Parkview Health System, Inc.
and Subsidiaries
d/b/a Parkview Health

Consolidated Financial Report
and Supplementary Information
December 31, 2015

Contents

RSM

RSM US LLP

Independent Auditor's Report

The Board of Directors
Parkview Health System, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Parkview Health System, Inc. and subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parkview Health System, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets, are presented for purposes of additional analysis rather than to present the financial position, results of operations, and changes in net assets of the individual entities and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets have been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Chicago, Illinois
March 24, 2016

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Balance Sheets
December 31, 2015 and 2014
(In Thousands)

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	**$ 154,487**	$ 64,862
Short-term investments	**7,961**	40,216
Patient accounts receivable, less allowances for bad debts of $65,249 and $68,157 in 2015 and 2014, respectively	**175,100**	168,490
Inventories	**20,389**	16,639
Prepaid expenses and other current assets	**30,371**	23,194
Estimated third-party payor settlements	**4,908**	4,811
Total current assets	**393,216**	318,212
Investments:		
Board-designated investments	**753,559**	707,710
Funds held by trustees	**25,446**	25,041
Other investments	**863**	172
	779,868	732,923
Property and equipment:		
Cost	**1,718,641**	1,640,599
Less accumulated depreciation and amortization	**719,966**	644,940
	998,675	995,659
Other assets:		
Interest rate swaps	**4,203**	3,564
Deferred financing costs, net	**2,105**	2,348
Investments in joint ventures	**2,183**	3,412
Goodwill and intangible assets, net	**101,721**	81,911
Other assets	**20,717**	24,760
	130,929	115,995
Total assets	**$ 2,302,688**	$ 2,162,789

See notes to consolidated financial statements.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Balance Sheets
December 31, 2015 and 2014
(In Thousands)

	2015	2014
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 74,219**	$ 54,472
Salaries, wages, and related liabilities	**94,617**	77,291
Accrued interest	**2,599**	2,653
Estimated third-party payor settlements	**4,752**	19,837
Current portion of long-term debt	**27,998**	29,851
Total current liabilities	**204,185**	184,104
Noncurrent liabilities:		
Long-term debt, less current portion	**592,759**	623,707
Interest rate swaps	**80,128**	79,288
Accrued pension obligations	**94,080**	81,670
Other	**20,077**	19,289
	787,044	803,954
Net assets:		
Parkview Health System, Inc.	**1,269,008**	1,117,321
Noncontrolling interest in subsidiaries	**27,900**	25,230
Total unrestricted net assets	**1,296,908**	1,142,551
Temporarily restricted net assets	**12,941**	31,270
Permanently restricted net assets	**1,610**	910
	1,311,459	1,174,731
Total liabilities and net assets	**$ 2,302,688**	$ 2,162,789

See notes to consolidated financial statements.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2015 and 2014
(In Thousands)

	2015	2014
Revenues:		
Net patient care service revenue	**$ 1,454,499**	$ 1,387,748
Provision for bad debts	**(116,964)**	(119,890)
Net patient care service revenue, less provision for bad debts	**1,337,535**	1,267,858
Other revenue	**103,833**	78,084
	1,441,368	1,345,942
Expenses:		
Salaries and benefits	**677,201**	582,433
Supplies	**201,608**	171,671
Purchased services	**142,845**	128,231
Utilities, repairs, and maintenance	**54,614**	49,723
Depreciation and amortization	**90,379**	83,727
Hospital assessment fee	**34,446**	55,044
Other	**63,139**	60,808
	1,264,232	1,131,637
Operating income	**177,136**	214,305
Nonoperating income (expense):		
Interest, dividends, and realized gains on sales of investments, net	**12,830**	32,486
Unrealized losses on investments, net	**(32,502)**	(13,898)
Interest expense	**(17,525)**	(19,121)
Unrealized losses on interest rate swaps, net	**(224)**	(29,943)
Contribution of unrestricted net assets of Wabash County Hospital	**37,444**	-
Other	**849**	(9,383)
	872	(39,859)
Excess of revenues over expenses	**178,008**	174,446
Excess of revenues over expenses attributable to noncontrolling interest in subsidiaries	**29,412**	32,050
Excess of revenues over expenses attributable to Parkview Health System, Inc.	**$ 148,596**	$ 142,396

See notes to consolidated financial statements.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2015 and 2014
(In Thousands)

	Year Ended December 31, 2015		
	Total	**Controlling Interest**	**Noncontrolling Interest**
Unrestricted net assets:			
Excess of revenues over expenses	$ 178,008	$ 148,596	$ 29,412
Distributions to noncontrolling interests	(27,223)	-	(27,223)
Pension-related changes other than net periodic pension cost	(1,165)	(1,165)	-
Net assets released from restriction used for property and equipment, and other	4,737	4,256	481
Increase in unrestricted net assets	154,357	151,687	2,670
Temporarily restricted net assets:			
Contributions	1,972	1,972	-
Contribution of temporarily restricted net assets of Wabash County Hospital	7,000	7,000	-
Investment gain	51	51	-
Net assets released from restrictions	(27,352)	(27,352)	-
Decrease in temporarily restricted net assets	(18,329)	(18,329)	-
Permanently restricted net assets:			
Contributions	700	700	-
Increase in permanently restricted net assets	700	700	-
Increase in net assets	136,728	134,058	2,670
Net assets:			
Beginning of year	1,174,731	1,149,501	25,230
End of year	$ 1,311,459	$ 1,283,559	$ 27,900

See notes to consolidated financial statements.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2015 and 2014
(In Thousands)

	Year Ended December 31, 2014		
	Total	**Controlling Interest**	**Noncontrolling Interest**
Unrestricted net assets:			
Excess of revenues over expenses	$ 174,446	$ 142,396	$ 32,050
Distributions to noncontrolling interests	(26,728)	-	(26,728)
Pension-related changes other than net periodic pension cost	(95,322)	(95,322)	-
Other	(372)	(372)	-
Increase in unrestricted net assets	52,024	46,702	5,322
Temporarily restricted net assets:			
Contributions	23,572	23,572	-
Investment gain	52	52	-
Net assets released from restrictions	(1,083)	(1,083)	-
Increase in temporarily restricted net assets	22,541	22,541	-
Increase in net assets	74,565	69,243	5,322
Net assets:			
Beginning of year	1,100,166	1,080,258	19,908
End of year	$ 1,174,731	$ 1,149,501	$ 25,230

See notes to consolidated financial statements.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(In Thousands)

	2015	2014
Cash flows from operating activities:		
Increase in net assets	$ 136,728	$ 74,565
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	116,964	119,890
Depreciation and amortization	90,379	83,727
Contributions restricted for capital	(8,972)	-
Undistributed earnings from alternative investments	(4,448)	9,347
Unrealized losses on interest rate swaps, net	158	29,943
Amortization of deferred financing costs and net premium	(592)	(602)
Loss (gain) from disposal of property and equipment	276	(863)
Gain from step acquisition	(10,073)	-
Pension-related changes other than net periodic pension cost	1,165	95,322
Contribution of net assets of Wabash County Hospital	(22,844)	(21,600)
Changes in operating assets and liabilities, net of effects from contribution of Wabash County Hospital and acquisitions:		
Patient accounts receivable	(116,110)	(122,900)
Inventories	(2,888)	268
Prepaid expenses and other current assets	(6,159)	6,872
Trading securities, net	(6,343)	(234,816)
Accounts payable, accrued expenses and other current liabilities	30,973	(8,219)
Estimated third-party payor settlements	(14,927)	15,669
Accrued pension obligation	11,245	(7,130)
Other	6,155	18,603
Net cash provided by operating activities	**200,687**	58,076
Cash flows from investing activities:		
Property and equipment additions	(62,909)	(79,316)
Business acquisitions, net of cash acquired	(10,907)	(1,176)
Proceeds from sale of property and equipment	343	4,363
Cash and cash equivalents received from contribution of Wabash County Hospital	13,810	-
Net cash used in investing activities	**(59,663)**	(76,129)
Cash flows from financing activities:		
Principal payments of long-term debt	(27,436)	(23,186)
Proceeds from issuance of long-term debt	-	33,700
Payments of capital lease obligations	(5,955)	(7,297)
Distributions to noncontrolling interests	(27,223)	(26,728)
Contributions restricted for capital	8,972	-
Other	243	265
Net cash used in financing activities	**(51,399)**	(23,246)
Increase (decrease) in cash and cash equivalents	**89,625**	(41,299)
Cash and cash equivalents:		
Beginning of year	64,862	106,161
End of year	$ 154,487	$ 64,862

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014
(In Thousands)

		2015		2014
Schedule of noncash investing and financing activities:				
Assets acquired through capital leases	**$**	**535**	$	-
Contribution of Wabash County Hospital:				
Working capital	**$**	**17,191**	$	-
Investments		**3,899**		-
Property and equipment		**2,008**		21,600
Long term debt		**(254)**		-
		22,844		21,600
Less: cash and cash equivalents contributed		**(13,810)**		-
Noncash net identifiable assets contributed	**$**	**9,034**	$	21,600
Equity method investment contributed in step acquisition	**$**	**10,873**	$	-

See notes to consolidated financial statements.

Note 1. Organization

Nature of operations: Parkview Health System, Inc., d/b/a Parkview Health (PH or the Corporation), is a health care system that provides services in northeast Indiana and northwest Ohio. PH's mission is to provide quality health care services to all who entrust their care to PH and to improve the health of the community. Services provided by PH include acute, nonacute, and tertiary care services on an inpatient, outpatient, and emergency basis; managed care contracting, health care diagnostics, and treatment services for individuals and families; home health care; and behavioral health care. The principal operating activities of PH are conducted by wholly owned or controlled affiliates and subsidiaries.

PH is the sole corporate member of Parkview Hospital, Inc. (PVH). PVH comprises one acute care hospital; a behavioral health hospital; and a flagship tertiary care center, Parkview Regional Medical Center, which opened March 17, 2012, on a north campus. In total, PVH offers 703 beds in Fort Wayne, Indiana. PH is the majority owner (60%) of the Orthopaedic Hospital at Parkview North LLC (ORTHO), which is a for-profit joint venture hospital with a large orthopaedic physician group. ORTHO operates the Orthopaedic Hospital, a 37-bed orthopaedic specialty hospital, and an ambulatory surgical center, acquired on December 31, 2012. In addition, PH is the sole corporate member of Huntington Memorial Hospital, Inc.; Whitley Memorial Hospital, Inc.; Community Hospital of Noble County, Inc.; Community Hospital of LaGrange County, Inc.; and Parkview Wabash Hospital, Inc., each of which operates an acute care community hospital and related facilities in the northeast region of Indiana. These hospitals are referred to collectively as the Hospital Affiliates.

PH and PVH are the sole members of Managed Care Services, LLC, which provides third-party administrative services to PH's employee health plan and acts as a preferred provider organization network of providers for self-funded employers. Managed Care Services, LLC also assumes risk on a Medicaid managed care program through MDwise. Capitation revenue relating to this program was $57,900 in 2015 and $31,865 in 2014, and is recorded in other revenue in the consolidated statements of operations and changes in net assets.

Parkview Physicians Group (PPG), a division of PH, is a multidisciplinary group of employed physicians. PPG was developed to enhance the delivery of quality health care services in northeast Indiana and northwest Ohio. Disciplines represented in PPG include primary care, OB/GYN, orthopaedics, colon and rectal surgery, cardiovascular surgery, general surgery, hospitalists/intensivists, podiatry, psychiatry, urology, cardiology, pulmonology and critical care, gastroenterology, rheumatology, and physiatry.

(Dollars in Thousands)

Note 1. Organization (Continued)

The legal entity names, marketing brand names, and acronyms for each significant entity within PH are as follows:

Legal Name	Marketing Brand (d/b/a) Name	Acronym
Parkview Health System, Inc.	Parkview Health, including Parkview Physicians Group	PH and PPG
Parkview Hospital, Inc.	Parkview Regional Medical Center and Parkview Randallia Hospital	PVH
Orthopaedic Hospital at Parkview North, LLC	Parkview Ortho Hospital	ORTHO
Huntington Memorial Hospital, Inc.	Parkview Huntington Hospital	PHH
Whitley Memorial Hospital, Inc.	Parkview Whitley Hospital	PWH
Community Hospital of Noble County, Inc.	Parkview Noble Hospital	PNH
Community Hospital of LaGrange County, Inc.	Parkview LaGrange Hospital	PLH
Managed Care Services, LLC	Managed Care Services	MCS
Parkview Wabash Hospital, Inc.	Parkview Wabash Hospital	PWB
Parkview Foundation, Inc.	Parkview Foundation	PVHF
Whitley Memorial Hospital Foundation, Inc.	Parkview Whitley Hospital Foundation	PWHF
Community Hospital of Noble County Foundation, Inc.	Parkview Noble Hospital Foundation	PNHF
The Parkview Huntington Hospital Foundation, Inc.	Parkview Huntington Hospital Foundation	PHHF
Wabash County Hospital Foundation, Inc.	Parkview Wabash Hospital Foundation	WBHF

Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as net patient care service revenue. Other transactions are included with other revenue. Other revenue includes rentals of medical office buildings, capitation revenues, investment income from affiliated foundations, and equity income of unconsolidated affiliates and joint ventures.

Acquisitions: In 2015, PH acquired a physician group and 50% of a surgery center for a total purchase price of $21,780. In 2014, PH acquired several physician groups for a total purchase price of $1,176. The physician groups are included in PPG. The 50% acquisition of the surgery center increases PH's total ownership to 100% and is included in PVH. The acquisitions were accounted for as business combinations. Goodwill of $20,976 and $1,157 was recognized upon purchase in 2015 and 2014, respectively, which represents the excess of purchase price over identifiable assets and liabilities.

Effective January 1, 2015, PH, through Parkview Wabash Hospital, Inc., acquired Wabash County Hospital, which was renamed Parkview Wabash Hospital (PW). PW is a 25-bed inpatient critical access hospital located in the city of Wabash, Indiana. PW provides critical care, surgery, emergency, cancer treatment, lab and other services. For accounting purposes, this transaction is considered an acquisition under Accounting Standards Codification (ASC) 958-805, *Not-for-Profit Entities: Business Combinations*.

Note 1. Organization (Continued)

Because no consideration was paid by PH, the acquisition was accounted for as a contribution to PH. Wabash County Hospital's land and buildings, valued at $21,600, were conveyed to PW on December 31, 2014, and were recorded as a restricted contribution in the accompanying 2014 consolidated statement of operations and changes in net assets, and were released from restriction in 2015. The remainder of the contribution was recorded with the closing of the transaction effective January 1, 2015. The valuation of the net assets contributed was based on independent appraisals.

As a part of the acquisition agreement, PH is required to transfer $3,000 to Parkview Wabash Hospital Foundation, Inc., which occurred in 2015. PH is also required to build a new hospital in Wabash at a cost of not less than $35,000, to be completed by the end of 2019. If construction of the new hospital is not completed by the end of 2019, PH will be required to transfer $12,000 to the Community Foundation of Wabash County, Inc. Management believes the likelihood of this construction not being completed within this time frame to be remote.

Community benefits and charity care: The Corporation provides programs and services to address the needs of those in the communities it serves with limited financial resources, generally at no or low cost to those being served. Additional services are provided to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) at substantial discounts from established rates and are considered part of the Corporation's benefit to the communities.

Assistance is also provided as needed to patients and their families for the submission of forms for insurance, financial counseling, and application to the Medicare and Medicaid programs for health service coverage. The costs of providing these programs and services are included in expenses.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Patients who meet certain criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Records are maintained to identify and monitor the level of charity care provided at the amount of standard charges foregone for services and supplies furnished.

The cost of charity care provided in 2015 and 2014 approximates $14,159 and $16,018, respectively. The Corporation estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. The Corporation also offers a discount for all uninsured patients.

PVH and each of the community hospitals administer community benefit programs for the areas in which they serve. PVH targets $3,000 (unaudited) annually for community benefit, while the community hospitals each target 10% of their excess of revenues over expenses annually to be designated for community benefit in their respective communities. These funds are controlled by the hospitals, and contributions made as part of their community benefit program are under the direction of their respective Boards of Directors (the Boards). The hospitals have a long tradition of community involvement, and their community benefit programs reflect their commitment and support to their respective communities and counties.

Note 1. Organization (Continued)

The Corporation and its subsidiaries have a commitment to improving the health of the citizens of the communities served. In all locations, PH has made a concerted effort to identify opportunities to partner with local organizations and to develop initiatives to improve the health of these communities. Health fairs and screenings are common efforts to identify problems before they become serious or life-threatening. Affiliates often partner with local organizations for community education and outreach, including Cancer Services of Northeast Indiana, YMCA, Boys & Girls Club and the Center for Whitely County Youth. PH provides subsidies for the emergency medical services of the counties where its community hospitals reside. An association with Fort Wayne Community Schools has provided nursing services and physicals to at risk and underserved children. PH donations support nursing programs at Indiana University-Purdue University of Fort Wayne and the University of St. Francis. Efforts have helped provide health care to the medically underserved through support of the Neighborhood Health Clinics and Matthew 25 Health and Dental Clinic. PH affiliates have supported youth organizations, county councils on aging, emergency shelters and health clinics. Awareness and prevention programs focused on dealing with safety, trauma, drugs, and alcohol are projects of PH.

Note 2. Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of PH and all majority-owned or majority-controlled subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where ownership is 20% to 50% and PH has significant influence. The equity method of accounting is also used for hedge funds with ownership of 3% to 50% and PH has significant influence. For the years ended December 31, 2015 and 2014, PH's share of income recorded using the equity method approximated $2,372 and $2,074, respectively, and is recorded as other revenue in the consolidated statements of operations and changes in net assets.

Use of estimates: The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents: Investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts classified with Board-designated investments, are considered cash equivalents. The Corporation routinely invests in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. Financial instruments that potentially subject the Corporation to concentrations of credit risk include the Corporation's cash and cash equivalents. The Corporation places its cash and cash equivalents with institutions of high credit quality. However, at certain times, such cash and cash equivalents may be in excess of government-provided insurance limits.

Patient accounts receivable, estimated third-party payor settlements, and net patient care service revenue: Patient accounts receivable and net patient care service revenue are reported at the estimated net realizable amounts due from patients, third-party payors (including insurers), and others for services rendered and include estimated retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are settled and are no longer subject to such audits, reviews, and investigations.

Note 2. Significant Accounting Policies (Continued)

The Corporation grants credit to patients without requiring collateral or other security for the delivery of health care services. However, assignment of benefit payments payable under patients' health insurance programs and plans (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies) is routinely obtained, consistent with industry practice.

The Corporation's estimation of the allowance for bad debts is based primarily upon the type and age of the accounts receivable and the effectiveness of collection efforts. PH's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to copayments and deductibles, as charges are recorded. Accounts receivable balances are reviewed monthly as to the effectiveness of PH's reserve policies and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following: historical write-off and collection experience using a hindsight, or look-back, approach; revenue and volume trends by payor, particularly the self-pay components; changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent copayments and deductibles due from patients; cash collections as a percentage of net patient revenue less bad debt expense; trending of days' revenue in accounts receivable; and various allowance coverage statistics. Accounts receivable are charged to the allowance for bad debts when they are deemed uncollectible.

Inventories: Inventories consist primarily of drugs and supplies, are stated at the lesser of cost or market, and are valued using the average cost method.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices. Investments in hedge funds are recorded under the equity method of accounting, based on information provided by the funds' managers. Generally, the net asset value of these funds (NAV) reflects the contributed capital, as well as an allocated share of the underlying limited partnership's realized and unrealized gains and losses. Commingled investments are funds formed from the pooling of investments under common management. Unlike a mutual fund, these investments are not a registered investment company and, therefore, are exempt from registering with the Securities and Exchange Commission.

Investment income or loss (including realized gains and losses on the sale of investments, unrealized gains and losses on investments, and changes in the carrying value of hedge funds), with the exception of investment income or loss, as defined, related to the various PH foundations, is reported as other nonoperating income (expense) unless the income is restricted by donor or law. Investment income or loss apportioned to the foundations is reported in other revenue. The cost of securities sold is based on the specific-identification method.

Board-designated funds represent certain funds from operations and other sources designated by the Board to be used for future capital asset replacement, for the retirement of long-term debt, and for other purposes. The Board retains control over these investments and may, at its discretion, subsequently designate the use of these investments for other purposes. Funds are invested in accordance with Board-approved policies, which, among other matters, require diversification of the investment portfolio, establish credit risk parameters, and limit the investment in any single organization. Substantially all investment transactions are managed by professional investment managers and are held in custody at a financial institution. All Board-designated funds are classified as trading securities, with the exception of land held as an investment, alternative investments and private investment funds.

Note 2. Significant Accounting Policies (Continued)

Investment securities purchased and sold are reported based on the trade date. Due to the period lag between the trade and settlement date, PH reports receivables for securities sold but not settled and reports liabilities for securities purchased but not settled. These receivables and payables are settled from within the investment portfolio and are presented on a net basis within investments in the consolidated balance sheets.

Property and equipment: Property and equipment are initially stated at cost or, if donated, at fair market value at the date of donation. Interest costs incurred as part of the related construction are capitalized during the period of construction. Depreciation is provided on a straight-line basis over the expected useful lives of the various classes of assets. Estimated useful lives range from 5 to 25 years for land improvements, 5 to 40 years for buildings, and 3 to 15 years for equipment. Property and equipment under capital leases are stated at the lower of the present value of the minimum lease payments or the fair value of the underlying asset and are generally amortized over the lease term. Amortization of capital leased assets is included within depreciation expense.

The costs of obtaining or developing internal-use software, including external direct costs for materials and services and directly related payroll costs, are capitalized. Amortization begins when the internal-use software is ready for its intended use. The software costs are amortized over the estimated useful lives of the software. The estimated useful lives range from 5 to 7 years. Costs incurred during the preliminary project stage and post-implementation stage, as well as maintenance and training costs, are expensed as incurred.

During the year ended December 31, 2014, PH integrated New Markets Tax Credits (NMTC) into the financing of the Warsaw project. Due to the location of the property and the measurable economic and community benefits of the project, PH qualified for this special federal program (see Note 17).

Goodwill: PH records goodwill arising from a business combination as the excess of purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. Management has determined that the Corporation is the reporting unit at which fair value is measured. PH annually reviews, as of the first day of the fourth quarter, the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed if an event occurs or circumstances change that would make it more likely than not that the fair value of a reporting unit is below its carrying amount. If such circumstances suggest that the recorded amounts of goodwill cannot be recovered, the carrying value is reduced to fair value. If the carrying value of goodwill is impaired, a material charge may be incurred to results of operations. No goodwill impairment was required in 2015 or 2014.

Intangible assets: Costs allocated to customer relationships and other intangible assets are based on their fair value at the date of acquisition. The cost of intangible assets is amortized on a straight-line basis over the assets’ estimated useful life ranging from 3 to 20 years. Amortization expense recorded in the consolidated statements of operations and changes in net assets was $1,218 and $1,275 in 2015 and 2014, respectively. There are no indefinite-lived intangible assets (see Note 4).

Impairment: Fixed assets and amortizable intangible assets are reviewed for impairment whenever conditions indicate that the carrying amount may not be recoverable. In evaluating the recoverability of long-lived assets, such assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. Such impairment tests compare estimated undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its fair value, and a corresponding loss is recorded.

Note 2. Significant Accounting Policies (Continued)

Derivative financial instruments: As part of its debt management program, the Corporation has entered into several interest rate swap arrangements. Derivative instruments are recognized as either assets or liabilities in the consolidated balance sheets at fair value. The Corporation does not account for any of its interest rate swap agreements as hedges, and accordingly, changes in the fair value of interest rate swap agreements are recorded in the consolidated statements of operations and changes in net assets as nonoperating income (expense). Also included in other nonoperating income (expense) in the consolidated statements of operations and changes in net assets are net settlement payments on interest rate swaps.

Employee benefit plans: PH's retirement program, called the Trusted Choices Retirement Program, offers a defined contribution plan. Contributions to the defined contribution plan are based upon benefit service points and a combination of age and years of benefit service. Contributions are calculated as a percentage of eligible pay. In addition, active employees at December 31, 2004, were provided a one-time choice to remain in PH's defined benefit plan or freeze their defined benefit plan benefits and move to the employer-funded defined contribution plan. Definitions of eligibility, pay, benefit service, and vesting under the defined benefit plan are the same as the defined contribution plan.

In addition to participation in the defined contribution plan and/or defined benefit plan, eligible employees are provided a voluntary opportunity to participate in a 403(b) or a 401(k) plan based upon the tax status of the employing corporation. The 403(b) and 401(k) plans have match provisions. Benefits for eligible employees are based on the employee's compensation.

Income taxes: The Internal Revenue Service has determined that the Corporation and certain affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code. Certain subsidiaries of the Corporation are taxable entities, the tax expense and liabilities of which are not material to the consolidated financial statements.

The Corporation and its tax-exempt affiliated entities each file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the tax-exempt status of each entity, the continued tax-exempt status of bonds, the nature, characterization and taxability of joint venture income, and various positions relating to potential sources of unrelated business taxable income (reported on Form 990T). As of December 31, 2015 and 2014, there are no unrecognized tax benefits resulting from uncertain tax positions.

Forms 990 and 990T filed by the Corporation and its tax-exempt affiliated entities are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 and 990T filed by the Corporation and its tax-exempt affiliated entities are no longer subject to examination for the year 2011 and prior.

Performance indicator: Excess of revenues over expenses as reflected in the accompanying consolidated statements of operations and changes in net assets includes operating income and nonoperating income and losses. With the exception of Wabash County Hospital, which was accounted for as a business combination, contributions of long-lived assets, pension-related changes other than net periodic pension cost, net assets released from restriction for acquisition of long-lived assets, and distributions to noncontrolling interests are excluded from excess of revenues over expenses.

Note 2. Significant Accounting Policies (Continued)

Operating and nonoperating income (expense): Activities directly associated with the furtherance of PH's mission are considered operating activities. Other activities that result in gains or losses peripheral to PH's primary mission are considered to be nonoperating. Nonoperating activities include interest, dividends, and realized gains/losses on sales of investments, net; unrealized gains/losses on investments, net; interest expense; realized and unrealized gains/losses on interest rate swaps, net and related net settlement payments; and other.

Temporarily and permanently restricted net assets: Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Investment return is allocated to unrestricted and temporarily restricted net assets based on the respective net asset balances and the wishes of the donor. The net assets are generally restricted for indigent and other patient services, medical education and research programs, facilities, medical supplies, and equipment. Temporarily restricted net assets at December 31, 2014, include land and buildings of Wabash County Hospital which were released from restriction in 2015 (see Acquisitions in Note 1).

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restriction and other revenue (if used for operating purposes) or other changes in unrestricted net assets (if used for the acquisition of long-lived assets). Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions related to long-lived assets are recognized when the long-lived asset is placed in service.

Distributions to noncontrolling interests: Certain consolidated subsidiaries of PH have members who hold a noncontrolling ownership interest. Upon authorization of the Boards of those subsidiaries, cash available for distribution, or a portion thereof, arising from operations or other sources may be distributed to PH and the noncontrolling members ratably in accordance with the members' respective membership interests.

Electronic health records incentive payments: The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health records (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments. The Corporation's compliance with the meaningful use criteria is subject to audit by the Federal government. The Corporation accounts for EHR incentive funds using the grant accounting model. Under this model, the Corporation records EHR incentive revenue when it is reasonably assured that it will meet the meaningful use criteria for the required reporting period and that the grant will be received.

Note 2. Significant Accounting Policies (Continued)

Newly adopted accounting pronouncements: In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.
The amendments in ASU 2015-07 also limit certain required disclosures for investments that are eligible to be measured at fair value using the net asset value per share practical expedient to those investments for which the entity has elected to measure fair value using that practical expedient. The Corporation elected to early adopt the provisions of ASU 2015-07 in the accompanying consolidated financial statements and has applied the provisions retrospectively to the 2014 consolidated financial statements, resulting in the modification of certain disclosures in Notes 5 and 11 to the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* which changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. ASU 2016-01 also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 will be effective for the Corporation's December 31, 2019 consolidated financial statements. The Corporation elected to early adopt the amendment within ASU 2016-01 that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein. The Corporation is currently evaluating the effect of the pending adoption of the remaining provisions of ASU 2016-01 on the consolidated financial statements.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for the Corporation's December 31, 2018 consolidated financial statements. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period.. The Corporation has not yet selected a transition method and is currently evaluating the effect that the pending adoption of the updated standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases—(Topic 842)*, which supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for the Corporation's December 31, 2019 consolidated financial statements. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Corporation is currently evaluating the effect of the pending adoption of the new standard on the consolidated financial statements.

(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

Reclassifications: Certain prior-year amounts have been reclassified to conform to the current-year presentation. Such reclassifications had no effect on previously reported excess of revenue over expenses or changes in net assets.

Note 3. Business Acquisitions

Effective January 1, 2015, PH became the sole member of Wabash County Hospital. The transaction was accounted for as an acquisition with no consideration, and accordingly the excess of the fair value of assets acquired over liabilities assumed was recognized as an inherent contribution received by PH. Transaction costs for legal and consulting services that are included in the consolidated statements of operations and changes in net assets were insignificant.

The table below summarizes the estimated fair value of the net assets acquired:

Current assets:		Current liabilities:	
Cash and cash equivalents	$ 13,810	Accounts payable	$ 4,215
Patient accounts receivable	7,460	Accrued expenses and other	1,812
Inventories	861	Current maturities of long-term debt	137
Estimated settlements due from third-party payors	255	**Total current liabilities**	6,164
Prepaid expenses and other assets	969	Noncurrent liabilities:	
Total current assets	23,355	Long-term debt, less current maturities	254
		Total liabilities	6,418
		Net assets:	
Investments	3,899	Unrestricted	37,444
		Temporarily restricted	7,000
Property and equipment	23,608	**Total net assets**	44,444
Total assets	$ 50,862	**Total liabilities and net assets**	$ 50,862

(Dollars in Thousands)

Note 3. Business Acquisitions (Continued)

In October 2015, PH increased its ownership investment in Premier Surgery Center, LLC (Premier) from 50% to 100% through a “step acquisition.” Prior to this transaction, PH had accounted for Premier as an unconsolidated affiliate under the equity method of accounting.

As the buyer in a step acquisition, PH measured the acquisition date fair value of its previously held equity position in Premier and recognized a non-cash gain of $10,073. This gain of $10,073 is included in the 2015 consolidated statement of operations and changes in net assets in other nonoperating income (expense).

The components of the consideration transferred and the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed were as follows:

Consideration:		
Fair value at acquisition date of previously held interest	$	10,873
Fair value of consideration exchanged for 50% interest in Premier		10,874
Total consideration	$	21,747
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and cash equivalents	$	149
Patient accounts receivable		4
Prepaid expenses and other assets		13
Property and equipment		652
Accounts payable		(3)
Accrued expenses and other		(16)
Total identifiable net assets	$	799
Goodwill		20,948
	$	21,747

The fair value of PH’s previously held interest and the fair value of the equity exchange for the 50% interest in Premier were estimated using the income approach and market approach.

Goodwill resulting from this transaction consists of expected long term revenue growth, reputation and knowledge, established patient relationships, and the location of the surgery center.

(Dollars in Thousands)

Note 4. Goodwill and Intangible Assets

The following tables summarize goodwill and other intangibles as of and for the years ended December 31, 2015 and 2014:

Goodwill balance at December 31, 2013	$	75,409
Acquisitions		1,157
Goodwill balance at December 31, 2014		76,566
Acquisitions		20,976
Goodwill balance at December 31, 2015	$	97,542

	2015		2014	
	Original Amount	Accumulated Amortization	Original Amount	Accumulated Amortization
Intangible assets	$ 8,678	$ 4,499	$ 8,626	$ 3,281

Amortization expense of $1,218 and $1,275 was recognized in 2015 and 2014, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

The remaining intangible asset balances over the next five years based on estimated amortization are as follows:

2016	$	2,958
2017		1,737
2018		1,526
2019		1,395
2020		1,279

Note 5. Fair Value Measurement

ASC 820, *Fair Value Measurement*, defines fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. 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. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of PH's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market funds, fixed income and equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

(Dollars in Thousands)

Note 5. Fair Value Measurement (Continued)

Level 2. Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3. Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of inputs, management generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or in the aggregate, represent more than 5% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value based on assumptions about what market participants would use in pricing the asset or liability.

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2015:

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments:				
Mutual funds	$ 452	$ 452	$ -	$ -
Corporate bonds	7,509	-	7,509	-
Total short-term investments	$ 7,961	$ 452	$ 7,509	$ -
Investments:				
U.S. government and agency obligations	$ 36,946	$ 29,312	$ 7,634	$ -
Municipal bonds	5,453	-	5,453	-
Corporate bonds	54,531	-	54,531	-
Mortgage- and asset-backed securities	50,682	-	50,682	-
Domestic equities (includes preferred stock)	79,204	78,882	322	-
International equities	40,549	31,960	8,589	-
Mutual funds:				
Equity type	126,856	126,856	-	-
Balanced type	50,634	50,634	-	-
Fixed income type	2,571	2,571	-	-
Total investments at fair value	447,426	$ 320,215	$ 127,211	$ -
Investments not at fair value:				
Cash and short-term investments	9,214			
Commingled funds	127,803			
Real estate investment trust	29,288			
Real estate investment fund	25,608			
Hedge funds	125,611			
Real estate held for investment	15,741			
Amounts due brokers	(823)			
Total investments	$ 779,868			
Deferred compensation plan:				
Assets - mutual funds	$ 6,437	$ 6,437	$ -	$ -
Assets - guaranteed income fund	3,841	-	-	3,841
Interest rate swaps	4,203	-	4,203	-
	$ 14,481	$ 6,437	$ 4,203	$ 3,841
Liabilities				
Interest rate swaps	$ (80,128)	$ -	$ -	$ (80,128)

(Dollars in Thousands)

Note 5. Fair Value Measurement (Continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2014:

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments:				
Mutual funds	$ 311	$ 311	$ -	$ -
Corporate bonds	39,905	-	39,905	-
Total short-term investments	$ 40,216	$ 311	$ 39,905	$ -
Investments:				
U.S. government and agency obligations	$ 60,838	$ 55,703	$ 5,135	$ -
Corporate bonds	33,056	-	33,056	-
Mortgage- and asset-backed securities	23,254	-	23,254	-
Domestic equities	59,761	59,761	-	-
International equities	40,434	33,205	7,229	-
Mutual funds:				
Equity type	80,226	80,226	-	-
Balanced type	45,078	45,078	-	-
Fixed income type	93,388	93,388	-	-
Total investments at fair value	436,035	$ 367,361	$ 68,674	$ -
Investments not at fair value:				
Cash and short-term investments	19,548			
Commingled funds	92,102			
Real estate investment trust	25,329			
Real estate investment fund	23,227			
Hedge funds	121,758			
Real estate held for investment	15,668			
Amounts due from brokers	(744)			
Total investments	$ 732,923			
Deferred compensation plan:				
Assets - mutual funds	$ 8,588	$ 8,588	$ -	$ -
Assets - guaranteed income fund	4,866	-	-	4,866
Interest rate swaps	3,564	-	3,564	-
	$ 17,018	$ 8,588	$ 3,564	$ 4,866
Liabilities				
Interest rate swaps	$ (79,288)	$ -	$ -	$ (79,288)

(Dollars in Thousands)

Note 5. Fair Value Measurement (Continued)

Certain of PH's investments are made through alternative investments and private investment funds, primarily partnership trusts. PH accounts for its ownership in these funds under the equity method, and as a result, hedge fund, real estate investment trust, and real estate investment fund investments totaling $180,507 and $170,314 as of December 31, 2015 and 2014, respectively, are excluded from the fair value disclosure. Deferred compensation plan assets are included in other assets in the consolidated balance sheets. PH held real estate for investment purposes of $15,741 and $15,668 as of December 31, 2015 and 2014, which is accounted for at cost and assessed for impairment when indicators exist. The real estate is written down to fair value as estimated by third-party valuation experts when impairment exists (which are nonrecurring fair value measurements using Level 3 inputs), with losses recorded in realized gains (losses) on investments in the consolidated statements of operations and changes in net assets. The fair values of commingled funds are based on either the fair value of the underlying investments of the fund, as determined by the fund, or on the ownership interest in the NAV per share or its equivalent, of the respective fund and is excluded from the total investments at fair value. Following is a description of the Corporation's valuation methodologies for assets and liabilities measured at fair value, not classified as Level 1. The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) discount curve in order to reflect the credit value adjustment for nonperformance risk. The credit valuation adjustments for asset and liability position interest rate swap contracts are internally valued with the assistance of a third party using other comparably rated entities' bonds priced in the market. Depending on the significance of the credit spread adjustment to the overall fair value of the interest rate swap, the instrument is included in Level 2 or Level 3.

The following table is a rollforward of the consolidated balance sheet amounts for financial instruments classified by the Corporation within Level 3 of the valuation hierarchy defined above:

	Financial Liabilities - Interest Rate Swaps
Fair value at January 1, 2014	$ -
Realized and unrealized gains/losses on interest rate swaps, net	-
Transfers out of Level 2 to Level 3	(79,288)
Fair value at December 31, 2014	(79,288)
Realized and unrealized gains/losses on interest rate swaps, net	(840)
Transfers out of Level 2 to Level 3	-
Fair value at December 31, 2015	$ (80,128)

PH transfers assets and liabilities in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable. At December 31, 2013, the credit valuation adjustment of $1,821 associated with the liability position interest rate swap contracts became insignificant relative to the fair value on the same swaps and resulted in the change in classification from Level 3 at December 31, 2012, to Level 2 at December 31, 2013. At December 31, 2014, the credit valuation adjustment of $4,327 associated with the liability position interest rate swap contracts became significant relative to the fair value on the same swaps and resulted in the change in classification from Level 2 at December 31, 2013, to Level 3 at December 31, 2014. As of December 31, 2015, the credit valuation adjustment was $4,376 and significant relative to the fair value on the same swaps and resulted in maintaining the Level 3 classification.

(Dollars in Thousands)

Note 6. Net Patient Care Service Revenue and Accounts Receivable

Certain agreements with third-party payors provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Certain inpatient care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Physician services are reimbursed based upon established fee schedules. Outpatient services are reimbursed using prospectively determined rates.

Medicaid – Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

Other – Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Differences between established rates and payment under these agreements are reflected as contractual allowances.

Medicare and Medicaid revenue accounted for approximately 26% and 10%, respectively, of patient service revenue (net of contractual allowances and discounts) for the year ended December 31, 2015, and approximately 23% and 11%, respectively, for the year ended December 31, 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of wrongdoing. While no such regulatory inquiries have been made, compliance with health care industry laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimated settlements could change. It is also reasonably possible that recorded settlements could change by a material amount in the near term. PH received Medicare and Medicaid settlements and resolutions on prior year filed and appealed cost reports and other matters, which increased net patient care service revenue by $1,349 and $3,503 in 2015 and 2014, respectively.

The Corporation has determined, based on an assessment at the reporting-entity level, that the patient care service revenue is primarily recorded prior to assessing the patient's ability to pay, and as such, the entire provision for bad debts is recorded as a deduction from net patient care service revenue in the accompanying consolidated statements of operations and changes in net assets.

The composition of net patient care service revenue (net of contractual allowance and discounts, but before the provision for bad debts) by payor for the years ended December 31 is as follows:

	2015	2014
Medicare	$ 383,166	$ 317,679
Medicaid	139,162	151,246
Managed care and other insurers	830,477	773,234
Uninsured	74,864	107,444
Other	26,830	38,145
	$ 1,454,499	$ 1,387,748

(Dollars in Thousands)

Note 6. Net Patient Care Service Revenue and Accounts Receivable (Continued)

The allowance for bad debts was approximately $65,249 and $68,157 as of December 31, 2015 and 2014, respectively. These balances as a percentage of accounts receivable, net of contractual adjustments and other discounts, were approximately 27% and 29% as of December 31, 2015 and 2014, respectively. The slight decrease in the allowance for bad debts during 2015 was primarily the result of a decrease in write-off experience and improved net patient care service revenue collections. A summary of activity in the allowance for bad debts follows:

	Balance, Beginning of Year	Provision	Accounts Written Off, Net of Recoveries and Other	Balance, End of Year
Allowance for bad debts:				
December 31, 2014	$ 68,535	$ 119,890	$ (120,268)	$ 68,157
December 31, 2015	68,157	116,964	(119,872)	65,249

Components of patient accounts receivable, net, at December 31, 2015 and 2014, include Medicare, 18% and 20%, respectively; Medicaid, 7% and 2%, respectively; commercial insurers, 66% and 65%, respectively; and other, 9% and 13%, respectively. One managed care payor represented 23% and 24% of patient accounts receivable at December 31, 2015 and 2014, respectively.

Note 7. Investments

PH's investments are exposed to various kinds and levels of risk. Fixed income securities expose PH to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Certain investment funds held contain a 45-day to 90-day redemption notice requirement with up to a one year lock up period.

Equity securities expose PH to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a particular company's operating performance. Liquidity risk, as previously defined, tends to be higher for international equities and small capitalization equity companies.

Hedge funds also expose PH to market, performance, and liquidity risk. Hedge funds are not necessarily readily marketable. The funds often employ complex strategies, including short sales on securities and trading on futures contracts, options, foreign currency contracts, other derivative instruments, and private equity investments, and the composition of the individual investments within these funds is not readily determinable. The hedge fund investments are partnership interests in limited partnerships. These investments are not publicly traded, and the net asset value, or NAV, is based upon information provided by the fund manager. The hedge funds have restrictions on the timing of withdrawals ranging from one to three months, which may reduce liquidity. As of December 31, 2015, $0 was committed for the purchase of additional hedge funds.

As of December 31, 2015, $0 was committed for the purchase of additional commingled funds.

The real estate investments are recorded at cost, less impairment charges recognized to date, and present valuation risks as they are not actively traded. Additionally, these investments present a concentration of risk, as they are held within the same geographic region, northeast Indiana.

(Dollars in Thousands)

Note 7. Investments (Continued)

Composition

The composition of investment return recognized in the consolidated statements of operations and changes in net assets and its presentation are as follows:

	2015	2014
Investment income:		
Unrealized losses on investments, net	$ (32,948)	$ (13,956)
Dividend and interest income	11,743	10,176
Net realized gains on the sale of investments	1,597	23,009
Total investment return	$ (19,608)	$ 19,229
Presentation:		
Other revenue	$ 13	$ 589
Temporarily restricted – investment gain	51	52
Interest, dividends, and realized gains on sales of investments, net	12,830	32,486
Unrealized losses on investments, net	(32,502)	(13,898)
Total investment return	$ (19,608)	$ 19,229

Note 8. Property and Equipment

The costs of property and equipment consist of the following:

	2015	2014
Land and improvements	$ 136,872	$ 129,807
Buildings	830,072	799,283
Equipment	717,507	691,999
Construction in progress and items not yet placed into service	34,190	19,510
	$ 1,718,641	$ 1,640,599

The cost of commitments to complete construction-in-progress projects is estimated to be $148,000 at December 31, 2015. Depreciation expense recorded in the consolidated statements of operations and changes in net assets was $82,220 and $75,181 at December 31, 2015 and 2014, respectively.

Amortization expense on leasehold improvements recorded in the consolidated statements of operations and changes in net assets was $2,156 and $1,998 in 2015 and 2014, respectively. Amortization expense on other intangibles recorded in the consolidated statements of operations and changes in net assets was $1,218 and $1,275 in 2015 and 2014, respectively. Amortization expense on capital leases recorded in the consolidated statements of operations and changes in net assets was $4,785 and $5,273 in 2015 and 2014, respectively. Assets under capital leases at December 31, 2015 and 2014, were $29,163 and $29,117, respectively. Accumulated amortization on assets under capital leases at December 31, 2015 and 2014, was $18,491 and $14,180, respectively.

(Dollars in Thousands)

Note 9. Long-Term Debt

Long-term debt consists principally of tax-exempt bonds as follows:

	Interest rates as of December 31, 2015	2015	2014
Tax-exempt, variable rate bonds:			
Series 2010A	1.04%	$ 27,280	$ 28,000
Series 2009BCD	0.01%-0.02%	223,665	223,665
Series 2007	0.01%	19,610	20,380
Series 2001	0.25%-0.58%	12,350	13,700
Tax-exempt, fixed rate serial and term bonds:			
Series 2012A	2.0%–5.0%	81,255	82,440
Series 2009A	5.0%–5.75%	174,975	184,915
Various notes to banks	Various	61,959	73,326
Mortgages on real estate	Various	9,628	11,467
Other	Various	113	113
Capital leases	Various	5,498	10,538
		616,333	648,544
Unamortized original issue premium/discount, net		4,424	5,014
		620,757	653,558
Less current portion		27,998	29,851
		$ 592,759	$ 623,707

Following are the scheduled maturities and mandatory redemptions of long-term debt, assuming successful remarketing of variable rate bonds, and renewal of letter of credit agreements, as discussed below. If the bonds are not successfully remarketed and the letter of credit agreements are not renewed or drawn on, the annual maturities shown below may be materially different.

Year Ending December 31:	
2016	$ 27,998
2017	34,583
2018	18,848
2019	37,446
2020	20,993
Thereafter	476,465
	$ 616,333

Total interest paid was $18,168 and $19,506 in 2015 and 2014, respectively. Interest cost of $296 and $213 in 2015 and 2014, respectively, was capitalized as part of the cost of construction.

Note 9. Long-Term Debt (Continued)

Obligations through use of Master Indenture
PH and PVH have issued tax-exempt revenue, revenue refunding, private placement, auction revenue, and variable rate demand bonds through the use of a Master Indenture, as amended and supplemented. The various agreements require PH and PVH not to incur indebtedness secured by an encumbrance and not to mortgage certain facilities except under certain circumstances. The agreements require the maintenance of debt service coverage ratios and contain certain other restrictive covenants.

On May 24, 2012, PH and PVH issued $85,115 of fixed rate tax-exempt revenue bonds (the Series 2012A Bonds) using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds were used to refund all of the remaining Series 1998 Bonds, legally defease $37,335 of the 2009A Bonds, and pay financing costs. Interest on the Series 2012A Bonds is paid semiannually. The Series 2012A Bonds mature through May 2029.

On May 4, 2010, PH arranged for the issuance of $28,000 of variable rate, tax-exempt private placement bonds (the Series 2010A Bonds) using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds and certain other funds of PH were used to finance the construction and furnishing of the new Parkview Whitley Hospital. Interest on the Series 2010A Bonds is paid monthly. The Series 2010A Bonds mature in May 2040, but contain a five-year put option that expires May 2017. The put option allows for a renewal for an additional term.

In August 2009, PH and PVH issued $265,530 of fixed rate, tax-exempt revenue bonds (the Series 2009A Bonds) and $223,665 of variable rate, tax-exempt revenue bonds (the Series 2009B Bonds, the Series 2009C Bonds, and the Series 2009D Bonds) using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds were used to refund all but $19,425 of the outstanding Indiana Health Facility Financing Authority Revenue Bonds, Series 2001A, 2001B, and 2001C (collectively, the Series 2001 Bonds); refund all of the outstanding Indiana Health and Educational Facility Financing Authority Revenue Bonds, Series 2005A and 2005B (collectively, the Series 2005 Bonds); pay certain costs related to the termination of a portion of swaps related to the Series 2001 Bonds; pay costs of issuance and costs of refunding; and finance, refinance, or reimburse certain costs for capital expenditures at the PVH facilities. Interest on the Series 2009A Bonds is paid semiannually. The Series 2009BCD Bonds bear interest weekly, and interest is paid monthly. The Series 2009A Bonds mature through May 2031. The Series 2009BCD Bonds mature through November 2039.

PH entered into two direct-pay Letter of Credit agreements (the LOCs) issued by PNC Bank (Series 2009C Bonds) and Wells Fargo Bank (Series 2009B&D Bonds) to enhance the marketability of the bonds. Under the terms of the LOCs, if bonds are not successfully remarketed and thereby purchased by the banks, the principal maturities of the bonds purchased are accelerated over the subsequent three-year period commencing at least one year and one day from the draw on the LOC, and PH would pay a defined rate, based on a formula in the agreements, at a minimum rate of 7.0% for the first 180 days after bank purchase, and 8.0% thereafter. The current LOCs expire August 26, 2017. At December 31, 2015, all bonds had been successfully remarketed.

Note 9. Long-Term Debt (Continued)

On March 15, 2007, PLH issued $24,930 of adjustable rate, tax-exempt revenue bonds (the Series 2007 Bonds). These bonds were issued through the Indiana Health and Education Facility Financing Authority. The proceeds of the Series 2007 Bonds and certain other funds of PLH were used to finance the construction and furnishing of a new hospital facility and to pay financing costs. The Series 2007 Bonds bear interest at a weekly rate, and interest is paid monthly. The Series 2007 Bonds are secured by an irrevocable direct-pay LOC issued by PNC Bank that matures on August 26, 2017. If the bonds are not successfully remarketed and thereby purchased by the bank, the principal maturities of the bonds purchased are accelerated over the subsequent three-year period commencing at least one year and one day from the draw on the LOC. This LOC has a maximum interest rate of 15%. At December 31, 2015, all bonds had been successfully remarketed. The Series 2007 Bonds mature through March 2032.

In November 2001, PH and PVH issued $220,000 of variable rate, tax-exempt auction revenue bonds (the Series 2001 Bonds) using the Master Indenture and through the Indiana Health Facility Financing Authority. These Series 2001 Bonds auction every 28 days. The bonds have a maximum rate of 15%. Beginning in February 2008 and continuing through December 31, 2015, PH's Series 2001 Bonds failed to attract sufficient bids to be remarketed, and have not been successfully remarketed since. As a result of the failed auctions, interest rates are set based upon a formula contained in the bond documents. The interest rate formula is based upon the 7-day AA Composite Commercial Paper rate times a factor. This factor can vary from 125% to 225%, depending upon the credit rating of the bond. The bond rating is equal to the rating of either the insurer of the debt or the issuer, whichever is higher. At December 31, 2015 and 2014, the factor was 175%. The Series 2001 Bonds are secured by a financial guaranty insurance policy provided by Ambac Assurance Corporation (Ambac). Ambac's rating has been withdrawn by Moody's, while PH has retained its Moody's rating of A1. The Series 2001 Bonds mature through November 2031.

Term loan

On December 31, 2012, the ONE surgery center acquisition was completed and the transaction was financed through execution of a fully amortizable five-year loan with a bank in the amount of approximately $37,900. The loan has a floating rate with interest computed monthly based on the 30-day LIBOR plus 160 basis points. The loan is collateralized by all personal property assets of Orthopaedic Hospital at Parkview North, LLC.

Debt guarantee

At December 31, 2015 and 2014, the Corporation had guaranteed approximately $1,862 and $2,422, respectively, of certain outstanding debt obligations of unconsolidated entities. If the unconsolidated entities default on their debt obligation, the Corporation would then be responsible for the obligation. At December 31, 2015 and 2014, the Corporation has no amounts accrued related to these guarantees.

(Dollars in Thousands)

Note 10. Interest Rate Swaps and Other Derivatives

PH uses a combination of interest rate swap agreements with the objective to mitigate the impact interest rate fluctuations have on its interest payments. PH uses fixed payor, fixed spread basis, fixed receiver, and forward fixed payor contracts entered into with various third parties. Interest rate swap contracts between PH and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. This is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for PH's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. PH does not anticipate nonperformance by its counterparties. The interest rate swap agreements require PH to post collateral if the liability balance, depending on the counterparty, is greater than $15,000 to $30,750. No collateral was required to be posted by PH at December 31, 2015 and 2014. PH's policy is to present the collateral on a gross basis in the consolidated balance sheets.

The following table is a summary of the outstanding positions under these interest rate swap agreements at December 31:

Expiration Date	PH Pays	PH Receives	Notional Amount 2015	Notional Amount 2014
2020-2031	3.47% - 3.71%[1]	67% of one-month LIBOR	$ 33,500	$ 34,850
2033	3.49%[1]	62.4% of one-month LIBOR + 0.29% margin	75,000	75,000
2028-2033	3.26% - 3.49%[2]	62.4% of one-month LIBOR + 0.29% margin	84,305	88,175
2016	BMA/SIFMA Index[2]	4.005%	30,000	30,000
2037	3.81%[1]	61.8% of one-month LIBOR +0.31% margin	146,290	147,150
2025	BMA/SIFMA Index[3]	68% of one-month LIBOR + 0.514%–0.52% margin	120,000	120,000
			$ 489,095	$ 495,175

(1) The objective of these interest rate swaps is to mitigate interest rate fluctuations and synthetically fix certain variable rate exposure.
(2) The objective of these interest rate swaps is to create a basis swap.
(3) The objective of this interest rate swap is to take advantage of yield curve differences and mitigate risk on future bond offerings. This interest rate swap is not associated with outstanding debt.

(Dollars in Thousands)

Note 10. Interest Rate Swaps and Other Derivatives (Continued)

The fair value of derivative instruments is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Classification	December 31 2015	December 31 2014
Interest rate swap agreements	Interest rate swaps (Other assets)	$ 4,203	$ 3,564
Interest rate swap agreements	Interest rate swaps (Noncurrent liabilities)	(80,128)	(79,288)
		$ (75,925)	$ (75,724)

The effects of derivative instruments on the consolidated statements of operations and changes in net assets are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Loss on Derivatives Recognized in Excess of Revenues Over Expenses	Amount of Loss in Derivatives Recognized in Excess of Revenue Over Expenses December 31 2015	Amount of Loss in Derivatives Recognized in Excess of Revenue Over Expenses December 31 2014
Interest rate swap agreements - unrealized losses	Unrealized losses on interest rate swaps, net	$ (224)	$ (29,943)
Interest rate swap agreements - settlement payments	Other - nonoperating	(9,075)	(8,565)
		$ (9,299)	$ (38,508)

Interest rate swap settlement payments, net were $9,186 and $8,640 in 2015 and 2014, respectively, of which $111 and $75 was capitalized as part of the cost of construction in 2015 and 2014, respectively.

(Dollars in Thousands)

Note 11. Pension Plans

Defined benefit pension plan

The Corporation sponsors a noncontributory defined benefit pension plan (the Plan) covering eligible employees employed prior to January 2005. Plan benefits are based on years of service and an employee's compensation during a consecutive five-year term of employment within the ten years prior to benefit determination, which results in the highest earnings.

The following table sets forth the changes in projected benefit obligation and changes in plan assets for the years ended December 31 and the funded status of the Plan and accrued pension obligation as of December 31 as actuarially determined:

	2015	2014
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year:	$ 471,380	$ 370,363
Service cost	9,609	7,799
Interest cost	19,096	18,146
Actuarial (gain) loss	(21,788)	86,616
Benefits paid	(13,021)	(11,544)
Projected benefit obligation at end of year	465,276	471,380
Change in plan assets:		
Plan assets at fair value at beginning of year:	389,710	376,885
Actual return on plan assets	(5,493)	15,869
Corporation and subsidiary contributions	-	8,500
Benefits paid	(13,021)	(11,544)
Plan assets at fair value at end of year	371,196	389,710
Funded status of the Plan (recognized as accrued pension obligations)	$ (94,080)	$ (81,670)

Items included in unrestricted net assets that have not yet been recognized as a component of net periodic pension cost at December 31 are as follows:

	2015	2014
Unrecognized net actuarial loss	$ 151,876	$ 150,689
Unrecognized prior service cost	33	55
	$ 151,909	$ 150,744

Changes in plan assets and benefit obligation recognized in unrestricted net assets during the years ended December 31 include the following:

	2015	2014
Current year actuarial loss	$ 12,898	$ 98,374
Recognized actuarial loss	(11,711)	(3,030)
Current year amortization of prior service cost	(22)	(22)
	$ 1,165	$ 95,322

(Dollars in Thousands)

Note 11. Pension Plans (Continued)

The actuarial loss and prior service cost included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ending December 31, 2016, total $10,839 and $22, respectively.

Net periodic benefit cost included in salaries and benefits expense during the years ended December 31, consists of the following:

	2015	2014
Service cost	$ 9,609	$ 7,799
Interest cost	19,096	18,146
Expected return on plan assets	(29,193)	(27,627)
Amortization of unrecognized net loss	11,711	3,030
Amortization of unrecognized prior service cost	22	22
Net periodic benefit cost	$ 11,245	$ 1,370

The accumulated benefit obligation at December 31, 2015 and 2014 was $435,395 and $442,959, respectively.

The weighted-average assumptions used to determine benefit obligations at December 31 and net periodic benefit costs for the years then ended are as follows:

	2015	2014
Assumptions – benefit obligations:		
Discount rate	4.41%	4.11%
Rate of compensation increase	3.00	3.00
Assumptions – net periodic benefit cost:		
Discount rate	4.11%	4.98%
Expected return on plan assets	7.50	7.50
Rate of compensation increase	3.00	3.00

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Plan. The discount rate was changed from 4.11% to 4.41% for 2015. This change had the impact of decreasing the projected benefit obligation approximately $20,900.

In 2015, a change to the RP-2014 Healthy Annuitant Male and Female mortality tables with a generational improvement projection scale MP-2015 was made in the calculation of the benefit obligation. This change from the MP-2014 scale to the MP-2015 scale had the impact of decreasing the projected benefit obligation approximately $8,200.

(Dollars in Thousands)

Note 11. Pension Plans (Continued)

The principal long-term determinant of a portfolio's investment return is its asset allocation. The Plan's allocation is currently weighted toward growth assets (54%) versus fixed income (46%). The Corporation's policy on investment allocation for the Plan consists of an allocation of 35% to 75% for growth investments and 30% to 60% for fixed income investments. Within the growth investment classification, the Plan's asset strategy encompasses equity and equity-like instruments that are of both public and private market investments. These equity and equity-like instruments are public equity securities that are well diversified and invested in U.S. and international companies. Management believes its active strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the Plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

The Plan's weighted-average asset allocations at December 31, by asset category, are as follows:

	2015	2014
Real estate investment trust	5%	4%
Real estate investment fund	4%	4%
Commingled funds	23%	11%
International equities	7%	6%
Domestic equities	17%	13%
Mortgage- and asset-backed securities	10%	1%
Corporate bonds	9%	1%
Municipal bonds	1%	0%
Mutual funds – equity	15%	13%
Mutual funds – fixed income	0%	40%
Mutual funds – balanced	3%	3%
US government and agency obligations	4%	2%
Cash and short-term investments	1%	1%
Guaranteed investment contract	1%	1%
	100%	100%

(Dollars in Thousands)

Note 11. Pension Plans (Continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2015:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
International equity	$ 23,768	$ 16,377	$ 7,391	$ -
Domestic equity	64,149	63,879	270	-
Mortgage- and asset-backed securities	37,817	-	37,817	-
Municipal bonds	5,097	-	5,097	-
Corporate bonds	33,529	-	33,529	-
Mutual funds - equity	55,614	55,614	-	-
Mutual funds - balanced	11,736	11,736	-	-
US government and agency obligations	12,440	11,916	524	-
Cash and short-term investments	4,423	4,423	-	-
Guaranteed investment contract	4,938	-	-	4,938
	253,511	$ 163,945	$ 84,628	$ 4,938
Investments not at fair value:				
Real estate investment trust	18,130			
Real estate investment fund	15,853			
Commingled funds	83,702			
Total investments	$ 371,196			

The fair value of pension plan assets was determined using the following inputs at December 31, 2014:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
International equity	$ 23,993	$ 17,423	$ 6,570	$ -
Domestic equity	51,997	51,997	-	-
Mortgage- and asset-backed securities	3,682	-	3,682	-
Corporate bonds	3,950	-	3,950	-
Mutual funds - equity	51,643	51,643	-	-
Mutual funds - fixed income	154,124	154,124	-	-
Mutual funds - balanced	13,105	13,105	-	-
US government and agency obligations	7,417	7,417	-	-
Cash and short-term investments	1,539	1,539	-	-
Guaranteed investment contract	5,253	-	-	5,253
	316,703	$ 297,248	$ 14,202	$ 5,253
Investments not at fair value:				
Real estate investment trust	15,680			
Real estate investment fund	14,379			
Commingled funds	42,948			
Total investments	$ 389,710			

(Dollars in Thousands)

Note 11. Pension Plans (Continued)

Fair value methodologies for Level 1 and Level 2 investments are consistent with the inputs described in Note 4. The fair value of the Level 3 interest in the guaranteed investment contract (GIC) is based on information reported by the issuer of the GIC at year-end. The fair value of the Level 3 interests in the real estate investment trust and real estate investment fund is obtained from secondary market brokers evaluating price and business appraisers applying assumptions to valuation methodologies. Both the real estate investment trust and the real estate investment fund invest in land and buildings and seeks to improve property-level operations by increasing lease rates, recapitalizing properties, rehabilitating aging/distressed properties, and repositioning properties to attract higher-quality tenants.

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy:

	Financial Assets
Fair value at January 1, 2014	$ 5,858
Purchases, issuances, and settlements	(855)
Actual return on plan assets	250
Fair value at December 31, 2014	5,253
Purchases, issuances, and settlements	(577)
Actual return on plan assets	262
Fair value at December 31, 2015	$ 4,938

Estimated future benefit payments are as follows:

Year ending December 31:	
2016	$ 15,238
2017	17,039
2018	18,800
2019	20,497
2020	22,152
2021 - 2025	133,643

The Corporation expects to make no contributions to its defined benefit pension plan in 2016.

Defined contribution and other pension plans
Eligible employees hired after December 31, 2004, and employees who were active at December 31, 2004, and elected at that time to participate in the defined-contribution plan and freeze their benefits in the defined benefit plan, participate in the defined contribution plan. The accrued liability for the defined contribution pension plan is $16,797 and $15,111 at December 31, 2015 and 2014, respectively, and is recorded as a current liability on the consolidated balance sheets. During 2015 and 2014, expense for this plan totaled $16,799 and $15,127, respectively, and is included in salaries and benefits expense.

Contributions to the tax-sheltered annuity and 401(k) plans are based on a percentage of eligible employee salaries, as defined. The contributions for the tax-sheltered annuity and 401(k) plans were $8,714 and $7,526 in 2015 and 2014, respectively, and were reported as salaries and benefits expense.

Note 12. Malpractice Insurance

The Corporation and its affiliates are subject to pending and threatened legal actions that arise in the normal course of their activities. Medical malpractice coverage is provided through a program of self-insurance and commercial insurance and considers limitations imposed by the Indiana Medical Malpractice Act, as amended (the Act). The Act limits the amount of individual claims to $1,250 (effective July 1, 1999), of which $1,000 would be paid by the State of Indiana Patient Compensation Fund and $250 by the Corporation or by its commercial insurer, The Medical Protective Company.

Malpractice claims for incidents that may give rise to litigation have been asserted against the Corporation by various claimants. The claims are in various stages of resolution, and some may ultimately be brought to trial. There are also reported incidents that have occurred through December 31, 2015, which may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients. The liability for medical malpractice includes amounts for claims and related legal expenses for these incurred but not reported incidents. This liability is actuarially determined by combining industry data and the Corporation's historical experience. Accrued malpractice losses and insurance recovery receivables have been discounted at 4% in 2015 and 2014 and, in management's opinion, provide adequate reserve for loss contingencies. The Corporation recorded receivable balances to reflect the expected recovery from commercial insurance coverage. The Corporation is reporting receivables of $580 and $722 in prepaid expenses and other current assets at December 31, 2015 and 2014, respectively, and $910 and $1,278 in other assets at December 31, 2015 and 2014, respectively. The Corporation has recorded malpractice liabilities of $2,013 and $2,055 in accounts payable and accrued expenses as of December 31, 2015 and 2014, respectively, and $5,904 and $6,480 at December 31, 2015 and 2014, respectively, in other liabilities in the consolidated balance sheets.

The Corporation established a revocable, restricted trust for claims not covered by commercial insurance for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreements, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The balance of the trust was $4,349 and $4,070 at December 31, 2015 and 2014, respectively. The trust is included in Investments – Funds held by trustees in the consolidated balance sheets.

(Dollars in Thousands)

Note 13. Commitments and Contingencies

Certain property and equipment are leased using noncancelable operating and capital lease arrangements. Rental expense associated with the operating leases was $19,938 and $20,099 in 2015 and 2014, respectively. The leases expire in various years through 2027. Future minimum lease payments required under noncancelable operating and capital leases for property and equipment as of December 31, 2015, are as follows:

	Operating Leases	Capital Leases
Year ending December 31:		
2016	$ 4,376	$ 3,883
2017	4,308	1,473
2018	3,597	239
2019	2,773	82
2020	2,136	25
Thereafter	9,599	-
Total minimum lease payments	$ 26,789	5,702
Less amount representing interest		(204)
Present value of net minimum lease payments		$ 5,498

Parkview Hospital, Inc. owns the Ortho Hospital building and leases the space to ORTHO under a non-cancelable operating lease that expires in 2017. ORTHO owns the Parkview Surgery One building and leases it to Parkview Ortho Center LLC under a non-cancelable operating lease that expires in 2025. PH has 60% ownership of ORTHO, which owns the Parkview Ortho Center LLC. Rental revenue and expense associated with these leases are eliminated in consolidation, and the related future minimum lease payments have been excluded from the above table.

Note 14. Functional Expenses

The Corporation, as an integrated health care delivery system, provides and manages the health care needs of its patients. Aggregate direct expenses for these services as a percentage of total expenses were approximately 91% for each of the years ended December 31, 2015 and 2014.

Note 15. Indiana Medicaid Disproportionate Share

Under Indiana law (IC 12-15-16 (1-3)), health care providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH providers) are eligible to receive Indiana Medicaid Disproportionate Share (State DSH) payments. The amount of these additional State DSH funds is dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. State DSH payments are paid according to the fiscal year of the state, which ends on June 30 of each year, and are based on the cost of uncompensated care provided by the DSH providers during their respective fiscal year ended during the state fiscal year.

In 2015, PH recognized $2,638 in income from Indiana Medicaid Disproportionate Share payments, $755 of which pertained to state fiscal year 2015. $1,479 of income pertained to state fiscal year 2014 and $404 pertained to state fiscal year 2012. The 2012 and 2014 amounts recognized represent changes in estimates in 2015.

Note 15. Indiana Medicaid Disproportionate Share (Continued)

In 2014, PH recognized $2,511 from Indiana Medicaid Disproportionate Share payments, which pertained to state fiscal year 2013. This amount represents a change in estimate recognized in 2014.

At December 31, 2015 and 2014, PH had no State DSH payments receivable recorded.

Note 16. Indiana Hospital Assessment Fee Program

In May 2012, the Indiana Hospital Assessment Fee program (HAF) was approved by the federal Centers for Medicare & Medicaid Services (CMS) through June 30, 2017. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the state's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the hospitals from the state and an assessment against the hospitals, which is paid to the state the same year.

Payments to PH recognized for the year ended December 31, 2015, totaled $45,658 and assessments against PH for the same period were $34,446.

Payments to PH recognized for the year ended December 31, 2014 totaled $53,242 and assessments against PH for the same period were $34,946. Payments to PH pertaining to the period from July 1, 2013 to December 31, 2013 totaling $31,405, and related assessments against PH of $20,098, were recorded and paid in the year ended December 31, 2014 because approval by CMS had not been obtained in 2013.

HAF payments to PH are included in net patient service care revenue in the consolidated statements of operations and changes in net assets. HAF Assessments against PH are included in other operating expense in the consolidated statements of operations and changes in net assets.

Note 17. New Markets Tax Credit

In December 2014, PH entered into a New Markets Tax Credit (NMTC) financing transaction to fund a portion of the cost of construction of a new medical complex in Warsaw, Indiana. The new complex will be reported as part of Parkview Whitley Hospital. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000, or the “Act,” and is intended to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their Federal income taxes for up to 39% of qualified investments in the equity of community development entities, or “CDE.” A CDE is a privately managed investment institution that is certified to make qualified low-income community investments, or “QLICI” loans. The NMTC structure includes PH, as a leveraged lender, and the tax credit investor of DV VNB Community Investment Fund, LLC, an entity formed for purposes of this transaction by Dudley Ventures (DV) and Valley National Bank (VNB). In December 2014, DV VNB Community Investment Fund, LLC, made a $3,120 capital contribution to DV-Parkview QEI, LLC, a qualified equity investment fund. At the same time, PH made a $6,894 leveraged loan to the same investment fund. In turn, DV-Parkview QIE, LLC made a $10,000 capital contribution to DVCI CDE XXI, LLC, recognized as a qualified community development entity (noted above), or sub-CDE in this structure. After deducting certain fees associated with the transaction, DVCI CDE XXI, LLC made two QLICI loans to Parkview Whitley Hospital for a combined $9,700. In this structure, Parkview Whitley Hospital is designated as a qualified active low-income community benefit entity, or QALICB. The notes on these loans bear interest of 1% and mature in 2044. Interest-only payments are made during the first seven years of the notes. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. PH is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, could require PH to indemnify the investors for any loss or recapture of NMTCs related to the financing until such time as PH’s obligation to deliver tax benefits is relieved. PH does not anticipate any credit recaptures in connection with this arrangement. This transaction includes a put/call provision that becomes effective at the end of the seven-year compliance/recapture period. Under the put/call provision, PH may be obligated or entitled to purchase the investor’s interest in DV-Parkview QEI, LLC. PH believes that the investors will exercise the put option in December 2021 at the end of the compliance/recapture period. The value attributed to the put/call provision is de minimis.

Note 18. Subsequent Events

PH has evaluated subsequent events for potential recognition and/or disclosure through March 24, 2016, the date the consolidated financial statements were issued.

Supplementary Information

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Balance Sheet
December 31, 2015
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Parkview Wabash Hospital Foundation	Eliminations	Consolidated
Assets																
Current assets:																
Cash and cash equivalents	$ (223)	$ 150,389	$ 3	$ 367	$ 2	$ 3	$ 957	$ -	$ (17)	$ 2,172	$ 95	$ 63	$ 204	$ 472	$ -	$ 154,487
Short-term investments	-	7,961	-	-	-	-	-	-	-	-	-	-	-	-	-	7,961
Patient accounts receivable, net	113,910	37,822	5,852	6,518	6,087	4,320	7,162	-	1,393	-	-	-	-	-	(7,964)	175,100
Inventories	14,750	4,318	209	214	254	264	380	-	-	-	-	-	-	-	-	20,389
Prepaid expenses and other current assets	(418,805)	475,684	1,391	(23,657)	3,287	(1,206)	(20,591)	20,770	3,074	1,251	(91)	48	77	(20)	(10,841)	30,371
Estimated third-party payor settlements	3,098	106	218	389	190	26	881	-	-	-	-	-	-	-	-	4,908
Total current assets	(287,270)	676,280	7,673	(16,169)	9,820	3,407	(11,211)	20,770	4,450	3,423	4	111	281	452	(18,805)	393,216
Investments:																
Board-designated investments	20,302	642,287	31,421	45,697	-	-	-	-	-	7,981	651	1,608	409	3,203	-	753,559
Funds held by trustees	-	25,446	-	-	-	-	-	-	-	-	-	-	-	-	-	25,446
Other investments	-	-	-	-	-	-	-	-	-	-	168	-	-	695	-	863
	20,302	667,733	31,421	45,697	-	-	-	-	-	7,981	819	1,608	409	3,898	-	779,868
Property and equipment:																
Cost	1,027,101	569,124	14,636	30,274	16,946	30,996	25,674	1,493	2,121	223	21	18	14	-	-	1,718,641
Less accumulated depreciation and amortization	428,397	236,430	11,318	9,032	12,107	14,062	6,109	998	1,268	201	19	14	11	-	-	719,966
	598,704	332,694	3,318	21,242	4,839	16,934	19,565	495	853	22	2	4	3	-	-	998,675
Other assets:																
Interest rate swaps	-	4,203	-	-	-	-	-	-	-	-	-	-	-	-	-	4,203
Deferred financing costs	-	1,994	-	-	-	111	-	-	-	-	-	-	-	-	-	2,105
Investments in joint ventures	992	1,191	-	-	-	-	-	-	-	-	-	-	-	-	-	2,183
Goodwill and intangible assets, net	22,491	73,378	-	-	841	5,011	-	-	-	-	-	-	-	-	-	101,721
Other assets	763	38,787	33	-	9	-	-	-	-	-	-	-	-	-	(18,875)	20,717
	24,246	119,553	33	-	850	5,122	-	-	-	-	-	-	-	-	(18,875)	130,929
Total assets	$ 355,982	$ 1,796,260	$ 42,445	$ 50,770	$ 15,509	$ 25,463	$ 8,354	$ 21,265	$ 5,303	$ 11,426	$ 825	$ 1,723	$ 693	$ 4,350	$ (37,680)	$ 2,302,688

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Balance Sheet (Continued)
December 31, 2015
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Parkview Wabash Hospital Foundation	Eliminations	Consolidated
Liabilities and Net Assets																
Current liabilities:																
Accounts payable and accrued expenses	$ 31,678	$ 34,836	$ 791	$ 4,367	$ 628	$ 630	$ 378	$ 11,097	$ 99	$ 1,460	$ -	$ -	$ -	$ (1)	$ (11,744)	$ 74,219
Salaries, wages, and related liabilities	12,708	78,447	713	762	749	490	361	130	257	-	-	-	-	-	-	94,617
Accrued interest	-	2,587	-	-	-	12	-	-	-	-	-	-	-	-	-	2,599
Estimated third-party payor settlements	3,955	57	152	-	-	588	-	-	-	-	-	-	-	-	-	4,752
Current portion of long-term debt	1,621	32,182	70	79	128	859	120	-	-	-	-	-	-	-	(7,061)	27,998
Total current liabilities	49,962	148,109	1,726	5,208	1,505	2,579	859	11,227	356	1,460	-	-	-	(1)	(18,805)	204,185
Noncurrent liabilities:																
Long-term debt, less current portion	1,493	562,390	36	9,751	167	18,799	123	-	-	-	-	-	-	-	-	592,759
Interest rate swaps	-	80,128	-	-	-	-	-	-	-	-	-	-	-	-	-	80,128
Accrued pension obligations	-	94,080	-	-	-	-	-	-	-	-	-	-	-	-	-	94,080
Other	190	16,066	34	1	4	6,596	-	3,888	-	7	-	-	-	-	(6,709)	20,077
	1,683	752,664	70	9,752	171	25,395	123	3,888	-	7	-	-	-		(6,709)	787,044
Net assets:																
Parkview Health System, Inc.	304,337	868,014	40,649	35,810	13,833	(2,617)	(55)	6,150	4,947	4,956	491	1,063	414	3,182	(12,166)	1,269,008
Noncontrolling interest in subsidiaries	-	27,473	-	-	-	-	427	-	-	-	-	-	-	-	-	27,900
Total unrestricted net assets	304,337	895,487	40,649	35,810	13,833	(2,617)	372	6,150	4,947	4,956	491	1,063	414	3,182	(12,166)	1,296,908
Temporarily restricted net assets	-	-	-	-	-	106	7,000	-	-	4,179	243	660	279	474		12,941
Permanently restricted net assets	-	-	-	-	-	-	-	-	-	824	91	-	-	695		1,610
	304,337	895,487	40,649	35,810	13,833	(2,511)	7,372	6,150	4,947	9,959	825	1,723	693	4,351	(12,166)	1,311,459
Total liabilities and net assets	$ 355,982	$ 1,796,260	$ 42,445	$ 50,770	$ 15,509	$ 25,463	$ 8,354	$ 21,265	$ 5,303	$ 11,426	$ 825	$ 1,723	$ 693	$ 4,350	$ (37,680)	$ 2,302,688

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Balance Sheet
December 31, 2014
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Assets															
Current assets:															
Cash and cash equivalents	$ (290)	$ 55,161	$ 3	$ 9,501	$ 2	$ 2	$ -	$ -	$ (1)	$ 240	$ 35	$ 56	$ 153	$ -	$ 64,862
Short-term investments	-	40,216	-	-	-	-	-	-	-	-	-	-	-	-	40,216
Patient accounts receivable, net	105,679	37,162	6,418	6,755	6,772	4,408	-	-	1,296	-	-	-	-	-	168,490
Inventories	12,371	3,424	183	196	225	240	-	-	-	-	-	-	-	-	16,639
Prepaid expenses and other current assets	(395,505)	425,477	(537)	(20,333)	4,313	(1,564)	-	12,551	3,171	1,430	27	19	(16)	(5,839)	23,194
Estimated third-party payor settlements	4,343	84	187	77	120	-	-	-	-	-	-	-	-	-	4,811
Total current assets	(273,402)	561,524	6,254	(3,804)	11,432	3,086	-	12,551	4,466	1,670	62	75	137	(5,839)	318,212
Investments:															
Board-designated investments	21,065	589,940	32,579	47,414	-	-	-	-	-	13,759	744	1,779	430	-	707,710
Funds held by trustees	-	25,041	-	-	-	-	-	-	-	-	-	-	-	-	25,041
Other investments	-	-	-	-	-	-	-	-	-	-	172	-	-	-	172
	21,065	614,981	32,579	47,414	-	-	-	-	-	13,759	916	1,779	430	-	732,923
Property and equipment:															
Cost	1,001,446	540,956	14,142	12,804	15,682	30,386	21,600	1,422	1,887	222	20	18	14	-	1,640,599
Less accumulated depreciation and amortization	385,498	214,711	10,500	8,142	11,351	12,566	-	804	1,138	195	15	11	9	-	644,940
	615,948	326,245	3,642	4,662	4,331	17,820	21,600	618	749	27	5	7	5	-	995,659
Other assets:															
Interest rate swaps	-	3,564	-	-	-	-	-	-	-	-	-	-	-	-	3,564
Deferred financing costs	-	2,240	-	-	-	108	-	-	-	-	-	-	-	-	2,348
Investments in joint ventures	1,072	2,340	-	-	-	-	-	-	-	-	-	-	-	-	3,412
Goodwill and intangible assets, net	1,543	74,516	-	-	841	5,011	-	-	-	-	-	-	-	-	81,911
Other assets	1,332	42,349	47	7	11	1	-	-	-	-	-	-	-	(18,987)	24,760
	3,947	125,009	47	7	852	5,120	-	-	-	-	-	-	-	(18,987)	115,995
Total assets	$ 367,558	$ 1,627,759	$ 42,522	$ 48,279	$ 16,615	$ 26,026	$ 21,600	$ 13,169	$ 5,215	$ 15,456	$ 983	$ 1,861	$ 572	$ (24,826)	$ 2,162,789

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Balance Sheet (Continued)
December 31, 2014
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Liabilities and Net Assets															
Current liabilities:															
Accounts payable and accrued expenses	$ 26,034	$ 22,454	$ 767	$ 635	$ 626	$ 484	$ -	$ 5,015	$ 175	$ 7	$ -	$ -	$ -	$ (1,725)	$ 54,472
Salaries, wages, and related liabilities	11,656	62,323	690	1,040	732	487	-	136	227	-	-	-	-	-	77,291
Accrued interest	-	2,640	-	-	-	13	-	-	-	-	-	-	-	-	2,653
Estimated third-party payor settlements	17,497	473	266	118	998	485	-	-	-	-	-	-	-	-	19,837
Current portion of long-term debt	1,717	31,154	69	74	125	826	-	-	-	-	-	-	-	(4,114)	29,851
Total current liabilities	56,904	119,044	1,792	1,867	2,481	2,295	-	5,151	402	7	-	-	-	(5,839)	184,104
Noncurrent liabilities:															
Long-term debt, less current portion	2,678	591,164	106	9,817	296	19,646	-	-	-	-	-	-	-	-	623,707
Interest rate swaps	-	79,288	-	-	-	-	-	-	-	-	-	-	-	-	79,288
Accrued pension obligations	-	81,670	-	-	-	-	-	-	-	-	-	-	-	-	81,670
Other	302	18,928	45	52	5	6,596	-	174	-	8	-	-	-	(6,821)	19,289
	2,980	771,050	151	9,869	301	26,242	-	174	-	8	-	-	-	(6,821)	803,954
Net assets:															
Parkview Health System, Inc.	307,674	712,435	40,579	36,543	13,833	(2,604)	-	7,844	4,813	6,374	564	1,156	276	(12,166)	1,117,321
Noncontrolling interest in subsidiaries	-	25,230	-	-	-	-	-	-	-	-	-	-	-	-	25,230
Total unrestricted net assets	307,674	737,665	40,579	36,543	13,833	(2,604)	-	7,844	4,813	6,374	564	1,156	276	(12,166)	1,142,551
Temporarily restricted net assets	-	-	-	-	-	93	21,600	-	-	8,248	328	705	296	-	31,270
Permanently restricted net assets	-	-	-	-	-	-	-	-	-	819	91	-	-	-	910
	307,674	737,665	40,579	36,543	13,833	(2,511)	21,600	7,844	4,813	15,441	983	1,861	572	(12,166)	1,174,731
Total liabilities and net assets	$ 367,558	$ 1,627,759	$ 42,522	$ 48,279	$ 16,615	$ 26,026	$ 21,600	$ 13,169	$ 5,215	$ 15,456	$ 983	$ 1,861	$ 572	$ (24,826)	$ 2,162,789

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2015
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Parkview Wabash Hospital Foundation	Eliminations	Consolidated
Revenues:																
Net patient care service revenue	$ 937,183	$ 340,669	$ 61,316	$ 57,132	$ 64,413	$ 35,223	$ 37,261	$ -	$ 7,784	$ -	$ -	$ -	$ -	$ -	$ (86,482)	$ 1,454,499
Provision for bad debts	(72,980)	(13,456)	(7,340)	(6,164)	(9,051)	(4,435)	(3,546)	-	8	-	-	-	-	-	-	(116,964)
Net patient care service revenue less provision for bad debts	864,203	327,213	53,976	50,968	55,362	30,788	33,715	-	7,792	-	-	-	-		(86,482)	1,337,535
Other revenue	27,226	35,038	1,491	1,203	909	803	608	61,941	2,710	1,964	326	504	347	354	(31,591)	103,833
	891,429	362,251	55,467	52,171	56,271	31,591	34,323	61,941	10,502	1,964	326	504	347	354	(118,073)	1,441,368
Expenses:																
Salaries and benefits	272,858	379,499	17,313	16,997	18,193	12,291	12,467	3,131	6,819	741	94	107	112	130	(63,551)	677,201
Supplies	133,357	47,799	4,820	4,461	4,127	2,333	5,107	41	737	46	1	-	-	9	(1,230)	201,608
Purchased services	45,483	50,857	3,555	4,063	4,927	4,346	4,120	59,724	1,748	262	6	-	-	3	(36,249)	142,845
Utilities, repairs, and maintenance	21,635	25,812	1,929	1,313	1,542	1,204	1,305	79	121	12	-	-	-	2	(340)	54,614
Depreciation and amortization	45,139	35,760	819	1,029	845	1,497	5,030	136	109	6	3	3	3	-	-	90,379
Hospital assessment fee	29,456	936	1,039	926	1,171	643	275	-	-	-	-	-	-	-	-	34,446
Other	198,731	(179,021)	12,264	15,783	13,077	7,438	7,153	524	966	2,015	280	431	92	109	(16,703)	63,139
	746,659	361,642	41,739	44,572	43,882	29,752	35,457	63,635	10,500	3,082	384	541	207	253	(118,073)	1,264,232
Operating income (loss)	144,770	609	13,728	7,599	12,389	1,839	(1,134)	(1,694)	2	(1,118)	(58)	(37)	140	101	-	177,136
Nonoperating income (expense):																
Interest, dividends, and realized gains (losses) on sales of investments, net	406	10,980	588	859	(1)	(1)	(1)	-	-	-	-	-	-	-	-	12,830
Unrealized (losses) on investments, net	(1,145)	(26,997)	(1,748)	(2,578)	-	-	(34)	-	-	-	-	-	-	-	-	(32,502)
Interest expense	23	(17,300)	2	(93)	(12)	(135)	(10)	-	-	-	-	-	-	-	-	(17,525)
Unrealized losses on interest rate swaps, net	-	(224)	-	-	-	-	-	-	-	-	-	-	-	-	-	(224)
Contribution of unrestricted net assets of Wabash County Hospital	-	-	-	-	-	-	37,444	-	-	-	-	-	-	-	-	37,444
Other	(55)	959	-	(54)	1	-	(2)	-	-	-	-	-	-	-	-	849
Excess (deficit) of revenues over expenses	$ 143,999	$ (31,973)	$ 12,570	$ 5,733	$ 12,377	$ 1,703	$ 36,263	$ (1,694)	$ 2	$ (1,118)	$ (58)	$ (37)	$ 140	$ 101	$ -	$ 178,008
Excess (deficit) of revenues over expenses attributable to:																
Noncontrolling interest in subsidiaries	$ -	$ 29,342	$ -	$ -	$ -	$ -	$ 70	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 29,412
Parkview Health System, Inc. and subsidiaries	143,999	(61,315)	12,570	5,733	12,377	1,703	36,193	(1,694)	2	(1,118)	(58)	(37)	140	101	-	148,596
Other changes in net assets attributable to:																
Noncontrolling interest in subsidiaries	-	(27,098)	-	-	-	-	356	-	-	-	-	-	-	-	-	(26,742)
Parkview Health System, Inc. and subsidiaries	(147,336)	216,893	(12,500)	(6,466)	(12,377)	(1,703)	(50,847)	-	132	(4,364)	(100)	(101)	(19)	4,250	-	(14,538)
(Decrease) increase in net assets	(3,337)	157,822	70	(733)	-	-	(14,228)	(1,694)	134	(5,482)	(158)	(138)	121	4,351	-	136,728
Net assets (deficit):																
Beginning of year	307,674	737,665	40,579	24,377	13,833	(2,511)	21,600	7,844	4,813	15,441	983	1,861	572	-	-	1,174,731
End of year	$ 304,337	$ 895,487	$ 40,649	$ 23,644	$ 13,833	$ (2,511)	$ 7,372	$ 6,150	$ 4,947	$ 9,959	$ 825	$ 1,723	$ 693	$ 4,351	$ -	$ 1,311,459

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2014
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Revenues:															
Net patient care service revenue	$ 900,112	$ 317,085	$ 61,418	$ 56,582	$ 62,216	$ 34,725	$ -	$ -	$ 8,932	$ -	$ -	$ -	$ -	$ (53,322)	$ 1,387,748
Provision for bad debts	(79,062)	(14,522)	(7,229)	(6,203)	(9,128)	(3,699)	-	-	(47)	-	-	-	-	-	(119,890)
Net patient care service revenue less provision for bad debts	821,050	302,563	54,189	50,379	53,088	31,026	-	-	8,885	-	-	-	-	(53,322)	1,267,858
Other revenue	26,627	31,690	2,985	2,554	1,408	742	-	38,760	2,184	2,076	267	331	225	(31,765)	78,084
	847,677	334,253	57,174	52,933	54,496	31,768	-	38,760	11,069	2,076	267	331	225	(85,087)	1,345,942
Expenses:															
Salaries and benefits	255,976	297,817	16,852	19,271	17,322	11,341	-	3,298	6,098	549	79	100	88	(46,358)	582,433
Supplies	115,579	40,820	4,544	4,104	3,503	2,347	-	44	681	47	1	1	-	-	171,671
Purchased services	53,319	49,621	3,979	4,721	4,203	3,801	-	31,565	2,191	283	-	1	-	(25,453)	128,231
Utilities, repairs, and maintenance	21,048	22,814	1,558	1,634	1,545	1,245	-	59	152	6	1	1	1	(341)	49,723
Depreciation and amortization	46,012	33,086	935	1,150	846	1,490	-	109	83	7	3	3	3	-	83,727
Hospital assessment fee	44,791	1,240	2,264	2,091	2,978	1,680	-	-	-	-	-	-	-	-	55,044
Other	171,975	(149,831)	12,162	14,769	13,934	7,103	-	549	865	1,706	194	129	188	(12,935)	60,808
	708,700	295,567	42,294	47,740	44,331	29,007	-	35,624	10,070	2,598	278	235	280	(85,087)	1,131,637
Operating income (loss)	138,977	38,686	14,880	5,193	10,165	2,761	-	3,136	999	(522)	(11)	96	(55)	-	214,305
Nonoperating income (expense):															
Interest, dividends, and realized gains (losses) on sales of investments, net	1,133	27,267	1,675	2,409	4	(2)	-	-	-	-	-	-	-	-	32,486
Unrealized (losses) on investments, net	(481)	(11,602)	(733)	(1,082)	-	-	-	-	-	-	-	-	-	-	(13,898)
Interest expense	(255)	(18,668)	(10)	(11)	(10)	(166)	-	-	-	(1)	-	-	-	-	(19,121)
Unrealized (losses) on interest rate swaps, net	-	(29,943)	-	-	-	-	-	-	-	-	-	-	-	-	(29,943)
Other	(988)	(10,287)	-	1,902	(10)	-	-	-	-	-	-	-	-	-	(9,383)
Excess (deficit) of revenues over expenses	$ 138,386	$ (4,547)	$ 15,812	$ 8,411	$ 10,149	$ 2,593	$ -	$ 3,136	$ 999	$ (523)	$ (11)	$ 96	$ (55)	$ -	$ 174,446
Excess (deficit) of revenues over expenses attributable to:															
Noncontrolling interest in subsidiaries	$ -	$ 32,050	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 32,050
Parkview Health System, Inc. and subsidiaries	138,386	(36,597)	15,812	8,411	10,149	2,593	-	3,136	999	(523)	(11)	96	(55)	-	142,396
Other changes in net assets attributable to:															
Noncontrolling interest in subsidiaries	-	(26,728)	-	-	-	-	-	-	-	-	-	-	-	-	(26,728)
Parkview Health System, Inc. and subsidiaries	(140,760)	81,791	(15,723)	(7,858)	(10,152)	(2,593)	21,600	-	-	530	(16)	24	4	-	(73,153)
(Decrease) increase in net assets	(2,374)	50,516	89	553	(3)	-	21,600	3,136	999	7	(27)	120	(51)	-	74,565
Net assets (deficit):															
Beginning of year	310,048	687,149	40,490	23,824	13,836	(2,511)	-	4,708	3,814	15,434	1,010	1,741	623	-	1,100,166
End of year	$ 307,674	$ 737,665	$ 40,579	$ 24,377	$ 13,833	$ (2,511)	$ 21,600	$ 7,844	$ 4,813	$ 15,441	$ 983	$ 1,861	$ 572	$ -	$ 1,174,731