

Southern Indiana Rehabilitation Hospital

Financial Statements

Years Ended December 31, 2015 and 2014

With Independent Auditor's Report

Southern Indiana Rehabilitation Hospital

Financial Statements

Years Ended December 31, 2015 and 2014

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Independent Auditor's Report

Board of Directors
Southern Indiana Rehabilitation Hospital
New Albany, Indiana

We have audited the accompanying financial statements of Southern Indiana Rehabilitation Hospital (Hospital), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the 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.

Board of Directors
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Opinion

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

BKD, LLP

Louisville, Kentucky
June 28, 2016

Southern Indiana Rehabilitation Hospital

Balance Sheets

	December 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,854,347	\$ 2,952,339
Patient accounts receivable, less allowance for doubtful accounts of \$371,739 in 2015 and \$363,904 in 2014	3,195,397	3,058,762
Estimated receivable from third party payors	100,991	29,222
Prepaid expenses and other current assets	53,618	27,213
Total current assets	6,204,353	6,067,536
Property and equipment, net	3,809,172	4,097,700
Deferred financing costs	-	27,513
Total assets	\$ 10,013,525	\$ 10,192,749
Liabilities and Net Assets		
Current liabilities:		
Accounts payable:		
Trade	\$ 465,575	\$ 324,098
Advances from Affiliates	479,691	491,945
Accrued expenses	1,588,072	1,232,144
Current portion of long-term debt	-	750,000
Other current liabilities	67,420	-
Total current liabilities	2,600,758	2,798,187
Liability for defined benefit pension plan	2,356,128	2,509,595
Interest rate swap liability	-	13,828
Net assets:		
Unrestricted	5,056,639	4,871,139
Total liabilities and net assets	\$ 10,013,525	\$ 10,192,749

See accompanying notes to financial statements.

Southern Indiana Rehabilitation Hospital

Statements of Operations and Changes in Net Assets

	Year Ended December 31,	
	2015	2014
Revenue:		
Net patient service revenue	\$ 18,771,892	\$16,828,926
Other revenue	124,124	142,991
Total revenue	18,896,016	16,971,917
Expenses:		
Personnel	11,587,348	11,098,443
Purchased services	3,026,725	3,021,626
Interest	10,596	57,240
Depreciation and amortization	710,701	745,584
Supplies	1,044,947	1,041,117
Professional fees	306,148	290,445
Provision for doubtful accounts	868,124	150,274
Other	1,308,971	1,285,080
Total operating expenses	18,863,560	17,689,809
Operating income (loss)	32,456	(717,892)
Interest income	1,873	1,083
Change in fair value of interest rate swap agreement	2,378	29,730
Loss on bond defeasance	(23,844)	-
Excess (Deficiency) of revenue over expenses	12,863	(687,079)
Contributions for acquisitions of property and equipment	-	83,910
Change in pension net loss and prior service cost	172,637	(2,056,856)
Increase (decrease) in unrestricted net assets	185,500	(2,660,025)
Unrestricted net assets at beginning of year	4,871,139	7,531,164
Unrestricted net assets at end of year	\$ 5,056,639	\$ 4,871,139

See accompanying notes to financial statements.

Southern Indiana Rehabilitation Hospital

Statements of Cash Flows

	Year Ended December 31	
	2015	2014
Operating activities		
Increase (decrease) in net assets	\$ 185,500	\$ (2,660,025)
Adjustments to reconcile increase (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	710,701	745,584
Provision for doubtful accounts	868,124	150,274
Change in fair value of interest rate swap agreement	(2,378)	(29,730)
Change in pension net loss and prior service cost	(172,637)	2,056,856
Loss on bond defeasance	23,844	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,004,759)	(143,951)
Estimated amounts due to/from third parties	(71,769)	(307,856)
Prepaid expenses and other current assets	(26,405)	126,945
Accounts payable-trade	141,477	95,603
Advances to/from KentuckyOne	(12,254)	77,084
Accrued expenses	355,928	113,374
Other current liabilities	67,420	-
Liability for defined benefit pension plan	19,170	(138,809)
Net cash provided by operating activities	1,081,962	85,349
Investing activities		
Purchases of property and equipment	(418,504)	(144,129)
Net cash used in investing activities	(418,504)	(144,129)
Financing activities		
Principal payments on long-term debt	(750,000)	(600,000)
Interest rate swap termination payment	(11,450)	-
Net cash used in financing activities	(761,450)	(600,000)
Decrease in cash and cash equivalents	(97,992)	(658,780)
Cash and cash equivalents at beginning of year	2,952,339	3,611,119
Cash and cash equivalents at end of year	\$ 2,854,347	\$ 2,952,339
Additional cash flow information:		
Cash paid during the period for interest	\$ 10,596	\$ 57,240

See accompanying notes to financial statements.

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements

December 31, 2015 and 2014

1. Organization and Accounting Policies

Organization

Southern Indiana Rehabilitation Hospital (the Hospital) is a not-for-profit unincorporated association located in Floyd County, Indiana. The Hospital was formed to provide inpatient long-term care and rehabilitation services for patients suffering brain and spinal cord injuries, strokes, amputations, burns, pulmonary conditions and other disorders. The Hospital also provides acute and chronic outpatient services. Effective March 1, 2002, the Hospital converted from an acute long-term care facility to an acute rehabilitation facility. Effective July 16, 2007, The Hospital converted 22 acute beds to form a skilled nursing unit.

The Hospital was a joint venture owned equally by Clark Memorial Hospital (Clark), Floyd Memorial Hospital and Health Services (Floyd) and Jewish Hospital and St. Mary's Healthcare, a partner in KentuckyOne Health (collectively, the Affiliates). In July of 2015, Clark Memorial was sold by the Clark County government. The value of Clark Memorial's ownership interest in the Hospital was not included in the sale price, therefore, the ownership interest remains with the Clark County government entity.

Following are the Hospital's significant accounting policies:

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015, the Hospital's cash exceeded federally insured limits by approximately \$2,612,000.

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

1. Organization and Accounting Policies (continued)

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debt based on individual credit evaluation and specific circumstances of the account.

Property and Equipment

Property and equipment are recorded at cost if purchased, or at fair value if donated. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

Long-lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. There were no impairments recognized during the years ended December 31, 2015 and 2014.

Deferred Financing Costs

Deferred financing costs are being amortized on the straight-line basis over the term of the related debt.

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

1. Organization and Accounting Policies (continued)

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive revenue adjustments due to future audits by third-party payors. 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 no longer subject to such audits by third-party payors. Changes to prior year estimates had the effect of increasing net patient service revenue by approximately \$52,900 and \$72,400 for the years ended December 31, 2015 and 2014.

Charity and Uncompensated Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge. The Hospital's charity policy allows for flexibility in identifying patients that need assistance but have not cooperated with ability-to-pay verification requirements. The Hospital applies certain demographic and credit criteria that is modeled after criteria used in the healthcare industry. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, revenue is not recorded for such services. The Hospital's policy is to estimate the charity care cost by using cost accounting software. The Hospital's charity care at cost for the years ended December 31, 2015 and 2014 is \$78,400 and \$33,900, respectively.

Functional Expenses

The Hospital's general and administrative costs represented approximately 14% of total operating expenses for the years ended December 31, 2015 and 2014.

Excess of Revenue Over Expenses

The statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include changes in pension net loss and prior service costs, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

1. Organization and Accounting Policies (continued)

Income Taxes

The Hospital is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code. However, some of its income may be subject to taxation as unrelated business income. The Hospital files tax returns in the U.S. federal jurisdictions. With a few exceptions, the Hospital is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

Uncertain Tax Positions

Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Hospital does not have any uncertain tax positions recognized for 2015 or 2014.

2. Net Patient Service Revenue

Net patient service revenue for the years ended December 31, 2015 and 2014 is comprised of:

	<u>2015</u>	<u>2014</u>
Charges at established rates	\$ 58,361,783	\$ 57,750,475
Deductions for charity	279,506	120,832
	<u>58,082,277</u>	<u>57,629,643</u>
Medicare contractual adjustments	26,979,373	27,194,205
Medicaid contractual adjustments	4,082,011	3,874,236
Other contractual adjustments	8,249,001	9,732,276
	<u>39,310,385</u>	<u>40,800,717</u>
Net patient service revenue	<u>\$ 18,771,892</u>	<u>\$ 16,828,926</u>

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

2. Net Patient Service Revenue (continued)

Reimbursement from the Medicare and Medicaid programs are subject to annual cost reports, which are subject to audit by the programs. The Hospital's management believes that amounts recorded in the financial statements for estimated settlements will approximate the final settlements for open cost reports. The Hospital's cost reports have been audited and settled through December 31, 2013.

In the health care industry, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Hospital believes that it is in substantial compliance with all applicable laws and regulations. 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 estimates will change by a material amount in the near term.

The Hospital has agreements with Medicare, Medicaid and other third-party payors that provide for payments at amounts different from their established rates. A summary of the payment arrangements with major third-party payors is described in the following paragraphs.

Medicare

Effective March 1, 2002, the Medicare program began reimbursing inpatient rehabilitation services on a prospective payment system based on principal diagnosis. Outpatient rehabilitation services are reimbursed based on a predetermined rate. Skilled nursing facility (SNF) services are reimbursed on a prospective payment system where rates are adjusted for case mix and geographical location.

Medicare revenue was approximately 66% of net patient service revenue for the years ended December 31, 2015 and 2014.

Medicaid

The Medicaid program reimburses the Hospital and SNF on a predetermined rate per patient day for inpatient and outpatient services. Medicaid revenue was approximately 9% and 7% of charges at established rates for the years ended December 31, 2015 and 2014, respectively.

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

2. Net Patient Service Revenue (continued)

Other

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

3. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 576,544	\$ 553,046
Buildings and improvements	15,369,486	15,195,314
Equipment	5,380,516	5,159,681
	<u>21,326,546</u>	20,908,041
Less accumulated depreciation	17,517,374	16,810,341
Property and equipment, net	<u>\$ 3,809,172</u>	<u>\$ 4,097,700</u>

4. Financing Arrangements

On April 26, 2001, the Indiana Health Facility Financing Authority issued \$10,550,000 of Adjustable Rate Health Care Facilities Revenue Bonds, Series 2001 (the Bonds) on behalf of the Hospital. The proceeds of the Bonds were used to repay outstanding debt due to Affiliates, pay a portion of the costs related to the issuance of the Bonds, and finance a portion of the costs of various capital improvements to the Hospital's facility.

The Bonds, which were stated to mature on April 1, 2016, bore interest at an adjustable rate (.46% at December 31, 2014) that was set weekly based upon current market conditions. The variable rate Bonds could have been converted to a fixed rate at any time at the option of the Hospital.

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

4. Financing Arrangements (continued)

While the Bonds were at a variable rate, redemption could have occurred prior to maturity, at the option of the Hospital, at a redemption price of 100% of the principal amount, plus accrued interest. Likewise, the bondholders could have tendered the Bonds at a price of 100% of the principal amount, plus accrued interest. If the Bonds would have been converted to a fixed rate, redemption could have occurred thereafter, at the option of the Hospital, at par plus a call premium of 2% that reduces to par depending on the length of time between the date of conversion from a variable rate to a fixed rate and the maturity date of the Bonds.

The Hospital had entered into a remarketing agreement with an agent to resell the Bonds should a bondholder exercise their option to sell. The Bonds were secured through a direct-pay letter of credit and reimbursement agreement (Agreement) provided by a bank that was originally set to expire on April 15, 2016 with repayment terms in 12 equal quarterly installments commencing on the 367th calendar day after such unsuccessful remarketing of the Bonds.

In March 2015, the bank terminated the direct-pay letter of credit due to the Hospital's noncompliance with certain financial covenants. The Hospital paid the remaining balance outstanding of \$750,000 in March 2015, thus the Hospital has classified the bonds as current at December 31, 2014.

The Bonds were subject to redemption in semi-annual amounts. The agreement with the Bond Trustee is that the Hospital was to make semi-annual payments to the nearest \$100,000 redemption denomination in accordance with the maturity schedule. The Hospital has made all of the semi-annual payments in accordance with the agreement for the years 2002 through 2015.

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

4. Financing Arrangements (continued)

Subsequent to the issuance of the 2001 Bonds, the Hospital entered into an interest rate swap agreement for interest rate management purposes. Under the terms of the agreement, the Hospital paid a fixed rate of 4.59% and received a floating rate on the basis of the London Interbank Offered Rate (LIBOR BBA) on a notional amount of 67% of the par value of the Bonds (\$0 and \$502,500 at December 31, 2015 and 2014). The interest rate swap agreement was set to expire on April 1, 2016. However, in April 2015, the interest rate swap agreement was terminated in connection with the termination of the direct-pay letter of credit. The interest rate swap was originally designated by the Hospital as a cash flow hedge of variable-rate debt with no hedge ineffectiveness; therefore, changes in the fair value of the interest rate swap agreement were recorded as a change in unrestricted net assets. However, on January 8, 2007, the Hospital voluntarily discontinued hedge accounting related to the interest rate swap agreement. Any changes in the fair value of the interest rate swap agreement that occurred after March 31, 2007, were recorded as income or expense in the statement of operations. The interest differential to be paid or received under the interest rate swap agreement was accrued and recognized as an adjustment to interest expense.

The Hospital has recognized a liability of approximately \$0 and \$14,000 for the years ended December 31, 2015 and 2014 respectively, which represents the fair value of the interest rate swap agreement.

5. Related Party Transactions

The Hospital has a management agreement with KentuckyOne Healthcare. Under the agreement, KentuckyOne provides certain management services to the Hospital, which primarily includes administrative services including KentuckyOne providing a full-time chief executive officer. KentuckyOne provides the services at cost, as defined in the management agreement.

Clark and Floyd have also agreed to provide certain ancillary services to the Hospital at cost, as defined.

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

5. Related Party Transactions (continued)

Transactions with related parties for the years ended December 31, 2015 and 2014, are summarized below:

	2015	2014
Personnel costs and management fees charged by KentuckyOne	\$ 1,220,004	\$ 1,220,004
Ancillary services provided by:		
Clark	655,965	815,382
Floyd	551,763	480,053

Personnel and ancillary services provided by the Affiliates for the years ended December 31, 2015 and 2014 are included in purchased services in the statements of operations and changes in net assets.

The balance sheets as of December 31, 2015 and 2014 carried the following ancillary services payable to Clark and Floyd, and personnel costs and management fees payable to KentuckyOne:

	2015	2014
Payables to:		
Clark	\$ 0	\$ 154,531
Floyd	245,732	72,657
KentuckyOne	479,691	491,945

6. Concentration of Credit Risk

The Hospital grants credit to, without requiring collateral from, its patients. The mix of receivables from patients and third-party payors at December 31, 2015 and 2014 follows:

	2015	2014
Medicare	41%	57%
Medicaid	21	14
Blue Cross	9	6
Other payors	29	23
Total	100%	100%

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

7. Insurance

Because of the nature of its operations, the Hospital is at all times subject to pending and threatened legal actions, which arise in the normal course of its activities. Effective January 1, 2004, the Hospital changed its insurance coverage from an occurrence basis to a claims-made basis. Because the claims-made policy only covers claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by insurance. Management intends to maintain the current claims-made excess insurance coverage to cover any unknown incidents that may be asserted.

8. Retirement Plans

The Hospital provides a defined benefit pension plan covering substantially all of the Hospital's employees. The funding policy of the defined benefit plan is consistent with the funding requirements of federal law and regulations. The plan's measurement dates and fiscal year end dates are December 31, for both years presented. Effective December 31, 2014, the Hospital amended the plan documents to freeze plan participation and to not accrue additional benefits in the future. Components of net periodic pension benefit cost for the years ended December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Service cost	\$ -	\$ 476,331
Interest cost	440,051	470,361
Expected return on plan assets	(663,906)	(685,500)
Recognized actuarial loss	163,025	-
Administrative expense load	80,000	
Net periodic pension cost	<u>\$ 19,170</u>	<u>\$ 261,192</u>

The net gain/(loss) recognized in unrestricted net assets for the years ended December 31, 2015 and 2014 was \$172,637 and (\$2,056,856), respectively. Included in unrestricted net assets at December 31, 2015 and 2014, respectively, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of \$2,415,028 and \$2,587,665. The actuarial loss expected to be recognized during the year ended December 31, 2016, is \$155,346.

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

8. Retirement Plans (continued)

The change in benefit obligation and the fair value of plan assets, and the funded status of the plan assets for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Benefit obligation, beginning of year	\$ 11,166,642	\$ 8,725,292
Service cost	-	476,331
Interest cost	440,051	470,361
Actuarial (gain)/ loss	(695,424)	3,199,423
Curtailement	-	(1,595,594)
Benefits paid	(136,256)	(109,171)
Benefit obligation, end of year	10,775,013	11,166,642
Fair value of plan assets, beginning of year	8,657,047	8,133,744
Actual return on plan assets	(53,011)	232,474
Employer contributions	-	400,000
Benefits paid	(136,256)	(109,171)
Expenses paid	(48,895)	-
Fair value of plan assets, end of year	8,418,885	8,657,047
Funded status/net recorded liability	\$ (2,356,128)	\$ (2,509,595)

The above net recorded liability is included in the Hospital's financial statements as a noncurrent liability.

The accumulated benefit obligation for the plan was approximately \$10,775,000 and \$11,167,000 at December 31, 2015 and 2014, respectively.

The weighted-average assumptions used to determine net periodic pension costs for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Discount rate	4.00%	5.10%
Expected return on plan assets	7.75%	8.50%
Rate of compensation increase	N/A	3.00%

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

8. Retirement Plans (continued)

The weighted-average assumptions used to determine benefit obligations at December 31, are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	4.34%	4.00%
Expected return on plan assets	7.75%	8.50%
Rate of compensation increase	N/A	3.00%

The plan assets are invested in securities managed by Principal Financial Group (Principal) which are allocated across equity and debt markets, both domestic and international.

The investment objective of the securities managed by Principal is the preservation of principal, investment growth of assets consistent with reasonable actuarial assumptions, competitive returns and the minimization of unnecessary risk.

Strategies are followed which increase or decrease investments in the equity and debt markets based upon the value of the stock and bond markets and the relative value of a wide variety of securities within these markets. Consideration is given to several variables, including productivity, inflation, global competitiveness, and risk.

Following is a description of the valuation methodologies and inputs used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include money market funds and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. There are no Level 3 plan assets.

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

8. Retirement Plans (continued)

The fair values of Hospital's pension plan assets at December 31, by asset category are as follows:

Asset Category	Total Fair Value	2015 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds				
Small/Mid U.S equities	\$ 520,249	\$ -	\$ 520,249	\$ -
Large U.S. equities	2,154,059	-	2,154,059	-
International equities	793,401	-	793,401	-
Fixed income	3,927,473	-	3,927,473	-
Balanced/Asset Allocation	380,121	-	380,121	-
Other	643,582	-	643,582	-
	<u>\$ 8,418,885</u>	<u>\$ -</u>	<u>\$ 8,418,885</u>	<u>\$ -</u>

Asset Category	Total Fair Value	2014 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds				
Small/Mid U.S equities	\$ 532,714	\$ -	\$ 532,714	\$ -
Large U.S. equities	2,103,233	-	2,103,233	-
International equities	851,033	-	851,033	-
Fixed income	4,086,686	-	4,086,686	-
Balanced/Asset Allocation	434,603	-	434,603	-
Other	648,778	-	648,778	-
	<u>\$ 8,657,047</u>	<u>\$ -</u>	<u>\$ 8,657,047</u>	<u>\$ -</u>

Southern Indiana Rehabilitation Hospital

Notes to Financial Statements (continued)

December 31, 2015 and 2014

8. Retirement Plans (continued)

The Hospital expects to contribute approximately \$0 to the defined benefit pension plan in 2016.

Benefits expected to be paid to the Plan's beneficiaries are as follows:

2016	\$ 190,219
2017	\$ 211,323
2018	\$ 255,379
2019	\$ 283,047
2020	\$ 307,723
2021 through 2025	\$ 1,883,125

The Hospital has a defined contribution pension plan covering substantially all employees. The board of directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was approximately \$331,000 and \$0 for 2015 and 2014, respectively.

10. Commitments and Contingencies

Future minimum annual rental payments under noncancelable operating lease and service agreements, which expire on various dates through 2020, as of December 31, 2015 are as follows:

2016	\$ 212,317
2017	204,827
2018	191,944
2019	168,988
2020	7,650
	<u>\$ 785,726</u>

12. Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report which is the date the financial statement were available to be issued.