

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

Consolidated Financial Report
and Supplementary Information
December 31, 2014

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Independent Auditor's Report

The Board of Directors
Parkview Health System, Inc.

Report on the Financial Statements

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

Management's Responsibility for the 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Other Matters

The consolidated financial statements of Parkview Health System, Inc. and subsidiaries, as of and for the year ended December 31, 2013, were audited by other auditors whose report, dated March 27, 2014, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets, are presented for purposes of additional analysis rather than to present the financial position, results of operations, and changes in net assets of the individual entities and are not a required part of the 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 details of the consolidated balance sheet as of December 31, 2014, and the details of the consolidated statement of operations and changes in net assets for the year then ended, have 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, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The details of the consolidated balance sheet as of December 31, 2013, and the details of the consolidated statement of operations and changes in net assets for the year then ended, were audited by other auditors whose report, dated March 27, 2014, expressed an unmodified opinion on such information in relation to the consolidated financial statements as a whole.

McGladrey LLP

Chicago, Illinois
April 28, 2015

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

**Consolidated Balance Sheets
December 31, 2014 and 2013
(In Thousands)**

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 64,862	\$ 106,161
Short-term investments	40,216	12,645
Patient accounts receivable, less allowances for bad debts of \$68,157 and \$68,535 in 2014 and 2013, respectively	168,490	165,480
Inventories	16,639	16,907
Prepaid expenses and other current assets	23,194	28,724
Estimated third-party payor settlements	4,811	4,393
Collateral from securities lending agreement	-	1,309
Total current assets	318,212	335,619
Investments		
Board-designated investments	707,710	507,688
Funds held by trustees	25,041	24,900
Securities pledged	-	2,280
Other investments	172	157
	732,923	535,025
Property and Equipment		
Cost	1,640,599	1,555,520
Less accumulated depreciation and amortization	644,940	582,486
	995,659	973,034
Other Assets		
Interest rate swaps	3,564	2,767
Deferred financing costs, net	2,348	2,614
Investments in joint ventures	3,412	3,189
Goodwill and intangible assets, net	81,911	82,029
Other assets	24,760	26,046
	115,995	116,645
Total assets	\$ 2,162,789	\$ 1,960,323

See Notes to Consolidated Financial Statements.

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

**Consolidated Balance Sheets
December 31, 2014 and 2013
(In Thousands)**

	2014	2013
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 54,472	\$ 57,633
Salaries, wages, and related liabilities	77,291	79,894
Accrued interest	2,653	2,740
Estimated third-party payor settlements	19,837	3,750
Payable under securities lending agreement	-	2,324
Current portion of long-term debt	29,851	27,515
Total current liabilities	184,104	173,856
Noncurrent Liabilities		
Long-term debt, less current portion	623,707	621,056
Interest rate swaps	79,288	48,506
Accrued pension obligations	81,670	-
Other	19,289	16,739
	803,954	686,301
Net Assets		
Parkview Health System, Inc.	1,117,321	1,070,619
Noncontrolling interest in subsidiaries	25,230	19,908
Total unrestricted net assets	1,142,551	1,090,527
Temporarily restricted net assets	31,270	8,729
Permanently restricted net assets	910	910
	1,174,731	1,100,166
Total liabilities and net assets	\$ 2,162,789	\$ 1,960,323

See Notes to Consolidated Financial Statements.

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

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Revenues:		
Net patient care service revenue	\$ 1,387,748	\$ 1,203,292
Provision for bad debts	(119,890)	(119,125)
Net patient care service revenue, less provision for bad debts	<u>1,267,858</u>	<u>1,084,167</u>
Other revenue	78,084	76,478
	<u>1,345,942</u>	<u>1,160,645</u>
Expenses:		
Salaries and benefits	582,433	547,016
Supplies	171,671	146,626
Purchased services	128,231	136,926
Utilities, repairs, and maintenance	49,723	47,750
Depreciation and amortization	83,727	83,870
Hospital assessment fee	55,044	19,925
Other	60,808	54,925
	<u>1,131,637</u>	<u>1,037,038</u>
Operating income	<u>214,305</u>	<u>123,607</u>
Nonoperating income (expense):		
Interest, dividends, and realized gains on sales of investments, net	32,486	13,321
Unrealized (losses) gains on investments, net	(13,898)	31,125
Interest expense	(19,121)	(19,818)
Unrealized (losses) gains on interest rate swaps, net	(29,943)	34,965
Other	(9,383)	(9,203)
	<u>(39,859)</u>	<u>50,390</u>
Excess of revenues over expenses	<u>174,446</u>	<u>173,997</u>
Excess of revenues over expenses attributable to noncontrolling interest in subsidiaries	<u>32,050</u>	<u>22,945</u>
Excess of revenues over expenses attributable to Parkview Health System, Inc.	<u>\$ 142,396</u>	<u>\$ 151,052</u>

See Notes to Consolidated Financial Statements.

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

**Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2014 and 2013
(In Thousands)**

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

See Notes to Consolidated Financial Statements.

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

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2014 and 2013
(In Thousands)

	Year Ended December 31, 2013		
	Total	Controlling Interest	Noncontrolling Interest
Unrestricted net assets			
Excess of revenues over expenses	\$ 173,997	\$ 151,052	\$ 22,945
Distributions to noncontrolling interests	(19,209)	-	(19,209)
Pension-related changes other than net periodic pension cost	65,760	65,760	-
Other	803	118	685
Increase in unrestricted net assets	<u>221,351</u>	<u>216,930</u>	<u>4,421</u>
Temporarily restricted net assets			
Contributions	1,447	1,447	-
Investment loss	(15)	(15)	-
Net assets released from restrictions	(714)	(714)	-
Increase in temporarily restricted net assets	<u>718</u>	<u>718</u>	<u>-</u>
Permanently restricted net assets			
Contributions	1	1	-
Increase in permanently restricted net assets	<u>1</u>	<u>1</u>	<u>-</u>
Increase in net assets	222,070	217,649	4,421
Net assets:			
Beginning of year	<u>878,096</u>	<u>862,609</u>	<u>15,487</u>
End of year	<u>\$ 1,100,166</u>	<u>\$ 1,080,258</u>	<u>\$ 19,908</u>

See Notes to Consolidated Financial Statements.

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Cash Flows from Operating Activities		
Increase in net assets	\$ 74,565	\$ 222,070
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	119,890	119,125
Depreciation and amortization	83,727	83,870
Undistributed earnings from alternative investments	9,347	(4,573)
Unrealized losses (gains) on interest rate swaps, net	29,943	(34,899)
Amortization of deferred financing costs and discount	(602)	(606)
(Gain) loss from disposal of property and equipment	(863)	422
Pension-related changes other than net periodic pension cost	95,322	(65,760)
Restricted contribution of property	(21,600)	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(122,900)	(127,956)
Inventories	268	(915)
Prepaid expenses and other current assets	6,872	(842)
Trading securities, net	(234,816)	(90,435)
Accounts payable, accrued expenses, and other current liabilities	(8,219)	10,124
Estimated third-party payor settlements	15,669	(2,557)
Accrued pension obligation	(7,130)	1,513
Collateral posted on swaps	-	4,994
Other	18,603	9,741
Net cash provided by operating activities	58,076	123,316
Cash Flows from Investing Activities		
Property and equipment additions	(79,316)	(36,793)
Business acquisitions, net of cash acquired	(1,176)	(705)
Proceeds from sale of property and equipment	4,363	374
Net cash used in investing activities	(76,129)	(37,124)
Cash Flows from Financing Activities		
Principal payments of long-term debt	(23,186)	(21,015)
Proceeds from issuance of long-term debt	33,700	-
Payments of capital lease obligations	(7,297)	(6,007)
Distributions to noncontrolling interests	(26,728)	(19,209)
Other	265	220
Net cash used in financing activities	(23,246)	(46,011)
(Decrease) increase in cash and cash equivalents	(41,299)	40,181
Cash and cash equivalents:		
Beginning of year	106,161	65,980
End of year	\$ 64,862	\$ 106,161
Schedule of Noncash Investing and Financing Activities		
Restricted contribution of property	\$ 21,600	\$ -

See Notes to Consolidated Financial Statements.

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 1. Organization

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

PH is the sole corporate member of Parkview Hospital, Inc. (PVH). PVH comprises one acute care hospital; a behavioral health hospital; and a flagship tertiary care center, Parkview Regional Medical Center, which opened March 17, 2012, on a north campus. In total, PVH offers 649 beds in Fort Wayne, Indiana. PH is the majority owner (60%) of the Orthopaedic Hospital at Parkview North LLC (ORTHO), which is a for-profit joint venture hospital with a large orthopaedic physician group. ORTHO operates the Orthopaedic Hospital, a 37-bed orthopaedic specialty hospital and an ambulatory surgical center, acquired on December 31, 2012. In addition, PH is the sole corporate member of Huntington Memorial Hospital, Inc.; Whitley Memorial Hospital, Inc.; Community Hospital of Noble County, Inc.; and Community Hospital of LaGrange County, Inc., each of which operates an acute care community hospital and related facilities in the northeast region of Indiana. These hospitals are referred to collectively as the Hospital Affiliates.

PH and PVH are the sole members of Managed Care Services, LLC, which provides third-party administrative services to PH's employee health plan and acts as a preferred provider organization network of providers for self-funded employers. Managed Care Services, LLC also assumes risk on a Medicaid managed care program through MDwise. Capitation revenue relating to this program was \$31,865 in 2014 and \$29,637 in 2013, and is recorded in other revenue in the consolidated statements of operations and changes in net assets.

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

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 1. Organization (Continued)

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

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

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

Acquisitions: During 2014 and 2013, PH acquired several physician groups for a total purchase price of \$1,176 and \$963, respectively. The groups are included in PPG. The acquisitions were accounted for as business combinations. Goodwill of \$1,157 and \$406 was recognized upon purchase in 2014 and 2013, respectively, which represents the excess of purchase price over identifiable assets and liabilities.

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

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

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 1. Organization (Continued)

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

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

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

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

The cost of charity care provided in 2014 and 2013 approximates \$16,018 and \$16,273, respectively. The Corporation estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. The Corporation also offers a discount for all uninsured patients.

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

The Corporation and its subsidiaries have a commitment to improving the health of the citizens of the communities served. In all locations, PH has made a concerted effort to identify opportunities to partner with local organizations and to develop initiatives to improve the health of these communities. Health fairs and screenings are common efforts to identify problems before they become serious or life-threatening. Affiliates often partner with local organizations for community education, including the Minority Health Coalition, American Lung Association, SuperShot, YMCA, YWCA, Health Information Link, and American Heart Association. PH provides subsidies for the emergency medical services of the counties where its four community hospitals reside. An association with Fort Wayne Community Schools has provided nursing services, dental care, and physicals to needy children. PH donations support nursing programs at Indiana University-Purdue University of Fort Wayne and the University of St. Francis. Efforts have helped provide health care to the medically underserved through support of the Neighborhood Health Clinic and Matthew 25. PH affiliates have supported homeless shelters, women's crisis shelters, safety councils, senior transportation programs, and poison control programs. Awareness and prevention programs dealing with safety, trauma, drugs, and alcohol are projects of PH.

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 2. Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of PH and all majority-owned or majority-controlled subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where ownership is 20% to 50% and PH has significant influence. For the years ended December 31, 2014 and 2013, PH's share of income recorded using the equity method approximated \$2,074 and \$2,322, respectively, and is recorded as other revenue in the consolidated statements of operations and changes in net assets.

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

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

Goodwill: PH records goodwill arising from a business combination as the excess of purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. PH annually reviews, as of the first day of the fourth quarter, the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed if an event occurs or circumstances change that would make it more likely than not that the fair value of a reporting unit is below its carrying amount. Management has determined that the Corporation is the reporting unit at which fair value is measured. If such circumstances suggest that the recorded amounts of goodwill cannot be recovered, the carrying value is reduced to fair value. If the carrying value of goodwill is impaired, a material charge may be incurred to results of operations. No goodwill impairment was required in 2014 or 2013.

Intangible assets: Costs allocated to customer relationships and other intangible assets are based on their fair value at the date of acquisition. The cost of intangible assets is amortized on a straight-line basis over the assets' estimated useful life ranging from 3 to 20 years. Amortization expense recorded in the consolidated statements of operations and changes in net assets was \$1,275 and \$1,260 in 2014 and 2013, respectively. There are no indefinite-lived intangible assets (see Note 3).

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

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

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

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

**Parkview Health System, Inc. and Subsidiaries
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**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 2. Significant Accounting Policies (Continued)

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

The Corporation and its tax-exempt affiliated entities each file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the tax-exempt status of each entity, the continued tax-exempt status of bonds, the nature, characterization and taxability of joint venture income, and various positions relating to potential sources of unrelated business taxable income (reported on Form 990T). As of December 31, 2014 and 2013, there are no unrecognized tax benefits resulting from uncertain tax positions.

Forms 990 and 990T filed by the Corporation and its tax-exempt affiliated entities are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 and 990T filed by the Corporation and its tax-exempt affiliated entities are no longer subject to examination for the year 2010 and prior.

Performance indicator: Excess of revenues over expenses as reflected in the accompanying consolidated statements of operations and changes in net assets includes operating income and nonoperating income and losses. Contributions of long-lived assets, pension-related changes other than net periodic pension cost, net assets released from restriction for acquisition of long-lived assets, and distributions to noncontrolling interests are excluded from excess of revenues over expenses.

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

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

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

Parkview Health System, Inc. and Subsidiaries
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Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

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

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

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for the Corporation's December 31, 2017 consolidated financial statements. The Corporation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

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

Note 3. Goodwill and Intangible Assets

The following tables summarize goodwill and other intangibles as of and for the years ended December 31, 2014 and 2013:

Goodwill balance at December 31, 2012	\$ 75,003
Acquisitions	406
Goodwill balance at December 31, 2013	<u>75,409</u>
Acquisitions	1,157
Goodwill balance at December 31, 2014	<u><u>\$ 76,566</u></u>

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Notes to Consolidated Financial Statements
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Note 3. Goodwill and Intangible Assets (Continued)

	2014		2013	
	Original Amount	Accumulated Amortization	Original Amount	Accumulated Amortization
Intangible assets	\$ 8,626	\$ 3,281	\$ 8,626	\$ 2,006

Amortization expense of \$1,275 and \$1,260 was recognized in 2014 and 2013, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

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

Year Ending December 31:	
2015	\$ 4,055
2016	2,750
2017	1,430
2018	95
2019	-

Note 4. Fair Value Measurement

ASC 820, *Fair Value Measurement*, defines fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

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

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.
- Level 2. Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.
- Level 3. Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of inputs, management generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or in the aggregate, represent more than 5% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value based on assumptions about what market participants would use in pricing the asset or liability.

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Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 4. Fair Value Measurement (Continued)

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

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments:				
Mutual funds	\$ 311	\$ 311	\$ -	\$ -
Corporate bonds	39,905		39,905	-
Total short-term investments	<u>\$ 40,216</u>	<u>\$ 311</u>	<u>\$ 39,905</u>	<u>\$ -</u>
Investments:				
U.S. government and agency obligations	\$ 60,838	\$ 55,703	\$ 5,135	\$ -
Corporate bonds	33,056	-	33,056	-
Mortgage- and asset-backed securities	23,254	-	23,254	-
Domestic equities	59,761	59,761	-	-
International equities	40,434	33,205	7,229	-
Commingled funds	92,102	-	92,102	-
Mutual funds:				
Equity type	80,226	80,226	-	-
Balanced type	45,078	45,078	-	-
Fixed income type	93,388	93,388	-	-
Total investments at fair value	<u>528,137</u>	<u>\$ 367,361</u>	<u>\$ 160,776</u>	<u>\$ -</u>
Investments not at fair value:				
Cash and short-term investments	19,548			
Real estate investment trust	25,329			
Real estate investment fund	23,227			
Hedge funds	121,758			
Real estate held for investment	15,668			
Amounts due from brokers	(744)			
Total investments	<u>\$ 732,923</u>			
Deferred compensation plan:				
Assets - mutual funds	\$ 8,588	\$ 8,588	\$ -	\$ -
Assets - guaranteed income fund	4,866	-	-	4,866
Interest rate swaps	3,564	-	3,564	-
	<u>\$ 17,018</u>	<u>\$ 8,588</u>	<u>\$ 3,564</u>	<u>\$ 4,866</u>
Liabilities				
Interest rate swaps	<u>\$ (79,288)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (79,288)</u>

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Note 4. Fair Value Measurement (Continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2013:

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments:				
Mutual funds	\$ 109	\$ 109	\$ -	\$ -
Corporate bonds	12,536	-	12,536	-
Total short-term investments	<u>\$ 12,645</u>	<u>\$ 109</u>	<u>\$ 12,536</u>	<u>\$ -</u>
Investments:				
U.S. government and agency obligations	\$ 42,616	\$ 36,845	\$ 5,771	\$ -
Corporate bonds	23,228	-	23,228	-
Mortgage- and asset-backed securities	13,701	-	13,701	-
Domestic equities	45,987	45,987	-	-
International equities	29,367	22,668	6,699	-
Commingled funds	65,255	-	65,255	-
Mutual funds:				
Equity type	62,881	62,881	-	-
Balanced type	31,294	31,294	-	-
Fixed income type	58,928	58,875	53	-
Total investments at fair value	<u>373,257</u>	<u>\$ 258,550</u>	<u>\$ 114,707</u>	<u>\$ -</u>
Investments not at fair value:				
Cash and short-term investments	55,700			
Real estate investment trust	22,626			
Hedge funds	63,485			
Real estate held for investment	19,940			
Amounts due to brokers	17			
Total investments	<u>\$ 535,025</u>			
Deferred compensation plan:				
Assets - mutual funds	\$ 8,830	\$ 8,830	\$ -	\$ -
Assets - guaranteed income fund	5,588	-	-	5,588
Interest rate swaps	2,767	-	2,767	-
Collateral from securities lending program - cash and short-term investments	1,309	-	1,309	-
	<u>\$ 18,494</u>	<u>\$ 8,830</u>	<u>\$ 4,076</u>	<u>\$ 5,588</u>
Liabilities				
Interest rate swaps	<u>\$ (48,506)</u>	<u>\$ -</u>	<u>\$ (48,506)</u>	<u>\$ -</u>
Obligations to return collateral under securities lending program				
	<u>\$ (2,324)</u>	<u>\$ -</u>	<u>\$ (2,324)</u>	<u>\$ -</u>

Parkview Health System, Inc. and Subsidiaries
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Notes to Consolidated Financial Statements
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Note 4. Fair Value Measurement (Continued)

Certain of PH's investments are made through alternative investments and private investment funds, primarily partnership trusts. PH accounts for its ownership in these funds under the equity method, and as a result, hedge fund, real estate investment trust, and real estate investment fund investments totaling \$170,314 and \$86,111 as of December 31, 2014 and 2013, respectively, are excluded from the fair value disclosure. Deferred compensation plan assets are included in other assets in the consolidated balance sheets. PH held real estate for investment purposes of \$15,668 and \$19,940 as of December 31, 2014 and 2013, which is accounted for at cost and assessed for impairment when indicators exist. The real estate is written down to fair value as estimated by third-party valuation experts when impairment exists (which are nonrecurring fair value measurements using Level 3 inputs), with losses recorded in realized gains (losses) on investments in the consolidated statements of operations and changes in net assets. Following is a description of the Corporation's valuation methodologies for assets and liabilities measured at fair value, not classified as Level 1. The fair values of commingled funds are based on either the fair value of the underlying investments of the fund, as determined by the fund, or on the ownership interest in the NAV per share or its equivalent, of the respective fund. The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) discount curve in order to reflect the credit value adjustment for nonperformance risk. The credit valuation adjustments for asset and liability position interest rate swap contracts are internally valued with the assistance of a third party using other comparably rated entities' bonds priced in the market. Depending on the significance of the credit spread adjustment to the overall fair value of the interest rate swap, the instrument is included in Level 2 or Level 3.

The carrying values for cash, patient and other accounts receivable, accounts payable and accrued expenses, estimated third-party payor settlements, payable under securities lending agreements, and certain other current assets and liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The carrying value of the Corporation's tax-exempt variable rate and other long-term debt approximates fair value. The fair value of the fixed rate debt (all of which is tax-exempt) is estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements, and falls in Level 2 of the fair value hierarchy. The fair value of the Corporation's tax-exempt fixed rate debt at December 31, 2014 and 2013, was \$336,511 and \$322,747, respectively, compared to book value of \$267,355 and \$278,010, respectively. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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Notes to Consolidated Financial Statements
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Note 4. Fair Value Measurement (Continued)

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

	Financial Liabilities - Interest Rate Swaps
Fair value at January 1, 2013	\$ (87,043)
Sales or retirements	416
Realized and unrealized gains/losses on interest rate swaps, net	38,121
Transfers out of Level 3 to Level 2	48,506
Fair value at December 31, 2013	-
Sales or retirements	-
Realized and unrealized gains/losses on interest rate swaps, net	-
Transfers out of Level 2 to Level 3	(79,288)
Fair value at December 31, 2014	<u>\$ (79,288)</u>

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

Note 5. Net Patient Care Service Revenue and Accounts Receivable

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

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

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

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

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

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Note 5. Net Patient Care Service Revenue and Accounts Receivable (Continued)

Medicare and Medicaid revenue accounted for approximately 23% and 11%, respectively, of patient service revenue (net of contractual allowances and discounts) for the year ended December 31, 2014, and approximately 28% and 8%, respectively, for the year ended December 31, 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of wrongdoing. While no such regulatory inquiries have been made, compliance with health care industry laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimated settlements could change. It is also reasonably possible that recorded settlements could change by a material amount in the near term. PH received Medicare and Medicaid settlements and resolutions on prior year filed and appealed cost reports and other matters, which increased net patient care service revenue by \$3,503 and \$13,807 in 2014 and 2013, respectively.

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

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

	2014	2013
Medicare	\$ 317,679	\$ 328,463
Medicaid	151,246	113,279
Managed care and other insurers	773,234	649,501
Uninsured	107,444	80,622
Other	38,145	31,427
	<u>\$ 1,387,748</u>	<u>\$ 1,203,292</u>

The allowance for bad debts was approximately \$68,157 and \$68,535 as of December 31, 2014 and 2013, respectively. These balances as a percentage of accounts receivable, net of contractual adjustments and other discounts, were approximately 29% as of December 31, 2014 and 2013. The slight decrease in the allowance for bad debts during 2014 was primarily the result of a decrease in write-off experience and improved net patient care service revenue collections. A summary of activity in the allowance for bad debts follows:

	Balance, Beginning of Year	Provision	Accounts Written Off, Net of Recoveries and Other	Balance, End of Year
Allowance for bad debts:				
December 31, 2013	\$ 62,168	\$ 119,125	\$ (112,758)	\$ 68,535
December 31, 2014	68,535	119,890	(120,268)	68,157

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Notes to Consolidated Financial Statements
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Note 5. Net Patient Care Service Revenue and Accounts Receivable (Continued)

Components of patient accounts receivable, net, at December 31, 2014 and 2013, include Medicare, 20% and 22%, respectively; Medicaid, 2% and 3%, respectively; commercial insurers, 65% and 64%, respectively; and other, 13% and 11%, respectively. One managed care payor represented 24% of patient accounts receivable at December 31, 2014 and 2013.

Note 6. Investments

PH's investments are exposed to various kinds and levels of risk. Fixed income securities expose PH to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.

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

Hedge funds also expose PH to market, performance, and liquidity risk. Hedge funds are not necessarily readily marketable. The funds often employ complex strategies, including short sales on securities and trading on futures contracts, options, foreign currency contracts, other derivative instruments, and private equity investments, and the composition of the individual investments within these funds is not readily determinable. The hedge fund investments are partnership interests in limited partnerships. These investments are not publicly traded, and the net asset value, or NAV, is based upon information provided by the fund manager. The hedge funds have restrictions on the timing of withdrawals ranging from one to three months, which may reduce liquidity. As of December 31, 2014, \$0 was committed for the purchase of additional hedge funds.

As of December 31, 2014, \$10,000 was committed for the purchase of additional commingled funds.

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

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Notes to Consolidated Financial Statements
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Note 6. Investments (Continued)

Composition

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

	2014	2013
Investment income:		
Unrealized (losses) gains on investments, net	\$ (13,956)	\$ 30,899
Dividend and interest income	10,176	5,182
Net realized gains on the sale of investments	23,009	8,652
Total investment return	<u>\$ 19,229</u>	<u>\$ 44,733</u>
Presentation:		
Other revenue	\$ 589	\$ 302
Temporarily restricted – investment gain (loss)	52	(15)
Interest, dividends, and realized gains on sales of investments, net	32,486	13,321
Unrealized (losses) gains on investments, net	(13,898)	31,125
Total investment return	<u>\$ 19,229</u>	<u>\$ 44,733</u>

Securities lending

The Corporation participated in securities lending transactions whereby a portion of its investments were loaned to a broker in return for cash, letters of credit, or U.S. government securities from the broker as collateral for securities loaned. The Corporation participated in a program with its trustee to reinvest the cash collateral received in other short-term investments. The Corporation earned income on the collateral pledged while related securities were outstanding but had risk of loss on the collateral received due to the reinvestment program. The Corporation ceased participating in securities lending transactions during 2014. In the accompanying consolidated balance sheets, the fair value of securities purchased with the cash collateral held for loaned marketable securities was \$1,309 at December 31, 2013, and is reported as a current asset. A payable for repayment of cash collateral received, upon settlement of the lending arrangement, is reported as payable under securities lending agreement of \$2,324 at December 31, 2013.

Note 7. Property and Equipment

The costs of property and equipment consist of the following:

	2014	2013
Land and improvements	\$ 129,807	\$ 120,099
Buildings	799,283	749,519
Equipment	691,999	677,705
Construction in progress and items not yet placed into service	19,510	8,197
	<u>\$ 1,640,599</u>	<u>\$ 1,555,520</u>

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Note 7. Property and Equipment (Continued)

The cost of commitments to complete construction-in-progress projects is estimated to be \$39,141 at December 31, 2014. Depreciation expense recorded in the consolidated statements of operations and changes in net assets was \$75,181 and \$75,543 at December 31, 2014 and 2013, respectively.

Amortization expense on leasehold improvements recorded in the consolidated statements of operations and changes in net assets was \$1,998 and \$1,972 in 2014 and 2013, respectively. Amortization expense on other intangibles recorded in the statements of operations and changes in net assets was \$1,275 and \$1,260 in 2014 and 2013, respectively. Amortization expense on capital leases recorded in the consolidated statements of operations and changes in net assets was \$5,273 and \$5,095 in 2014 and 2013, respectively. Assets under capital leases at December 31, 2014 and 2013, were \$29,117 and \$28,483, respectively. Accumulated amortization on assets under capital leases at December 31, 2014 and 2013, was \$14,180 and \$9,573, respectively.

Note 8. Long-Term Debt

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

	Interest rates as of December 31,	2014	2013
	2014	2014	2013
Tax-exempt, variable rate bonds:			
Series 2010A	0.99%	\$ 28,000	\$ 28,000
Series 2009BCD	0.01%-0.03%	223,665	223,665
Series 2007	0.03%	20,380	21,115
Series 2001	0.18%-0.21%	13,700	14,975
Tax-exempt, fixed rate serial and term bonds:			
Series 2012A	2.0%–5.0%	82,440	83,695
Series 2009A	5.0%–5.75%	184,915	194,315
Various notes to banks	Various	73,326	49,881
Mortgages on real estate	Various	11,467	11,733
Other	Various	113	113
Capital leases	Various	10,538	15,477
		648,544	642,969
Less unamortized original issue premium/discount, net		(5,014)	(5,602)
		653,558	648,571
Less current portion		29,851	27,515
		\$ 623,707	\$ 621,056

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(Dollars in Thousands)

Note 8. Long-Term Debt (Continued)

The scheduled maturities and mandatory redemptions of long-term debt, assuming successful remarketing of variable rate bonds, and renewal of letter of credit agreements, as discussed below, are as follows:

Year Ending December 31:	
2015	\$ 29,851
2016	26,642
2017	34,176
2018	18,809
2019	37,825
Thereafter	501,241
	<u>\$ 648,544</u>

Total interest paid was \$19,506 and \$20,348 in 2014 and 2013, respectively. Interest cost of \$213 and \$3 in 2014 and 2013, respectively, was capitalized as part of the cost of construction.

Obligations through use of Master Indenture

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

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

On May 4, 2010, PH arranged for the issuance of \$28,000 of variable rate, tax-exempt private placement bonds (the Series 2010A Bonds) using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds and certain other funds of PH were used to finance the construction and furnishing of the new Parkview Whitley Hospital. The Series 2010A Bonds bear interest monthly, and interest is paid monthly. The Series 2010A Bonds mature in May 2040, but contain a five year put option dated May 2017. The put option allows for a renewal for an additional term. The request for put option renewal can be exercised no sooner than fourteen months prior to the existing May 2014 put dates of the bonds.

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

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Notes to Consolidated Financial Statements
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Note 8. Long-Term Debt (Continued)

PH entered into two direct-pay Letter of Credit agreements (the LOCs) issued by PNC Bank (Series 2009C Bonds) and Wells Fargo Bank (Series 2009B&D Bonds) to enhance the marketability of the bonds. Under the terms of the LOCs, if bonds are not successfully remarketed and thereby purchased by the banks, the principal maturities of the bonds purchased are accelerated over the subsequent three-year period commencing at least one year and one day from the draw on the LOC, and PH would pay a defined rate, based on a formula in the agreements, at a minimum rate of 7.0% for the first 180 days after bank purchase, and 8.0% thereafter. The current LOCs expire August 26, 2017. At December 31, 2014, all bonds had been successfully remarketed.

On March 15, 2007, PLH issued \$24,930 of adjustable rate, tax-exempt revenue bonds (the Series 2007 Bonds). These bonds were issued through the Indiana Health and Education Facility Financing Authority. The proceeds of the Series 2007 Bonds and certain other funds of PLH were used to finance the construction and furnishing of a new hospital facility and to pay financing costs. The Series 2007 Bonds bear interest at a weekly rate, and interest is paid monthly. The Series 2007 Bonds are secured by an irrevocable direct-pay LOC issued by PNC Bank that matures on August 26, 2017. This LOC has a maximum rate of 15%. At December 31, 2014, all bonds had been successfully remarketed. The Series 2007 Bonds mature through March 2032.

In November 2001, PH and PVH issued \$220,000 of variable rate, tax-exempt auction revenue bonds (the Series 2001 Bonds) using the Master Indenture and through the Indiana Health Facility Financing Authority. These Series 2001 Bonds auction every 28 days. The bonds have a maximum rate of 15%. Beginning in February 2008 and continuing through December 31, 2014, PH's Series 2001 Bonds failed to attract sufficient bids to be remarketed, and have not been successfully remarketed since. As a result of the failed auctions, interest rates are set based upon a formula contained in the bond documents. The interest rate formula is based upon the 7-day AA Composite Commercial Paper rate times a factor. This factor can vary from 125% to 225%, depending upon the credit rating of the bond. The bond rating is equal to the rating of either the insurer of the debt or the issuer, whichever is higher. At December 31, 2014 and 2013, the factor was 175%. The Series 2001 Bonds are secured by a financial guaranty insurance policy provided by Ambac Assurance Corporation (Ambac). Ambac is rated Caa2 by Moody's, while PH has retained its Moody's rating of A1. The Series 2001 Bonds mature through November 2031.

Term loan

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

Debt guarantee

At December 31, 2014 and 2013, the Corporation had guaranteed approximately \$2,422 and \$2,402, respectively, of certain outstanding debt obligations of unconsolidated entities. If the unconsolidated entities default on their debt obligation, the Corporation would then be responsible for the obligation. At December 31, 2014 and 2013, the Corporation has no amounts accrued related to these guarantees.

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Note 9. Interest Rate Swaps and Other Derivatives

PH uses a combination of interest rate swap agreements with the objective to mitigate the impact interest rate fluctuations have on its interest payments. PH uses fixed payor, fixed spread basis, fixed receiver, and forward fixed payor contracts entered into with various third parties. Interest rate swap contracts between PH and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. This is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for PH's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. PH does not anticipate nonperformance by its counterparties. The interest rate swap agreements require PH to post collateral if the liability balance, depending on the counterparty, is greater than \$15,000 to \$30,750. No collateral was required to be posted by PH at December 31, 2014 and 2013. PH's policy is to present the collateral on a gross basis in the consolidated balance sheets.

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

Expiration Date	PH Pays	PH Receives	Notional Amount	
			2014	2013
2020-2031	3.47% - 3.71% ¹	67% of one-month LIBOR	\$ 34,850	\$ 36,125
2033	3.49% ¹	62.4% of one-month LIBOR + 0.29% margin	75,000	75,000
2028-2033	3.26% - 3.49% ²	62.4% of one-month LIBOR + 0.29% margin	88,175	92,190
2016	BMA/SIFMA Index ²	3.81%–4.0%	30,000	30,000
2037	3.81% ¹	61.8% of one-month LIBOR + 0.31% margin	147,150	147,955
2025	BMA/SIFMA Index ³	68% of one-month LIBOR + 0.37%–0.52% margin	120,000	180,000
			<u>\$ 495,175</u>	<u>\$ 561,270</u>

(1) The objective of these interest rate swaps is to mitigate interest rate fluctuations and synthetically fix certain variable rate exposure.

(2) The objective of these interest rate swaps is to create a basis swap.

(3) The objective of this interest rate swap is to take advantage of yield curve differences and mitigate risk on future bond offerings. This interest rate swap is not associated with outstanding debt.

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Note 9. Interest Rate Swaps and Other Derivatives (Continued)

The fair value of derivative instruments is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Classification	December 31	
		2014	2013
Interest rate swap agreements	Interest rate swaps (Other assets)	\$ 3,564	\$ 2,767
Interest rate swap agreements	Interest rate swaps (Noncurrent liabilities)	(79,288)	(48,506)
		<u>\$ (75,724)</u>	<u>\$ (45,739)</u>

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Excess of Revenues Over Expenses	Amount of Gain (Loss) in Derivatives Recognized in Excess of Revenue Over Expenses	
		December 31	
		2014	2013
Interest rate swap agreements - unrealized (losses) gains	Unrealized (losses) gains on interest rate swaps, net	\$ (29,943)	\$ 34,965
Interest rate swap agreements - settlement payments	Other - nonoperating	(8,565)	(9,015)
		<u>\$ (38,508)</u>	<u>\$ 25,950</u>

Interest rate swap settlement payments, net were \$8,640 and \$9,015 in 2014 and 2013, respectively, of which \$75 and \$0 was capitalized as part of the cost of construction in 2014 and 2013, respectively.

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Notes to Consolidated Financial Statements
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Note 10. Pension Plans

Defined benefit pension plan

The Corporation sponsors a noncontributory defined benefit pension plan (the Plan) covering eligible employees employed prior to January 2005. Plan benefits are based on years of service and an employee's compensation during a consecutive five-year term of employment within the ten years prior to benefit determination, which results in the highest earnings. An employee becomes a plan participant upon reaching age 21 and completing at least one year of eligible service. A year of eligible service is credited to an employee upon the completion of at least 1,000 hours of service in a calendar year. The following table sets forth the changes in projected benefit obligation and changes in plan assets for the years ended December 31 and the funded status of the Plan and accrued pension obligation as of December 31 as actuarially determined:

	2014	2013
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 370,363	\$ 393,278
Service cost	7,799	9,688
Interest cost	18,146	16,758
Actuarial loss (gain)	86,616	(39,119)
Benefits paid	(11,544)	(10,242)
Projected benefit obligation at end of year	<u>471,380</u>	<u>370,363</u>
Change in plan assets		
Plan assets at fair value at beginning of year	376,885	335,553
Actual return on plan assets	15,869	41,874
Corporation and subsidiary contributions	8,500	9,700
Benefits paid	(11,544)	(10,242)
Plan assets at fair value at end of year	<u>389,710</u>	<u>376,885</u>
Funded status of the Plan (recognized as other long-term assets in 2013 and accrued pension obligations in 2014)	<u>\$ (81,670)</u>	<u>\$ 6,522</u>

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

	2014	2013
Unrecognized net actuarial loss	\$ 150,689	\$ 55,345
Unrecognized prior service cost	55	77
	<u>\$ 150,744</u>	<u>\$ 55,422</u>

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Notes to Consolidated Financial Statements
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Note 10. Pension Plans (Continued)

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

	2014	2013
Current year actuarial loss (gain)	\$ 98,374	\$ (55,016)
Recognized actuarial loss	(3,030)	(10,721)
Current year amortization of prior service cost	(22)	(23)
	<u>\$ 95,322</u>	<u>\$ (65,760)</u>

The actuarial loss and prior service cost included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ending December 31, 2015, total \$11,711 and \$22, respectively.

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

	2014	2013
Service cost	\$ 7,799	\$ 9,688
Interest cost	18,146	16,758
Expected return on plan assets	(27,627)	(25,977)
Amortization of unrecognized net loss	3,030	10,721
Amortization of unrecognized prior service cost	22	23
Net periodic benefit cost	<u>\$ 1,370</u>	<u>\$ 11,213</u>

The accumulated benefit obligation at December 31, 2014 and 2013 was \$442,959 and \$347,775, respectively.

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

	2014	2013
Assumptions – benefit obligations:		
Discount rate	4.11%	4.98%
Rate of compensation increase	3.00	3.00
Assumptions – net periodic benefit cost:		
Discount rate	4.98%	4.32%
Expected return on plan assets	7.50	8.00
Rate of compensation increase	3.00	3.50

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Notes to Consolidated Financial Statements
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Note 10. Pension Plans (Continued)

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Plan. The decrease in the discount rate from December 31, 2013 to December 31, 2014, resulted in an increase in the projected benefit obligation of \$48,316. The Society of Actuaries published new mortality tables in the Fall of 2014, which Parkview adopted in the December 31, 2014 valuation. The use of the new tables increased the projected benefit obligation by \$38,300 from December 31, 2013 to December 31, 2014.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The Plan's allocation is currently weighted toward growth assets (55%) versus fixed income (45%). The Corporation's policy on investment allocation for the Plan consists of an allocation of 35% to 75% for growth investments and 30% to 60% for fixed income investments. Within the growth investment classification, the Plan's asset strategy encompasses equity and equity-like instruments that are of both public and private market investments. These equity and equity-like instruments are public equity securities that are well diversified and invested in U.S. and international companies. Management believes its active strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the Plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

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

	2014	2013
Real estate investment trust	4%	4%
Real estate investment fund	4%	0%
Commingled funds	11%	18%
International equities	6%	6%
Domestic equities	13%	12%
Mortgage- and asset-backed securities	1%	0%
Corporate bonds	1%	0%
Mutual funds – equity	13%	13%
Mutual funds – fixed income	40%	37%
Mutual funds – balanced	3%	3%
US government and agency obligations	2%	0%
Cash and short-term investments	1%	5%
Guaranteed investment contract	1%	2%
	100%	100%

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Note 10. Pension Plans (Continued)

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

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Real estate investment trust	\$ 15,680	\$ -	\$ -	\$ 15,680
Real estate investment fund	14,379	-	-	14,379
Commingled funds	42,948	-	42,948	-
International equity	23,993	17,423	6,570	-
Domestic equity	51,997	51,997	-	-
Mortgage- and asset-backed securities	3,682	-	3,682	-
Corporate bonds	3,950	-	3,950	-
Mutual funds - equity	51,643	51,643	-	-
Mutual funds - fixed income	154,124	154,124	-	-
Mutual funds - balanced	13,105	13,105	-	-
US government and agency obligations	7,417	7,417	-	-
Cash and short-term investments	1,539	1,539	-	-
Guaranteed investment contract	5,253	-	-	5,253
	<u>\$ 389,710</u>	<u>\$ 297,248</u>	<u>\$ 57,150</u>	<u>\$ 35,312</u>

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

The fair value of pension plan assets was determined using the following inputs at December 31, 2013:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Real estate investment trust	\$ 14,007	\$ -	\$ -	\$ 14,007
Commingled funds	69,281	-	69,281	-
International equity	24,556	17,741	6,815	-
Domestic equity	44,842	44,842	-	-
Mutual funds - equity	49,976	49,976	-	-
Mutual funds - fixed income	137,733	137,733	-	-
Mutual funds - balanced	13,000	13,000	-	-
Cash and short-term investments	17,632	17,632	-	-
Guaranteed investment contract	5,858	-	-	5,858
	<u>\$ 376,885</u>	<u>\$ 280,924</u>	<u>\$ 76,096</u>	<u>\$ 19,865</u>

**Parkview Health System, Inc. and Subsidiaries
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**Notes to Consolidated Financial Statements
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Note 10. Pension Plans (Continued)

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

	Financial Assets
Fair value at January 1, 2013	\$ 6,625
Purchases, issuances, and settlements	12,027
Actual return on plan assets	1,213
Fair value at December 31, 2013	19,865
Purchases, issuances, and settlements	12,145
Actual return on plan assets	3,302
Fair value at December 31, 2014	<u>\$ 35,312</u>

Estimated future benefit payments are as follows:

Year ending December 31:	
2015	\$ 13,664
2016	15,106
2017	16,823
2018	18,616
2019	20,246
2020 - 2024	125,173

The Corporation expects to make no contributions to its defined benefit pension plan in 2015.

Defined contribution and other pension plans

Eligible employees hired after December 31, 2004, and employees who were active at December 31, 2004, and elected at that time to participate in the defined-contribution plan and freeze their benefits in the defined benefit plan, participate in the defined contribution plan. The accrued liability for the defined-contribution pension plan is \$15,111 and \$13,210 at December 31, 2014 and 2013, respectively, and is recorded as a current liability on the consolidated balance sheets. During 2014 and 2013, expense for this plan totaled \$15,127 and \$13,240, respectively, and is included in salaries and benefits expense.

Contributions to the tax-sheltered annuity and 401(k) plans are based on a percentage of eligible employee salaries, as defined. The contributions for the tax-sheltered annuity and 401(k) plans were \$7,526 and \$7,355 in 2014 and 2013, respectively, and were reported as salaries and benefits expense.

Note 11. Malpractice Insurance

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

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Note 11. Malpractice Insurance (Continued)

Malpractice claims for incidents that may give rise to litigation have been asserted against the Corporation by various claimants. The claims are in various stages of resolution, and some may ultimately be brought to trial. There are also reported incidents that have occurred through December 31, 2014, which may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients. The liability for medical malpractice includes amounts for claims and related legal expenses for these incurred but not reported incidents. This liability is actuarially determined by combining industry data and the Corporation's historical experience. Accrued malpractice losses and insurance recovery receivables have been discounted at 4% in 2014 and 5% in 2013 and, in management's opinion, provide adequate reserve for loss contingencies. The Corporation recorded receivable balances to reflect the expected recovery from commercial insurance coverage. The Corporation is reporting receivables of \$722 and \$347 in prepaid expenses and other current assets at December 31, 2014 and 2013, respectively, and \$1,278 and \$994 in other assets at December 31, 2014 and 2013, respectively. The Corporation has recorded malpractice liabilities of \$2,055 and \$1,703 in accounts payable and accrued expenses as of December 31, 2014 and 2013, respectively, and \$6,480 and \$5,601 at December 31, 2014 and 2013, respectively, in other liabilities in the consolidated balance sheets.

The Corporation established a revocable, restricted trust for claims not covered by commercial insurance for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreements, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The balance of the trust was \$4,070 and \$4,142 at December 31, 2014 and 2013, respectively. The trust is included in Investments – Funds held by trustees in the consolidated balance sheets.

Note 12. Commitments and Contingencies

Certain property and equipment are leased using noncancelable operating and capital lease arrangements. Rental expense associated with the operating leases was \$20,099 and \$22,962 in 2014 and 2013, respectively. The leases expire in various years through 2027. Future minimum lease payments required under noncancelable operating and capital leases for property and equipment as of December 31, 2014, are as follows:

	Operating Leases	Capital Leases
Year ending December 31:		
2015	\$ 3,973	\$ 6,915
2016	3,363	2,639
2017	3,352	1,303
2018	3,040	149
2019	2,252	16
Thereafter	10,097	-
Total minimum lease payments	<u>\$ 26,077</u>	11,022
Less amount representing interest		(484)
Present value of net minimum lease payments		<u>\$ 10,538</u>

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**Notes to Consolidated Financial Statements
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Note 12. Commitments and Contingencies (Continued)

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

Note 13. Functional Expenses

The Corporation, as an integrated health care delivery system, provides and manages the health care needs of its patients. Aggregate direct expenses for these services as a percentage of total expenses were approximately 91% for each of the years ended December 31, 2014 and 2013.

Note 14. Indiana Medicaid Disproportionate Share

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

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

In 2013, PH recognized \$4,902 and \$6,077 from Indiana Medicaid Disproportionate Share payments, which pertained to state fiscal years 2012 and 2013, respectively. No change in estimate was recorded by PH in 2013.

At December 31, 2014 and 2013, PH had no State DSH payments receivable recorded.

Note 15. Indiana Hospital Assessment Fee Program

In May 2012, the Indiana Hospital Assessment Fee program (HAF) was approved by the federal Centers for Medicare & Medicaid Services (CMS) for the period from July 1, 2011 through June 30, 2013. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the State's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the hospitals from the State and an assessment against the hospitals, which is paid to the State the same year. The State of Indiana has approved HAF effective July 2013 through June 2017. Payments to PH recognized for the six months ended June 30, 2013, totaled \$30,319 and assessments against PH for the same period were \$19,925. No payments to PH were received, or assessments against PH were paid, after June 30, 2013, pending approval of HAF by CMS. Because the program was approved mid-year 2014, payments to PH recognized for the year ended December 31, 2014, included payments to PH totaling \$31,405 and assessments against PH of \$20,098 related to the period from July 1, 2013 through December 31, 2013. Payments to PH recognized for the 12-month period from January 1, 2014 through December 31, 2014, totaled \$53,242 and assessments against PH for the same period totaled \$34,946. HAF payments to PH are included in net patient service care revenue in the consolidated statements of operations and changes in net assets. HAF assessments against PH are presented as an operating expense in the consolidated statements of operations and changes in net assets.

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Note 16. New Markets Tax Credit

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

Note 17. Subsequent Events

PH has evaluated subsequent events for potential recognition and/or disclosure through April 28, 2015, the date the consolidated financials were issued.

Supplementary Information

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

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

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

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

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

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

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

Details of Consolidated Balance Sheet
December 31, 2013
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Assets														
Current Assets														
Cash and cash equivalents	\$ (423)	\$ 106,076	\$ 3	\$ -	\$ 1	\$ 5	\$ -	\$ (34)	\$ 338	\$ 37	\$ 52	\$ 106	\$ -	\$ 106,161
Short-term investments	-	12,645	-	-	-	-	-	-	-	-	-	-	-	12,645
Patient accounts receivable, net	105,954	34,544	5,884	6,809	7,010	4,008	-	1,271	-	-	-	-	-	165,480
Inventories	12,712	3,230	251	209	216	289	-	-	-	-	-	-	-	16,907
Prepaid expenses and other current assets	(439,506)	490,279	(275)	(33,640)	2,269	(1,319)	8,692	2,422	2,106	(43)	16	(45)	(2,232)	28,724
Estimated third-party payor settlements	1,000	681	496	904	382	930	-	-	-	-	-	-	-	4,393
Collateral from securities lending agreement	-	1,309	-	-	-	-	-	-	-	-	-	-	-	1,309
Total current assets	(320,263)	648,764	6,359	(25,718)	9,878	3,913	8,692	3,659	2,444	(6)	68	61	(2,232)	335,619
Investments														
Board-designated investments	20,452	393,531	31,638	46,035	-	-	-	-	12,965	850	1,663	554	-	507,688
Funds held by trustees	-	24,900	-	-	-	-	-	-	-	-	-	-	-	24,900
Securities pledged	-	2,280	-	-	-	-	-	-	-	-	-	-	-	2,280
Other investments	-	-	-	-	-	-	-	-	-	157	-	-	-	157
	20,452	420,711	31,638	46,035	-	-	-	-	12,965	1,007	1,663	554	-	535,025
Property and Equipment														
Cost	1,002,501	472,382	13,760	17,601	16,102	30,303	996	1,600	222	21	18	14	-	1,555,520
Less accumulated depreciation and amortization	349,200	187,104	9,682	11,872	11,635	11,028	696	1,055	188	12	8	6	-	582,486
	653,301	285,278	4,078	5,729	4,467	19,275	300	545	34	9	10	8	-	973,034
Other Assets														
Interest rate swaps	-	2,767	-	-	-	-	-	-	-	-	-	-	-	2,767
Deferred financing costs	-	2,498	-	-	-	116	-	-	-	-	-	-	-	2,614
Investments in joint ventures	1,199	1,990	-	-	-	-	-	-	-	-	-	-	-	3,189
Goodwill and intangible assets, net	1,543	74,634	-	-	841	5,011	-	-	-	-	-	-	-	82,029
Other assets	1,834	33,085	40	7	13	1	-	-	-	-	-	-	(8,934)	26,046
	4,576	114,974	40	7	854	5,128	-	-	-	-	-	-	(8,934)	116,645
Total assets	\$ 358,066	\$ 1,469,727	\$ 42,115	\$ 26,053	\$ 15,199	\$ 28,316	\$ 8,992	\$ 4,204	\$ 15,443	\$ 1,010	\$ 1,741	\$ 623	\$ (11,166)	\$ 1,960,323

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

Details of Consolidated Balance Sheet (Continued)
December 31, 2013
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Liabilities and Net Assets														
Current Liabilities														
Accounts payable and accrued expenses	\$ 26,479	\$ 24,693	\$ 658	\$ 722	\$ 437	\$ 496	\$ 4,024	\$ 124	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,633
Salaries, wages, and related liabilities	10,926	65,960	679	785	685	459	134	266	-	-	-	-	-	79,894
Accrued interest	-	2,729	-	-	-	11	-	-	-	-	-	-	-	2,740
Estimated third-party payor settlements	3,750	-	-	-	-	-	-	-	-	-	-	-	-	3,750
Payable under securities lending agreement	-	2,324	-	-	-	-	-	-	-	-	-	-	-	2,324
Current portion of long-term debt	2,305	26,421	75	80	70	796	-	-	-	-	-	-	(2,232)	27,515
Total current liabilities	43,460	122,127	1,412	1,587	1,192	1,762	4,158	390	-	-	-	-	(2,232)	173,856
Noncurrent Liabilities														
Long-term debt, less current portion	4,046	596,011	175	192	163	20,469	-	-	-	-	-	-	-	621,056
Interest rate swaps	-	48,506	-	-	-	-	-	-	-	-	-	-	-	48,506
Other	512	15,934	38	450	8	8,596	126	-	9	-	-	-	(8,934)	16,739
	4,558	660,451	213	642	171	29,065	126	-	9	-	-	-	(8,934)	686,301
Net Assets														
Parkview Health System, Inc.	310,048	667,241	40,490	23,824	13,836	(2,593)	4,708	3,814	7,161	638	1,116	336	-	1,070,619
Noncontrolling interest in subsidiaries	-	19,908	-	-	-	-	-	-	-	-	-	-	-	19,908
Total unrestricted net assets	310,048	687,149	40,490	23,824	13,836	(2,593)	4,708	3,814	7,161	638	1,116	336	-	1,090,527
Temporarily restricted net assets	-	-	-	-	-	82	-	-	7,454	281	625	287	-	8,729
Permanently restricted net assets	-	-	-	-	-	-	-	-	819	91	-	-	-	910
	310,048	687,149	40,490	23,824	13,836	(2,511)	4,708	3,814	15,434	1,010	1,741	623	-	1,100,166
Total liabilities and net assets	\$ 358,066	\$ 1,469,727	\$ 42,115	\$ 26,053	\$ 15,199	\$ 28,316	\$ 8,992	\$ 4,204	\$ 15,443	\$ 1,010	\$ 1,741	\$ 623	\$ (11,166)	\$ 1,960,323

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

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

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

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

Details of Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2013
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Revenues:														
Net patient care service revenue	\$ 784,079	\$ 278,740	\$ 52,576	\$ 48,510	\$ 55,329	\$ 29,676	\$ -	\$ 7,944	\$ -	\$ -	\$ -	\$ -	\$ (53,562)	\$ 1,203,292
Provision for bad debts	(78,682)	(18,740)	(6,516)	(4,651)	(7,217)	(3,300)	-	(19)	-	-	-	-	-	(119,125)
Net patient care service revenue less provision for bad debts	705,397	260,000	46,060	43,859	48,112	26,376	-	7,925	-	-	-	-	(53,562)	1,084,167
Other revenue	28,035	51,315	3,749	2,871	1,984	1,010	35,793	2,254	1,417	232	217	211	(52,610)	76,478
	<u>733,432</u>	<u>311,315</u>	<u>49,809</u>	<u>46,730</u>	<u>50,096</u>	<u>27,386</u>	<u>35,793</u>	<u>10,179</u>	<u>1,417</u>	<u>232</u>	<u>217</u>	<u>211</u>	<u>(106,172)</u>	<u>1,160,645</u>
Expenses:														
Salaries and benefits	248,484	270,438	16,468	17,999	16,869	11,019	3,327	5,755	474	79	96	90	(44,082)	547,016
Supplies	92,410	40,922	3,900	3,454	3,528	1,821	50	519	21	-	1	-	-	146,626
Purchased services	76,220	54,157	6,525	6,766	6,376	4,926	28,972	1,993	186	-	-	-	(49,195)	136,926
Utilities, repairs, and maintenance	18,365	23,903	1,354	1,530	1,562	1,170	70	130	4	1	1	1	(341)	47,750
Depreciation and amortization	46,634	32,055	1,185	1,374	889	1,641	10	65	8	3	3	3	-	83,870
Hospital assessment fee	15,870	551	917	838	990	759	-	-	-	-	-	-	-	19,925
Other	147,815	(123,243)	10,542	11,684	11,455	6,124	541	773	1,398	154	121	115	(12,554)	54,925
	<u>645,798</u>	<u>298,783</u>	<u>40,891</u>	<u>43,645</u>	<u>41,669</u>	<u>27,460</u>	<u>32,970</u>	<u>9,235</u>	<u>2,091</u>	<u>237</u>	<u>222</u>	<u>209</u>	<u>(106,172)</u>	<u>1,037,038</u>
Operating income (loss)	<u>87,634</u>	<u>12,532</u>	<u>8,918</u>	<u>3,085</u>	<u>8,427</u>	<u>(74)</u>	<u>2,823</u>	<u>944</u>	<u>(674)</u>	<u>(5)</u>	<u>(5)</u>	<u>2</u>	<u>-</u>	<u>123,607</u>
Nonoperating income (expense):														
Interest, dividends, and realized gains (losses) on sales of investments, net	540	10,348	1,013	1,439	(17)	(2)	-	-	-	-	-	-	-	13,321
Unrealized gains on investments, net	1,036	26,176	1,581	2,332	-	-	-	-	-	-	-	-	-	31,125
Interest expense	(361)	(19,204)	(19)	(15)	(13)	(206)	-	-	-	-	-	-	-	(19,818)
Unrealized gains on interest rate swaps, net	-	34,965	-	-	-	-	-	-	-	-	-	-	-	34,965
Other	(26)	(9,376)	186	19	(1)	(6)	-	1	-	-	-	-	-	(9,203)
Excess (deficit) of revenues over expenses	<u>\$ 88,823</u>	<u>\$ 55,441</u>	<u>\$ 11,679</u>	<u>\$ 6,860</u>	<u>\$ 8,396</u>	<u>\$ (288)</u>	<u>\$ 2,823</u>	<u>\$ 945</u>	<u>\$ (674)</u>	<u>\$ (5)</u>	<u>\$ (5)</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 173,997</u>
Excess (deficit) of revenues over expenses attributable to:														
Noncontrolling interest in subsidiaries	\$ -	\$ 22,868	\$ 77	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,945
Parkview Health System, Inc. and subsidiaries	88,823	32,573	11,602	6,860	8,396	(288)	2,823	945	(674)	(5)	(5)	2	-	151,052
Other changes in net assets attributable to:														
Noncontrolling interest in subsidiaries	-	4,295	126	-	-	-	-	-	-	-	-	-	-	4,421
Parkview Health System, Inc. and subsidiaries	(95,207)	165,893	(11,853)	(7,262)	(8,403)	56	-	-	414	(16)	7	23	-	43,652
(Decrease) increase in net assets	<u>(6,384)</u>	<u>225,629</u>	<u>(48)</u>	<u>(402)</u>	<u>(7)</u>	<u>(232)</u>	<u>2,823</u>	<u>945</u>	<u>(260)</u>	<u>(21)</u>	<u>2</u>	<u>25</u>	<u>-</u>	<u>222,070</u>
Net assets (deficit):														
Beginning of year	316,432	461,520	40,538	24,226	13,843	(2,279)	1,885	2,869	15,694	1,031	1,739	598	-	878,096
End of year	<u>\$ 310,048</u>	<u>\$ 687,149</u>	<u>\$ 40,490</u>	<u>\$ 23,824</u>	<u>\$ 13,836</u>	<u>\$ (2,511)</u>	<u>\$ 4,708</u>	<u>\$ 3,814</u>	<u>\$ 15,434</u>	<u>\$ 1,010</u>	<u>\$ 1,741</u>	<u>\$ 623</u>	<u>\$ -</u>	<u>\$ 1,100,166</u>