of property for which column (a) is checked, describe in Part II.

Yes No

30a

X

31

X

32a

X

BAA For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Schedule M (Form 990) 2010

Part II **Supplemental Information.** Complete this part to provide the information required by Part I, lines 30b, 32b, and 33. Also complete this part for any additional information.

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings present.

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Related Organizations and Unrelated Partnerships

► Complete if the organization answered 'Yes' to Form 990, Part IV, line 33, 34, 35, 36, or 37.
► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2010

Open to Public
Inspection

Employer identification number

80-0584319

Part I Identification of Disregarded Entities (Complete if the organization answered 'Yes' to Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) SHEN SPA, LLC 1066 HISEY AVE, SUITE 101					SHENANDOAH
(2) WOODSTOCK, VA 22664 26-2111074	MEDICAL BASED SPA	VA	151,402.	0.	MEMORIAL HOSPITAL
(3) -----					
(4) -----					
(5) -----					
(6) -----					

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered 'Yes' to Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Sec 512(b)(13) controlled entity?
(1) VALLEY HEALTH SYSTEM 220 CAMPUS BLVD						Yes No
(2) WINCHESTER, VA 22601 52-1357729	HEALTHCARE MGMT SERVICES	VA	501 (C) (3)	11a	N/A	X
(3) -----						
(4) -----						
(5) -----						
(6) -----						
(7) -----						

Part III Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered 'Yes' to Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Dispropor- tionate allocations?		(i) Code V-UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) ----- ----- ----- -----												
(2) ----- ----- ----- -----												
(3) ----- ----- ----- -----												

Part IV Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered 'Yes' to Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) ----- ----- ----- -----							
(2) ----- ----- ----- -----							
(3) ----- ----- ----- -----							

Part V Transactions With Related Organizations (Complete if the organization answered 'Yes' to Form 990, Part IV, line 34, 35, 35a, or 36.)**Note** Complete line 1 if any entity is listed in Parts II, III, or IV of this schedule**1** During the tax year did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?**a** Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity**b** Gift, grant, or capital contribution to other organization(s)**c** Gift, grant, or capital contribution from other organization(s)**d** Loans or loan guarantees to or for other organization(s)**e** Loans or loan guarantees by other organization(s)**f** Sale of assets to other organization(s)**g** Purchase of assets from other organization(s)**h** Exchange of assets**i** Lease of facilities, equipment, or other assets to other organization(s)**j** Lease of facilities, equipment, or other assets from other organization(s)**k** Performance of services or membership or fundraising solicitations for other organization(s)**l** Performance of services or membership or fundraising solicitations by other organization(s)**m** Sharing of facilities, equipment, mailing lists, or other assets**n** Sharing of paid employees**o** Reimbursement paid to other organization for expenses**p** Reimbursement paid by other organization for expenses**q** Other transfer of cash or property to other organization(s)**r** Other transfer of cash or property from other organization(s)**2** If the answer to any of the above is 'Yes,' see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

	(a) Name of other organization	(b) Transaction type (a-r)	(c) Amount involved	(d) Method of determining amount involved	Yes No	
					1a	1b
(1) VALLEY HEALTH SYSTEM		r	7,504,493.	COST	X	X
(2)						X
(3)						X
(4)						X
(5)						X
(6)						X

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered 'Yes' to Form 990, Part IV, line 37.)

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See Instructions regarding exclusion for certain investment partnerships.

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Are all partners section 501(c)(3) organizations?		(e) Share of end-of-year assets	(f) Dispropor- tionate allocations?		(g) Code V-UBI amount in box 20 of Schedule K-1 Form (1065)	(h) General or managing partner?	
			Yes	No		Yes	No		Yes	No
(1) ----- ----- ----- -----										
(2) ----- ----- ----- -----										
(3) ----- ----- ----- -----										
(4) ----- ----- ----- -----										
(5) ----- ----- ----- -----										
(6) ----- ----- ----- -----										
(7) ----- ----- ----- -----										
(8) ----- ----- ----- -----										

SCHEDULE O
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or 990-EZ or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2010

**Open to Public
Inspection**

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Form 990, Part III, Line 4d - Other Program Services Description

LONG TERM CARE SERVICES - 57,498 INPATIENT LONG TERM CARE DAYS

HOME HEALTH SERVICES - 48,247 HOME CARE VISITS

NURSING, PHYSICAL THERAPY, SOCIAL WORK, OCCUPATIONAL THERAPY, SPEECH PATHOLOGY, AND

HOME HEALTH AIDE

REHABILILITATION SERVICES - 6,473 REHABILITATION INPATIENT DAYS

PSYCHIATRIC SERVICES - 5,146 INPATIENT PSYCHIATRIC PATIENT DAYS

Form 990, Part VI, Line 4 - Significant Changes to Organizational Documents

Valley Health (VH) modified its bylaws during the year. The most significant modification denotes that the VH Board of Trustees (parent Board) has primary responsibility for financial decision making throughout the system, as opposed to the local subsidiary Boards.

Form 990, Part VI, Line 6 - Explanation of Classes of Members or Shareholder

The corporation shall have two classes of members: regular and honorary. The number of regular members shall not exceed 100. In addition, there may be an unlimited number of honorary members. Qualifications for both classes of membership shall be established in the Bylaws of the Corporation. Honorary members have no voting or any other rights whatsoever. Regular members shall have voting rights solely with respect to the election of regular members, honorary members and trustees, as established in the Bylaws of the Corporation.

Name of the organization

VALLEY HEALTH SYSTEM GROUP RETURN

Employer identification number

80-0584319

Form 990, Part VI, Line 7a - How Members or Shareholders Elect Governing Body

Members elect the governing body (Board of Trustees). They have no other functions with respect to oversight of the governing body.

Form 990, Part VI, Line 11b - Form 990 Review Process

The 990 is prepared by internal staff and undergoes several levels of review including the CFO and CEO. Further, the board reviews the 990 during one of its recurring monthly meetings where any issues of concern or question are addressed by Senior Management.

Form 990, Part VI, Line 12c - Explanation of Monitoring and Enforcement of Conflicts

All employees that are managers, have purchasing rights with defined limits, or may enter into a contract on behalf of the organization are required to sign a conflict of interest attestation upon employment and annually. All employees can report breaches in VH policy. VH has an employee integrity hotline and a compliance officer. The audit committee is advised of compliance activity on a quarterly basis in addition to monthly follow up by the CEO on any immediate issues. Any infractions can result in disciplinary action or dismissal.

Form 990, Part VI, Line 15a - Compensation Review & Approval Process for CEO, Exec. Dir., or Top Mgtment

The Board of Trustees is responsible for the compensation review. They use compensation literature and outside consultants to determine the appropriate compensation for the CEO, Officers, and Senior Management. As new individuals are hired into management positions, recruiting firms use FMV information to establish salary and general compensation levels.

Form 990, Part VI, Line 19 - Other Organization Documents Publicly Available

The organization makes all records available as required by law.

2010

Schedule O - Supplemental Information

Page 1

Client VHGROUP

VALLEY HEALTH SYSTEM GROUP RETURN

80-0584319

1/12/12

04:28PM

Form 990, Part XI, Line 5

Other Changes in Net Assets or Fund Balances

GAIN/LOSS ON INT RATE SWAP	\$ -7,591,333.
Net Unrealized Gains or Losses on Investments	18,217,261.
OTHER CHANGES	78,450.
PENSION LIABILITY ADJUSTMENT	14,942,611.
TRANSFER OF ASSETS	6,422,081.
TRANSFERS TO AFFILIATES	7,504,493.
Total	<u>\$ 39,573,563.</u>



***Consolidated Financial
Statements and
Supplemental Information***

December 31, 2010



CONTENTS

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Consolidated balance sheets	2
Consolidated statements of operations	3
Consolidated statements of changes in net assets	4
Consolidated statements of cash flows	5 - 6
Notes to consolidated financial statements	7 - 36
SUPPLEMENTARY INFORMATION:	
Consolidating schedule – balance sheet information – 2010	37 - 38
Consolidating schedule – operating information – 2010	39
Consolidating schedule – balance sheet information – 2009	40 - 41
Consolidating schedule – operating information – 2009	42



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Valley Health and Subsidiaries
Winchester, Virginia

We have audited the accompanying consolidated balance sheets of Valley Health and Subsidiaries (Valley Health) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Valley Health's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Valley Health and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

ARNETT & FOSTER, P.L.L.C.

Arnett & Foster, P.L.L.C.

Charleston, West Virginia
March 30, 2011

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VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

	2010	2009
	(In Thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 50,632	\$ 47,418
Investments	252,014	147,474
Assets limited as to use	27,073	10,937
Patient accounts receivable, net of estimated uncollectibles of \$34,088 in 2010 and \$24,685 in 2009	81,097	71,908
Third-party settlements	875	-
Inventory of supplies	13,932	12,780
Other current assets	11,051	15,165
Total current assets	436,674	305,682
Contributions receivable from remainder trust	-	1,897
Assets limited as to use, net of amount required to meet current liabilities	200,522	340,501
Property and equipment, net	515,228	429,697
Other assets		
Deferred financing costs, net	5,176	5,297
Goodwill	4,500	4,500
Investments	8,316	7,524
Total other assets	17,992	17,321
Total assets	\$ 1,170,416	\$ 1,095,098
LIABILITIES AND NET ASSETS		
Current liabilities		
Current installments of long-term debt	\$ 9,911	\$ 9,439
Accounts payable and accrued expenses	48,629	39,337
Accrued salaries and wages	19,351	19,647
Third-party settlements	-	5,371
Other current liabilities	14,984	577
Total current liabilities	92,875	74,371
Long-term debt, excluding current installments	393,171	403,869
Accrued pension and postretirement obligations	30,755	37,591
Other liabilities	23,589	25,769
Total liabilities	540,390	541,600
Net assets		
Unrestricted	613,069	538,085
Temporarily restricted	12,355	11,063
Permanently restricted	4,602	4,350
Total net assets	630,026	553,498
Total liabilities and net assets	\$ 1,170,416	\$ 1,095,098

See accompanying notes to consolidated financial statements

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2010 and 2009

	2010	2009
	(In Thousands)	
Unrestricted revenues, gains and other support		
Net patient service revenue	\$ 676,752	\$ 622,031
Other operating revenue	31,288	37,080
Investment income	9,361	8,131
Gifts and bequests	197	315
Gain on the sale of Piedmont Medical Lab	-	7,630
Net assets released from restrictions	915	909
Total revenues, gains and other support	718,513	676,096
Expenses		
Salaries and wages	266,488	252,661
Payroll taxes and benefits	62,376	62,217
Supplies and other	249,626	232,520
Provision for uncollectible accounts	45,648	37,246
Depreciation and amortization	39,960	39,525
Interest expense	10,315	6,895
Total expenses	674,413	631,064
Excess of revenues over expenses	44,100	45,032
Other changes in net assets		
Net unrealized gain on investments	17,164	29,085
Change in value of derivatives	(7,591)	29,270
Change in pension plan funded status	14,943	4,909
Acquisition of War Memorial Hospital	6,422	-
Merger of Page Memorial Hospital	-	10,608
Other changes	(54)	(55)
Increase in unrestricted net assets	\$ 74,984	\$ 118,849

See accompanying notes to consolidated financial statements

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2010 and 2009

	2010	2009
	(In Thousands)	
Unrestricted net assets		
Excess of revenues over expenses	\$ 44,100	\$ 45,032
Net unrealized gain on investments	17,164	29,085
Change in value of derivatives	(7,591)	29,270
Change in pension plan funded status	14,943	4,909
Acquisition of War Memorial Hospital	6,422	-
Merger of Page Memorial Hospital	-	10,608
Other changes	(54)	(55)
Increase in unrestricted net assets	74,984	118,849
Temporarily restricted net assets		
Contributions	1,265	1,106
Net assets released from restrictions	(915)	(909)
Net realized and unrealized gain on investments	942	389
Increase in temporarily restricted net assets	1,292	586
Permanently restricted net assets		
Transfers and adjustments	-	50
Net realized and unrealized gain on investments	252	394
Increase in permanently restricted net assets	252	444
Increase in net assets	76,528	119,879
Net assets, beginning of year	553,498	433,619
Net assets, end of year	\$ 630,026	\$ 553,498

See accompanying notes to consolidated financial statements

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

	2010	2009
	(In Thousands)	
Cash flows from operating activities		
Change in net assets	\$ 76,528	\$ 119,879
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Accretion of bond premium	(428)	(428)
Amortization of deferred financing costs	231	181
Depreciation and amortization	39,960	39,525
Net realized and unrealized gains on investments	(22,693)	(33,523)
Unrealized (gain) loss on derivatives	7,591	(29,270)
Provision for uncollectible accounts	45,648	37,246
Merger of Page Memorial Hospital	-	(10,608)
Acquisition of War Memorial Hospital	(6,422)	-
Gain on sale of Piedmont Lab	-	(7,630)
Loss on sale of property and equipment	413	213
(Increase) decrease in:		
Patient accounts receivable, net	(52,536)	(37,349)
Third-party settlements	(7,852)	1,978
Inventory of supplies	(1,000)	(442)
Other current assets	4,500	(2,720)
Other assets	(899)	7,332
Increase (decrease) in:		
Accounts payable and accrued expenses	8,602	(2,926)
Accrued salaries and wages	(296)	1,738
Accrued pension and postretirement benefits	(6,836)	(12,500)
Other current liabilities	14,407	21
Other liabilities	(9,771)	2,961
Net cash provided by operating activities	89,147	73,678
Cash flows from investing activities		
Purchase of property and equipment	(121,013)	(72,706)
Proceeds from sale of property and equipment	1	70
Proceeds from sale of investments	106,857	143,219
Purchases of investments	(64,861)	(336,876)
Cash obtained with War acquisition	984	-
Cash obtained with Page acquisition	-	1,399
Net cash used in investing activities	(78,032)	(264,894)
Cash flows from financing activities		
Principal payments on long-term debt	(9,798)	(10,336)
Proceeds from issuance of long-term debt	-	197,932
Deferred financing costs	-	(1,174)
Decrease in contributions receivable from remainder trust	1,897	512
Net cash provided by (used in) financing activities	(7,901)	186,934
Net increase (decrease) in cash and cash equivalents	3,214	(4,282)
Cash and cash equivalents, beginning of year	47,418	51,700
Cash and cash equivalents, end of year	\$ 50,632	\$ 47,418

(Continued)

See accompanying notes to consolidated financial statements

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009 (Continued)

	<u>2010</u>	<u>2009</u>
	<u>(In Thousands)</u>	
Supplemental disclosure of cash flow information		
Cash paid for interest, net of \$5,034 thousand and \$567 thousand capitalized in 2010 and 2009, respectively	<u>\$ 6,878</u>	<u>\$ 7,691</u>
Supplemental schedule of noncash financing activities		
Discount on issuance of long-term debt	<u>\$ -</u>	<u>\$ 2,068</u>
	<u>2010</u>	
Supplemental schedule of noncash investing and financing activities – acquisition of War Memorial Hospital		
Working capital, net	\$ 543	
Property and equipment	4,892	
Other assets	<u>3</u>	
	<u>\$ 5,438</u>	

See accompanying notes to consolidated financial statements

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization: Valley Health (VH) was incorporated on November 4, 1983 as a not-for-profit holding company organized exclusively for charitable, benevolent, educational and scientific purposes to support and encourage health care and related services through providing financial, management and other assistance to its affiliates and other organizations. Subsidiaries of VH, all of which are wholly owned, are as follows:

- Winchester Medical Center, Inc. (the Medical Center) — a 411 bed not-for-profit acute care hospital located in Winchester, Virginia
- Winchester Medical Center Foundation (the Winchester Foundation) — an independent, not-for-profit non-stock corporation. The purpose of the Winchester Foundation is to fund educational, scientific, and charitable endeavors. The Medical Center is the sole corporate member of the Winchester Foundation. The accounts and activity of the Winchester Foundation are consolidated with those of the Medical Center.
- Warren Memorial Hospital, Inc. (Warren) — a not-for-profit corporation that owns and operates a 46 bed general short-term acute care hospital, a 120 bed long-term care facility located in Front Royal, Virginia.
- Warren Memorial Hospital Foundation (the Warren Foundation) — an independent, not-for-profit non-stock corporation. The purpose of the Warren Foundation is to fund educational, scientific, and charitable endeavors. Warren is the sole corporate member of the Warren Foundation. The accounts and activity of the Warren Foundation are consolidated with those of Warren.
- Shenandoah Memorial Hospital, Inc. (Shenandoah) — a not-for-profit corporation that owns and operates a 25 bed critical access hospital in Woodstock, Virginia.
- Shenandoah Memorial Hospital Foundation (the Shenandoah Foundation) — an independent, not-for-profit non-stock corporation. The purpose of the Shenandoah Foundation is to fund educational, scientific, and charitable endeavors. Shenandoah is the sole corporate member of the Shenandoah Foundation. The accounts and activity of the Shenandoah Foundation are consolidated with those of Shenandoah.
- Valley Regional Enterprises, Inc. (Valley Regional) — a for-profit organization which manages a home health care agency, leases and sells durable medical equipment and supplies, operates an ambulance service, an urgent care center, a retail pharmacy and provides physician office consulting services.
- Surgi-Center of Winchester, Inc. (Surgi-Center) — a not-for-profit ambulatory surgical care center.
- East Mountain Health Advantage, Inc. (East Mountain) — a not-for-profit corporation that was organized on February 2, 2007, with VH as its sole corporate member. East Mountain was organized for the primary purpose of owning and operating healthcare facilities in West Virginia, including Hampshire and War
- Hampshire Memorial Hospital, Inc. (Hampshire) — a not-for-profit corporation that owns and operates a 25-bed critical access hospital and 30-bed skilled nursing facility in Romney, West Virginia.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- War Memorial Hospital, Inc. (War) – a not-for-profit corporation that owns and operates a 25-bed critical access hospital and a 16-bed skilled nursing facility in Berkeley Springs, West Virginia. See Note 22 for details of the acquisition by Valley Health effective April 1, 2010.
- Hampshire Wellness Center, Inc. – On January 19, 2008, East Mountain Health Advantage entered into a long-term lease agreement to lease and operate a 60,000 square foot wellness center. The lease agreement with the Hampshire County Development Authority is for a period of 20 years.

In 2008, Hampshire Wellness Center, Inc., a not-for-profit corporation, was established to operate the wellness center and assume responsibility for the lease. East Mountain Health Advantage is the sole corporate member of Hampshire Wellness Center, Inc.

- Page Memorial Hospital, Inc. (Page) – a not-for-profit corporation that owns and operates a 25-bed critical access hospital in Luray, Virginia. See Note 21 for details of acquisition by Valley Health effective January 1, 2009.
- Valley Physician Enterprise, Inc. (VPE) – a not-for-profit corporation formed for the purpose of employing physicians and providing office management services to non-employed physicians in the communities served by VH.

Principles of Consolidation: The consolidated financial statements include the accounts of Valley Health and its subsidiaries (collectively referred to as VH in the accompanying footnotes). All significant intercompany balances and transactions are eliminated in consolidation.

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

Cash and Cash Equivalents: Cash and cash equivalents are highly liquid interest-bearing bank deposits and repurchase agreements. The carrying amount of cash and cash equivalents approximates fair market value. For purposes of the statement of cash flows, VH considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectibility. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities. VH does not require collateral to secure its investments.

VALLEY HEALTH AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Assets Limited as to Use: Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of VH have been reclassified in the balance sheets at December 31, 2010 and 2009.

Inventory of Supplies: The inventory of supplies is maintained on a first-in, first-out basis and is stated at the lower of cost or market.

Property and Equipment: Property 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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues 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 support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs: Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method, which is not materially different than the effective interest method. Amortization expense related to the deferred financing costs was \$231 thousand and \$181 thousand for 2010 and 2009, respectively

Goodwill: VH records as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. The FASB codification topic 350-10-165, *Goodwill and Other Intangible Assets*, prescribes a two-step process for impairment testing of goodwill, which is performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. VH has elected to perform its annual analysis during the fourth quarter of each fiscal year. No indicators of impairment were identified during the year ended December 31, 2010 and 2009.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use by VH 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 VH in perpetuity

Excess of Revenues over Expenses: The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on derivatives and investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, changes in pension funding status and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets)

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Charity Care: VH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because VH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Donor – Restricted Gifts: Unconditional promises to give cash and other assets to VH are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. 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 a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted gifts and bequests in the accompanying financial statements.

Income Taxes: VH and its subsidiaries have been recognized by the Internal Revenue Service as not-for-profit corporations as described in Section 501(c)(3) and Section 501(a), respectively, of the Internal Revenue Code (IRC), and similar sections of state statutes, and are exempt from Federal and State income taxes, except for Valley Regional, which is a for-profit corporation subject to income taxes at the statutory Federal and State rates.

Unrelated Business Income Tax: There is currently very little guidance in the IRS Code on what activities should be subject to unrelated business income tax (UBIT). The IRS has indicated that they are studying the issue and may issue additional guidance. As a result, at this time there is uncertainty regarding whether VH should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which VH was granted non-taxable status. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to VH's non-taxable status is not expected to have a material effect on VH's financial position or results of operations.

Derivative Instruments and Hedging Activities: VH utilizes derivative financial instruments to reduce interest rate risk. VH does not hold or issue derivative financial instruments for trading purposes. VH recognizes all derivatives as either assets or liabilities and measures those instruments at fair value. The changes in the fair value of VH derivative instruments are recorded as changes in net assets as they qualify for hedge accounting.

Subsequent Events: VH has evaluated subsequent events through March 30, 2011, the date on which the financial statements were available to be issued.

Reclassifications: Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation. The reclassifications have no impact on previously reported change in net assets.

New or Recent Accounting Pronouncements: Health Care Entities Topic 954 (Accounting Standards Update No. 2010-23) of the FASB Accounting Standards Codification *Measuring Charity Care for Disclosure* is effective for fiscal years beginning after December 15, 2010. Management's policy for providing charity care, as well as the level of charity care provided, shall be disclosed in the financial statements. Such disclosure shall be measured based on the provider's costs of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients (for example, based on a cost accounting system), management may estimate the costs of those services.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

using reasonable techniques. This should be applied retrospectively to all prior periods presented. Earlier application is permitted. VH will be required to adopt Topic 954 (No. 2010-23) in its 2011 annual financial statements.

Health Care Entities Topic 954 (Accounting Standards Update No. 2010-24) of the FASB Accounting Standards Codification *Presentation of Insurance Claims and Related Insurance Recoveries* is effective for fiscal years beginning after December 15, 2010. A health care entity should not net insurance recoveries for medical malpractice claims against a related medical malpractice claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. A cumulative-effect adjustment should be recognized in opening net assets in the period of adoption if a difference exists between any liability and insurance receivables recorded as a result of application. Early application is permitted. VH will be required to adopt Topic 954 (No. 2010-24) in its 2011 annual financial statements.

Management does not believe these new standards will have a material impact on the consolidated financial statements.

Note 2. Net Patient Service Revenue

VH has agreements with third-party payors that provide for reimbursement to VH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between VH billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medical Center, Warren, Shenandoah, Hampshire, Page and War

- **Medicare**

The Medical Center and Warren are reimbursed by Medicare under a prospective payment system (PPS). Under this methodology, inpatient acute care 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 defined capital and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement method, with a limited amount per discharge on certain nonacute patients. Reimbursement for cost reimbursable items is at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The majority of outpatient services are paid at prospectively determined rates per medical procedure. Classification of patients under the Medicare program and the appropriateness of their admission are subjected to an independent review by a peer review organization under contract.

Shenandoah, Hampshire, Page and War are licensed as Critical Access Hospitals. Inpatient services and most outpatient services rendered to Medicare program beneficiaries at Shenandoah, Hampshire, Page and War are paid based on a cost reimbursement methodology at 101% of allowable cost. Other outpatient services are paid based on fee schedules.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- **Medicaid**

Reimbursement for inpatients is based entirely on prospectively determined rates per discharge based on primary diagnosis code. Outpatient services are reimbursed based upon a cost reimbursement methodology. Hampshire and War are located in West Virginia and are reimbursed for inpatient and most outpatient services under a cost reimbursement methodology.

- **Anthem**

Inpatient services are reimbursed based on a prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are reimbursed by percentage of charges or fee schedule based on diagnosis and are not subject to retroactive adjustment.

The Hospitals have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 46 percent and 10 percent, respectively, of VH's gross patient revenue, for the year ended December 31, 2010 and 46 percent and 10 percent, respectively, of VH's gross patient revenue, for the year ended December 31, 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2010 and 2009 net patient service revenue increased approximately \$6.5 million and \$220 thousand, respectively, due to the addition of allowances not previously estimated that are considered necessary, as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

Valley Regional and Surgi-Center

Valley Regional and Surgi-Center are reimbursed under agreements with Medicare, Medicaid, and Anthem at prospectively determined rates for each procedure or service rendered.

Charity Care

VH maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended December 31 (in thousands).

	2010	2009
Charges forgone, based on established rates	\$ 62,897	\$ 52,990

Note 3. Cash Concentrations

At December 31, 2010, VH had approximately \$53 million on deposit with financial institutions that would not be covered by Federal deposit insurance. However, management believes these financial institutions are financially sound and these concentrations do not present a significant risk to VH.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Concentration of Credit Risk

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

	2010	2009
Medicare	36%	32%
Medicaid	12%	9%
Anthem	17%	22%
Commercial and other	28%	28%
Self-pay	7%	9%
	100%	100%

Note 5. Investments and Commitment

VH has investments in pooled investment funds, investments held by a trustee under existing debt agreements, investments held by financial institutions and individual investments in entities that provide related healthcare services

Pooled Investments: The Medical Center, Warren, Shenandoah, their respective foundations, and Surgi-Center combine their investments in an investment pool which includes cash and cash equivalents, unrestricted investments and assets limited as to use. The pooled investment funds are allocated to these categories based upon an allocation formula approved by the Board of Directors. The investments in the pool, are stated at fair value at December 31 and are summarized as follows (in thousands).

	2010	2009
Unrestricted investments	\$ 251,221	\$ 146,573
Assets limited as to use	89,505	157,526
Total Pooled Investments	\$ 340,726	\$ 304,099

The composition of investments held in the investment pool at December 31 at fair value, is as follows (in thousands):

	2010	2009
Money Market Funds	\$ 26,004	\$ 2,917
Municipal bonds	400	1,680
Common stock	19,489	15,425
Mutual funds	185,223	179,962
Private realty and resources ltd partnerships	16,225	9,493
Alternative investments	93,385	94,622
	\$ 340,726	\$ 304,099

Other investments that are in addition to the pooled investments that make up the composition of investments and assets limited as to use, as of December 31, 2010 and 2009, respectively, consist primarily of commercial paper, equity method investments, corporate and municipal bonds, mutual funds and cash and cash equivalents of approximately \$147 million and \$202 million, respectively.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2010, approximately 10% of VH's investments, including pooled investments, are represented by one mutual fund which has a value that exceeds 10% of VH's total investments. The PIMCO Total Return II Fund holds 10% of total investments. This fund primarily invests in a diversified portfolio of fixed income securities with varying durations.

At December 31, 2009, approximately 11% of VH's investments, including pooled investments, are represented by one mutual fund, which has a value that exceeds 10% of VH's total investments. The PIMCO Total Return II Fund holds 11% of total investments. This fund primarily invests in a diversified portfolio of fixed income securities with varying durations.

Assets Limited as to Use

The composition of assets limited as to use at December 31, the majority of which are included in the pooled investments, is as follows (in thousands).

	2010	2009
By Board for capital improvements		
Pooled investments	\$ 82,456	\$ 150,977
Held by trustee under indenture agreements		
U.S. Treasury securities	114,077	177,432
Cash and cash equivalents	307	229
Interest receivable	101	101
Total	114,485	177,762
Endowment Fund		
Beneficial interest in trusts	5,426	3,068
Other	8	13
Total	5,434	3,081
Deferred Compensation plans		
Mutual funds	18,171	13,069
Restricted by Donors		
Pooled investment funds - WMC	6,149	5,593
Pooled investment funds - WMH	900	956
Total	7,049	6,549
Total assets limited as to use	227,595	351,438
Less assets limited as to use that are required for current liabilities	(27,073)	(10,937)
Noncurrent assets limited as to use	\$ 200,522	\$ 340,501

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Investments

Other investments at December 31, 2010 and 2009 include (in thousands):

	2010	2009
Investments recorded on equity method	\$ 8,181	\$ 7,389
Investments recorded on cost basis	135	135
	<u>\$ 8,316</u>	<u>\$ 7,524</u>

Investments recorded on the equity method include \$5.2 million and \$5.1 million at December 31, 2010 and 2009, respectively, related to VH's investment in Virginia Solutions SPC LTD (the Captive) (Note 18). VH is accounting for its investment in the Captive, a 47% owned affiliate, by the equity method of accounting under which VH's share of the net income of the Captive is recognized as income in VH's statement of operations and added to the investment account, and dividends received, if any, from the Captive are treated as a reduction of the investment account. Condensed, unaudited, financial information of the Captive for the years ending December 31, 2010 and 2009, is as follows (in thousands)

	2010	2009
Cash and investments	\$ 40,911	\$ 34,594
Receivables and other assets	\$ 9,197	\$ 7,255
Unearned premiums	\$ (3,439)	\$ (3,145)
Claims reserve	\$ (33,605)	\$ (26,695)
Accounts payable and other accrued liabilities	\$ (1,038)	\$ (1,360)
Shareholder's (equity)	\$ (12,026)	\$ (10,649)
Net income	\$ 1,679	\$ 1,953

Investment income and gains and losses for investments, cash equivalents and assets limited as to use are comprised of the following for the years ending December 31 (in thousands).

	2010	2009
Income		
Investment income	\$ 4,651	\$ 9,260
Impairment – investment write-down	(720)	-
Net realized gains (losses) on sale of securities	5,430	(1,129)
	<u>\$ 9,361</u>	<u>\$ 8,131</u>
Other Changes in Unrestricted Net Assets		
Net unrealized gains on other than trading securities	<u>\$ 17,164</u>	<u>\$ 29,085</u>

Interest and investment income is shown net of investment manager fees of \$507 thousand and \$728 thousand at December 31, 2010 and 2009, respectively.

Purchase Commitment

Investment agreements with TIFF Realty and Resources II, GMO Renewable Resources, and MIT Private Equity Fund contain investment commitments of \$10 million, \$10.2 million and \$3.1 million, respectively, of which approximately \$6 million is outstanding at December 31, 2010. Future increases in the investments will be made as requested by the manager of these funds and is based upon planned acquisitions of investment properties.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment

Impairment is evaluated using numerous factors, and their relative significance varies case to case. Factors considered included length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer, and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss would be recognized in the statement of operations. At December 31, 2009, VH determined that no write-downs were necessary. During 2010, VH determined that the investment in Private Advisors was impaired and wrote the investment down \$720 thousand, which approximated 25% of the investment market value at December 31, 2010. No other investments were deemed to be impaired during 2010.

Note 6. Temporarily Restricted and Permanently Restricted Net Assets and Endowments

Temporarily restricted net assets are available for the following purposes at December 31 (in thousands).

	2010	2009
Healthcare services		
Indigent/charity care	\$ 2,737	\$ 1,602
Programs/equipment	5,695	8,251
Education	3,923	1,210
	<u>\$ 12,355</u>	<u>\$ 11,063</u>

Permanently restricted net assets at December 31, 2010 and 2009 are restricted to (in thousands):

	2010	2009
Investments to be held in perpetuity, the income from which is expendable to support indigent care, equipment purchases and health education	<u>\$ 4,602</u>	<u>\$ 4,350</u>

Net assets released from restrictions by incurring expenses satisfying the restricted purposes of indigent care, equipment purchases and health education was \$915 thousand and \$909 thousand for 2010 and 2009, respectively.

Effective January 1, 2009, VH adopted the applicable provisions of Topic 958-205 of the FASB Standards Codification (formerly FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations - Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds.

The endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. 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.

The Board of Directors of VH has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, VH 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. The remaining portion of the

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, VH considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

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

To satisfy its long-term rate-of-return objectives, VH 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). VH targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

Changes in endowment funds for the fiscal year ended December 31, 2010 and 2009, are immaterial and therefore not disclosed.

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor or UPMIFA requires VH to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no significant deficiencies of this nature which are reported in unrestricted net assets as of December 31, 2010 and 2009.

Note 7. Property and Equipment

A summary of property and equipment at December 31 follows (in thousands):

	2010	2009
Land	\$ 16,345	\$ 13,662
Land improvements	38,087	36,273
Buildings and leasehold improvements	374,176	367,343
Fixed equipment	130,884	125,293
Major movable equipment	263,599	242,963
	<u>823,091</u>	<u>785,534</u>
Less accumulated depreciation and amortization	423,204	387,081
	<u>399,887</u>	<u>398,453</u>
Land held for future construction	3,313	4,301
Construction in progress	112,028	26,943
Property and equipment, net	<u><u>\$ 515,228</u></u>	<u><u>\$ 429,697</u></u>

Estimated costs to complete construction projects that have been in progress are approximately \$228 million as of December 31, 2010.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Long-Term Debt

A summary of long-term debt at December 31 follows (in thousands).

	2010	2009
Bonds payable		
Medical Center	\$ 339,023	\$ 347,426
Warren	26,388	26,388
Shenandoah	10,718	10,718
East Mountain	25,000	25,000
Page	-	129
Note payable, individual		
Note payable, due in annual principal and interest installments of \$1 million with a final payment due of \$500 thousand, bearing interest at 4%, secured by acquired assets and accounts receivable of Hampshire Memorial Hospital with a book value of \$1 million	1,164	2,500
Capital leases payable – Page, secured by related equipment with a net value of \$841 thousand	789	1,147
Total	403,082	413,308
Less current installments	9,911	9,439
Long-term debt, excluding current installments	\$ 393,171	\$ 403,869

Aggregate maturities of long-term debt as of December 31, 2010 are due in future years as follows (in thousands).

	Medical Center	Warren	Shenandoah	East Mountain	Page	Total
2011	\$ 8,400	\$ -	\$ -	\$ 1,164	\$ 347	\$ 9,911
2012	8,900	-	-	-	347	9,247
2013	9,400	-	-	-	95	9,495
2014	10,200	-	-	-	-	10,200
2015	4,294	306	124	365	-	5,089
Thereafter	297,829	26,082	10,594	24,635	-	359,140
	<u>\$ 339,023</u>	<u>\$ 26,388</u>	<u>\$ 10,718</u>	<u>\$ 26,164</u>	<u>\$ 789</u>	<u>\$ 403,082</u>

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Medical Center						Warren	Shenandoah	East Mountain		
Series	2007	2000	1993	1991	2009 A-D	2009E	2007	2007	2009		
Maturity	Senal and Term Bonds	Senal and Term Bonds	IFRNS/ SURFS(2)	RIBS/ SAVRS(1)	Variable	Fixed	Medical Center Total	Senal and Term Bonds	Senal and Term Bonds	Fixed	Valley Health Total
2011	\$ -	\$ -	\$ 2,000	\$ 6,400	\$ -	\$ -	\$ 8,400	\$ -	\$ -	\$ -	\$ 8,400
2012	-	-	2,100	6,800	-	-	8,900	-	-	-	8,900
2013	-	-	2,200	7,200	-	-	9,400	-	-	-	9,400
2014	-	-	2,400	7,800	-	-	10,200	-	-	-	10,200
2015	594	500	2,500	-	-	700	4,294	306	124	365	5,089
2016	679	3,100	-	-	675	720	5,174	350	142	380	6,046
2017	687	3,300	-	-	700	730	5,417	354	144	395	6,310
2018	699	3,500	-	-	720	745	5,664	360	146	410	6,580
2019	713	3,700	-	-	740	765	5,918	367	149	430	6,864
2020	789	3,800	-	-	765	-	5,354	406	165	-	5,925
2021	763	4,100	-	-	790	-	5,653	393	160	-	6,206
2022	797	4,300	-	-	815	-	5,912	411	167	-	6,490
2023	841	4,500	-	-	845	-	6,186	433	176	-	6,795
2024	887	4,700	-	-	865	4,080	10,532	457	186	2,485	13,660
2025	890	5,000	-	-	895	-	6,785	459	186	-	7,430
2026	899	5,300	-	-	925	-	7,124	463	188	-	7,775
2027	916	5,600	-	-	955	-	7,471	472	192	-	8,135
2028	942	5,900	-	-	985	-	7,827	486	197	-	8,510
2029	980	6,200	-	-	1,015	4,575	12,770	505	205	3,220	16,700
2030	1,024	6,500	-	-	1,045	-	8,569	527	214	-	9,310
2031	4,961	-	-	-	1,085	-	6,046	2,556	1,038	-	9,640
2032	5,225	-	-	-	1,120	-	6,345	2,692	1,093	-	10,130
2033	5,510	-	-	-	1,160	-	6,670	2,837	1,153	-	10,660
2034	5,805	-	-	-	1,195	5,605	12,605	2,990	1,215	4,215	21,025
2035	6,118	-	-	-	1,240	-	7,358	3,152	1,280	-	11,790
2036	6,449	-	-	-	1,285	-	7,734	3,322	1,349	-	12,405
2037	4,062	-	-	-	1,330	-	5,392	2,090	849	-	8,331
2038	-	-	-	-	6,050	-	6,050	-	-	-	6,050
2039	-	-	-	-	13,575	21,430	35,005	-	-	5,610	40,615
2040	-	-	-	-	14,050	-	14,050	-	-	-	14,050
2041	-	-	-	-	14,540	-	14,540	-	-	-	14,540
2042	-	-	-	-	15,055	-	15,055	-	-	-	15,055
2043	-	-	-	-	15,580	-	15,580	-	-	-	15,580
2044	-	-	-	-	-	35,650	35,650	-	-	7,490	43,140
Premium	51,230	70,000	11,200	28,200	100,000	75,000	335,630	26,388	10,718	25,000	397,736
	2,352	-	-	1,041	-	-	3,393	-	-	-	3,393
Total	\$53,582	\$ 70,000	\$11,200	\$29,241	\$ 100,000	\$ 75,000	\$ 339,023	\$ 26,388	\$ 10,718	\$ 25,000	\$ 401,129

(1) RIBS - residual interest bonds, SAVRS - select auction variable rate securities

(2) IFRNS - inverse floating rate notes, SURFS - step-up recovery floaters

A detail description of the bond indebtedness follows:

In November and December 2009, the Industrial Development Authority of the City of Winchester (the Winchester Authority) issued \$175 million Industrial Development Authority of the City of Winchester Hospital Revenue Bonds, Series 2009. In December 2009, the West Virginia Hospital Finance Authority (the West Virginia Authority) issued \$25 million Hospital Revenue Bonds, Series 2009. The Series 2009 Bonds were used for the purposes of financing certain capital needs of the Winchester Medical Center, Shenandoah Memorial Hospital, Warren Memorial Hospital, and for construction of a new facility at Hampshire Memorial Hospital, (collectively the Obligated Group), and to reimburse the Obligated Group for certain past capital expenditures. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. Each member of the Obligated Group has recorded their respective portion of the obligation. The bonds are secured by a pledge of payment pursuant to Loan Agreements between the Obligated Group, the Winchester Authority and the West Virginia Authority, respectively. In accordance with the respective trust indentures, the Winchester Authority and the West Virginia Authority assigned the promissory notes and the payment thereon to the Bond Trustees. Payments of principal and interest are made directly to the Bond trustees for the account of the Authorities.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On January 30, 2007, the Industrial Development Authority of the City of Winchester (the Winchester Authority) issued \$88.3 million Industrial Development Authority of the City of Winchester Hospital Revenue Bonds, Series 2007. The Series 2007 bonds were issued for the purpose of financing and refinancing certain capital needs of the Medical Center, Warren and Shenandoah (the Obligated Group). The bonds are limited obligations of the Winchester Authority and will be payable solely from the Obligated Group. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. A portion of the proceeds were used to refinance Warren's Series 2003 bonds and Shenandoah's Series 2003 bonds. Each member of the Obligated Group has recorded their respective portion of the obligation.

The Medical Center has also entered into promissory notes with the Winchester Authority whereby the Medical Center has become obligated under Hospital Facility Revenue Bonds, Series 1991 and Series 1993. In addition to its notes with the Winchester Authority, the Medical Center has entered into promissory notes with the Industrial Development Authority of Clarke County, Virginia (the Clarke County Authority) whereby the Medical Center has become obligated under Hospital Facility Revenue Bonds, Series 2000. In accordance with the respective trust indentures, the Authorities assigned the promissory notes and the payments thereon to the Bond Trustees. Payments of principal and interest are made directly to the Bond Trustees for the account of the Authorities. The payment of principal and interest on the Series 1991 and Series 1993 bonds is insured by municipal bond insurance policies issued by AMBAC Indemnity Corporation. The payment of principal and interest on the Series 2000 and Series 2007 bonds is insured by Financial Security Assurance. All bond issues are rated A1 by Moody's and A+ by Standard and Poor's as of the latest rating date. Under the Bond Indenture of Trust, the Medical Center was required to place the majority of proceeds into certain trust funds. The Series 1991 bonds were used to finance the construction of an imaging center, purchase hospital equipment, and refund the term bonds of the Series 1986 issue. The Series 1993 bonds refunded the remainder of the Series 1986 bonds and the entire Series 1990 issue. The Series 2000 bonds were used to finance certain improvements to the Medical Center's facilities. The bonds are secured by the Medical Center's Trust Agreements to the respective Authorities in the amount of the bonds payable. The Trust Agreements are secured by all revenue and receipts and pledged assets of the Medical Center. Pledged assets consist of accounts receivable with a net book value of approximately \$53 million, inventories, general intangibles and various other assets.

The trust indentures include various restrictive covenants, one of which requires the Medical Center to maintain a debt service coverage ratio of 1.1 to 1.0 (defined in the indentures as the ratio of income available for debt service to annual debt service commitments). The Series 2009 Bonds include additional covenants, including a debt services coverage ratio of 1.25 to 1, a debt to capitalization ratio of not greater than .65, and requires the days cash on hand to be not less than 100 days. Upon the occurrence of events of noncompliance with such covenants, the principal of the bonds could be declared due and payable immediately by the Bond Trustees. As of and for the year ended, December 31, 2010 and 2009, Valley Health was in compliance with such covenants.

At December 31, 2010, interest rates range from .16% to .40% on the serial and term bonds, 4.85% on the RIBS/SAVRS and 4.85% to 5.5% on the IFRNS/SURFS.

The Series 2000 bonds and Series 2007 bonds bear interest at a variable rate which resets to market weekly. The rate for the Series 2000 bonds was .31% at December 31, 2010. The rates for the Series 2007 bonds was 5.0% to 5.25% at December 31, 2010.

The RIBS/SAVRS mature on the second business day preceding the interest payment date on or immediately succeeding each January 1. All other bonds mature on January 1 each year.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The trust indenture requires the creation of sinking funds for redemption of the bonds each January 1, as follows (in thousands):

Term bonds due January 1, 2011		IFNRS due January 1, 2015	
Year	Sinking fund installment	Year	Sinking fund installment
2011	\$ 2,000	2011	\$ 2,000
2012	2,100	2012	2,100
		2013	2,200
		2014	2,400
	\$ 4,100	2015	2,500
			\$ 11,200

Note 9. Other Current Assets

Other current assets consist of the following at December 31, 2010 and 2009 (in thousands):

	2010	2009
Prepaid service contracts	\$ 4,786	\$ 4,234
Security deposits	605	605
Prepaid insurance	1,280	1,497
Interest receivable	57	65
Pledges receivable	20	60
Rent receivable	46	33
Other non-patient receivables	2,987	5,828
Deferred tax asset	376	253
Accounts receivable War Memorial Hospital (Note 22)	-	1,459
Other	894	1,131
Total other current assets	\$ 11,051	\$ 15,165

Note 10. Other Noncurrent Liabilities

Other noncurrent liabilities consists of the following at December 31, 2010 and 2009 (in thousands).

	2010	2009
Interest rate swap agreements	\$ 19,717	\$ 12,126
Deferred compensation – attending faculty plan (Note 18)	2,580	12,546
Deferred tax (asset) liability	(98)	77
Other	1,390	1,020
Total other noncurrent liabilities	\$ 23,589	\$ 25,769

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Interest Rate Risk Management**Medical Center, Shenandoah, Warren and East Mountain Health Advantage (the Hospitals)**

The Hospitals have interest rate related derivative instruments to manage interest rate exposure on their debt instruments. The Hospitals do not enter into derivative instruments for any purpose other than interest rate management purposes. That is, the Hospitals do not speculate using derivative instruments

By using derivative financial instruments to hedge exposures to changes in interest rates, the Hospitals expose themselves to credit risk and market risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the Hospitals, which creates credit risk for the Hospitals. When the fair value of a derivative contract is negative, the Hospitals owe the counter-party and, therefore, it does not possess credit risk. The Hospitals minimize the credit risk in derivative instruments by entering into transactions with high-quality counter-parties.

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 interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Hospitals use variable-rate debt to finance their operational and capital needs. The debt obligations expose the Hospitals to variability in interest payments due to changes in interest rates. Conversely, fixed-rate debt obligations can be more expensive to the Hospitals in times of declining interest rates. Management believes it is prudent to monitor and manage its cost of capital on a regular basis. To meet this objective, management from time to time may enter into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

The Hospitals have entered into interest rate swap agreements in the notional amount of approximately \$234 million related to the Series 1991, 2000, 2007 and 2009 bonds. The purpose of the swaps was to convert the variable-rate cash flow exposure on the debt obligations to fixed rate cash flows. Under the terms of the interest rate swaps, the Hospitals receive a variable interest rate payment based on the Bond Rate, or if certain triggering events occur, an alternative floating rate in exchange for making fixed interest rate payments to the swap counter-party, thereby creating the equivalent of fixed-rate debt.

In September 2001, the Medical Center entered into an interest rate swap agreement in the notional amount of \$70 million related to the Series 2000 bonds. The purpose of the swap was to convert the Medical Center's variable-rate cash flow exposure on the debt obligations to fixed rate cash flows. Under the terms of the interest rate swap, the Medical Center receives a variable interest rate payment (based on the Bond Rate, or if certain triggering events occur, an alternative floating rate which is the Bond Market Association (BMA) Municipal Bond Index or 68% of 1 month LIBOR) in exchange for making fixed interest rate payments (4.44%) to the swap counter-party, thereby creating the equivalent of fixed-rate debt. In September 2008, Lehman Brothers, the swap counter-party, filed for bankruptcy which terminated the swap. The impact of changing interest rates reversed the swap to a positive value. A claim has been filed with the bankruptcy court for the sum of \$8 million dollars. Due to the possibility that the funds will not be collected, a reserve has been made for \$8 million at December 31, 2010 and 2009.

In August 2005, the Medical Center refinanced the outstanding bonds of its 1991 series in the amount of \$54.6 million. Holders of the bonds were requested to tender the bonds at a \$2.73 million premium. Merrill Lynch, Pierce, Fenner & Smith, Inc. (Merrill Lynch) purchased the tendered bonds. The purpose of the refinancing was to obtain an interest rate lower than the 6.05% fixed rate on the bonds. The Medical Center entered into two interest rate swap agreements with Merrill Lynch. Under the terms of the first interest rate swap, the Medical Center receives a floating interest rate payment semi-annually based on the BMA Municipal Bond Index, or if this index is no longer published, Merrill Lynch will set the rate based on prevailing rates. For 2010 and 2009, the Medical Center received \$2.7 million and \$3.2 million, respectively, for this swap. Under the terms of the second interest rate swap, the Medical Center receives a fixed rate of 3.113% and semi-annually pays Merrill Lynch the difference between the fixed rate and 67% of LIBOR. For 2010 and 2009, the Medical Center paid Merrill Lynch \$881 thousand and \$1 million, respectively, for this swap.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In November 2006, the Medical Center entered into an interest rate swap agreement in the notional amount of \$91.8 million related to the Series 2007 bonds. Under the terms of the interest rate swap, the Medical Center receives a floating interest rate payment monthly based on the BMA Municipal Bond Index, or if this index is no longer published, Merrill Lynch will set the rate based on prevailing rates, or if certain triggering events occur, an alternative floating rate of 67% of 1 month LIBOR plus .365%. In 2010 and 2009, the Medical Center received \$342 thousand and \$389 thousand, respectively, for this swap.

On February 7, 2008, the Medical Center entered into an interest rate swap agreement in the notional amount of \$100 million related to the financing arrangements incurred in 2009. Under the terms of the interest rate swap, the Medical Center will receive a floating interest rate payment based on 67% of 1 month LIBOR. The purpose of this swap was to lock into current bond rates for the 2009 Bonds (Note 8). As of December 31, 2010 and 2009, a \$1.4 million and \$9 million unrealized loss was recorded, respectively. For 2010 and 2009, the Medical Center paid \$3.3 million and \$1.1 million, respectively, for this swap.

Fair Value of Derivative Instruments designated as hedging instruments are as follows (in thousands):

Balance Sheet Location	Fair Value	
	2010	2009
Cash Flow Hedges.		
Interest rate contracts Other long-term liabilities	\$ (19,717)	\$ (12,126)
Total derivative designated as hedging instruments	\$ (19,717)	\$ (12,126)

The following table summarizes the effect of Derivative Instruments on the Statement of Changes in Net Assets for the years ended December 31, 2010 and 2009 (in thousands)

Derivatives designated as Hedging Instruments for the Year Ending December 31	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Other Changes in Net Assets (Effective Portion)	
		2010	2009
Cash Flow Hedges			
Interest rate contracts	Change in value of derivatives	\$ (7,591)	\$ 29,270

For the years ended December 31, 2010 and 2009, no amounts related to derivative financial instruments were recorded in excess of revenues over expenses, and no amounts were moved out of other changes in net assets and reclassified into excess of revenues over expenses.

Note 12. Pension Plans and Subsequent Event

Defined Benefit Pension Plans:

Valley Health Plan

VH has a defined benefit pension plan covering substantially all of its employees and the employees of its subsidiaries. Benefits under the pension equity formula are expressed in terms of a lump sum based on final average earnings and pension credits earned for years of service. Some employees' benefits are grandfathered using a prior formula that based annuity amounts on final average earnings and service. The pension plan has been amended to allow for supplemental pension benefits under a one-time early retirement program (the Program) for employees meeting certain age and length of service requirements. VH makes annual contributions to the Valley Health System Employees Retirement Plan (the Plan) in accordance with funding requirements determined by an actuary. 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. Contributions of \$4.5 million and \$18 million were made in 2010 and 2009, respectively.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Effective January 1, 2011, Valley Health elected to soft-freeze the Valley Health System Employees Retirement Plan. Participation is frozen such that there shall be no new participants in the Plan after January 2, 2011. Participants as of January 1, 2011 will continue to participate with no change to the years of services rules or the benefits calculation. The Valley Health contributory 403(b) plan will remain in place.

The reconciliation of the Plan's funded status to amounts recognized in VH's consolidated financial statements at December 31 are as follows (in thousands):

Obligations and funded status:

	2010	2009
Fair value of plan assets	\$ 158,036	\$ 141,463
Benefit obligations	181,676	171,746
Funded status	(23,640)	(30,283)
Total accrued cost	\$ (23,640)	\$ (30,283)

Amounts recognized on balance sheet consist of:

	2010	2009
Noncurrent liabilities	\$ (23,640)	\$ (30,283)
	\$ (23,640)	\$ (30,283)

Amounts recognized in other changes in net assets:

	2010	2009
Net loss	\$ 28,278	\$ 41,646
Prior service cost (credit)	(356)	(435)
	\$ 27,922	\$ 41,211

The accumulated benefit obligation was \$173.4 million and \$155.6 million at December 31, 2010 and 2009, respectively.

Net periodic benefit cost and other amounts recognized in other changes in net assets (in thousands):

	2010	2009
Net periodic benefit cost	\$ 11,146	\$ 10,778
Other changes in amounts recognized in other changes in net assets:		
Net loss (gain) added during year	(11,798)	(2,745)
Amortization of prior service cost	79	79
Amortization of (gain) loss	(1,570)	(1,977)
Total change in unrestricted net assets at end of current year	(13,289)	(4,643)
Total recognized in net periodic benefit cost and other changes in net assets	\$ (2,143)	\$ 6,135

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year are \$693 thousand and \$79 thousand, respectively.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional Information - Assumptions

The assumptions used to determine benefit obligations in the actuarial valuations were as follows:

	2010	2009
Discount rate	5.75%	5.75%
Rate of increase in compensation levels	5.00%	5.00%

The assumptions used to determine net periodic pension cost were as follows:

	2010	2009
Discount rate	5.75%	5.75%
Expected long-term rate of return on assets	7.75%	7.75%
Rate of increase in compensation levels	5.00%	5.00%

The long-term rate of return on plan assets of 7.75% is based upon management's estimate of future long-term rates of return on similar assets and is consistent with historical returns on such assets.

Plan Assets

Valley Health's overall investment strategy is to generate a return, which is sufficient to meet its current and expected future financial requirements. The Plan Assets will be structured in a manner that most efficiently matches Valley's investment risk and return characteristics with the long-term objectives. Short-term uncertainties of investment results are recognizable risks, and will be managed appropriately through specific asset allocation strategies and diversification based upon the Plan's investment time horizon. The Plan Asset's target return will be based upon the fund's actuarial review which calculates the "minimum required return" for Valley Health's and Shenandoah's pension portfolio as well as its investment time horizon.

Cash flows - Contributions

VH expects to contribute \$6 million to its pension plan in 2011.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Pension Benefits
2011	\$ 3,274
2012	\$ 3,828
2013	\$ 4,341
2014	\$ 4,715
2015	\$ 5,226
Years 2016 - 2020	\$ 39,406

Tax Sheltered Annuity Plan

In addition, VH also offers an option allowing employees to contribute to a tax sheltered annuity plan (the Annuity Plan) under Internal Revenue Code section 403(b). Under the Annuity Plan, VH matches 50% of the employees' contributions up to a maximum of 2% for employees who contribute at least 4% of their base compensation. VH's contributions are 100% vested for employees after six years of service. VH's contributions to the Annuity Plan totaled \$2.7 million and \$2.6 million for 2010 and 2009, respectively.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shenandoah Memorial Hospital Plan**Defined Benefit Retirement Plan**

Shenandoah has a noncontributory defined benefit retirement plan covering substantially all of its employees. The Plan was amended effective January 1, 1991 to pay benefits based upon the last five highest years salary out of the last ten years of service. Prior to this change, benefits were based upon employees' years of service and compensation. Shenandoah makes annual contributions to the plan in accordance with funding requirements determined by an actuary.

The reconciliation of the Plan's funded status to amounts recognized in Shenandoah's financial statements as of December 31 are as follows (in thousands):

Obligations and funded status:

	2010	2009
Fair value of plan assets	\$ 12,232	\$ 11,419
Benefit obligations	19,037	18,727
Funded status	<u>(6,805)</u>	<u>(7,308)</u>
Total accrued cost	<u>\$ (6,805)</u>	<u>\$ (7,308)</u>

Amounts recognized on balance sheet consist of:

	2010	2009
Noncurrent liabilities	<u>\$ (6,805)</u>	<u>\$ (7,308)</u>
	<u>\$ (6,805)</u>	<u>\$ (7,308)</u>

Amounts recognized in other changes in net assets:

	2010	2009
Net loss	<u>\$ 4,071</u>	<u>\$ 5,725</u>
	<u>\$ 4,071</u>	<u>\$ 5,725</u>

The accumulated benefit obligation was \$14.9 million and \$13.7 million at December 31, 2010 and 2009, respectively.

Net periodic benefit cost and other amounts recognized in other changes in net assets in thousands:

	2010	2009
Net periodic benefit cost	<u>\$ 1,150</u>	<u>\$ 1,162</u>
Other changes in amounts recognized in other changes in net assets		
Net loss (gain) during the year	(1,282)	119
Amortization of prior service cost	-	-
Amortization of (gain) loss	<u>(339)</u>	<u>(373)</u>
Total change in unrestricted net assets at the end of the current year	<u>(1,621)</u>	<u>(254)</u>
Total recognized in net periodic benefit cost and other changes in net assets	<u>\$ (471)</u>	<u>\$ 908</u>

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year are \$200 thousand and \$45 thousand, respectively.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional Information - Assumptions

The assumptions used to determine benefit obligations in the actuarial valuations were as follows.

	2010	2009
Discount rate	5.75%	5.75%
Rate of increase in compensation levels	5.00%	5.00%

The assumptions used to determine net periodic pension cost were as follows:

	2010	2009
Discount rate	5.75%	5.75%
Expected long-term rate of return on plan assets	7.75%	7.75%
Rate of increase in compensation levels	5.00%	5.00%

The long-term rate of return on plan assets of 7.75% is based upon management's estimate of future long-term rates of return on similar assets and is consistent with historical returns on such assets.

Contributions of \$0 and \$1.5 million were made in 2010 and 2009, respectively. SMH does not plan to contribute to the Plan in 2011.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands).

	Pension Benefits
2011	\$ 437
2012	\$ 446
2013	\$ 458
2014	\$ 575
2015	\$ 661
Years 2016 - 2020	\$ 4,845

As of December 31, 2010, VH adopted a new accounting standard that requires disclosure of the fair value measurements (as described in Note 19) for pension plan assets. The following table sets forth by level with the fair value hierarchy, pension plan assets of VH and SMH at their fair value as of December 31, 2010 (in thousands):

	Total at December 31, 2010	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan Assets				
Cash and cash equivalents	\$ 14,131	\$ 14,131	\$ -	\$ -
Common stock				
Healthcare	1,142	1,142	-	-
Financials	1,479	1,479	-	-
Consumer staples	83	83	-	-
Consumer discretionary	2,296	2,296	-	-
Materials	138	138	-	-
Energy	593	593	-	-
Information technology	1,612	1,612	-	-
Industrials	1,426	1,426	-	-
Telecommunications	406	406	-	-
ADRs	680	680	-	-
	9,855	9,855	-	-

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Total at December 31, 2010	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual and other funds				
Bond funds	28,708	28,708	-	-
Collective equity funds	13,624	-	-	13,624
Mutual equity funds	45,873	45,873	-	-
Balanced funds	22,354	22,354	-	-
	110,559	96,935	-	13,624
Private equity	3,085	-	-	3,085
Limited partnerships	32,638	-	7,090	25,548
	\$ 170,268	\$ 120,921	\$ 7,090	\$ 42,257

	Total at December 31, 2009	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Plan Investments	\$ 152,882	\$ 106,337	\$ 6,512	\$ 40,033

Level 3 Investments

Activity related to Level 3 investments which include investments and assets limited as to use is as follows (in thousands):

	2010	2009
Balance, beginning of year	\$ 40,033	\$ 7,577
Additions	5,097	31,040
Distributions	(5,108)	-
Investment income	246	449
Unrealized gains/(losses)	1,989	967
Balance, end of year	\$ 42,257	\$ 40,033

Note 13. Functional Expenses

VH provides general health care services to residents within its geographic location. Expenses related to providing these services by functional category are as follows (in thousands).

	Healthcare Services	Fund Raising	Administrative and General Services	Total
2010	\$ 457,334	\$ 798	\$ 216,281	\$ 674,413
2009	\$ 426,171	\$ 676	\$ 204,217	\$ 631,064

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Assets Held in Trust

At December 31, 2010 and 2009, the market value of the assets of the Frank Newcomer Hack Trust, which are recorded in assets limited as to use, totaled approximately \$2.2 million and \$2 million, respectively. Distributions of income from the trust are made quarterly by the trustees in accordance with the terms of the governing will. Quarterly payments of income will continue to be made to VH as long as VH operates for the purpose for which it was originally incorporated. Income distributed to VH amounted to \$42 thousand in 2010 and \$48 thousand in 2009.

The Medical Center is also the beneficiary of other trusts. The assets of the trusts are held by the Winchester Medical Center Foundation for the benefit of the Medical Center. Following are the values of the trusts as of December 31, 2010 and 2009, and income received from the trusts for the years then ended (in thousands):

	2010		2009	
	Fair Value	Income	Fair Value	Income
Sallie L. Hoover Trust	\$ 312	\$ 10	\$ 288	\$ 8
Shirley Carter Compassionate Care Trust	160	5	147	2
Anna Stine Trust	145	1	135	2
Letitia Kerns Trust	89	1	83	4
Stewart Bell Trust	72	1	67	2
	<u>\$ 778</u>	<u>\$ 18</u>	<u>\$ 720</u>	<u>\$ 18</u>

Shenandoah Memorial Hospital is also the beneficiary of a trust (the Albright trust). The Albright trust has a fair value of approximately \$305 thousand at December 31, 2010 and 2009.

Note 15. Lessor Leasing Activities and Sale of Rental Space

VH leases space under operating leases with remaining terms of one to eight years. Rental income recognized from leases was \$4.6 million in 2010 and \$4.8 million in 2009. Future minimum rental income is as follows (in thousands):

2011	\$ 4,064
2012	3,385
2013	2,336
2014	1,939
2015	1,659
Thereafter	<u>3,253</u>
Total future minimum rental income	<u>\$ 16,636</u>

Note 16. Lessee Lease Commitment and Total Rental Expense

VH leases office and medical space under long-term operating lease arrangements that expire at various dates. Total rental expense for all operating leases was \$2,451 thousand and \$1,445 thousand for 2010 and 2009, respectively. VH is obligated under the operating leases, that have initial or remaining lease terms in excess of one year, to make future minimum lease payments as follows for the year ended December 31, 2010 (in thousands):

2011	\$ 2,535
2012	1,707
2013	1,036
2014	588
2015	512
Thereafter	<u>5,569</u>
Total future minimum lease payments	<u>\$ 11,947</u>

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Related Party Transactions

Piedmont Medical Laboratory

VH was an investor in Piedmont Medical Laboratory (Piedmont) along with three unrelated hospitals and a physician group. VH accounted for its investment in Piedmont, an approximate 58 percent owned affiliate, by the equity method of accounting, under which VH's share of the net income of the affiliate was recognized as income in VH's statement of operations and added to the investment account, and distributions received, if any, were treated as a reduction of the investment account.

On July 31, 2009, Piedmont Medical Laboratory was sold for approximately \$15.8 million after applicable adjustments at closing. This sale resulted in an approximate gain of \$7.6 million to Valley Health, which is recorded in unrestricted revenues, gains and other support on the Consolidated Statement of Operations in 2009.

VH received laboratory services from Piedmont for which it paid approximately \$919 thousand in 2009. These fees are included in operating expenses in the accompanying statements of operations.

Medical Circle, LLC

The Medical Center is a 51% member of Medical Circle, LLC t/a Valley Open MRI, a company formed to provide imaging services. In July 2009, the company began leasing space in the Hurst House, which is located on the campus of the Medical Center. In preparing the space for the joint venture, VH incurred expenditures of \$878 thousand of which \$538 thousand was a capital contribution and \$340 thousand was treated as a loan to Medical Circle with an interest rate of 4.6%. The loan was paid in full in January 2010.

On June 10, 2009, the Medical Center's interest in Medical Circle, LLC was transferred to Valley Health. Valley Health is accounting for its investment under the equity method of accounting. Valley Health's interest in the Company was \$924 thousand and \$878 thousand, at December 31, 2010 and 2009, respectively. Included in the Consolidated Statement of Operations are equity earnings on the investment of approximately \$895 thousand and \$93 thousand for the years ended December 31, 2010 and 2009, respectively. Total cash distributions received from the investment by VH in 2010 and 2009 were approximately \$910 thousand and \$0, respectively. Medical Circle's financial statements were not consolidated in the financial statements of VH due to immateriality.

Winchester Open MRI, LLC

VH is a member, owning a 50% interest, in Winchester Open MRI, LLC (Open MRI), a company formed to benefit the community by providing more accessible imaging services. Valley Health is accounting for its investment under the equity method of accounting. Valley Health's interest in Open MRI was \$515 thousand and \$571 thousand, at December 31, 2010 and 2009, respectively. Included in the Consolidated Statement of Operations are equity earnings on the investment of approximately \$2.6 million and \$3.2 million for the years ended December 31, 2010 and 2009, respectively. Total cash distributions received from the investment by VH in 2010 and 2009 were approximately \$2.55 million and \$3 million, respectively.

Note 18. Commitments and Contingencies

Malpractice Insurance

During 2004, VH and other healthcare organizations participated in the development of Virginia Solutions SPC LTD (the Captive), an insurance company located in the Cayman Islands. VH was one of five founding members of the Captive. The Captive qualifies as a captive insurance company in the domicile where it operates and provides certain insurance coverage to its members. The Captive has established trusts for professional and general liability insurance. Under this program, the Captive retains the first \$750 thousand per claim. The Captive has purchased reinsurance contracts to provide for claims in

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

excess of \$750 thousand. VH is charged periodic premiums by the Captive. Premiums are determined based on actuarial calculations, and information provided by risk managers, legal counsel and past experience. The effective date of this program was July 15, 2004.

Litigation

VH is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against VH and are currently in various stages of litigation. It is the opinion of management, however, that estimated malpractice costs accrued at December 31, 2010 are adequate to provide for potential losses resulting from pending or threatened litigation as well as claims arising from unknown incidents from services provided to patients that may be asserted.

Loan Guarantee

VH has guaranteed certain debt obligations from a local bank to Winchester Open MRI, LLC, an affiliated entity, for approximately \$2 million. The proceeds of the loans were used to purchase equipment and fund a construction project. The balance of the loans at December 31, 2010 and 2009 was \$523 thousand and \$885 thousand, respectively.

Medical Staff Deferred Compensation Plan

Effective January 1, 2006, VH adopted a nonqualified deferred compensation plan under Internal Revenue Service Code Section 457, to provide compensation for unassigned call services provided by participating physicians at the Medical Center. VH, as the Plan sponsor, is responsible for funding the Plan based upon predetermined levels of payment which was \$3.2 million in 2010 and \$3.1 million in 2009. VH is also responsible for maintaining a trust in which the contributions to the Plan will be maintained and from which qualifying disbursements will be made. Contributions to the Plan vest to the benefit of the participating physicians under various methods based upon years in the Plan and/or age. VH recognizes, for financial reporting purposes, the related trust assets and a corresponding liability. The Plan allows VH to modify future payments to the Plan based on a variety of operating factors at the discretion of the Board of the Medical Center. Due to physicians becoming fully vested in 2011, and payouts being anticipated, approximately \$14.4 million was reclassified to other current liabilities in the Consolidated Balance sheets at December 31, 2010.

Asset Retirement Obligation

The *Asset Retirement and Environmental Obligations* Topic 410 FASB Accounting Standards Codification, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered this Topic, specifically as it relates to its legal obligations to perform asset retirement activities, such as asbestos removal, on its existing properties. Management of VH believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which VH may settle the obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate a liability related to these potential asset retirement activities. However, management does not believe that remediation of such obligations will have a material effect on the consolidated financial statements.

Note 19. Fair Value Disclosures

Fair Value Measurements

The *Fair Value Measurements and Disclosures* Topic 820 FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

VALLEY HEALTH AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, VH uses various methods including market, income and cost approaches. Based on these approaches, VH often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. VH utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques VH is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair value. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange
- Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data
- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The following is a description of the valuation methodologies used for instruments measured at fair value

Equity Securities

The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument

Mutual and Other Funds

Valued at the quoted net asset value (NAV) of shares held at year end

U.S. Government Obligations

Valuation inputs utilized by the independent pricing service for those U S Government securities under Level 2 include benchmark yields, reporting trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data including market research publications. Also included are data from the vendor trading platform.

Real Estate Investments

The underlying holdings are periodically valued by appraisers considering the current market conditions. Inputs are often unobservable, and therefore, these are level 3 investments

Partnerships and Ventures

Valuation is determined using an ownership percentage multiplied by the net assets of the partnership or joint venture.

Derivative Instruments

Derivatives are fair valued according to their classification as over-the-counter ("OTC"). OTC derivatives consist of interest rate swaps. These derivatives are fair valued under Level 2 using third-party services.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Observable market inputs include yield curves (the LIBOR swap curve and applicable basis swap curves), foreign exchange rates, commodity prices, option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or VH as appropriate to the total expected exposure of the derivative.

Fair Value on a Recurring Basis

The tables below present the recorded amount of assets measured at fair value on a recurring basis (in thousands)

ASSETS:	Total at December 31, 2010	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments and Assets Limited as to Use				
Cash and cash equivalents	\$ 72,994	\$ 72,994	\$ -	\$ -
Common stock				
Healthcare	2,259	2,259	-	-
Financials	2,924	2,924	-	-
Consumer staples	163	163	-	-
Consumer discretionary	4,541	4,541	-	-
Materials	273	273	-	-
Energy	1,175	1,175	-	-
Information technology	3,189	3,189	-	-
Industrials	2,819	2,819	-	-
Telecommunications	803	803	-	-
ADRs	1,344	1,344	-	-
Total common stock	19,490	19,490	-	-
Mutual and other funds				
Bond funds	127,268	127,268	-	-
Collective equity funds	38,235	-	-	38,235
Mutual equity funds	94,419	82,782	11,637	-
Balanced funds	44,296	41,867	2,429	-
Other fixed income	5,451	-	5,451	-
Real estate funds	69	69	-	-
	309,738	251,986	19,517	38,235
Auction rate securities	400	-	-	400
U.S. government obligations	3,840	3,840	-	-
Life insurance/annuity	1,772	1,689	83	-
Private realty investments	16,225	-	-	16,225
Limited partnership investments	55,150	-	3,437	51,713
Ventures and partnerships – operating	8,316	-	-	8,316
	\$ 487,925	\$ 349,999	\$ 23,037	\$ 114,889
Liabilities:				
Derivative Financial Instruments	\$ (19,717)	\$ -	\$ (19,717)	\$ -

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Total at December 31, 2009	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets:				
Assets limited as to use and investments	\$ 506,436	\$ 381,606	\$ 14,667	\$ 110,163
Liabilities:				
Derivative Financial Instruments	\$ (12,126)	\$ -	\$ (12,126)	\$ -

Assets Recorded at Fair Value on a Nonrecurring Basis

VH has no assets or liabilities that are recorded at fair value on a nonrecurring basis

Level 3 Investments

Activity related to Level 3 investments which include investments and assets limited as to use is as follows (in thousands):

	2010	2009
Balance, beginning of year	\$ 110,163	\$ 33,107
Additions	15,514	75,005
Distributions	(17,735)	(1,453)
Investment income included in excess of revenues over expenses, net	3,835	2,257
Unrealized gains/(losses) excluded from excess of revenues over expenses	3,112	1,247
Balance, end of year	<u>\$ 114,889</u>	<u>\$ 110,163</u>

The following methods and assumptions were used by VH in estimating the fair value of each class of its financial instruments for which it is practicable to estimate that value.

Cash and cash equivalents: The carrying amount approximates fair value because of the short-term maturity of those instruments

Patient accounts receivable: The carrying amount approximates fair value

Estimated third-party payor settlement: The carrying amount approximates fair value

Long-term debt: The fair values of bonds payable are based on quoted market prices for the same or similar issues.

Derivative financial instruments: The carrying amount of derivative financial instruments, interest rate swap agreements, are reported at fair value and recorded in other long-term liabilities

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents estimated fair values of VH's financial instruments at December 31, 2010 and 2009 (in thousands).

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 50,632	\$ 50,632	\$ 47,418	\$ 47,418
Patient accounts receivable	\$ 81,097	\$ 81,097	\$ 71,908	\$ 71,908
Third party settlements receivable	\$ 6,764	\$ 6,764	\$ 899	\$ 899
Other current assets	\$ 11,051	\$ 11,051	\$ 15,165	\$ 15,165
Investments and assets limited as to use	\$ 479,609	\$ 479,609	\$ 498,912	\$ 498,912
Third party settlements payable	\$ 5,889	\$ 5,889	\$ 6,270	\$ 6,270
Contributions receivable from remainder trust	\$ -	\$ -	\$ 1,897	\$ 1,897
Long-term debt	\$ 403,082	\$ 390,375	\$ 413,308	\$ 400,539
Derivative financial instruments	\$ 19,717	\$ 19,717	\$ 12,126	\$ 12,126

Note 20. Hampshire Wellness Center

On June 19, 2006, East Mountain Health Advantage entered into a long-term lease agreement to lease and operate a 60,000 square foot wellness center. The lease agreement with the Hampshire County Development Authority is for a period of 20 years at \$162 thousand per year plus all operating expenses of the facility and operations. In 2008, Hampshire Wellness Center, Inc. was established to operate the wellness center and assume responsibility for the lease. East Mountain Health Advantage became the sole corporate member of Hampshire Wellness Center, Inc.

The lease agreement contains a purchase option at the end of the lease term with the purchase price based upon the original cost of the facility less the sum of the lease payments made, 80% of operating losses not to exceed \$2 million, and cost of improvements, not to exceed \$150 thousand.

Note 21. Affiliation with Page Memorial Hospital and Commitment

On October 28, 2008, VH executed an affiliation agreement with Page Memorial Hospital (Page), effective January 1, 2009. Page is a 25 bed Critical Access Hospital located in Luray, Virginia. Under the terms of the affiliation agreement, Page became part of VH's integrated healthcare delivery system, with VH becoming the parent corporation and the sole corporate member. The affiliation will allow Page to become part of an integrated healthcare system and is intended to enhance the provision of patient care services, reduce duplication of resources, increase efficiencies, and create cost savings to healthcare consumers and payors.

The affiliation agreement may be terminated within the first three years of the agreement by either party with not less than ninety (90) days prior written notice, given that other termination provisions of the agreement are met. Termination must be approved by three fourths of the entire Page board and is effective unless three fourths of the VH board vote to disapprove. An approved termination would take effect 180 days after approval by the VH board.

VALLEY HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

VH has committed to assist Page build a new hospital with an estimated cost of \$30 million with a targeted completion date in 2014. VH will assist Page with obtaining a certificate of public need and financing. If a new hospital cannot be built because of regulatory or reimbursement issues, VH has committed to assist Page with major renovations to the hospital facility of approximately \$5 million per year in 2011, 2012, and 2013.

VH has also committed to assist Page with the construction of a Medical Office Building Addition with an estimated cost of \$4.4 million and targeted completion date being the end of 2011.

The affiliation has been recorded as a purchase, and the financial position as of December 31, 2009 and results of operations and changes in net assets for the year then ended, of Page, have been included in the accompanying consolidated financial statements.

The effect of the transaction at January 1, 2009 was to increase consolidated net assets of VH by approximately \$10.6 million.

Note 22. Morgan County War Memorial Hospital Acquisition and Commitment

On April 1, 2010 War Memorial Hospital, Inc., a newly formed subsidiary of Valley Health, purchased substantially all of the assets and assumed substantially all liabilities of Morgan County War Memorial Hospital. The purchase price was \$1.5 million in addition to the liabilities assumed which approximated \$4 million.

The agreement includes a commitment to construct a replacement facility expected to cost approximately \$30 million. The new facility is expected to be completed in 2012. The agreement also includes a commitment to operate the current facility until the replacement facility is complete and to lease the existing facility for \$685 thousand annually.

The following is a summary of the opening balance sheet of War as of April 1, 2010 (in thousands).

Current assets	\$	4,092
Property and equipment, net		4,892
Other assets		<u>3</u>
Total assets	\$	<u>8,987</u>
Current liabilities	\$	2,565
Net assets		<u>6,422</u>
Total liabilities and net assets	\$	<u>8,987</u>

The effect of the transaction at April 1, 2010 was to increase consolidated net assets of VH by approximately \$6.4 million.

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATED SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS)

December 31, 2010

	Valley Health	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
ASSETS						
Current assets						
Cash and cash equivalents	\$ 4,194	\$ 20,194	\$ 1,267	\$ 5,788	\$ 4,534	\$ 8,060
Investments	-	232,842	-	11,029	5,694	2,449
Assets limited as to use	-	27,073	-	-	-	-
Patient accounts receivable, net	-	53,187	4,286	991	6,827	5,103
Third-party settlements	-	1,648	-	-	818	(782)
Due from related entities	22,367	17,596	-	-	1	-
Inventory of supplies	1,447	8,707	1,356	390	888	523
Other current assets	5,773	2,862	721	42	424	330
Total current assets	33,781	364,109	7,630	18,240	19,186	15,683
Assets limited as to use, noncurrent	1,225	185,423	-	-	1,517	2,515
Property and equipment, net	-	388,294	2,198	4,366	42,912	28,719
Other assets						
Deferred financing costs, net	-	4,476	-	-	-	-
Goodwill	-	-	-	-	-	-
Investments	6,092	1,136	646	-	53	42
Investments in wholly owned subsidiaries	635,344	-	-	-	-	-
Total other assets	641,436	5,612	646	-	53	42
Total assets	\$ 676,442	\$ 943,438	\$ 10,474	\$ 22,606	\$ 63,668	\$ 46,959

East Mountain Health Advantage and Subsidiaries	War Memorial Hospital	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ 804	\$ 1,667	\$ 3,856	\$ 268	\$ 50,632	\$ -	\$ 50,632
-	-	-	-	252,014	-	252,014
-	-	-	-	27,073	-	27,073
2,010	3,426	2,689	2,578	81,097	-	81,097
(657)	311	(395)	(68)	875	-	875
-	-	-	-	39,964	(39,964)	-
141	169	311	-	13,932	-	13,932
175	91	232	401	11,051	-	11,051
2,473	5,664	6,693	3,179	476,638	(39,964)	436,674
8,378	35	1,333	96	200,522	-	200,522
26,303	13,428	7,803	1,205	515,228	-	515,228
700	-	-	-	5,176	-	5,176
4,500	-	-	-	4,500	-	4,500
163	163	21	-	8,316	-	8,316
-	-	-	-	635,344	(635,344)	-
5,363	163	21	-	653,336	(635,344)	17,992
<u>\$ 42,517</u>	<u>\$ 19,290</u>	<u>\$ 15,850</u>	<u>\$ 4,480</u>	<u>\$ 1,845,724</u>	<u>\$ (675,308)</u>	<u>\$ 1,170,416</u>

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS), Continued December 31, 2010

	Valley Health	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
LIABILITIES AND NET ASSETS						
Current liabilities						
Current installments of long-term debt	\$ -	\$ 8,400	\$ 4,614	\$ -	\$ -	\$ -
Accounts payable and accrued expenses	26,197	13,893	1,052	149	920	410
Accrued salaries and wages	19,351	-	-	-	-	-
Due to related entities	-	10,253	447	141	1,434	973
Other current liabilities	111	14,769	-	-	10	72
Total current liabilities	45,659	47,315	6,113	290	2,364	1,455
Long-term debt, excluding current installments	-	330,623	-	-	26,388	10,718
Accrued pension and post retirement obligations	-	23,640	-	-	-	6,805
Other liabilities	757	20,613	38	-	1,401	638
Total liabilities	46,416	422,191	6,151	290	30,153	19,616
Net assets:						
Unrestricted	613,069	508,634	4,323	22,316	32,162	24,402
Temporarily restricted	12,355	8,431	-	-	1,353	2,571
Permanently restricted	4,602	4,182	-	-	-	370
Total net assets	630,026	521,247	4,323	22,316	33,515	27,343
Total liabilities and net assets	\$ 676,442	\$ 943,438	\$ 10,474	\$ 22,606	\$ 63,668	\$ 46,959

East Mountain Health Advantage and Subsidiaries	War Memorial Hospital	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ 1,164	\$ -	\$ 347	\$ -	\$ 14,525	\$ (4,614)	\$ 9,911
2,034	3,107	200	667	48,629	-	48,629
-	-	-	-	19,351	-	19,351
11,284	9,236	614	972	35,354	(35,354)	-
21	1	-	-	14,984	-	14,984
<u>14,503</u>	<u>12,344</u>	<u>1,161</u>	<u>1,639</u>	<u>132,843</u>	<u>(39,968)</u>	<u>92,875</u>
25,000	-	442	-	393,171	-	393,171
-	310	-	-	30,755	-	30,755
-	17	29	96	23,589	-	23,589
<u>39,503</u>	<u>12,671</u>	<u>1,632</u>	<u>1,735</u>	<u>580,358</u>	<u>(39,968)</u>	<u>540,390</u>
3,014	6,619	14,168	2,745	1,231,452	(618,383)	613,069
-	-	-	-	24,710	(12,355)	12,355
-	-	50	-	9,204	(4,602)	4,602
<u>3,014</u>	<u>6,619</u>	<u>14,218</u>	<u>2,745</u>	<u>1,265,366</u>	<u>(635,340)</u>	<u>630,026</u>
<u>\$ 42,517</u>	<u>\$ 19,290</u>	<u>\$ 15,850</u>	<u>\$ 4,480</u>	<u>\$ 1,845,724</u>	<u>\$ (675,308)</u>	<u>\$ 1,170,416</u>

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – OPERATING INFORMATION (IN THOUSANDS)

Year Ended December 31, 2010

	Valley Health	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Unrestricted revenues, gains and other support						
Patient service revenue, gross and charity care	\$ -	\$ 808,899	\$ 41,099	\$ 17,274	\$ 98,561	\$ 79,272
Charity care	-	(43,637)	-	(432)	(8,453)	(4,989)
Contractual adjustments	-	(302,342)	(13,495)	(5,825)	(31,373)	(28,505)
Net patient service revenue	-	462,920	27,604	11,017	58,735	45,778
Other operating revenue	78,496	12,594	48	31	1,777	1,466
Investment income, net	88	8,539	1	460	244	215
Gifts and bequests	-	127	-	-	50	-
Net assets released from restrictions	-	775	-	-	44	96
Total revenues, gains and other support	78,584	484,955	27,653	11,508	60,850	47,555
Expenses						
Salaries and wages	37,804	137,162	8,762	2,772	22,802	15,529
Payroll taxes and benefits	9,846	31,996	2,213	718	5,462	4,525
Supplies and other	31,439	147,600	12,467	4,137	18,544	15,222
Corporate management fees	-	44,009	3,228	876	5,775	4,049
VPE allocation	-	5,269	-	-	1,372	3,120
Provision for uncollectible accounts	-	25,859	1,613	191	6,176	4,201
Depreciation and amortization	-	31,529	825	121	2,930	2,251
Interest expense	-	8,427	212	-	1,223	496
Total expenses	79,089	431,851	29,320	8,815	64,284	49,393
Excess (deficit) of revenues over expenses	(505)	53,104	(1,667)	2,693	(3,434)	(1,838)
Other changes in net assets						
Intercompany transfers, net	(9,425)	(21,123)	1,921	657	5,703	6,157
Net unrealized gain (loss) on investments	-	15,497	-	960	492	215
Change in value of derivatives	-	(6,406)	-	-	(837)	(348)
Change in pension plan funded status	-	13,289	-	-	-	1,654
Acquisition of War	-	-	-	-	-	-
Earnings in equity of wholly-owned Subsidiaries	84,914	-	-	-	-	-
Other changes	-	-	-	-	-	78
Increase in unrestricted net assets	\$ 74,984	\$ 54,361	\$ 254	\$ 4,310	\$ 1,924	\$ 5,918

East Mountain Health Advantage and Subsidiaries	War Memorial Hospital (9 months)	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ 22,485	\$ 19,150	\$ 47,434	\$ 37,140	\$ 1,171,314	\$ -	\$ 1,171,314
(1,196)	(610)	(1,908)	(1,672)	(62,897)	-	(62,897)
(7,063)	(4,246)	(22,376)	(16,440)	(431,665)	-	(431,665)
14,226	14,294	23,150	19,028	676,752	-	676,752
648	242	526	11,422	107,250	(75,962)	31,288
(2)	11	17	-	9,573	(212)	9,361
-	-	20	-	197	-	197
-	-	-	-	915	-	915
14,872	14,547	23,713	30,450	794,687	(76,174)	718,513
5,147	5,814	9,666	21,030	266,488	-	266,488
1,314	1,882	1,653	2,767	62,376	-	62,376
5,180	5,168	5,292	6,623	251,672	(2,046)	249,626
1,296	-	2,073	2,605	63,911	(63,911)	-
-	-	244	-	10,005	(10,005)	-
1,229	1,295	3,696	1,388	45,648	-	45,648
873	191	1,023	217	39,960	-	39,960
109	-	60	-	10,527	(212)	10,315
15,148	14,350	23,707	34,630	750,587	(76,174)	674,413
(276)	197	6	(4,180)	44,100	-	44,100
972	-	1,798	13,340	-	-	-
-	-	-	-	17,164	-	17,164
-	-	-	-	(7,591)	-	(7,591)
-	-	-	-	14,943	-	14,943
-	6,422	-	-	6,422	-	6,422
-	-	-	-	84,914	(84,914)	-
(132)	-	-	-	(54)	-	(54)
\$ 564	\$ 6,619	\$ 1,804	\$ 9,160	\$ 159,898	\$ (84,914)	\$ 74,984

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATED SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS)

December 31, 2009

	Valley Health	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
ASSETS						
Current assets						
Cash and cash equivalents	\$ 10,861	\$ 17,105	\$ 1,176	\$ 3,980	\$ 5,897	\$ 3,085
Investments	-	130,746	-	9,610	4,964	2,154
Assets limited as to use	-	10,937	-	-	-	-
Patient accounts receivable, net	-	50,364	4,605	842	5,313	4,160
Due from related entities	21,637	17,080	-	-	129	1,195
Inventory of supplies	1,200	8,167	1,241	406	855	478
Other current assets	8,752	3,886	679	40	399	563
Total current assets	42,450	238,285	7,701	14,878	17,557	11,635
Contributions receivable from remainder trust	-	-	-	-	-	1,897
Assets limited as to use, noncurrent	1,119	313,556	-	-	1,253	385
Property and equipment, net	-	339,609	2,532	3,502	43,079	29,053
Other assets						
Deferred financing costs, net	-	4,607	-	-	-	-
Goodwill	-	-	-	-	-	-
Investments	5,930	968	600	-	-	29
Investments in wholly owned subsidiaries	548,882	-	-	-	-	-
Total other assets	554,812	5,575	600	-	-	29
Total assets	\$ 598,381	\$ 897,025	\$ 10,833	\$ 18,380	\$ 61,889	\$ 42,999

East Mountain Health Advantage and Subsidiaries	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ 1,899	\$ 3,230	\$ 185	\$ 47,418	\$ -	\$ 47,418
-	-	-	147,474	-	147,474
-	-	-	10,937	-	10,937
1,961	2,724	1,939	71,908	-	71,908
121	30	-	40,192	(40,192)	-
130	303	-	12,780	-	12,780
97	235	514	15,165	-	15,165
4,208	6,522	2,638	345,874	(40,192)	305,682
-	-	-	1,897	-	1,897
22,822	1,314	52	340,501	-	340,501
3,222	7,835	865	429,697	-	429,697
690	-	-	5,297	-	5,297
4,500	-	-	4,500	-	4,500
(21)	18	-	7,524	-	7,524
-	-	-	548,882	(548,882)	-
5,169	18	-	566,203	(548,882)	17,321
<u>\$ 35,421</u>	<u>\$ 15,689</u>	<u>\$ 3,555</u>	<u>\$ 1,684,172</u>	<u>\$ (589,074)</u>	<u>\$ 1,095,098</u>

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS), Continued December 31, 2009

	Valley Health	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
LIABILITIES AND NET ASSETS						
Current liabilities						
Current installments of long-term debt	\$ -	\$ 7,975	\$ 4,614	\$ -	\$ -	\$ -
Accounts payable and accrued expenses	24,581	11,568	1,121	139	583	306
Accrued salaries and wages	19,647	-	-	-	-	-
Due to related entities	-	15,128	799	235	2,367	2,377
Third-party settlements	-	2,650	-	-	633	478
Other current liabilities	129	206	-	-	-	203
Total current liabilities	44,357	37,527	6,534	374	3,583	3,364
Long-term debt, excluding current installments	-	339,451	-	-	26,388	10,718
Accrued pension and post retirement obligations	-	30,283	-	-	-	7,308
Other liabilities	526	24,124	230	-	545	264
Total liabilities	44,883	431,385	6,764	374	30,516	21,654
Net assets:						
Unrestricted	538,085	454,273	4,069	18,006	30,238	18,484
Temporarily restricted	11,063	7,438	-	-	1,135	2,490
Permanently restricted	4,350	3,929	-	-	-	371
Total net assets	553,498	465,640	4,069	18,006	31,373	21,345
Total liabilities and net assets	\$ 598,381	\$ 897,025	\$ 10,833	\$ 18,380	\$ 61,889	\$ 42,999

East Mountain Health Advantage and Subsidiaries	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ 1,000	\$ 464	\$ -	\$ 14,053	\$ (4,614)	\$ 9,439
438	268	333	39,337	-	39,337
-	-	-	19,647	-	19,647
4,434	653	9,585	35,578	(35,578)	-
570	1,040	-	5,371	-	5,371
15	24	-	577	-	577
<u>6,457</u>	<u>2,449</u>	<u>9,918</u>	<u>114,563</u>	<u>(40,192)</u>	<u>74,371</u>
26,500	812	-	403,869	-	403,869
-	-	-	37,591	-	37,591
14	14	52	25,769	-	25,769
<u>32,971</u>	<u>3,275</u>	<u>9,970</u>	<u>581,792</u>	<u>(40,192)</u>	<u>541,600</u>
2,450	12,364	(6,415)	1,071,554	(533,469)	538,085
-	-	-	22,126	(11,063)	11,063
-	50	-	8,700	(4,350)	4,350
<u>2,450</u>	<u>12,414</u>	<u>(6,415)</u>	<u>1,102,380</u>	<u>(548,882)</u>	<u>553,498</u>
<u>\$ 35,421</u>	<u>\$ 15,689</u>	<u>\$ 3,555</u>	<u>\$ 1,684,172</u>	<u>\$ (589,074)</u>	<u>\$ 1,095,098</u>

VALLEY HEALTH AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – OPERATING INFORMATION (IN THOUSANDS)

Year Ended December 31, 2009

	Valley Health	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Unrestricted revenues, gains and other support						
Patient service revenue, gross and charity care	\$ -	\$ 759,233	\$ 40,956	\$ 17,433	\$ 93,127	\$ 76,089
Charity care	-	(39,636)	-	(419)	(7,177)	(3,517)
Contractual adjustments	-	(278,318)	(12,797)	(5,841)	(30,096)	(29,369)
Net patient service revenue	-	441,279	28,159	11,173	55,854	43,203
Other operating revenue	77,860	11,645	(130)	62	1,638	2,890
Investment income, net	1,409	6,233	1	329	210	102
Gifts and bequests	-	265	-	-	50	-
Gain on the sale of Piedmont Medical Lab	-	5,345	-	-	1,115	867
Net assets released from restrictions	-	463	-	-	63	383
Total revenues, gains and other support	79,269	465,230	28,030	11,564	58,930	47,445
Expenses						
Salaries and wages	38,515	137,944	9,396	2,956	23,192	17,273
Payroll taxes and benefits	9,701	34,068	2,478	814	5,982	5,048
Supplies and other	29,302	139,493	12,954	4,203	17,902	15,423
Corporate management fees	-	41,721	2,776	826	5,217	4,217
Provision for uncollectible accounts	-	21,608	1,492	187	5,481	3,864
Depreciation and amortization	-	31,621	842	858	2,765	2,181
Interest expense	-	5,018	212	-	1,167	484
Total expenses	77,518	411,473	30,150	9,844	61,706	48,490
Excess (deficit) of revenues over expenses	1,751	53,757	(2,120)	1,720	(2,776)	(1,045)
Other changes in net assets						
Intercompany transfers, net	2,930	(11,000)	2,082	-	1,713	2,163
Net unrealized gain (loss) on investments	-	27,385	-	947	480	273
Change in value of derivatives	-	26,431	-	-	2,089	750
Change in pension plan funded status	-	4,654	-	-	-	255
Acquisition of Page	-	-	-	-	-	-
Earnings in equity of wholly-owned Subsidiaries	113,786	-	-	-	-	-
Other changes	382	-	-	-	-	(5)
Increase (decrease) in unrestricted net assets	\$ 118,849	\$ 101,227	\$ (38)	\$ 2,667	\$ 1,506	\$ 2,391

East Mountain Health Advantage and Subsidiaries	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
\$ 19,254	\$ 42,812	\$ 16,811	\$ 1,065,715	\$ -	\$ 1,065,715
(378)	(1,541)	(322)	(52,990)	-	(52,990)
(5,635)	(20,985)	(7,653)	(390,694)	-	(390,694)
13,241	20,286	8,836	622,031	-	622,031
436	458	855	95,714	(58,634)	37,080
-	59	-	8,343	(212)	8,131
-	-	-	315	-	315
-	303	-	7,630	-	7,630
-	-	-	909	-	909
13,677	21,106	9,691	734,942	(58,846)	676,096
4,703	9,207	9,475	252,661	-	252,661
1,354	1,392	1,380	62,217	-	62,217
5,099	5,041	4,163	233,739	(1,060)	232,520
967	1,850	-	57,574	(57,574)	-
1,768	2,218	628	37,246	-	37,246
287	893	78	39,525	-	39,525
140	86	-	6,948	(212)	6,895
14,318	20,687	15,724	689,910	(58,846)	631,064
(641)	419	(6,033)	45,032	-	45,032
725	1,387	-	-	-	-
-	-	-	29,085	-	29,085
-	-	-	29,270	-	29,270
-	-	-	4,909	-	4,909
-	10,608	-	10,608	-	10,608
-	-	-	113,786	(113,786)	-
-	(50)	(382)	(55)	-	(55)
\$ 84	\$ 12,364	\$ (6,415)	\$ 232,635	\$ (113,786)	\$ 118,849

**REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN**

Employee

Menno Frank Heisey
Name
238 Fairway Circle

Cross Junction, VA 22625-2018

165-36-5310
Social Security Number

Employer

Valley Health
Name
1840 Amherst Street

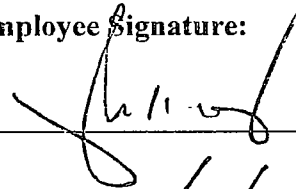
Winchester, VA 22601

52-1357729
Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

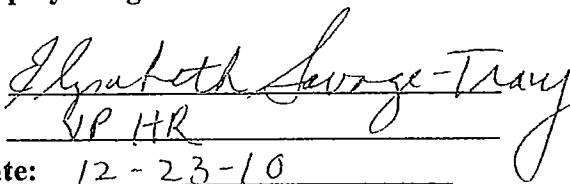
The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:



Date: 1-13/11

Employer Signature:

By 
Its VP HR
Date: 12-23-10

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

**REPRESENTATION UNDER TREAS. REG. § 1.7872-15(d)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN**

Employee

J. Craig Lewis

Name

139 Old Forest Circle

Winchester, VA 22602-

225-13-6138

Social Security Number

Employer

Valley Health

Name

1840 Amherst Street

Winchester, VA 22601

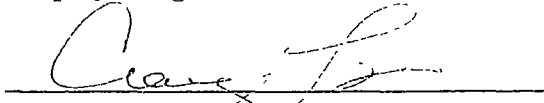
52-1357729

Employer Identification Number

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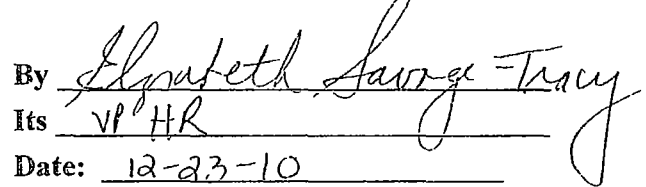
Employee Signature:



Date:

12/23/10

Employer Signature:

By 
Its VP HR

Date:

12-23-10

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**REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN**

Employee

Neil R. McLaughlin
Name
2585 Welltown School Rd.

Martinsburg, WV 25403-

235-02-5220
Social Security Number

Employer

Valley Health
Name
1840 Amherst Street

Winchester, VA 22601

52-1357729
Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

Neil R. McLaughlin

Date: 12-23-10

Employer Signature:

By Elizabeth Savage-Tracy
Its VP HR
Date: 12-23-10

SIGN TWO COPIES OF THIS FORM – SEE BELOW

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REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee

Mark H. Merrill

Name

P.O. Box 2138

Winchester, VA 22604

241-90-3816

Social Security Number

Employer

Valley Health

Name

1840 Amherst Street

Winchester, VA 22601

52-1357729

Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

Mark H. Merrill

Date: 12-23-10

Employer Signature:

By Elyabeth Savage-Tracy
Its VP HR

Date: 12-23-10

SIGN TWO COPIES OF THIS FORM – SEE BELOW

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**REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN**

Employee

Patrick B. Nolan
Name
942 Meadow Court
Winchester, VA 22601-
452-06-3043
Social Security Number

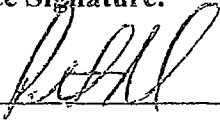
Employer

Valley Health
Name
1840 Amherst Street
Winchester, VA 22601
52-1357729
Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

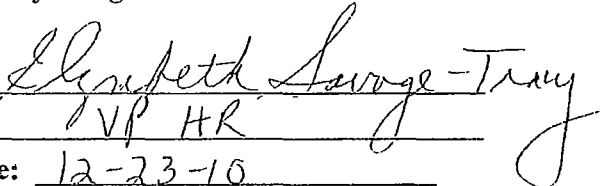
The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:



Date: 12/30/10

Employer Signature:

By 
Its VP HR

Date: 12-23-10

SIGN TWO COPIES OF THIS FORM – SEE BELOW

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1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
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3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

**REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN**

Employee

Alfred E. Pilog
Name
508 Old Fort Rd.

Winchester, VA 22601-

153-56-0589
Social Security Number

Employer

Valley Health
Name
1840 Amherst Street

Winchester, VA 22601

52-1357729
Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

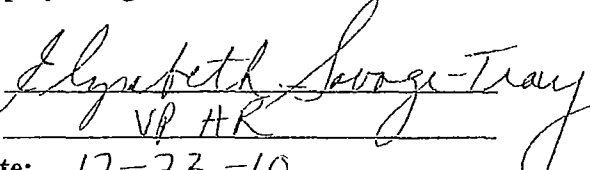
The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:



Date: 1/3/11

Employer Signature:

By 
Its VP HR
Date: 12-23-10

SIGN TWO COPIES OF THIS FORM – SEE BELOW

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REPRESENTATION UNDER TREAS. REG. § 1.7872-15(d)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee

Joan M. Roscoe

Name

908 Crestview Terrace

Winchester, VA 22601-6411

178-50-0528

Social Security Number

Employer

Valley Health

Name

1840 Amherst Street

Winchester, VA 22601


52-1357729

Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

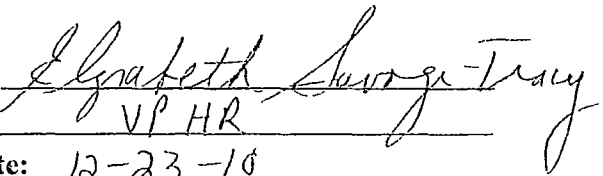
The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:



Date: 12.30.10

Employer Signature:

By 
Its VP HR

Date: 12-23-10

SIGN TWO COPIES OF THIS FORM – SEE BELOW

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**REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN**

Employee

Elizabeth A. Savage-Tracy
Name
340 Whispering Knolls Drive

Winchester, VA 22603-

065-60-0412
Social Security Number

Employer

Valley Health
Name
1840 Amherst Street

Winchester, VA 22601

52-1357729
Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

Elizabeth A. Savage-Tracy
Date: 1/10/2011

Employer Signature:

By [Signature]
Its CFO
Date: 12/23/10

SIGN TWO COPIES OF THIS FORM - SEE BELOW

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2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

**REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN**

Employee

Tonya M. Smith
Name
173 Happy Retreat Lane

Charlestown, WV 25414-

428-55-5279
Social Security Number

Employer

Valley Health
Name
1840 Amherst Street

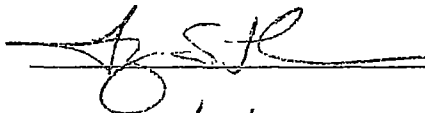
Winchester, VA 22601

52-1357729
Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

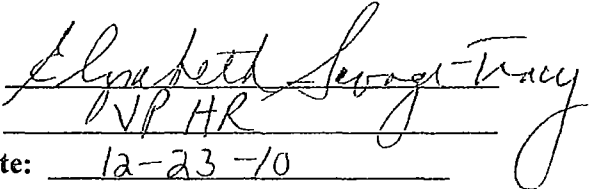
The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:



Date: 1/3/10

Employer Signature:

By 
Its VP HR
Date: 12-23-10

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following.

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

**REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN**

Employee

M. Todd Way
Name
1131 Welltown Rd.

Martinsburg, WV 25403

236-04-6308
Social Security Number

Employer

Valley Health
Name
1840 Amherst Street

Winchester, VA 22601

52-1357729
Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

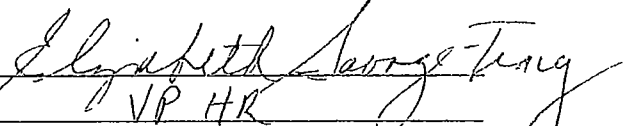
The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:



Date: 11/5/2011

Employer Signature:

By 
Its VP HR

Date: 12-23-10

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.