



**UNION HOSPITAL INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**FOR THE PERIODS SEPTEMBER 1, 2014 TO DECEMBER 31, 2014 AND  
SEPTEMBER 1, 2013 TO DECEMBER 31, 2013 (UNAUDITED)**



# UNION HOSPITAL INC. AND SUBSIDIARIES

## TABLE OF CONTENTS DECEMBER 31, 2014 AND 2013

---

	Page
<b>Report of Independent Auditors</b> .....	1
<b>Financial Statements</b>	
Consolidated Balance Sheets .....	4
Consolidated Statements of Operations and Changes in Net Assets .....	6
Consolidated Statements of Cash Flows .....	7
Notes to Consolidated Financial Statements .....	8
<b>Supplementary Information</b>	
Consolidating Balance Sheets - December 31, 2014.....	43
Consolidating Balance Sheets –December 31, 2013 (Unaudited) .....	45
Consolidating Statements of Operations – For the Period September 1, 2014 to December 31, 2014.....	47
Consolidating Statements of Operations – For the Period September 1, 2013 to December 31, 2013 (Unaudited) .....	48

---



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Union Hospital  
Terre Haute, Indiana

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

We have audited the accompanying consolidated financial statements of Union Hospital, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statement of operations and changes in net assets, and cash flows for the period September 1, 2014 to December 31, 2014, and the related notes to the consolidated financial statements.

### **MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Board of Directors  
Union Hospital  
Terre Haute, Indiana

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

## **OPINION**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2014, and its changes in net assets and cash flows for the period September 1, 2014 to December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

## **REPORT ON SUPPLEMENTARY INFORMATION**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 43, 44, and 47 listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the balance sheet, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## **REPORT ON COMPILED 2013 FINANCIAL STATEMENTS**

We have compiled the consolidated balance sheet as of December 31, 2013 and the related consolidated statement of operations and changes in net assets, and cash flows for the period September 1, 2013 to December 31, 2013, and the related notes to the consolidated financial statements for the Corporation. We have not audited or reviewed the accompanying consolidated balance sheet, consolidated statement of operations and changes in net assets, and cash flows and, accordingly, do not express an opinion or provide any assurance about whether the consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America.

The Corporation's management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements.

Board of Directors  
Union Hospital  
Terre Haute, Indiana

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of consolidated financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the consolidated financial statements.

The supplementary information contained on pages 45, 46, and 48 listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed this supplementary information and, accordingly, do not express an opinion or provide any assurance on it.

**EMPHASIS OF A MATTER**

As explained in Note 1 to the consolidated financial statements, the Corporation is part of an affiliated group of entities and has entered into transactions with the group members. The Corporation is also included in the reporting entity, Union Health System, Inc., and the accompanying consolidated financial statements include only the financial position, results of operations, changes in net assets and cash flows of the Corporation.

**Blue & Co., LLC**  
Indianapolis, Indiana  
April 23, 2015

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 AND 2013

	2014	Unaudited 2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 23,049,403	\$ 10,773,308
Funds held by trustee, current portion	6,162,344	5,817,672
Board designated funds, current portion	230,101	16,017,367
Patient accounts receivable, net	49,566,578	67,724,174
Inventories	4,194,640	4,481,673
Prepaid expenses and other current assets	3,710,413	5,493,810
Total current assets	86,913,479	110,308,004
<b>Investments limited as to use, less current portion</b>		
Funds held by trustee	24,297,655	24,449,817
Board designated funds	51,917,456	29,479,433
Permanently restricted	1,573,096	1,491,685
Total investments limited as to use	77,788,207	55,420,935
<b>Property and equipment</b>		
Land and improvements	37,907,574	37,794,971
Buildings and fixed equipment	340,845,060	335,524,026
Movable equipment	128,308,379	125,859,138
	507,061,013	499,178,135
Less allowances for depreciation	240,675,269	219,480,905
	266,385,744	279,697,230
Construction in progress	6,484,459	2,591,470
Total property and equipment, net	272,870,203	282,288,700
<b>Other assets</b>		
Due from Union Hospital Foundation, Inc.	2,586,708	3,022,998
Deferred financing costs, net	2,869,080	2,831,920
Intangible assets, net	746,695	3,379,275
Investment in joint ventures	3,200,290	4,349,016
	9,402,773	13,583,209
Total assets	\$ 446,974,662	\$ 461,600,848

See accompanying notes to consolidated financial statements.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 AND 2013

### LIABILITIES AND NET ASSETS

	2014	Unaudited 2013
<b>Current liabilities</b>		
Accounts payable and other current liabilities	\$ 17,574,350	\$ 25,625,272
Salaries, wages and related liabilities	21,514,743	20,841,887
Accrued interest	5,147,347	5,086,315
Estimated third party settlements	3,492,214	3,549,678
Current portion of long-term debt	3,757,832	3,430,080
Total current liabilities	<u>51,486,486</u>	<u>58,533,232</u>
<b>Long-term liabilities</b>		
Long-term debt, less current portion	263,753,153	266,288,428
Deferred revenue	67,033	167,357
Pension liability and related obligations	4,970,222	5,322,193
Other long-term liabilities	2,279,176	2,733,073
Total long-term liabilities	<u>271,069,584</u>	<u>274,511,051</u>
Total liabilities	322,556,070	333,044,283
<b>Net assets</b>		
Unrestricted	119,517,634	123,950,489
Noncontrolling interests in UHT, LLC	433,826	-0-
Total unrestricted net assets	<u>119,951,460</u>	<u>123,950,489</u>
Temporarily restricted	2,894,036	3,114,391
Permanently restricted	1,573,096	1,491,685
Total net assets	<u>124,418,592</u>	<u>128,556,565</u>
Total liabilities and net assets	<u>\$ 446,974,662</u>	<u>\$ 461,600,848</u>

See accompanying notes to consolidated financial statements.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE PERIODS SEPTEMBER 1 TO DECEMBER 31, 2014 AND 2013

	2014	Unaudited 2013
<b>Operating revenue</b>		
Net patient service revenue (net of contractual allowances and discounts including charity care provisions of \$11,897,319 and \$10,350,263 in 2014 and 2013 respectively)	\$ 149,243,625	\$ 147,703,658
Less provision for bad debts	12,209,425	12,932,119
Net patient service revenue less provision for bad debts	137,034,200	134,771,539
Other revenue	2,727,032	2,644,297
Total operating revenue	139,761,232	137,415,836
<b>Operating expenses</b>		
Salaries and wages	44,965,863	46,746,298
Employee benefits	9,617,453	10,961,544
Medical supplies and drugs	18,542,272	19,807,522
Physician services	1,283,850	1,215,578
Contract services	19,721,431	21,761,228
Rent and leases	3,633,891	3,731,502
Utilities, supplies, and other	12,868,385	12,886,953
Hospital assessment fee	4,976,143	5,497,417
Depreciation and amortization	7,781,083	8,379,586
Interest	5,275,629	5,251,227
Total operating expenses	128,666,000	136,238,855
Income from operations before special item	11,095,232	1,176,981
<b>Special item - reduction in force and pension settlement</b>	(5,886,973)	-0-
Income from operations after special item	5,208,259	1,176,981
<b>Non-operating gains (losses)</b>		
Investment income	875,551	299,912
Loss on investment in UAPC	(637,244)	(292,967)
Other	(5,664)	(35,447)
Total non-operating gains (losses)	232,643	(28,502)
Excess of revenue over expenses	5,440,902	1,148,479
<b>Other changes in unrestricted net assets</b>		
Pension related changes other than net pension cost	1,572,991	3,293,267
Distribution to owners	(321,449)	-0-
Net unrealized gain (loss) on investments	(442,537)	1,073,337
Net assets released for property and equipment	51,365	200,000
Transfers to Union Health System	(3,495,621)	(3,919,970)
Change in unrestricted net assets	2,805,651	1,795,113
<b>Temporarily restricted net assets</b>		
Other changes in receivable from Union Hospital Foundation, Inc.	120,032	202,244
Net assets released for property and equipment	(51,365)	(200,000)
Change in temporarily restricted net assets	68,667	2,244
<b>Permanently restricted net assets</b>		
Net investment income	14,747	87,862
Change in net assets	2,889,065	1,885,219
<b>Net assets</b>		
Beginning of year	121,529,527	126,671,346
End of year	\$ 124,418,592	\$ 128,556,565

See accompanying notes to consolidated financial statements.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS SEPTEMBER 1 TO DECEMBER 31, 2014 AND 2013

	2014	Unaudited 2013
<b>Operating activities</b>		
Change in net assets	\$ 2,889,065	\$ 1,885,219
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	6,985,320	7,334,347
Amortization	795,763	1,045,239
Provision for bad debts	12,209,425	12,932,119
Distribution to owners	321,449	-0-
Transfers to Union Health System	3,495,621	3,919,970
Loss on property disposals	5,686	35,530
Net unrealized loss (gain) on investments	442,537	(1,073,337)
Changes in operating assets and liabilities		
Patient accounts receivable	(6,594,449)	(25,209,467)
Other current and noncurrent assets	(401,565)	(2,985,494)
Accounts payable and other current liabilities	(2,318,900)	2,970,245
Salaries, wages and related liabilities	82,920	(981,501)
Other long-term liabilities	699,288	(5,636,646)
Estimated third-party payor settlements	361,004	1,094,699
Accrued interest	(2,644,725)	(2,723,369)
Deferred revenue	(33,441)	(43,061)
Net cash flows from operating activities	16,294,998	(7,435,507)
<b>Investing activities</b>		
Purchases of property and equipment	(3,026,473)	(3,527,232)
Proceeds from sale of property and equipment	82,786	-0-
Payments for CT and MRI service line	(400,000)	(400,000)
Purchase of investments	(11,627,268)	(6,865,969)
Proceeds from sale of investments	12,707,903	14,416,209
Net cash flows from investing activities	(2,263,052)	3,623,008
<b>Financing activities</b>		
Repayments on long-term debt	(2,082,033)	(2,277,960)
Distribution to owners	(321,449)	-0-
Transfers to Union Health System	(3,495,621)	(3,919,970)
Net cash flows from financing activities	(5,899,103)	(6,197,930)
Change in cash and cash equivalents	8,132,843	(10,010,429)
<b>Cash and cash equivalents</b>		
Beginning of period September 1,	14,916,560	20,783,737
End of period December 31,	\$ 23,049,403	\$ 10,773,308
<b>Noncash investing activities</b>		
Issuance of capital leases	\$ 85,000	\$ -0-
Capital acquisitions included in accounts payable	\$ 321,955	\$ -0-
Cash paid for interest	\$ 5,214,597	\$ 7,974,596

See accompanying notes to consolidated financial statements.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### 1. ORGANIZATION

#### Nature of Operations

Union Hospital, Inc. (Corporation) is an Indiana not-for-profit corporation which owns and operates Union Hospital (the Hospital), a 318 staffed-beds, and regional referral center hospital located in Terre Haute, Indiana. The Hospital is a full-service, acute-care hospital with medical-surgical, obstetric, pediatric, coronary care, post-coronary care, intensive care, maximum care, and medical rehabilitation units. Additionally, as the largest hospital in west central Indiana, the Hospital is a referral center for such services as its newborn intensive care unit (Level II), open heart surgery, cardiac rehabilitation clinic, radiology, cardiopulmonary services, and radiation therapy. The Hospital and its related consolidated entities provide comprehensive health care services to the residents of Terre Haute and the surrounding communities, west central Indiana, and east central Illinois through its acute and specialty care facilities and physician medical practices. Union Hospital, Inc. is exempt from federal income taxes on related function income pursuant to Section 501(c)(3) and Section 501(a) of the Internal Revenue Code.

The consolidated financial statements include the accounts of the Hospital, Union Hospital Clinton (UHC), IPACS, Inc. (IPACS), Center for Occupational Health (COH), and the Union Hospital Therapy, LLC (UHT) (collectively, the Corporation and subsidiaries). UHC is a designated Medicare critical access hospital operating as a division of the Corporation. UHC is a 25-bed general, acute care hospital located in Clinton, Indiana. IPACS is a wholly owned, taxable subsidiary engaged in providing collection services to hospitals, hospital physicians, and other health care providers. COH, wholly owned by the Corporation, provides work related injury care and other occupational medicine services.

During January 2014, UHT was formed for the purpose of providing physical, occupational, and speech therapy, and related rehabilitation services. The Corporation ownership interest in UHT is 51%. The Corporation maintains substantial participation in the operations of UHT in addition to an economic interest in UHT's financial position. The 49% non-controlling interest is owned by Clinical Management Solutions, LLC. All material intercompany accounts and transactions have been eliminated.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

During 2010, the Corporation became part of an affiliated group. Union Health System, Inc. (UHS), an Indiana not-for-profit corporation, is the sole member of the Corporation. UHS was the sole member of Union Associated Physicians Clinic, LLC (UAPC) through August 31, 2012. Effective September 1, 2012, UHS transferred 50% of its membership of UAPC to the Corporation. Certain physicians who were members or employees of Associated Physicians and Surgeons (AP&S), an outside and unrelated party (physician practice), became employees of UAPC. AP&S provides certain personnel, equipment, supplies and other administrative support to UAPC. The Corporation has entered into transactions with the affiliated group as is disclosed in Note 3. The Corporation is consolidated into the affiliated group financial statements. These financial statements reflect only the financial position, results of operations, changes in net assets and cash flows of the Corporation.

The Corporation is also related to various organizations principally through overlapping board membership which does not constitute control. These organizations include Union Hospital Foundation, Inc., Union Hospital Health Services, Inc., and Visiting Nurse Association of the Wabash Valley, Inc. In addition, a majority of all fund-raising activities are conducted by Union Hospital Foundation, Inc. (the Foundation).

Accordingly, unrestricted gifts and bequests received directly by the Corporation are recorded as nonoperating gains, and restricted gifts and bequests received by the Foundation for the benefit of the Corporation are recorded by the Corporation as temporarily restricted net assets until expended by the Corporation for their intended purpose.

During 2014 the Corporation and UHS elected to change their respective year-ends from August 31 to December 31.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in consolidation.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the allowance for estimated uncollectible accounts and estimated third-party payor settlements, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

### Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding investments limited as to use. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value.

### Patient Accounts Receivable, Estimated Third Party Settlements, and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered. Net patient service revenue includes estimated retroactive adjustments under reimbursement agreements with certain third-party payors (principally for the Medicare program). Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, adjusted in future periods as final settlements are determined, and are included with estimated receivables from third-party payors.

## UNION HOSPITAL INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the consolidated statements of operations and changes in net assets follows:

	Four Month Ended December 31, 2014	Unaudited Four Month Ended December 31, 2013
Inpatient revenue	\$ 164,369,780	\$ 158,192,397
Outpatient revenue	245,159,729	223,432,367
Physician revenue	21,365,783	17,433,507
Gross patient revenue	430,895,292	399,058,271
Charity care revenue foregone	11,897,319	10,350,263
Contractual adjustments	269,754,348	241,004,350
Total adjustments	281,651,667	251,354,613
Net patient service revenue	149,243,625	147,703,658
Less provision for bad debts	12,209,425	12,932,119
	\$ 137,034,200	\$ 134,771,539

A summary of gross patient service revenue at established rates by payor source for 2014 and 2013, respectively, is as follows:

	2014	Unaudited 2013
Medicare	46%	46%
Medicaid	17%	16%
Commercial insurance	8%	7%
Other managed care	24%	25%
Self-pay and other	5%	6%
	100%	100%

There is a single insurance and managed care provider that constituted 21% and 23% of patient service revenue at established rates for the four month period ended December 31, 2014 and 2013, respectively.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

During 2014, the Corporation's allowance for uncollectible accounts for patient and physician services increased approximately \$3,800,000 from approximately \$14,400,000 to approximately \$18,200,000. This increase is due to substantial increases in volume and visits during the four month period ended December 31, 2014, in addition to decreased estimated bad recoveries. As of December 31, 2014, the allowance for uncollectible accounts of \$18,200,000 was comprised of approximately \$10,500,000 reserved for self-pay balances and approximately \$7,700,000 reserved for third-party payor balances. During 2013, the allowance for uncollectible accounts decreased approximately \$330,000 from approximately \$15,400,000 to approximately \$15,070,000. This was comprised of approximately \$9,800,000 reserved for self-pay balances and approximately \$5,270,000 reserved for third-party payor balances.

The Corporation grants credit to patients, substantially all of whom are local residents of the communities served. The Corporation does not generally require credit or other collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, HMOs, and commercial insurance policies). The Corporation has not changed its charity care or uninsured discount policies during 2014 or 2013.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

At December 31, 2014 and 2013, gross accounts receivable from patients and third party were comprised of the following:

	2014	Unaudited 2013
Medicare	33%	32%
Medicaid	16%	16%
Commercial insurance	9%	7%
Other managed care	23%	25%
Self-pay and other	19%	20%
	<u>100%</u>	<u>100%</u>

The allowance for doubtful accounts is based on management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy for uncollectible receivables based upon the payor composition and aging of receivables as of the reporting date with consideration of the historical write-off experience by payor category. The results of these reviews are then used to make any modifications to the provision for uncollectible receivables to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the Corporation follows established guidelines for placing past-due patient accounts with collection agencies.

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. A summary of the significant payment arrangements with third-party payors follows:

*Medicare:* Physician services, inpatient acute care services, and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Critical access hospital services are reimbursed based on cost reimbursement methodologies. Cost reimbursable services are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

*Medicaid:* Reimbursement for services rendered to Medicaid program beneficiaries are at prospectively determined rates per discharge for inpatient hospital services. Other services are reimbursed based on a combination of cost reimbursement methodologies and prospectively determined rates.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

*Other.* Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, preferred provider organizations, and other payors, based on prospectively determined rates per discharge or discount of charges for inpatient hospital services and discount of charges for outpatient services.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated settlements could change by a material amount in the near term.

Management believes that adequate provisions have been made for any adjustments which may result from such final settlements. Differences between prior estimates and subsequent actual settlements are immaterial to these financial statements for 2014 and 2013.

### Charity Care and Community Benefit

Patients are provided care regardless of their ability to pay in accordance with charity care policies of the Corporation. These policies define charity care services as those services for which no or reduced payment is anticipated and are based on federal poverty income levels and certain other factors. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue. The Corporation's charity care policies also extend to services provided by physicians, although records are not maintained for such services provided by the physicians.

Of the Corporation's total expenses reported, an estimated \$3,600,000 and \$3,500,000 arose from providing services to charity patients during the four month period ended December 31, 2014 and 2013, respectively. The estimated costs of providing patient assistance services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Corporation's total expenses divided by gross patient service revenue.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The Corporation also provides programs and services to address the needs of the communities it serves, generally at no, or low, cost to those being served. Specific community needs being addressed by the Corporation include, among others, low-weight births and infant mortality, high incidence of, and deaths from, certain diseases and chronic illnesses, underserved populations, adequacy of the supply of physicians and other health care providers, and certain behavioral risk factors. The Corporation's programs and services include, among others, services to low-income women in need of prenatal care, health screenings for underserved women, wellness and injury prevention programs, chronic disease management assistance, educational programs, rural health care access and availability initiatives, transportation services for elderly and low-income patients, and access to support groups for critically and chronically ill patients and their families. Assistance is also provided to senior citizens and other 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 Corporation periodically reviews, modifies, and reports on its Community Health Assessment and Plan of Action for the communities served.

### Hospital Assessment Fee (HAF) Program

The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana inpatient providers.

Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. For the four month period ended December 31, 2014 and 2013, the Corporation recognized HAF Program expense of approximately \$5,000,000 and \$5,500,000, respectively, which resulted in increased Medicaid reimbursement. The HAF Program was approved for extension in March 2014 by CMS for the period July 1, 2013 through June 30, 2017.

### Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market and principally valued using the average cost method.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Investments Limited as to Use

Investments limited as to use are stated at fair value. The fair value of assets is based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The cost of securities sold is based on the specific identification method. Dividends and interest income and realized gains and losses on sales of investments are recorded as nonoperating gains (losses). Unrealized appreciation and temporary depreciation (temporary losses) of investments are reported as other changes in net assets in the consolidated statements of operations and changes in net assets.

Investments are generally commingled for investment purposes and consist of short-term investments (principally money market mutual funds), certificates of deposit, U.S. government obligations, mutual funds, collective trust funds, corporate obligations and common stocks.

Investments limited as to use include investments set aside by the Board of Directors for future capital improvements and retirement of debt over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes; investments held by trustees under bond indenture agreements; and donor-restricted funds. Amounts that are required for obligations classified as current liabilities, and other amounts previously paid from operating cash that are to be reimbursed by the applicable funds held by trustee project fund, are reported in current assets.

### Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows: land improvements 3 to 30 years, buildings 5 to 40 years, and equipment 3 to 25 years. The Corporation's policy is to designate certain available unrestricted net assets for expansion and renovation.

Equipment under capital lease obligations is amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation and amortization in the consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction and other interest costs are capitalized as a component of the cost of constructing the assets. Repair and maintenance costs are expensed when incurred.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The Corporation periodically evaluates whether circumstances have occurred that would indicate whether the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, an estimate is made of the undiscounted cash flows over the remaining life of the assets in measuring whether the asset is recoverable in accordance with accounting standards.

### Intangible Assets

Intangible assets arising from the purchase of physician practices (primarily medical records and non-compete provisions) and service lines are carried at cost. Amortization is computed using the straight-line method based on the assets' estimated useful lives.

### Unamortized Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are amortized using the bonds outstanding method, which approximates the amortization under the effective interest rate method, and are included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

### Medical Malpractice Insurance

The Corporation and its employed physicians with active Indiana medical licenses are qualified as health providers under the Indiana Medical Malpractice Act (the Medical Malpractice Act). The Medical Malpractice Act limits liability for malpractice claims against qualified health care providers such as the Corporation. The law provides for a mandatory State Patient's Compensation Fund (the Compensation Fund) to which qualified health care providers contribute a surcharge. The amount of the surcharge is established by the Indiana Department of Insurance on an actuarial basis. The amount contributed by each hospital must be sufficient to cover, but may not exceed, the actuarial risk posed to the Compensation Fund by such hospital and its employed physicians with active Indiana medical licenses. For malpractice incidents occurring after December 31, 1989, and before July 1, 1999, the Medical Malpractice Act provides for a maximum recovery of \$750,000 per claim (\$3,000,000 annual aggregate); the related health care provider is liable for up to \$100,000 of the recovery. For malpractice incidents occurring on or after July 1, 1999, the Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per claim (\$7,500,000 annual aggregate); the related health care provider is liable for up to \$250,000 of the recovery.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

Effective December 31, 2003, the Corporation became a member in a Vermont captive insurance company, Indiana Healthcare Reciprocal Risk Retention Group, Inc., to fund the Corporation's required portion of the insurance coverage pursuant to the Medical Malpractice Act, as well as its general liability insurance.

The Corporation also provides medical malpractice insurance for its employed physicians who practice in the state of Illinois with limits of \$1,000,000 per occurrence and \$3,000,000 in the aggregate.

Malpractice insurance coverage provided through the Compensation Fund and the captive insurance company is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured.

### Pension Plans

A noncontributory, defined-benefit pension plan covers substantially all employees. Plan benefits are based on years of service and the employee's compensation. During 2010, the Corporation froze the defined benefit plan and initiated a discretionary match component to the 403b defined contribution plan. During 2011, the Corporation offered a voluntary early retirement program for eligible employees to receive monthly annuities, removal of early retirement penalties and reductions, and health benefits for eighteen months per COBRA requirements for the employee and dependents. See footnote 10 for additional details on the Corporation's pension plans.

### Financial Statement Presentation

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor imposed restrictions.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Net Assets

Unrestricted net assets represent the part of the net assets of the Corporation that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors primarily for a specified time period or purpose. When a donor restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released for property and equipment. Property and equipment donated to the Hospital are recorded as additions to temporarily restricted net assets at their fair value at the date of receipt and as a transfer to unrestricted net assets when the assets are placed in service. Temporarily restricted net assets include approximately \$2,587,000 and \$3,023,000 of funds held by the Foundation for the benefit of the Corporation at December 31, 2014 and 2013, respectively. These amounts represent contributions received on behalf of the Corporation by the Foundation and other amounts the Foundation has granted to the Corporation and are included within Due from Union Hospital Foundation Inc. on the consolidated balance sheets. Other miscellaneous funds are held as temporarily restricted net assets. Permanently restricted net assets are those that the donor has requested to be held in perpetuity. In accordance with donor stipulations, certain investment income earned on permanently restricted net assets is unrestricted. Accordingly, such income is recorded in the unrestricted net asset class as it is earned.

### Deferred Income

Deferred revenue represents amounts received in advance for services to be rendered. Revenue will be recognized as the services are provided.

### Health Insurance

The Corporation's employee health care insurance is provided through a combination of self-insurance and purchased re-insurance coverage from a commercial carrier. The Corporation maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The specific annual attachment point for an individual is \$325,000 with a policy period maximum of \$1,675,000. There is no aggregate limit on claims.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Functional Expenses

The Corporation provides general health care services to patients. Health care services expenses related to providing these services were approximately \$125,215,000 and \$127,465,000 for the four month period ended December 31, 2014 and 2013, respectively. Administrative expenses (consisting of support services, employee benefits, patient billing, and other) amounted to approximately \$9,338,000 and \$8,774,000 for the four month period ended December 31, 2014 and 2013, respectively.

### Income Taxes

The Corporation is organized as a not-for-profit corporation under Section 501(c) (3) of the United States Internal Revenue Code. As such, the Corporation is generally exempt from income taxes. However, the Corporation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize a tax liability if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Corporation, and has concluded that as of December 31, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Filings are current through 2013. The impact of the IPACS, COH, and UHTs' tax consequences is immaterial to these financial statements.

### Operating Indicator

The Corporation's operating indicator (income from operations) includes all unrestricted net income, gains and support, and expenses from Corporation operations directly related to recurring and ongoing health care operations during the reporting period. The operating indicator excludes interest, dividend, and realized gains and losses on sales of investments, contributions, and gains and losses deemed by management not to be directly related to providing health care services.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Performance Indicator

Consistent with industry standards, the Corporation's performance indicator (excess of revenue over expenses), includes all changes in unrestricted net assets other than net unrealized appreciation and temporary losses on investments, investment returns restricted by donors, distribution to owners, changes in pension plan funded status, contributions of property and equipment, and equity transactions.

### Advertising Costs

Advertising costs are expensed as incurred. Total expense for the four month period ended December 31, 2014 and 2013 was approximately \$108,000 and \$140,000, respectively.

### Electronic Health Records (EHR) Incentive Payments

The Corporation receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Corporation must meet "meaningful use" criteria that become more stringent over time. The Corporation periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Corporation's cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Corporation recognizes EHR incentive payments as grant income, under the ratable recognition method, when there is reasonable assurance that the Corporation will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the consolidated financial statement effects of the grants must be both recognizable and measurable. The Corporation recognized approximately \$-0- and \$2,898,000 in EHR incentive payments as grant income for four month period ended December 31, 2014 and 2013, respectively.

EHR incentive income is included in net patient service revenue in the consolidated statements of operations and changes in net assets. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

Receipt of these funds is subject to the fulfillment of certain obligations by the Corporation as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

### Special Item – Reduction in Force and Pension Settlement

During calendar year 2014, the Corporation executed a reduction in force affecting certain employees as part of its ongoing cost containment program. Affected employees were paid severance packages. Total costs associated with the reduction in force amounted to approximately \$698,000 and \$-0- for the four month period ended December 31, 2014 and 2013, respectively.

During the four month period ended December 31, 2014, in response to employee benefit cost control, the Corporation, with the approvals of the Pension Committee and Board of Directors, elected to distribute lump sum payments to qualified individuals participating in the pension plan creating recognition of an operating expense. Qualified individuals included all participating employees age 62 and older, any terminated and fully vested participants, and any new retirees. Total costs associated with the pension settlement amounted to approximately \$5,189,000 and \$-0- for the four month period ended December 31, 2014 and 2013, respectively.

### Subsequent Events

The Corporation has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is April 23, 2015.

### 3. AFFILIATED ENTITY AND RELATED PARTY TRANSACTIONS

As part of the affiliation with UHS and UAPC, the Corporation purchased certain intangible assets, including medical records and other assets, from AP&S in the amount of \$7,345,000. The intangible assets are being amortized over 5 years with accumulated amortization of \$7,345,000 and \$6,121,000 at December 31, 2014 and 2013, respectively. The Corporation transferred approximately \$3,496,000 and \$3,920,000 during the four month period ended December 31, 2014 and 2013, respectively, to UHS. The arrangement with UHS and UAPC contemplates that the Corporation will continue to transfer funds on an as needed basis to fulfill the contract obligation for on-going operational support to the affiliated group. The Corporation purchased the CT and MRI service line of UAPC for \$3,600,000 which is to be paid \$100,000 monthly. As of December 31, 2014, the Corporation has paid \$3,600,000 under this agreement with a balance remaining of \$-0-.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The Corporation provided management and other services for the Foundation and other related organizations in the approximate amount of \$33,000 and \$43,000 for the four month period ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, approximately \$15,000 and \$49,000, respectively, remained unpaid.

The Corporation received approximately \$51,000 and \$200,000 in contributions from the Foundation for the four month period ended December 31, 2014 and 2013, respectively. The 5 year capital campaign pledges were completed on December 31, 2013.

The Corporation collaborates with physicians and physician groups including UAPC, to improve the quality of services, eliminate duplication of services, and to improve standards of care by entering into certain contractual agreements. While certain of the agreements are amended and/or terminated from time to time, the Corporation has had agreements for chemotherapy, ambulatory surgery, cardiac catheterization, laboratory, and radiation oncology therapy services. The costs for these services are included in contract services in the consolidated statement of operations totaling approximately \$19,284,000 and \$21,393,000 for the four month period ended December 31, 2014 and 2013, respectively.

#### 4. PROPERTY AND EQUIPMENT

A summary of the construction-in-progress projects at December 31, 2014 and 2013 is as follows:

	2014	Unaudited 2013
Soarian software	\$ 5,025,025	\$ -0-
UHC air handling system	-0-	2,238,089
Other renovations and upgrades	1,459,434	353,381
	<u>\$ 6,484,459</u>	<u>\$ 2,591,470</u>

The Corporation is in the process of implementing new patient account software with expected completion during late 2015 or early 2016. Commitments for all remaining construction project costs total approximately \$9,300,000 at December 31, 2014.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 5. INVESTMENTS

The Corporation does not engage in trading activities for investment purposes. The composition of investments, at fair value, is set forth in the following table:

	2014	Unaudited 2013
Money market mutual funds and certificates of deposit	\$ 37,077,460	\$ 53,932,165
US Government and government agency obligations	12,044,043	9,398,653
Mutual funds	1,887,723	2,288,560
Common stocks	11,126,149	10,676,381
Corporate obligations	22,045,277	960,215
	84,180,652	77,255,974
Less current portion of:		
Debt service	6,162,344	5,817,672
Board designated	230,101	16,017,367
	\$ 77,788,207	\$ 55,420,935

Investment income included in the consolidated statements of operations and changes in net assets is primarily comprised of interest, dividends and realized gains and losses on sale of investments.

	2014	Unaudited 2013
Investment income included with non-operating gains and net investment income on permanently restricted net assets:		
Investment income	\$ 890,298	\$ 387,774
Other changes in net assets:		
Unrealized gain (loss) on investments	(442,537)	1,073,337
	\$ 447,761	\$ 1,461,111

The following schedule summarizes the fair value of securities included in investments by board designated and held by trustee that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of December 31, 2014 and 2013. The schedule further segregates the securities that have been in a gross unrealized position as of December 31, 2014 and 2013, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary.

The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to several securities which industry experts expect recovery in the short-term future.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of December 31, 2014 and 2013:

Description of securities	December 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Common stock	\$ 1,248,155	\$ 121,736	\$ -0-	\$ -0-	\$ 1,248,155	\$ 121,736
Mutual funds	363,705	8,238	64,964	2,446	428,669	10,684
Government obligations	7,305,571	20,327	-0-	-0-	7,305,571	20,327
Corporate bonds	20,132,130	379,154	-0-	-0-	20,132,130	379,154
Total temporarily impaired securities	<u>\$29,049,561</u>	<u>\$ 529,455</u>	<u>\$ 64,964</u>	<u>\$ 2,446</u>	<u>\$29,114,525</u>	<u>\$ 531,901</u>

Description of securities	December 31, 2013 (Unaudited)					
	Less than 12 Months		12 Months or Longer		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Common stock	\$ 379,770	\$ 15,251	\$ 297,640	\$ 27,831	\$ 677,410	\$ 43,082
Mutual funds	207,265	3,888	227,525	3,560	434,790	7,448
Government obligations	8,410,501	18,545	47,798	4,647	8,458,299	23,192
Corporate bonds	547,767	12,454	46,800	4,584	594,567	17,038
Total temporarily impaired securities	<u>\$ 9,545,303</u>	<u>\$ 50,138</u>	<u>\$ 619,763</u>	<u>\$ 40,622</u>	<u>\$ 10,165,066</u>	<u>\$ 90,760</u>

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2014 and 2013.

- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Money market mutual funds*: Valued based at the subscription and redemption activity at a \$1 stable daily net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily (NAV) and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.
- *US government obligations*: Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Corporate obligations*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013 are as follows:

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Investments limited as to use				
Common stocks				
Consumer	\$ 3,037,412	\$ 3,037,412	\$ -0-	\$ -0-
Energy	1,715,275	1,715,275	-0-	-0-
Financial	1,813,185	1,813,185	-0-	-0-
Healthcare	1,265,451	1,265,451	-0-	-0-
Industrials	1,667,262	1,667,262	-0-	-0-
Information technology	1,514,333	1,514,333	-0-	-0-
Materials	113,231	113,231	-0-	-0-
Total common stocks	11,126,149	11,126,149	-0-	-0-
Mutual funds				
Fixed income funds	946,340	946,340	-0-	-0-
Large cap funds	212,798	212,798	-0-	-0-
Mid cap funds	99,137	99,137	-0-	-0-
Small cap funds	30,569	30,569	-0-	-0-
International funds	508,805	508,805	-0-	-0-
Index funds	90,074	90,074	-0-	-0-
Total mutual funds	1,887,723	1,887,723	-0-	-0-
US government obligations	12,044,043	-0-	12,044,043	-0-
Corporate obligations				
Low yield	5,960,405	-0-	5,960,405	-0-
Mid yield	11,029,634	-0-	11,029,634	-0-
High yield	5,055,238	-0-	5,055,238	-0-
Total corporate obligations	22,045,277	-0-	22,045,277	-0-
Money market mutual funds	31,462,478	-0-	31,462,478	-0-
	78,565,670	\$ 13,013,872	\$ 65,551,798	\$ -0-
Certificates of deposit	5,614,982			
	\$ 84,180,652			

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

	December 31, 2013 (Unaudited)			
	Total	Level 1	Level 2	Level 3
Investments limited as to use				
Common stocks				
Consumer	\$ 3,720,996	\$ 3,720,996	\$ -0-	\$ -0-
Energy	2,283,021	2,283,021	-0-	-0-
Financial	1,250,100	1,250,100	-0-	-0-
Healthcare	245,674	245,674	-0-	-0-
Industrials	2,456,237	2,456,237	-0-	-0-
Information technology	670,170	670,170	-0-	-0-
Materials	50,183	50,183	-0-	-0-
Total common stocks	<u>10,676,381</u>	<u>10,676,381</u>	-0-	-0-
Mutual funds				
Fixed income funds	930,310	930,310	-0-	-0-
Large cap funds	162,177	162,177	-0-	-0-
Mid cap funds	436,811	436,811	-0-	-0-
Small cap funds	130,494	130,494	-0-	-0-
Sector funds	8,991	8,991	-0-	-0-
International funds	272,009	272,009	-0-	-0-
Index funds	347,768	347,768	-0-	-0-
Total mutual funds	<u>2,288,560</u>	<u>2,288,560</u>	-0-	-0-
US government obligations	9,398,653	-0-	9,398,653	-0-
Corporate obligations				
Mid yield	960,215	-0-	960,215	-0-
Money market mutual funds	35,512,784	-0-	35,512,784	-0-
	<u>58,836,593</u>	<u>\$ 12,964,941</u>	<u>\$ 44,911,437</u>	<u>\$ -0-</u>
Certificates of deposit	18,419,381			
Total	<u>\$ 77,255,974</u>			

The Corporation's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2014 and 2013.

Realized gains and losses and interest income are reported in the consolidated statements of operations and changes in net assets as a component of investment income. Realized gains and losses and interest income approximated \$890,000 and \$388,000 for the four month period ended December 31, 2014 and 2013, respectively.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The market value of investments exceeded the cost by approximately \$2,630,000 and \$4,619,000 as of December 31, 2014 and 2013, respectively. The unrealized gain and loss are included in earnings for the period attributable to the change in unrealized gain and loss relating to assets held as of December 31, 2014 and 2013 and are reported in the consolidated statements of operations and changes in net assets as net unrealized gain on investments. For the four month period ended December 31, 2014, the Corporation recognized an unrealized loss of approximately \$443,000. For the four month period ended December 31, 2013, the Corporation recognized an unrealized gain of approximately \$1,073,000. These amounts are included in the consolidated statement of operations and changes in net assets as net unrealized gain (loss) on investment within other changes in unrestricted net assets and net investment income within permanently restricted net assets.

The Corporation holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

### Fair Value of Investments in Entities that Use Net Asset Value

The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of December 31, 2014 and 2013, respectively.

December 31, 2014	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Money market mutual funds	\$ 31,462,478	Not applicable	Daily	Daily
Mutual funds	\$ 1,887,723	Not applicable	Daily	Daily
December 31, 2013 (Unaudited)	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Money market mutual funds	\$ 35,512,784	Not applicable	Daily	Daily
Mutual funds	\$ 2,288,560	Not applicable	Daily	Daily

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short term maturity.

Long-term debt: Fair value of the Corporation's long-term debt, based on current quoted market value of similar debt instruments, for the Series 2011, 2007, and 1993 fixed rate tax exempt bonds approximated \$264,577,000 and \$246,287,000 as of December 31, 2014 and 2013, respectively. The fair value of variable rate debt (2010 loan, 2006 bonds, and 2014 bonds) approximates its carrying value of \$15,638,000 and \$16,080,000 as of December 31, 2014 and 2013.

### 7. ENDOWMENT FUNDS

The Corporation's endowment consists of individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The objective is to meet or exceed the market index, or blended market index, selected and agreed upon by the Corporation or provide an acceptable return with lower volatility or credit risk. In order to meet its needs, the investment strategy of the Corporation is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management for endowment fund assets shall be long-term growth of capital and to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index. Endowment fund assets may be invested only in investment grade bonds rated BBB (or equivalent) or better. The board of directors has interpreted the relevant law as requiring prudent preservation of the fund and evaluates the amounts of unrestricted income and the unrealized gains and losses periodically.

The Corporation has a policy of appropriating for distribution the earned income.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The endowment net assets by type of fund as of December 31, 2014 and 2013:

	<u>2014</u>	<u>Unaudited 2013</u>
Donor-restricted endowment funds		
Permanently restricted	\$ 1,573,096	\$ 1,491,685
Total endowment funds	<u>\$ 1,573,096</u>	<u>\$ 1,491,685</u>

For 2014 and 2013, the Corporation had the following endowment-related activities:

	<u>2014</u>	<u>Unaudited 2013</u>
		<u>Permanently restricted</u>
Endowment net assets, beginning of period, September 1	\$ 1,558,349	\$ 1,403,823
Net investment income and other changes	<u>14,747</u>	<u>87,862</u>
Endowment net assets, end of period	<u>\$ 1,573,096</u>	<u>\$ 1,491,685</u>

### 8. LONG-TERM DEBT

A Master Trust Indenture, as amended, provides for the issuance of long-term debt under an obligated group structure. The Obligated Group consists of the Corporation and subsidiaries. This Obligated Group is required to meet certain covenants under the Master Trust Indenture. The Obligated Group is subject to certain financial performance covenants, among other compliance requirements, that require the maintenance of debt service ratios. As of December 31, 2014, management of the Obligated Group believes that it is in compliance with all financial covenants.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The following is a summary of long-term debt as of December 31, 2014 and 2013:

	December 31, 2014	Unaudited December 31, 2013
Indiana Health and Educational Facility Financing Authority or Hospital Authority of Vigo County (Indiana):		
Series 2011, tax-exempt demand revenue bonds payable in annual installments commencing in fiscal 2015 through 2041. Interest rate is fixed (payable semiannually) during the term the bonds are outstanding and ranges from 7.5% to 8% and averages 7.77%. Includes bond discount of approximately \$839,000 as of December 31, 2014.	\$ 54,201,106	\$ 54,145,788
Series 2007, tax-exempt demand revenue bonds payable in annual installments commencing in fiscal 2027 through 2047. Interest rate is fixed (payable semiannually) during the term the bonds are outstanding and ranges from 5.50% to 5.80% and averages 5.74%. Includes bond discount of approximately \$344,000 as of December 31, 2014.	176,155,808	\$ 176,142,030
Series 2006B, taxable variable rate demand revenue bonds, payable in annual principal installments through fiscal 2037. Interest rate is set weekly (payable semiannually) and averages .50% in fiscal 2014.	-0-	12,200,000
Series 1993, tax-exempt fixed rate serial and term bonds, payable in annual principal installments through fiscal 2024. Interest (payable semiannually) ranges from 5.125% to 5.250% and averages 5.18% in fiscal 2014.	19,340,000	21,115,000
Series 2014A, taxable variable rate demand revenue bonds, payable in annual principal installments through fiscal 2036. Interest rate is set weekly (payable monthly) and averages 2.37% in fiscal 2014.	11,855,000	-0-
Loan payable in monthly principal installments commencing in fiscal 2010 through fiscal 2026. Fixed term with variable interest rate set monthly (payable monthly) using LIBOR based rates and averages 3.79% in 2014.	4,003,000	4,778,000
Capital leases and other	1,956,071	1,337,690
Total long-term debt	267,510,985	269,718,508
Less current portion	3,757,832	3,430,080
	\$ 263,753,153	\$ 266,288,428

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The scheduled maturities and mandatory redemptions of long-term debt are as follows:

Year Ending December 31,	
2015	\$ 3,757,832
2016	3,839,889
2017	3,916,094
2018	4,025,474
2019	3,440,119
Thereafter	248,531,577
	<u>\$ 267,510,985</u>

In February 2011, the Corporation issued, through the Hospital Authority of Vigo County (Indiana), Hospital Revenue Bonds, Series 2011 (tax-exempt bonds) in the aggregate amount of \$55 million, net of bond discount, principally to finance, or reimburse the Corporation for, the costs of constructing, acquiring, equipping, or renovating certain capital assets of the Corporation, and to refund the Indiana Health Facility Financing Authority Variable Rate Demand Bonds, Series 2002 and the Indiana Health and Educational Facility Financing Authority Variable Rate Demand Revenue Bonds, Series 2006A, and for bond issuance cost, debt service reserve fund, and capitalized interest during the construction period. The interest rate is fixed and ranges from 7.5 to 8%. Term bonds expire in 2022 (\$10.4 million), 2031 (\$20.7 million), and 2041 (\$24.0 million) with principal payments beginning in 2015.

During July 2007, the Corporation issued, through the Hospital Authority of Vigo County (Indiana), Hospital Revenue Bonds, Series 2007 (tax-exempt bonds) in the aggregate amount of \$176.5 million principally to finance, or reimburse the Corporation for, the costs of acquisition, construction, furnishing, and equipping of a new 500,000 square-foot hospital building, and certain renovations of the existing hospital facility, bond issuance cost, debt service reserve fund, and capitalized interest during the construction period. The interest rate is fixed and ranges from 5.50% to 5.80%. Term bonds expire in 2027 (\$7.4 million), 2037 (\$52.2 million), 2042 (\$50.3 million), and 2047 (\$66.6 million) with principal payments beginning in 2024.

The Corporation has a letter of credit for a maximum of \$13,000,000 attached to the Series 2006B taxable Bonds to cover noncompliance with principal and interest payments. There were no draws on the letter during the periods ended December 31, 2014 and 2013, and there are no outstanding amounts under this arrangement at December 31, 2014 and 2013. The letter of credit was terminated in accordance with the issuance of the series 2014A Bonds on April 25, 2014.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

On April 25, 2014, the Corporation issued through the Hospital Authority of Vigo County (the Authority), Hospital Revenue Bonds, Series 2014A (taxable bonds) in the aggregate amount of \$12,105,000, principally to finance, or reimburse the Corporation to refund the Indiana Health Facility Financing Authority Variable Rate Demand Bonds, Series 2006B. The interest rate is variable and averages 2.37%. The term bonds expire in 2036 with principal payments beginning in 2015. During 2014, the Corporation, the Authority, and JP Morgan Chase entered into Bond Purchase Contracts (Contracts) whereby JP Morgan Chase purchased from the Authority all of the series 2014A bonds in a private placement.

Under the terms of the Contracts, JP Morgan Chase agreed to hold the Series 2014A bonds through the stated bond maturity dates. At the end of the Contract period for the Series 2014A bonds, these bonds could be remarketed to the original holders or to new investors at interest rate options as provided in the bond documents. If the Series 2014A bonds cannot be remarketed at the end of the Contract period, the Corporation would be subject to payment of the remaining principal.

The Series 1993 tax-exempt Bonds are secured by a security interest in unrestricted receivables (as defined in the bond agreements) of the Corporation. Payment of principal and interest on the Series 1993 Bonds is guaranteed under a municipal bond insurance policy. In February 2004, the Corporation made a tender offer to existing 1993 Bondholders for a 103% tender price, which was accepted. A bank purchased the tendered bonds for par value.

Total interest paid on long-term debt for the four month period ended December 31, 2014 and 2013, aggregated approximately \$5,300,000 and \$5,300,000, respectively.

Substantially all assets and revenue serve as collateral on the aforementioned bonds and letter of credit.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The Corporation leases medical equipment and software under capital leases with various expiration dates. Cost and accumulated depreciation of the equipment under capital leases was approximately \$2,850,000 and \$4,139,000, respectively, and \$2,092,000 and \$2,277,000, respectively, at December 31, 2014 and 2013. The following is a schedule by year of future minimum lease payments under capital leases as of December 31, 2014, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	
2015	\$ 372,144
2016	249,515
2017	109,848
2018	5,087
	<u>736,594</u>
Less imputed interest	32,658
	<u>\$ 703,936</u>

The Corporation has operating leases for medical equipment and office space. Total rent and lease expense for the four month period ended December 31, 2014 and 2013 was \$3,600,000 and \$3,700,000, respectively. Future minimum lease payments under noncancelable operating leases as of December 31, 2014 that have initial or remaining lease terms in excess of one year are as follows:

Year Ending December 31,	
2015	\$ 4,291,328
2016	3,101,650
2017	2,682,456
2018	1,446,272
2019	313,304
Thereafter	156,781
	<u>\$ 11,991,791</u>

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### 9. NONCONTROLLING INTEREST

The following table depicts the changes in consolidated net assets attributable to the controlling financial interest of the Corporation and the 49% non-controlling interest Clinical Management Solutions, LLC holds in Union Hospital Therapy, LLC (UHT).

	Controlling Interest	Noncontrolling Interest	Total
Balance August 31, 2014	\$ 121,132,288	\$ 397,239	\$ 121,529,527
Change in net assets, before distribution to owners	3,187,047	358,036	3,545,083
Distribution to owners	<u>(334,569)</u>	<u>(321,449)</u>	<u>(656,018)</u>
Change in net assets, after distribution to owners	2,852,478	36,587	2,889,065
Balance December 31, 2014	<u>\$ 123,984,766</u>	<u>\$ 433,826</u>	<u>\$ 124,418,592</u>

### 10. PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The Corporation has a noncontributory, defined-benefit plan (the Plan) covering substantially all of its employees who are at least 21 years old and have completed one year of service, and certain employees meeting those requirements of affiliated organizations. The Plan provides for retirement, survivor, and severance benefits. Employees with five or more years of service are entitled to monthly pension benefits beginning at normal retirement age (65) equal to their credited service multiplied by 1/60th of 1% of the total of their annual compensation for the five consecutive plan years which produce the highest total. The Corporation has agreed to contribute such amounts as are necessary to provide assets sufficient to meet the benefits to be paid to plan members. Contributions include normal cost, interest on unfunded prior service cost, and amortization of prior service cost over a period not exceeding 30 years. The Plan has met the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The Corporation instituted a special voluntary early-retirement pension and health insurance benefit for eligible employees between the ages of 55 to 60 and above through multiple phases throughout 2011. Employees who applied and qualified under the program received monthly annuities based upon the value of their pension, as well as COBRA health benefits for up to 18th months at the current employee costs. Upon the 19th month and until reaching the age of 65, the Corporation will deposit \$500 a month into a benefits account per qualifying retiree to be used for the health benefits.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The liability outstanding for the estimated cost for those in the program is approximately \$1,340,000 and \$1,579,000 as of December 31, 2014 and 2013. Of these amounts approximately \$410,000 and \$458,000 were recorded as salaries, wages, and related liabilities and approximately \$930,000 and \$1,121,000 were recorded as pension liability and related obligations on the consolidated balance sheets as of December 31, 2014 and 2013, respectively.

The Corporation recognizes the unfunded status of its defined-benefit pension plan in its consolidated balance sheets and the changes therein within its consolidated statements of operations and changes in net assets. Unfunded status is defined as the difference between the projected benefit obligation and the fair value of plan assets. Prior unrecognized net actuarial losses of \$24,014,000 and \$27,308,000 have been included in the unrestricted net assets at December 31, 2014 and 2013, respectively, and have not yet been recognized in net periodic pension cost. The adjustment to unrestricted net assets consisted primarily of the change in cumulative losses on the retirement plan and changes in the funded status for the four month period ended December 31, 2014 and 2013.

Actuarial losses included in unrestricted net assets at December 31, 2014 and 2013, and expected to be amortized in net periodic benefit cost were approximately \$662,000 and \$553,000.

The following table sets forth the defined-benefit pension plan's benefit obligations, fair value of the Plan's assets, and unfunded status at December 31, 2014 and 2013:

	<u>Four Months Ended</u> <u>December 31, 2014</u>	<u>Unaudited</u> <u>Four Months Ended</u> <u>December 31, 2013</u>
Change in benefit obligation		
Benefit obligation, September 1	\$ 116,572,676	\$ 107,079,332
Interest cost	1,800,588	1,917,930
Benefits paid	(19,932,622)	(1,581,180)
Actuarial loss	1,154,363	-0-
Benefit obligation, December 31	<u>\$ 99,595,005</u>	<u>\$ 107,416,082</u>
Changes in plan assets		
Fair value of plan assets, September 1	\$ 113,157,172	\$ 97,584,772
Actual return on plan assets	(756,530)	4,900,974
Employer contributions	3,087,000	2,310,000
Benefits paid	(19,932,622)	(1,581,180)
Fair value of plan assets, December 31	<u>\$ 95,555,020</u>	<u>\$ 103,214,566</u>
Unfunded status		
Unfunded status of the plan, end of year	<u>\$ (4,039,985)</u>	<u>\$ (4,201,516)</u>

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

As stated in Note 2, the large increase in benefits paid during the four month period ended December 31, 2014 was due to the early withdrawal election and related lump sum distribution payments.

The liability recorded to account for the unfunded status of the plan at year end is recognized within the pension liability and related obligations on the consolidated balance sheet as of December 31, 2014 and 2013.

The following is a summary of the components of net periodic pension costs:

	Four Months Ended December 31, 2014	Unaudited Four Months Ended December 31, 2013
Components of net benefit cost		
Interest cost	\$ 1,800,588	\$ 1,917,930
Expected return on plan assets	(2,366,862)	(2,161,029)
Actuarial loss	662,244	553,322
Net periodic benefit cost	95,970	310,223
Settlement cost	5,188,502	-0-
Net benefit cost	\$ 5,284,472	\$ 310,223

The following is a schedule, by year, of expected benefit payments, which reflect expected future service. The year ending December 31, 2015 is higher than subsequent years due to the early withdrawal election mentioned in Note 2:

Year Ending December 31,	
2015	\$ 8,040,422
2016	7,605,470
2017	7,474,317
2018	7,341,834
2019	7,451,119
2020-2023	32,201,427
	\$ 70,114,589

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The weighted-average assumptions used to determine the Plan's projected benefit obligation (PBO) and net periodic benefit costs (NPBC) for the four month period ended December 31, 2014 and 2013, are as follows:

	2014	2013
Discount rate	5.0%	5.5%
Expected return on plan assets	6.5%	6.5%
Rate of compensation increase - NPBC	Not Applicable	Not Applicable

The principal long-term determinant of a portfolio's investment return is its asset allocation. The Plan's allocation includes growth assets (45%) and fixed income (54%) investments and other (1%). In addition, active management 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.

The Plan's weighted-average asset allocations at December 31, 2014 and 2013, by asset category, are as follows:

	2014	2013
Mutual funds - equity funds	45%	47%
Mutual funds - bond funds	54%	52%
Other	1%	1%
	100%	100%

The following is an analysis of fair value of the major classes of plan assets as of December 31, 2014 and 2013:

	Fair Value	
	2014	Unaudited 2013
Money market mutual funds	\$ 776,352	\$ 1,512,810
Mutual funds - equity funds	42,333,703	48,719,076
Mutual funds - bond funds	51,230,237	51,636,231
Private equity funds	1,214,728	1,346,449
Total	\$ 95,555,020	\$ 103,214,566

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

See footnote 6 for information on valuation techniques for money market mutual funds and mutual funds. The private equity funds are considered level 3 assets in the fair value hierarchy, as the inputs to the valuation methodology are unobservable and significant to the fair value measurement. The fair value of the private equity funds are valued at the NAV of units of the funds. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment may significantly impact the net asset value of the fund and, consequently, the fair value of the Corporation's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Corporation were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

The following is a reconciliation of the fair value of plan assets as of December 31, 2014 and 2013 determined on the basis of level 3 valuation techniques:

	Private Equity Funds	
	2014	Unaudited 2013
Balance at September 1	\$ 1,214,728	\$ 1,548,007
Return on plan assets:		
Assets held at the end of the year	-0-	(26,289)
Sales	-0-	(175,269)
Balance at December 31	<u>\$ 1,214,728</u>	<u>\$ 1,346,449</u>

The Plan employs an investment advisor to monitor the Plan's investment managers and make investment recommendations to the Corporation. The Corporation invests fund balances in a structured portfolio of equity and bond mutual funds and alternative investments. The target allocation strategy for the Plan is to have its investment portfolio comprise approximately 20% to 60% equity investments, 42% to 62% debt instruments, and 0% to 15% in real estate investments. Within the equity investment classification, the Plan's asset strategy encompasses equity and equity-like instruments that are expected to represent approximately 60% of the Corporation's plan asset portfolio of both public and private market investments. The largest component of these equity and equity-like instruments is public equity securities that are well diversified and invested in U.S. and international companies.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

Projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category.

The Corporation expects to contribute approximately \$9,240,000 to the pension plan in calendar year 2015 and will meet the required funding amounts for 2014. The Corporation elected to freeze the Plan in 2010, but will continue to fund the plan as required.

The Corporation also has a 403b defined contribution plan which includes a 50% employer match up to 6% of employee deferrals in addition to an employer discretionary add-on of 1.67% for the periods ended December 31, 2014 and 2013. The related contributions for the plan approximated \$1,538,000 and \$1,287,000 for the four month period ended December 31, 2014 and 2013, respectively.

### 11. INVESTMENTS IN JOINT VENTURES

The Corporation owns 50% of UAPC. The Corporation accounted for the investment under the equity method of accounting, as the governance structure is such that the Corporation cannot exercise control. The Corporation's 50% interest in UAPC amounts to approximately \$573,000 and \$1,930,000 as of December 31, 2014 and 2013. The interest is recorded in Investments in Joint Ventures on the Consolidated Balance Sheets and the Corporation's loss on its investment in UAPC is recorded in Loss on Investment in UAPC on the Consolidated Statements of Operations and Changes in Net Assets.

The Corporation owns approximately 18% of the Indiana Healthcare Reciprocal Risk Retention Group (IHRRRG). The Corporation accounted for the investment under the equity method of accounting, as the governance structure is such that the Corporation cannot exercise control. The Corporation's 18% interest in IHRRRG amounts to approximately \$2,600,000 and \$2,400,000 as of December 31, 2014 and 2013. The interest is recorded in Investments in Joint Ventures on the Consolidated Balance Sheets and the Corporation's gain on its investment in UAPC is recorded in other non-operating gains (losses) on the Consolidated Statements of Operations and Changes in Net Assets.

The Corporation has ownership interest in other joint ventures accounted for under the equity method, the effects of which are immaterial to the consolidated financial statements as a whole.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### 12. COMMITMENTS AND CONTINGENCIES

During 2013, the Indiana Health Financing Authority received an Information Document Request (IDR) from the Internal Revenue Service (IRS), Tax Exempt Bonds and Government Entities Division regarding an IRS examination of the series 1993 bonds. The IDR relates to certain post-issuance transactions specific to the bonds, including a total return swap executed by the Hospital related to the aforementioned bonds. The related results of the examination are unknown at this time.

The Corporation is involved in other litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on the Corporation's financial position or consolidated results of operations, changes in net assets, and cash flows.

**SUPPLEMENTARY INFORMATION**

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2014

	Union Hospital, Inc.	IPACS, Inc.	COH	UHT, LLC	Eliminations	Union Hospital, Inc. and Subsidiaries
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 21,616,569	\$ 886,432	\$ -0-	\$ 546,402	\$ -0-	\$ 23,049,403
Funds held by trustee, current portion	6,162,344	-0-	-0-	-0-	-0-	6,162,344
Board designated funds, current portion	230,101	-0-	-0-	-0-	-0-	230,101
Patient accounts receivable, net	49,301,576	-0-	265,002	-0-	-0-	49,566,578
Inventories	4,194,640	-0-	-0-	-0-	-0-	4,194,640
Prepaid expenses and other current assets	3,153,277	93,440	535,544	679,068	(750,916)	3,710,413
Total current assets	84,658,507	979,872	800,546	1,225,470	(750,916)	86,913,479
<b>Investments limited as to use, less current portion</b>						
Funds held by trustee	24,297,655	-0-	-0-	-0-	-0-	24,297,655
Board designated funds	51,917,456	-0-	-0-	-0-	-0-	51,917,456
Permanently restricted	1,573,096	-0-	-0-	-0-	-0-	1,573,096
Total investments limited as to use	77,788,207	-0-	-0-	-0-	-0-	77,788,207
<b>Property and equipment</b>						
Land and improvements	37,907,574	-0-	-0-	-0-	-0-	37,907,574
Buildings and fixed equipment	340,837,408	7,652	-0-	-0-	-0-	340,845,060
Movable equipment	128,192,232	58,303	57,844	-0-	-0-	128,308,379
	506,937,214	65,955	57,844	-0-	-0-	507,061,013
Less allowances for depreciation	240,594,292	36,910	44,067	-0-	-0-	240,675,269
	266,342,922	29,045	13,777	-0-	-0-	266,385,744
Construction in progress	6,484,459	-0-	-0-	-0-	-0-	6,484,459
Total property and equipment, net	272,827,381	29,045	13,777	-0-	-0-	272,870,203
<b>Other assets</b>						
Due from Union Hospital Foundation, Inc.	2,586,708	-0-	-0-	-0-	-0-	2,586,708
Deferred financing costs, net	2,869,080	-0-	-0-	-0-	-0-	2,869,080
Intangible assets, net	746,695	-0-	-0-	-0-	-0-	746,695
Investment in joint ventures	5,056,016	-0-	-0-	-0-	(1,855,726)	3,200,290
	11,258,499	-0-	-0-	-0-	(1,855,726)	9,402,773
Total assets	<u>\$ 446,532,594</u>	<u>\$ 1,008,917</u>	<u>\$ 814,323</u>	<u>\$ 1,225,470</u>	<u>\$ (2,606,642)</u>	<u>\$ 446,974,662</u>

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2014

	Union Hospital, Inc.	IPACS, Inc.	COH	UHT, LLC	Eliminations	Union Hospital, Inc. and Subsidiaries
<b>Liabilities and net assets</b>						
<b>Current liabilities</b>						
Accounts payable and other current liabilities	\$ 17,896,130	\$ 358,797	\$ 1,239	\$ 69,100	\$ (750,916)	\$ 17,574,350
Salaries, wages and related liabilities	21,189,639	59,013	-0-	266,091	-0-	21,514,743
Estimated third party settlements	3,492,214	-0-	-0-	-0-	-0-	3,492,214
Accrued interest	5,147,347	-0-	-0-	-0-	-0-	5,147,347
Current portion of long-term debt	3,757,832	-0-	-0-	-0-	-0-	3,757,832
Total current liabilities	51,483,162	417,810	1,239	335,191	(750,916)	51,486,486
<b>Long-term liabilities</b>						
Long-term debt, less current portion	263,748,233	-0-	-0-	4,920	-0-	263,753,153
Deferred revenue	67,033	-0-	-0-	-0-	-0-	67,033
Pension liability and related obligations	4,970,222	-0-	-0-	-0-	-0-	4,970,222
Other long-term liabilities	2,279,176	-0-	-0-	-0-	-0-	2,279,176
Total long-term liabilities	271,064,664	-0-	-0-	4,920	-0-	271,069,584
Total liabilities	322,547,826	417,810	1,239	340,111	(750,916)	322,556,070
<b>Net assets</b>						
Unrestricted	119,517,636	591,107	813,084	451,533	(1,855,726)	119,517,634
Noncontrolling interests in UHT, LLC	-0-	-0-	-0-	433,826	-0-	433,826
Total unrestricted net assets	119,517,636	591,107	813,084	885,359	(1,855,726)	119,951,460
Temporarily restricted	2,894,036	-0-	-0-	-0-	-0-	2,894,036
Permanently restricted	1,573,096	-0-	-0-	-0-	-0-	1,573,096
Total net assets	123,984,768	591,107	813,084	885,359	(1,855,726)	124,418,592
Total liabilities and net assets	<u>\$ 446,532,594</u>	<u>\$ 1,008,917</u>	<u>\$ 814,323</u>	<u>\$ 1,225,470</u>	<u>\$ (2,606,642)</u>	<u>\$ 446,974,662</u>

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013 (UNAUDITED)

	Union Hospital, Inc.	IPACS, Inc.	COH	Eliminations	Union Hospital, Inc. and Subsidiaries
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 8,570,532	\$ 2,198,828	\$ 3,948	\$ -0-	\$ 10,773,308
Funds held by trustee, current portion	5,817,672	-0-	-0-	-0-	5,817,672
Board designated funds, current portion	16,017,367	-0-	-0-	-0-	16,017,367
Patient accounts receivable, net	67,539,115	-0-	185,059	-0-	67,724,174
Inventories	4,481,673	-0-	-0-	-0-	4,481,673
Prepaid expenses and other current assets	5,194,379	83,794	259,166	(43,529)	5,493,810
Total current assets	107,620,738	2,282,622	448,173	(43,529)	110,308,004
<b>Investments limited as to use, less current portion</b>					
Funds held by trustee	24,449,817	-0-	-0-	-0-	24,449,817
Board designated	29,479,433	-0-	-0-	-0-	29,479,433
Permanently restricted	1,491,685	-0-	-0-	-0-	1,491,685
Total investments limited as to use	55,420,935	-0-	-0-	-0-	55,420,935
<b>Property and equipment</b>					
Land and improvements	37,794,971	-0-	-0-	-0-	37,794,971
Buildings and fixed equipment	335,516,374	7,652	-0-	-0-	335,524,026
Movable equipment	125,741,537	57,211	60,390	-0-	125,859,138
	499,052,882	64,863	60,390	-0-	499,178,135
Less allowances for depreciation	219,410,731	26,919	43,255	-0-	219,480,905
	279,642,151	37,944	17,135	-0-	279,697,230
Construction in progress	2,591,470	-0-	-0-	-0-	2,591,470
Total property and equipment, net	282,233,621	37,944	17,135	-0-	282,288,700
<b>Other assets</b>					
Due from Union Hospital Foundation, Inc.	3,022,998	-0-	-0-	-0-	3,022,998
Deferred financing costs, net	2,831,920	-0-	-0-	-0-	2,831,920
Intangible assets, net	3,379,275	-0-	-0-	-0-	3,379,275
Investment in joint ventures	6,785,122	-0-	-0-	(2,436,106)	4,349,016
	16,019,315	-0-	-0-	(2,436,106)	13,583,209
Total assets	\$ 461,294,609	\$ 2,320,566	\$ 465,308	\$ (2,479,635)	\$ 461,600,848

See Report of Independent Auditors on Pages 1 - 3.

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013 (UNAUDITED)

	Union Hospital, Inc.	IPACS, Inc.	COH	Eliminations	Union Hospital, Inc. and Subsidiaries
<b>Liabilities and net assets</b>					
<b>Current liabilities</b>					
Accounts payable and other current liabilities	\$ 25,341,745	\$ 309,638	\$ 17,418	\$ (43,529)	\$ 25,625,272
Salaries, wages and related liabilities	20,819,175	22,712	-0-	-0-	20,841,887
Estimated Third party settlements	3,549,678	-0-	-0-	-0-	3,549,678
Accrued interest	5,086,315	-0-	-0-	-0-	5,086,315
Current portion of long-term debt	3,430,080	-0-	-0-	-0-	3,430,080
Total current liabilities	58,226,993	332,350	17,418	(43,529)	58,533,232
<b>Long-term liabilities</b>					
Long-term debt, less current portion	266,288,428	-0-	-0-	-0-	266,288,428
Deferred revenue	167,357	-0-	-0-	-0-	167,357
Pension liability and related obligations	5,322,193	-0-	-0-	-0-	5,322,193
Other long-term liabilities	2,733,073	-0-	-0-	-0-	2,733,073
Total long-term liabilities	274,511,051	-0-	-0-	-0-	274,511,051
Total liabilities	332,738,044	332,350	17,418	(43,529)	333,044,283
<b>Net assets</b>					
Unrestricted	123,950,489	1,988,216	447,890	(2,436,106)	123,950,489
Temporarily restricted	3,114,391	-0-	-0-	-0-	3,114,391
Permanently restricted	1,491,685	-0-	-0-	-0-	1,491,685
Total net assets	128,556,565	1,988,216	447,890	(2,436,106)	128,556,565
Total liabilities and net assets	\$ 461,294,609	\$ 2,320,566	\$ 465,308	\$ (2,479,635)	\$ 461,600,848

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENTS OF OPERATIONS FOR PERIOD SEPTEMBER 1, 2014 TO DECEMBER 31, 2014

	Union Hospital	Union Hospital Clinton	Total Union Hospital, Inc.	IPACS, Inc.	COH	UHT, LLC	Eliminations	Total Union Hospital, Inc. and Subsidiaries
<b>Operating revenue</b>								
Net patient service revenue	\$ 138,808,999	\$ 9,748,474	\$ 148,557,473	\$ -0-	\$ 686,152	\$ -0-	\$ -0-	\$ 149,243,625
Less provision for bad debts	10,978,488	1,230,937	12,209,425	-0-	-0-	-0-	-0-	12,209,425
Net patient service revenue net of provision for bad debts	127,830,511	8,517,537	136,348,048	-0-	686,152	-0-	-0-	137,034,200
Other revenue	2,874,324	122,086	2,996,410	398,140	-0-	2,520,660	(3,188,178)	2,727,032
Total operating revenue	130,704,835	8,639,623	139,344,458	398,140	686,152	2,520,660	(3,188,178)	139,761,232
<b>Operating expenses</b>								
Salaries and wages	40,468,677	3,005,209	43,473,886	125,139	-0-	1,366,838	-0-	44,965,863
Employee benefits	8,764,293	610,439	9,374,732	29,698	-0-	213,023	-0-	9,617,453
Medical supplies and drugs	17,663,710	775,254	18,438,964	-0-	103,308	-0-	-0-	18,542,272
Physician services	1,281,327	2,523	1,283,850	-0-	-0-	-0-	-0-	1,283,850
Contract services	19,284,069	425,814	19,709,883	11,548	-0-	-0-	-0-	19,721,431
Rent and leases	3,431,589	194,878	3,626,467	6,042	1,382	-0-	-0-	3,633,891
Utilities, supplies, and other	13,871,944	1,389,852	15,261,796	216,933	368,846	208,988	(3,188,178)	12,868,385
Hospital assessment fee	4,801,558	174,585	4,976,143	-0-	-0-	-0-	-0-	4,976,143
Depreciation and amortization	7,397,314	379,302	7,776,616	3,296	1,171	-0-	-0-	7,781,083
Interest	5,274,504	-0-	5,274,504	-0-	-0-	1,125	-0-	5,275,629
Total operating expenses	122,238,985	6,957,856	129,196,841	392,656	474,707	1,789,974	(3,188,178)	128,666,000
Income from operations before special item	8,465,850	1,681,767	10,147,617	5,484	211,445	730,686	-0-	11,095,232
<b>Special item - reduction in force and pension settlement</b>	(5,886,973)	-0-	(5,886,973)	-0-	-0-	-0-	-0-	(5,886,973)
Income from operations after special item	2,578,877	1,681,767	4,260,644	5,484	211,445	730,686	-0-	5,208,259
<b>Non-operating gains (losses)</b>								
Investment income	847,693	314	848,007	27,544	-0-	-0-	-0-	875,551
Loss on investment in UAPC	(637,244)	-0-	(637,244)	-0-	-0-	-0-	-0-	(637,244)
Other	611,460	-0-	611,460	-0-	-0-	-0-	(617,124)	(5,664)
Total non-operating revenues	821,909	314	822,223	27,544	-0-	-0-	(617,124)	232,643
Excess of revenue over expenses	\$ 3,400,786	\$ 1,682,081	\$ 5,082,867	\$ 33,028	\$ 211,445	\$ 730,686	\$ (617,124)	\$ 5,440,902

# UNION HOSPITAL INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENTS OF OPERATIONS FOR PERIOD SEPTEMBER 1, 2013 TO DECEMBER 31, 2013 (UNAUDITED)

	Union Hospital	Union Hospital Clinton	Total Union Hospital, Inc.	IPACS, Inc.	COH	Eliminations	Total Union Hospital, Inc. and Subsidiaries
<b>Operating revenue</b>							
Net patient service revenue	\$ 137,188,866	\$ 9,997,795	\$ 147,186,661	\$ -0-	\$ 516,997	\$ -0-	\$ 147,703,658
Less provision for bad debts	11,568,550	1,363,569	12,932,119	-0-	-0-	-0-	12,932,119
Net patient service revenue net of provision for bad debts	125,620,316	8,634,226	134,254,542	-0-	516,997	-0-	134,771,539
Other revenue	2,719,691	139,877	2,859,568	354,110	-0-	(569,381)	2,644,297
Total operating revenue	128,340,007	8,774,103	137,114,110	354,110	516,997	(569,381)	137,415,836
<b>Operating expenses</b>							
Salaries and wages	43,312,430	3,316,442	46,628,872	117,426	-0-	-0-	46,746,298
Employee benefits	10,194,682	734,336	10,929,018	32,526	-0-	-0-	10,961,544
Medical supplies and drugs	18,929,221	809,602	19,738,823	-0-	68,699	-0-	19,807,522
Physician services	1,212,926	2,652	1,215,578	-0-	-0-	-0-	1,215,578
Contract services	21,393,074	365,887	21,758,961	2,267	-0-	-0-	21,761,228
Rent and leases	3,515,581	208,462	3,724,043	5,884	1,575	-0-	3,731,502
Utilities, supplies, and other	11,734,186	1,180,382	12,914,568	199,084	342,682	(569,381)	12,886,953
Hospital assessment fee	5,085,481	411,936	5,497,417	-0-	-0-	-0-	5,497,417
Depreciation and amortization	8,033,341	342,108	8,375,449	3,228	909	-0-	8,379,586
Interest	5,251,149	78	5,251,227	-0-	-0-	-0-	5,251,227
Total operating expenses	128,662,071	7,371,885	136,033,956	360,415	413,865	(569,381)	136,238,855
Income (loss) from operations	(322,064)	1,402,218	1,080,154	(6,305)	103,132	-0-	1,176,981
<b>Nonoperating gains (losses)</b>							
Investment income	275,831	67	275,898	24,014	-0-	-0-	299,912
Loss on investment in UAPC	(292,967)	-0-	(292,967)	-0-	-0-	-0-	(292,967)
Other	85,038	-0-	85,038	-0-	-0-	(120,485)	(35,447)
Total nonoperating revenues	67,902	67	67,969	24,014	-0-	(120,485)	(28,502)
Excess of revenue over (under) expenses	\$ (254,162)	\$ 1,402,285	\$ 1,148,123	\$ 17,709	\$ 103,132	\$ (120,485)	\$ 1,148,479