Community Health Network, Inc. and Affiliates

Consolidated Financial Statements
December 31, 2012 and 2011

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December 31, 2012 and 2011

Independent Auditor's Report

To the Board of Directors of Community Health Network, Inc.

We have audited the accompanying consolidated financial statements of Community Health Network, Inc. and Affiliates (the "Network"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 our 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, we consider internal control relevant to the Network'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 Network'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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Health Network, Inc. and Affiliates at December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 23, 2013

Community Health Network, Inc. and Affiliates
Consolidated Balance Sheets (in 000's)
Years Ended December 31, 2012 and 2011

		2012		2011
Assets				
Current assets				
Cash and cash equivalents	$	190,039	$	164,305
Restricted cash		-		2,851
Patient accounts receivable, less allowance for doubtful accounts and contractual adjustments of $510,459 and $441,756 in 2012 and 2011		228,127		185,422
Estimated third-party payor settlements		15,024		11,404
Current portion of assets limited as to use—held by trustee		89,697		13,176
Inventories		25,647		21,521
Other accounts receivable		27,324		19,061
Other current assets		16,474		20,841
Total current assets		592,332		438,581
Assets limited as to use				
Funds held by trustee, net of current portion		36,900		13,642
Board-designated funds		475,013		401,236
Reinsurance trust assets		13,753		12,801
Property, plant and equipment, net		790,838		682,163
Investments in unconsolidated affiliates		20,470		20,279
Capitalized software, net of accumulated amortization		56,421		12,255
Deferred financing costs, net of accumulated amortization		7,115		7,045
Due (to) from unconsolidated affiliates and related parties, net		(337)		801
Prepaid pension and postretirement assets		-		959
Other assets		13,101		7,516
Total assets	$	2,005,606	$	1,597,278
Liabilities and net assets				
Current liabilities				
Short-term borrowings	$	50,000	$	43,146
Current portion of long-term debt		16,240		17,141
Accounts payable		81,449		81,598
Accrued salaries and wages		66,610		61,262
Accrued interest		1,946		2,505
Pension underfunded liability - current		20,660		18,047
Estimated third-party payor settlements		10,738		3,537
Incurred but not reported liabilities		32,210		25,828
Other current liabilities		21,708		12,856
Total current liabilities		301,561		265,920
Accrued postretirement benefit cost		5,010		4,537
Accrued pension		25,742		52,471
Long-term debt, net of current portion		609,520		413,932
Pension underfunded liability- long-term		171,057		114,255
Interest rate swap liabilities		8,757		-
Other liabilities		19,993		9,740
Total liabilities		1,141,640		860,855
Net assets				
Unrestricted net assets				
Network unrestricted net assets		836,960		715,695
Noncontrolling interest		16,801		11,738
Total unrestricted net assets		853,761		727,433
Temporarily restricted net assets		5,834		4,673
Permanently restricted net assets		4,371		4,317
Total net assets		863,966		736,423
Total liabilities and net assets	$	2,005,606	$	1,597,278

The accompanying notes are an integral part of these financial statements.

Community Health Network, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (in 000's)
Years Ended December 31, 2012 and 2011

	2012	2011
Revenues and gains		
Net patient service revenue	$ 1,654,721	$ 1,332,963
Provisions for bad debts	76,269	72,765
Net patient service revenue less provision for bad debts	1,578,452	1,260,198
Service fee revenue	23,552	21,519
Other revenue	43,168	53,429
Other revenue - Electronic Health Record Incentive payments	10,455	12,635
Equity in earnings of unconsolidated affiliates	11,204	10,958
Total unrestricted revenues and gains	1,666,831	1,358,739
Operating expenses		
Salaries, benefits and pension	931,255	725,372
Supplies and other expenses	579,752	478,771
Depreciation and amortization	75,390	64,511
Provision for other bad debts	314	1,209
Interest and financing costs- loss on early extinguishment of debt	17,871	-
Interest and financing costs	14,562	13,202
Total operating expenses	1,619,144	1,283,065
Income from operations	47,687	75,674
Realized and unrealized gains (losses) on investments, net	64,756	(16,386)
Unrealized gain on interest rate swaps	710	-
Excess of net assets acquired in Howard acquisition	88,967	-
Excess of net assets acquired in Westview acquisition	-	34,636
Other, net	1,248	(10)
Excess of revenues over expenses and noncontrolling interests before income taxes	203,368	93,914
Provision/(benefit) for income taxes	5,215	(2,958)
Excess of revenues over expenses	198,153	96,872
Excess of revenues attributable to noncontrolling interest	(15,555)	(14,932)
Excess of revenues over expenses attributable to the Network	$ 182,598	$ 81,940

The accompanying notes are an integral part of these financial statements.

Community Health Network, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (in 000's)
Years Ended December 31, 2012 and 2011

	2012	2011
Change in unrestricted net assets		
Excess of revenues over expenses attributable to the Network	$ 182,598	$ 81,940
(Under) over funding of pension assets, net	(60,374)	(102,507)
Change in noncontrolling interest	5,063	444
Other changes, net	(959)	240
Increase (decrease) in total unrestricted net assets	126,328	(19,883)
Change in temporarily restricted net assets		
Increase/decrease in temporarily restricted net assets	1,161	(314)
Change in permanently restricted net assets		
Increase in permanently restricted net assets	54	75
Increase (decrease) in total net assets	127,543	(20,122)
Total net assets, beginning of year	736,423	756,545
Total net assets, end of year	$ 863,966	$ 736,423

The accompanying notes are an integral part of these financial statements.

Community Health Network, Inc. and Affiliates
Consolidated Statements of Cash Flows (in 000's)
December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Increase (decrease) in net assets	$ 127,543	$ (20,122)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	75,390	64,511
Provision for bad debts	76,583	73,974
Deferred tax benefit	3,264	(7,772)
Write off of deferred financing costs	5,871	-
Excess of net assets acquired in the Howard acquisition, before non-controlling interest	(91,630)	-
Excess of net assets acquired in the Westview acquisition	-	(42,136)
Equity in earnings of unconsolidated affiliates	(11,204)	(10,958)
Net changes in unrealized (gains) losses on investments	(41,260)	46,814
Other non cash charges, net	3,592	1,760
Change in underfunded pension/postretirement liabilities/assets	60,374	102,507
Distributions received from unconsolidated affiliates	11,673	10,556
Change in prepaid pension cost	(26,729)	(30,722)
Investment income received	8,805	9,862
Other adjustments	988	(601)
Changes in operating assets and liabilities		
Patient accounts receivable	(108,406)	(75,233)
Other assets	(5,805)	(4,205)
Accounts payable	(15,672)	3,146
Estimated third-party payor settlements	2,078	(4,729)
Other liabilities	22,314	13,428
Net cash provided by operating activities	97,769	130,080
Cash flows from investing activities		
Purchases of property, plant and equipment	(75,386)	(57,955)
Purchases of capitalized software	(26,137)	(12,255)
Proceeds from sale of property, plant and equipment	196	(431)
(Purchases)/sales of investments, net	(129,895)	(51,245)
Investments in unconsolidated affiliates	(315)	-
Cash acquired in the acquisition of Howard and its affiliates	25,015	-
Cash acquired in the acquisition of Westview and its affiliates	-	5,354
Due to unconsolidated affiliates and related parties, net	(335)	1,301
Net cash used in investing activities	(206,857)	(115,231)
Cash flows from financing activities		
Proceeds from issuance of debt	485,451	24,500
Repayments of debt	(347,964)	(17,535)
Issuance of deferred financing costs	(4,564)	-
Changes in restricted contributions and investment income	1,899	(1,636)
Cash flows provided by financing activities	134,822	5,329
Net increase in cash and cash equivalents	25,734	20,178
Cash and cash equivalents, beginning of year	164,305	144,127
Cash and cash equivalents, end of year	$ 190,039	$ 164,305
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	$ 29,495	$ 13,450
Income taxes	$ 2,390	$ 4,722
Non cash disclosures of cash flow information		
Acquisition of property, plant and equipment included in accounts payable at December 31	$ 4,962	$ 4,838

The accompanying notes are an integral part of these financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

Community Health Network, Inc., an Indiana non-profit corporation, and its non-profit and for-profit affiliates (collectively the "Network") comprise a full-service integrated health delivery system in central Indiana. The Network consists of eight acute care and/or specialty hospitals, seven immediate care centers, over 500 primary care and specialty employed physicians, forty ambulatory care centers, ten freestanding surgery centers, seven outpatient imaging centers, two ambulatory centers, and four long term care facilities.

Effective February 18, 2013, the Network announced its intent to enter into a collaboration with Health and Hospital Corp. of Marion County ("HHC"). The Network anticipates the collaboration agreement to be in effect by December 31, 2013.

Effective December 1, 2012, Community LTC, Inc. ("Community LTC") transferred ownership in the licenses and operations of four of its long term care facilities to Johnson Memorial Hospital ("Johnson"). Community LTC continues to manage the facilities and own the assets associated with the facilities.

Effective July 1, 2012, the Network affiliated with Howard Regional Health System, Inc. and its affiliates (collectively "Howard"). The intent of the affiliation is to provide for the continuous operation of a general acute care hospital and related facilities in Howard County, Indiana. The affiliation was accounted for as an acquisition and thus the net assets and operations of Howard are included in the Network's consolidated financial statements beginning July 1, 2012. See Note 15.

Effective December 31, 2011, Community Health Network, Inc. merged into Community Hospitals of Indiana, Inc. Community Hospitals of Indiana, Inc. was the surviving corporation. Upon completion of the merger, Community Hospitals of Indiana, Inc. was renamed Community Health Network, Inc. ("CHNw"). CHNw is a non-profit corporation which operates two acute care hospital facilities on the northeast and eastern sides of Indianapolis.

Effective August 1, 2011, the Network affiliated with Indianapolis Osteopathic Hospital, Inc. d/b/a Community Westview Hospital and its affiliates (collectively "Westview"). The intent of the affiliation is to provide expanded services to residents in central Indiana. The affiliation was accounted for as an acquisition and thus the net assets and operations of Westview are included in the Network's consolidated financial statements beginning August 1, 2011. See Note 15.

Effective June 1, 2011, the Network entered into a clinical collaboration agreement with Johnson. The intent of the collaboration is to provide higher quality and more affordable primary and secondary care to Johnson County residents. The collaboration agreement does not change any management, ownership or governance structures of Johnson.

Basis of Presentation and Consolidation
The accompanying consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP") and include the assets, liabilities, revenues and expenses of all wholly owned subsidiaries, majority owned subsidiaries and when applicable, entities for which the Network has a controlling interest.

The consolidated financial statements include the following wholly owned entities:

- Community Hospital South, Inc. ("CHS"), a non-profit corporation which operates an acute care hospital facility on the south side of Indianapolis; CHNw and CHS are collectively referred to as ("CHI").
- Indiana Heart Hospital, LLC ("CHVH") d/b/a Community Heart and Vascular Hospital, a non-profit corporation which operates a specialty hospital specializing in cardiac care as well as provides cardiac services to CHNw;
- Community Hospitals of Anderson and Madison County, Inc. ("CHA"), a non-profit corporation which provides acute health care services to residents of Anderson, Indiana and surrounding communities;
- Indianapolis Osteopathic Hospital, Inc. d/b/a Westview Hospital, a non-profit corporation which provides acute health care services to residents on the west side of Indianapolis. Health Institute of Indiana, Inc. ("Healthplex") is a non-profit wholly owned fitness center of Westview. Westview Hospital Foundation, Inc. ("Westview Foundation") is a non-profit corporation organized to support the activities of Westview;
- Community Howard Regional Health, Inc., a non-profit corporation which provides acute health care services to residents in Howard County, Indiana and surrounding areas. Midwest Racquetball, Inc. d/b/a Kokomo Sports Center is a for profit sports facility of Howard; Community Howard Regional Health Foundation ("Howard Foundation") is a non-profit corporation organized to support the activities of Howard;
- Community Physicians of Indiana, Inc. ("CPI") d/b/a Community Physicians Network, a non-profit corporation which employs the Network's primary care and specialty physicians;
- Community Health Network Foundation, Inc. ("Foundation"), a non-profit corporation established to raise and expend funds for the benefit of CHNw and other related organizations;
- Visionary Enterprises, Inc. ("VEI"), a taxable, for-profit subsidiary corporation which consists primarily of ambulatory surgery center development in Indiana and Michigan, and management and other consulting services;
- Community Home Health Services, Inc. ("CHHS"), a non-profit corporation whose operations consist primarily of providing home health care and hospice services to patients in nineteen central Indiana counties; CHHS consolidates its wholly owned subsidiary, Community at Home, LLC, a non-profit Indiana corporation which provides sales of home health care products;
- Indiana ProHealth Network, Inc., a provider association consisting of physicians and hospital members in central Indiana and the primary vehicle by which the Network contracts for risk with payors. Effective December 31, 2011, Indiana ProHealth Network, Inc. was merged with VEI-ProHealth, Inc. which was converted to Indiana ProHealth Network, LLC ("ProHealth"). ProHealth is a subsidiary of VEI;
- CHN Assurance Company, Ltd. ("Captive") is a company incorporated under the law of the Cayman Islands and a wholly owned subsidiary of CHNw. The Captive reinsures policies for the Network including: primary hospital professional liability, doctor's professional liability and general liability. The Captive's professional liability policy is on a claims-made basis and

includes prior acts coverage for various entities owned by the Network, while the general liability policy is on an occurrence basis. On an annual basis, the Captive's ceding insurer requires the Captive to maintain an outstanding letter of credit to address any potential exposure between premiums paid and expected losses. Due to favorable claims experience and adequate funding, the fronting company no longer requires a letter of credit for the policy years beginning March 1, 2012 and 2013, respectively.

- The Network also consolidates its interest in the following wholly owned entities:
  - South Campus Surgery Center, LLC ("SCSC")
  - North Campus Surgery Center, LLC ("NCSC")
  - East Campus Surgery Center, LLC ("ECSC")
  - Hamilton Surgery Center, LLC ("Noblesville")
  - Howard Community Surgery Center, LLC ("Howard Surgery")
  - Northwest Surgery Center, LLC ("Northwest")
  - Community LTC, Inc. ("LTC")
  - Howard Regional Specialty Care, LLC ("Howard Rehab")

Significant intercompany accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements
The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: (a) allowance for contractual revenue adjustments, (b) allowance for doubtful accounts; (c) depreciation lives of long-lived assets and (d) reserves for professional, workers' compensation and comprehensive general insurance liabilities risk. Future events and their effects cannot be predicated with certainty; accordingly the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. The Network evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in its evaluation, as considered necessary. Actual results could differ from those estimates.

Reclassifications
Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and funds invested temporarily in money market accounts that are purchased with original maturities of three months or less.

The Network has entered into overnight sweep transaction agreements to purchase and resell direct obligations of, or obligations that are insured as to principal and interest by, U.S. Government agencies. At December 31, 2012 and 2011, cash and cash equivalents include $68,035 and $22,465, respectively, of overnight sweep transaction agreements.

Restricted Cash
As of December 31, 2012 and 2011, CHNw has restricted cash of $0 and $2,851, respectively, related to collateral calls on its 1995 Series debt as well as collateral related to CHNw's guarantee of Westview's long-term debt. The monies were held in a separate cash account and could only be used to fund the collateral call requirements issued by the bank. As the fair value of the debt outstanding increased, the monies were released by the bank into CHI's operating cash account. On November 27, 2012, the Network refinanced the 1995 Series debt and therefore no longer has collateral call requirements. Additionally, during 2012, the bank released the cash collateral pledge requirement associated with the Westview long-term debt and thus the cash collateral is no longer required.

Allowance for Doubtful Accounts and Contractual Adjustments
The Network's accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments. In evaluating the collectability of accounts receivable, the Network analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for contractual adjustments, provision for bad debts and provision for charity. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third party coverage, the Network analyzes contractually due amounts and provides an allowance for contractual adjustments. For receivables associated with self-pay patients, including patient deductibles and co-insurance, the Network records a provision for bad debts and charity in the period of service on the basis of its past experience, which indicates many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. For CHNw, CHS, VEI and CHVH accounts that are sent to collection companies, the accounts remain as accounts receivable on the balance sheet. These accounts are not written off unless returned from the collection company, however are fully reserved within the allowance for doubtful accounts. As such the allowance for doubtful accounts is significant for this component of the accounts receivable.

Inventories
Inventories consist primarily of medical and surgical supplies and pharmaceuticals. All inventories are valued at the lower-of-cost or market. Cost is determined by the Network using a weighted average cost method, which approximates cost under the first-in, first-out method.

Assets Limited as to Use
Assets limited as to use consist of cash and cash equivalents, U.S. Government obligations, corporate bonds, mutual funds, marketable equity securities and hedge fund of funds and are stated at fair value. The investments are classified as trading securities. The trading securities classification is based on the Network's investment strategy and investment philosophies which permits investment managers to execute purchases and sales of investments without prior approval of Network management. All unrestricted unrealized holding gains and losses are recorded in investment income in the period in which they occur.

Reinsurance trust assets are maintained by the Captive. All realized and unrealized gains or losses are recorded in income. For reinsurance trust assets, fair value is determined as described in Note 3. Realized gains and losses on sales of investments are determined using the specific identification cost method and are included in excess of revenues over expenses.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, if donated, at the fair value at date of donation. Assets under capital lease obligations are recorded at the present value of the aggregate future minimum lease payments at the beginning of the lease term. For financial statement purposes, the Network uses the straight-line method of computing depreciation over the shorter of the estimated useful lives of the respective assets or the life of the lease term, excluding any lease renewals, unless the lease renewals are reasonably assured.

Costs of maintenance and repairs are charged to expense when incurred; costs of renewals and betterments are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and changes in net assets.

Long-lived assets are evaluated for possible impairment whenever circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from future estimated cash flows. Fair value estimates are derived from independent appraisals, established market values of comparable assets or internal calculations of future estimated cash flows.

Change in Estimates for Long-lived Assets

The Network periodically performs assessments of the estimated useful lives of its long-lived assets. In evaluating the useful lives, the Network considers how long the long-lived assets will remain functionally efficient and effective, given changes in the physical and economic environments, the levels of technology and competitive factors. If the assessment indicates that the long-live assets will continue to be used for a longer period than previously anticipated, the Network will revise the estimated useful lives resulting in a change in estimate. Changes in estimates are accounted for on a prospective basis by depreciating the assets current carrying values over their revised remaining useful lives.

Investments in Unconsolidated Affiliates

Investments in affiliates not controlled by the Network are reported under the equity method of accounting. Under the equity method, the investments are initially recorded at cost, increased or decreased by the investor's share of the profits or losses of the investee and reduced by cash distributions received. Distributions received from investees that represent a return on investment are classified as operating cash flows on the consolidated statement of cash flows. Those distributions that represent a return of investment are classified as investing cash flows.

Deferred Financing Costs

Costs associated with the issuance of long-term debt are carried at cost, net of accumulated amortization. These amounts are amortized to interest expense using the effective interest method over the life of the bonds.

Discounts and premiums associated with long-term debt are reported as a direct deduction from, or addition to, the face amount of the long-term debt. The discounts/premiums are accreted/amortized using the effective interest method over the life of the related debt. The related income or expense is included in interest expense in the consolidated statement of operations.

Capitalized Software

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 7-10 years. Costs incurred during the preliminary project stage and post-implementation stage, as well as maintenance and training costs, are expensed as incurred.

Self-Insured Risk

A substantial portion of the Network's professional and general liability risks, excluding Westview, are insured through a self-insured retention program written by the Network's consolidated wholly-owned offshore captive insurance subsidiary, the Captive, as previously described.

Reserves for professional and general liability risks, including incurred but not reported claims, were $13,841 and $12,707 at December 31, 2012 and 2011, respectively. These amounts are recorded and included in the incurred but not reported liabilities on the consolidated balance sheets.

Westview's professional and general liability risks are insured through a self-insurance retention program written by Suburban Health Organization Segregated Portfolio Company, LLC ("SHO Captive"), a captive insurance company. Westview is a member of the SHO Captive through a 20% ownership interest. Westview accounts for its interest in the SHO Captive through the equity method of accounting. The premiums paid to the SHO Captive are reflected in Westview's operating expenses on the consolidated statement of operations.

Provisions for the self-insured risks are based upon actuarially determined estimates. Loss and loss expense reserves represent the estimated ultimate net cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserves for unpaid losses and loss expenses are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The changes to the estimated reserve amounts are included in current operating results.

The Network is self-insured for employee medical benefit risks through ProHealth except for Westview which is self-insured. Reserves for medical claims liabilities and estimated incurred but not reported claims were $17,966 and $12,686 at December 31, 2012 and 2011, respectively. These amounts are recorded and included in incurred but not reported liabilities on the consolidated balance sheets for the Network excluding Westview. Liabilities for Westview are recorded in accrued salaries and wages. Incurred but not reported claims reserves are determined using individual case-basis data and are continually reviewed and adjusted as new experienced information becomes known. The changes in estimated reserve amounts are included in current operating results.

Although considerable variability is inherent in reserve estimates, management believes the reserves for losses and loss expenses are adequate; however, there can be no assurance that the ultimate liability will not exceed management's estimates.

Derivative Instruments

The Network records derivative instruments on the consolidated balance sheet as either an asset or a liability as measured at its fair value. Changes in a derivatives' fair value are recorded each period either in revenues in excess of expenses or unrestricted net assets, depending on what type of hedge the derivative is designated as and whether or not the hedged transaction is effective or not. Changes in the fair value of derivative instruments recorded to unrestricted net assets are reclassified into earnings in the period affected by the underlying hedged item. Any portion of the fair value of a derivative instrument deemed ineffective is recognized in current earnings.

The Network has two interest swaps outstanding at December 31, 2012. See Note 8 for further discussion of the two swap transactions.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Network 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 Network in perpetuity.

Net Patient Service Revenue

The Network recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Network recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates if in accordance with policy. On the basis of historical experience, a portion of the Network's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Network records a provision for bad debts and charity related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances, discounts and charity allowances recognized in the period from these major payor sources, is as follows for the years ended December 31, 2012 and 2011, respectively:

Consolidated Statements of Cash Flows (in 000's)

2012	Third Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 1,580,962	$ 73,759	$ 1,654,721

2011	Third Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 1,276,969	$ 55,994	$ 1,332,963

Beginning June 2012, the State of Indiana began offering voluntary participation in the State of Indiana's Hospital Assessment Fee ("HAF") program. The Office of Medicaid Planning and Policy deemed the program to be effective retroactive to July 1, 2011. The HAF program runs on an annual cycle from July 1 to June 30 and is effective until June 30, 2013 with options to renew the program. The State of Indiana implemented this program to utilize supplemental reimbursement programs for the purpose of providing reimbursement to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. This program is designed with input from Centers for Medicare and Medicaid Services and is funded with a combination of state and federal resources, including fees or taxes levied on the providers.

The Network recognizes revenues and related expenses associated with the HAF program in the period in which amounts are estimable and collection is reasonably assured. Reimbursement under the program is reflected as contra contractual allowances within net patient service revenue and the fees paid for participation in the HAF program are recorded in supplies and other expenses within the consolidated statement of operations.

As a result of participating in the program, the Network recognized in 2012 HAF retroactive reimbursements of $78,197 and paid retroactive fees of $43,453 related to the period July 1, 2011 through June 30, 2012. On an ongoing basis, the fees and reimbursements are settled monthly.

Charity Care

The Network maintains records to identify and monitor the level of charity care it provides. The Network provides 100% charity care to patients whose income level is below 200% of the Federal Poverty Level. Patients with income levels ranging from 200% - 300% of the current year's Federal Poverty Level will qualify for partial assistance determined by a sliding scale. The Network uses cost as the measurement basis for charity care disclosure purposes with the cost being identified as the direct and indirect costs of providing the charity care.

Consolidated Statements of Cash Flows (in 000's)

Charity care includes the amount of costs incurred for services and supplies furnished under the charity care policy and was $58,163 and $26,939 for the years ended December 31, 2012 and 2011, respectively. Charity care cost was estimated on the application of the associated cost-to-charge ratios.

Donor-restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

The following is a summary of pledge receivables as of December 31, 2012 and 2011.

	2012	2011
Pledge receivables in less than one year	$ 388	$ 1,135
Pledge receivables in one to five years	277	571
Pledge receivables in more than five years	27	38
	692	1,744
Less: allowance for doubtful accounts	109	286
	$ 583	$ 1,458

Electronic Health Record Incentive Payments

The America Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. Under the programs incentive payments will be paid out over a four year period to hospitals and physicians meeting designated EHR meaningful use criteria. The Centers for Medicare and Medicaid Services ("CMS") has chosen to take a phased approach to defining meaningful use (through three stages), using criteria that becomes more stringent over time.

The definitions of the stages are as follows:

Stage 1- The hospital must electronically capture health information in a coded format. Additionally, the hospital must use EHR technology during the meaningful use period to meet 14 required objectives. The hospital must also elect five additional objectives to meet.

Stage 2- The hospital expands on Stage 1 to focus on continuous quality improvement at point of care. Additionally, the hospital must demonstrate greater use of computerized physician order entry and more exchange of information

Stage 3- The hospital expands on the previous stages to focus on promoting improvements in quality, safety and efficiency with an emphasis on decision support, patient access to self-management tools, access to comprehensive patient data and improving population health.

In order to receive incentive payments, a hospital which is able to meet the meaningful use criteria must attest that during the EHR reporting period, the hospital:

- Used certified EHR technology and specify the technology used;
- Satisfied the required meaningful use objectives and associated measures for the applicable stage;
- Must specify the EHR reporting period and provide the result of each applicable measure for all patients admitted to the inpatient and emergency department of the hospital during the EHR reporting period for which a selected measure is applicable.

The results of the measurements are required to be submitted to CMS. For Medicare and Medicaid, the meaningful use periods follow the Federal fiscal year of October 1 to September 30. Meaningful use is measured on a year by year basis. The EHR reporting period for the first payment year is any continuous 90 day period. Subsequent payments years are 365 days per year.

The incentive payments are computed as the product of a base amount times the number of discharges times a Medicare factor computed based on inpatient days and charity care charges times a transition factor as determined by CMS.

The Network recognizes the EHR incentives payments using a government grant recognition model. The Network determined the EHR incentive payments are similar to grants that are related to income and recognizes the incentive payments ratably over each meaningful use period. The Network recognizes the incentive payments when it is reasonably assured that it will comply with the conditions attached to them and that the grants will be received.

The recognition of the income related to the EHR incentive payments is based on Network management's best estimates and the amounts are subject to change, with such changes impacting the operations in the period in which they occur. The Network recognized $10,455 and $12,635 for the years ended December 31, 2012 and 2011, respectively.

Acquisition Costs
The Network records acquisitions costs as incurred as operating expenses.

Tax Status
CHNw, CHS, CHA, CHHS, CPI, CHVH, Westview and Howard are exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code (the "Code"), and the Foundation, Westview Foundation and the Howard Foundation are exempt from federal income taxes under Section 501a(c) (3) of the Code. CHVH filed its Form 1023 application timely and is awaiting determination from the Internal Revenue Service. VEI is a for-profit taxable entity and is subject to federal and state income taxes. ProHealth, NCSC, SCSC, ECSC, Noblesville, Howard Surgery, Northwest and MSI are generally not subject to federal or state income taxes as income earned flows through to its members.

Fair Value of Financial Instruments/Measurements
The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and other current liabilities approximate fair value because of the relatively short maturities of these financial instruments. The fair value of long-term debt was determined using discounted future cash flows, with a discount rate equal to interest rates for similar types of borrowing arrangements.

The fair value of the Network's long-term debt instruments (level 2) and related interest approximates $633,515 and $429,457 as compared to carrying values of $625,760 and $431,073 as of December 31, 2012 and 2011, respectively. See Note 7 for additional information regarding the bond financing completed in November 2012.

The Network measures fair value as 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 Network uses also a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Network uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1- Observable inputs such as quoted prices in active markets;
- Level 2- Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3- Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- Market approach- Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach- Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and
- Income approach- Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models and lattice models.)

Subsequent Events
The Network evaluated subsequent events through April 23, 2013, the date the Network consolidated financial statements were issued. All material matters are disclosed in the footnotes to the consolidated financial statements.

New Accounting Pronouncements
Effective January 1, 2011, the Network adopted ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The adoption did not have a material impact on the Network's financial condition, results of operations or cash flows.

Effective January 1, 2011, the Network adopted ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowances for Doubtful Accounts for Certain Health Care Entities,* which requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The early adoption of ASU 2011-07 is reflected in the Network's 2012 and 2011 consolidated financial statements and footnotes.

2. Net Patient Service Revenue and Concentrations of Credit Risk

The Network has agreements with third-party payors that provide for payments to the Network at amounts different from its established rates. Payment arrangements with major third-party payors include:

- Medicare—Inpatient acute care services, outpatient services and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Network is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Network and audits thereof by the Medicare fiscal intermediary. The Network's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Network. The Network's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2011 except for Westview's cost report which has been audited through August 31, 2012 (Westview's prior fiscal year-end) and Howard's stub cost report which has been audited through June 30, 2012 (Howard's stub period-end before the affiliation with the Network). The Network is awaiting final audit reports to be issued. Laws and regulations governing the Medicare program are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates could change by a material amount in the near term. Adjustments to revenue related to prior period cost reports increased net patient service revenue by approximately $12,637 and $167 for the years ended December 31, 2012 and 2011, respectively. Medicare patients account for approximately 40.1% and 41.1% of gross patient charges for years ended December 31, 2012 and 2011, respectively.

- Medicaid—Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge and outpatient services are reimbursed based on a fee for service basis, based on predetermined fee schedules. Medicaid patients account for approximately 12.8% and 12.2% of gross patient charges for years ended December 31, 2012 and 2011, respectively. The Network has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Network under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

Consolidated Statements of Cash Flows (in 000's)

Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the established charges for services and estimated total payments to be received from third-party payors. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as settlements are determined.

The Network has qualified as a Medicaid Disproportionate Share ("DSH") provider under Indiana Law (IC 12-15-16(1-3)) and, as such, is eligible to receive DSH payments for the most recently determined state fiscal year 2012. The amount of these additional 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 well as other factors. For the years ended December 31, 2012 and 2011, DSH payments have been made by the State of Indiana and amounts received were recorded as revenue based on data acceptable to the State of Indiana less any amounts management believes may be subject to adjustment. DSH payments are recorded by the Network after eligibility is determined by the State of Indiana and the payments are determined to be earned. If payments are received prior to eligibility being determined, the payments are recorded as current deferred revenue and recorded in current other liabilities until eligibility is determined.

Net patient service revenue, as reflected in the accompanying consolidated statements of operations and changes in net assets, consist of the following for the years ended December 31, 2012 and 2011:

	2012	2011
Gross patient service revenue	$ 3,924,938	$ 3,335,995
Deductions from gross patient service revenue		
Medicare/Medicaid contractual adjustments	1,340,367	1,198,572
Other contractual adjustments	813,877	725,689
Charity discounts for patient care	115,973	78,771
Net patient service revenue	1,654,721	1,332,963
Provision for bad debts	76,269	72,765
Net patient service revenue less provision for bad debts	$ 1,578,452	$ 1,260,198

The Network grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. A significant portion of the Network's revenue is concentrated by payor mix. The concentration of gross receivables by payor class for both patients and third-party payors at December 31, 2012 and 2011 is as follows:

	2012	2011
Medicare	23%	26%
Medicaid	13%	12%
Managed care and commercial insurance	44%	44%
Patients	20%	18%
	100%	100%

Consolidated Statements of Cash Flows (in 000's)

Adjustments to the allowance for doubtful accounts are made after the Network has analyzed historical cash collections and considered the impact of any known material events. Uncollectible accounts are written-off against the allowance for doubtful accounts after exhausting collection efforts. Any subsequent recoveries are recorded against the provision for bad debts.

3. Assets Limited as to Use

Funds Held by Trustee

The following is a summary of assets limited as to use, which are held by trustees, at December 31, 2012 and 2011:

	2012	2011
Cash and cash equivalents	$ 22,623	$ 26,818
U.S. Treasury bonds	103,974	-
	126,597	26,818
Less amount classified as current assets to meet current obligations	89,697	13,176
Noncurrent asset	$ 36,900	$ 13,642

The Hospital Revenue Bond Agreements (see Note 7) require that the initial bond proceeds be held by a bank trustee until such funds are expended for eligible assets. Certain other funds are also held by the bank trustee as additional security for the bondholders and the periodic deposits of principal and interest requirements. These amounts, including interest earned from temporary investments, are segregated in accounts maintained by a bank trustee. Use of the funds is restricted to debt service requirements. All cash and cash equivalents are designated as Level 1 and all U.S. Treasury bonds are designated as Level 2 in accordance with ASC 820-10*, Fair Value Measurement.*

The increase in funds held by trustee during 2012 is primarily due the 2012 Bond Financing described in Note 7. The funds reflected in current assets relates to construction costs anticipated to be incurred during 2013.

Board-designated Funds

The Network classifies its Board designated funds and reinsurance trust assets as trading securities. Those investments are marked to market each month.

Consolidated Statements of Cash Flows (in 000's)

The following is a summary of the investments limited as to use, which are board-designated funds at December 31, 2012 and 2011:

	2012 Cost	2012 Market
Cash and cash equivalents	$ 13,576	$ 13,576
Equity securities	24,543	30,603
Corporate bonds	59	57
Mutual Funds	393,271	410,384
Hedge Fund of Funds	21,951	20,393
	$ 453,400	$ 475,013

	2011 Cost	2011 Market
Cash and cash equivalents	$ 3,298	$ 3,298
Equity securities	38,674	43,930
Corporate bonds	127	128
Mutual Funds	359,877	335,056
Hedge Fund of Funds	18,895	18,824
	$ 420,871	$ 401,236

2012	Fair Value Measurement at Reporting Date Using			
Description	**2012**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 13,576	$ 13,576	$ -	$ -
Equity securities	30,603	30,603	-	-
Corporate bonds	57	-	57	-
Mutual Funds	410,384	410,384	-	-
Hedge Fund of Funds	20,393	-	-	20,393
Total	$ 475,013	$ 454,563	$ 57	$ 20,393

2011	Fair Value Measurement at Reporting Date Using			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 3,298	$ 3,298	$ -	$ -
Equity securities	43,930	43,930	-	-
Corporate bonds	128	-	128	-
Mutual Funds	335,056	335,056	-	-
Hedge Fund of Funds	18,824	-	-	18,824
Total	$ 401,236	$ 382,284	$ 128	$ 18,824

Consolidated Statements of Cash Flows (in 000's)

		Rollfoward of Level 3 Investments
Balance as of January 1, 2011	$	16,534
Purchases		3,025
Investment loss-realized/unrealized		(735)
Balance as of December 31, 2011	$	18,824
Balance as of January 1, 2012	$	18,824
Purchases		3,056
Investment loss-realized/unrealized		(1,487)
Balance as of December 31, 2012	$	20,393

In October 2009, new guidance related to the Fair Value Measurement standard was issued for estimating the fair value of investments in investment companies ("limited partnership") that have a calculated value of their capital account or net asset value ("NAV") in accordance with, or in a manner consistent with U.S. Generally Accepted Accounting Principles ("US GAAP"). As a practical expedient, the Network is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The Network's investments in mutual funds and hedge fund of funds are fair valued based on the most current NAV.

The fair values of the board designated funds are provided to the Network's investment manager and are determined as follows:

a) The funds designated as level 1 inputs represent equity securities and investable mutual fund shares that are traded on major stock exchanges. Thus, the fair value is determined based on quoted prices in an active market.

b) The funds designated as level 2 inputs represent fixed income securities generally determined on the basis of valuations provided by a pricing service which will typically utilize industry accepted valuation models and observable market inputs to determine valuation; some valuations or model inputs provided/used by the pricing service may be, or be based upon, broker quotes.

c) The funds designated as level 3 inputs represent hedge funds. The fair values of the hedge funds are obtained from individual hedge fund managers and custodians. The hedge fund of fund manager employs best practices controls and due diligence to ensure the valuations are reflective of fair value. Additionally, the individual hedge funds are audited annually and an audit report issued.

Consolidated Statements of Cash Flows (in 000's)

The following table presents liquidity information for the financial instruments carrried at net asset value at December 31, 2012 and 2011:

Investment Type	Redemption Frequency	Notice Period
Mutual Funds	Daily	N/A
Hedge Fund of funds	Quarterly	70 days

Investment income for 2012 and 2011 related to Board-designated funds consists of the following:

	2012	2011
Interest and dividend income	$ 14,235	$ 20,139
Unrealized gain (loss)	41,260	(46,814)
Net realized gain on sales of investment securities	8,234	9,878
Total investment income (loss)	$ 63,729	$ (16,797)

The Network's investment expenses for the years ended December 31, 2012 and 2011 were $532 and $630, respectively.

Reinsurance Trust Assets

The assets in the trust are maintained in a domestic trust account. These assets are restricted and may not be withdrawn or used without the consent of the trust administrator.

The following is a summary of the investments limited as to use, which are reinsurance trust assets, at December 31, 2012 and 2011:

	2012 Cost	2012 Market	2011 Cost	2011 Market
Corporate bonds	$ 7,724	$ 8,011	$ 3,982	$ 4,218
Federal Government Agency mortgage backed securities	5,001	5,186	4,123	4,356
Cash and cash equivalents held in trust	556	556	4,227	4,227
	$ 13,281	$ 13,753	$ 12,332	$ 12,801

Consolidated Statements of Cash Flows (in 000's)

2012	**Fair Value Measurements at Reporting Date Using**			
Description	**2012**	**Level 1**	**Level 2**	**Level 3**
Federal Government Agency and mortgage backed securities	$ 5,186	$ -	$ 5,186	$ -
Corporate bonds	8,011	-	8,011	-
Cash and cash equivalents held in trust	556	556	-	-
Total	$ 13,753	$ 556	$ 13,197	$ -

2011	**Fair Value Measurements at Reporting Date Using**			
Description	**2011**	**Level 1**	**Level 2**	**Level 3**
Federal Government Agency and mortgage backed securities	$ 4,356	$ -	$ 4,356	$ -
Corporate bonds	4,218	-	4,218	-
Cash and cash equivalents held in trust	4,227	4,227	-	-
Total	$ 12,801	$ 4,227	$ 8,574	$ -

The fair values of the reinsurance trust assets are provided by the Captive's investment manager and are determined as follows:

a) The fair value of fixed income securities including corporate debt are generally determined on the basis of valuations provided by a pricing service which will typically utilize industry accepted valuation models and observable market inputs to determine valuation; some valuations or model inputs provided/used by the pricing service may be, or be based upon, broker quotes.

b) The fair value of investments in money market funds (included in cash and cash equivalents within the tables above) is determined based on the net asset value per share provided by the administrators of the funds.

Investment income for 2012 and 2011 related to reinsurance trust assets consists of the following:

	2012	**2011**
Interest income	$ 388	$ 349
Net realized/unrealized (losses) gains on investment securities	(46)	69
Total investment income	$ 342	$ 418

Consolidated Statements of Cash Flows (in 000's)

4. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation consist of the following at December 31, 2012 and 2011:

	Estimated Useful Lives	2012	2011
Land and land improvements	0-20 years	$ 38,395	$ 30,119
Buildings and improvements	10-90 years	905,996	797,068
Equipment	3-20 years	615,131	572,740
Construction in progress		19,650	9,291
		1,579,172	1,409,218
Less: Accumulated depreciation		788,334	727,055
		$ 790,838	$ 682,163

Depreciation expense was $74,177 and $63,668 for 2012 and 2011, respectively. Effective January 1, 2011, the Network revised the useful lives of its hospital and hospital related buildings and building improvements. The lives were increased, in some instances, an additional 40 years depending on the nature and type of the building improvement. The effect of these changes in estimates, compared to the original depreciation for the year ended December 31, 2011 was a reduction in depreciation expense of $4,421.

Property, plant and equipment include $1,578 and $1,175 of net capitalized interest at December 31, 2012 and 2011, respectively.

5. Investments in Unconsolidated Affiliates

The Network has equity investments in various surgery centers, Mid America Clinical Laboratory ("MACL") and other entities. The following is a summary of the Network's investments in unconsolidated affiliates for the years ended December 31, 2012 and 2011:

	Surgery Centers	MACL	Other	Total
Balance, December 31, 2010	$ 14,629	$ 4,677	$ 88	$ 19,394
Capital contributions	-	-	483	483
Distributions	(5,354)	(2,301)	(2,901)	(10,556)
Equity in net income	5,763	2,295	2,900	10,958
Balance, December 31, 2011	$ 15,038	$ 4,671	$ 570	$ 20,279
Capital contributions	-	-	315	315
Distributions	(6,714)	(1,540)	(3,419)	(11,673)
Equity in net income	6,193	2,657	2,354	11,204
Other	-	-	345	345
Balance, December 31, 2012	$ 14,517	$ 5,788	$ 165	$ 20,470

Consolidated Statements of Cash Flows (in 000's)

Summarized and aggregated financial statement information for the surgery centers, MACL and the other unconsolidated affiliates is as follows:

	Surgery Centers	MACL	Other	Total
Total assets	$ 19,461	$ 40,822	$ 24,878	$ 85,161
Total liabilities	5,927	14,511	14,870	$ 35,308
Net assets	13,534	26,311	10,008	$ 49,853
Revenues	50,103	95,353	47,990	$ 193,446
Operating income	15,872	11,930	10,878	$ 38,680
Net income	14,856	11,966	10,623	$ 37,445
Network's equity in net income of unconsolidated affiliates	6,193	2,657	2,354	$ 11,204

6. Transactions with Unconsolidated Affiliates and Related Parties

The Network provides services to and makes purchases on behalf of various unconsolidated affiliated entities. The range of ownership in unconsolidated affiliates is 2% to 70%. Amounts due to unconsolidated affiliates and related parties consist of the following at December 31, 2012 and 2011:

	2012	2011
Notes payable–North Campus Office Associates (NCOA)	$ (1,094)	$ (1,263)
Receivables from physicians	-	1,473
Due (to)/from Spec Prime/MedPrime	(1,488)	(593)
Due (to)/from Indiana Surgery Centers	1,018	886
Other receivables, net	1,227	298
Due (to)/from unconsolidated affiliates and related parties, net	$ (337)	$ 801

7. Debt

Short-term Borrowings

Short-term borrowings represent outstanding borrowings under bank lines of credit. At December 31, 2012 and 2011 the following amounts were outstanding:

	Maximum Borrowings	Outstanding Balance 2012	Outstanding Balance 2011
CHI	$ 50,000	$ 50,000	$ 29,646
VEI	-	-	13,500
CHA	2,000	-	-
		$ 50,000	$ 43,146

Consolidated Statements of Cash Flows (in 000's)

The bank lines of credit are due on demand. CHI's short-term debt is collaterized under the same terms as the Master Indentures described below. Interest is at a floating rate. The weighted-average effective rate on CHI's short term borrowings was 1.72% and 1.57% for the years ended December 31, 2012 and 2011, respectively.

Long–term debt

Long–term debt at December 31, 2012 and 2011 is summarized as follows:

	Obligated Entity	2012	2011
Indiana Finance Authority, Adjustable Rate			
Hospital Revenue Bonds, Series 2012A	CHNw		
Interest payable monthly (ranging from 2.0% - 5.0%)			
Due May 1, 2013 to May 1, 2028		$ 112,810	$ -
4.00% term bonds due May 1, 2025		88,930	-
5.00% term bonds due May 1, 2042		174,455	-
Unamoritized premium		28,074	-
		$ 404,269	$ -
Indiana Finance Authority, Adjustable Rate	CHNw		
Hospital Revenue Bonds Series 2012B,			
Inerest payable monthly (1.08% rate at 12/31/12)			
Due November 27, 2012 to November 27, 2039		$ 74,250	$ -
		$ 74,250	$ -
Indiana Finance Authority, Adjustable Rate			
Hospital Revenue Bonds, Series 2009A	CHNw		
Interest payable monthly (0.15% rate at 12/31/12)			
Due July 1, 2009 to July 1, 2039		$ 38,335	$ 39,180
Unamoritized discount		(131)	(136)
		$ 38,204	$ 39,044

Community Health Network, Inc. and Affiliates
Consolidated Statements of Cash Flows (in 000's)
December 31, 2012 and 2011

	Obligated Entity	2012	2011
Indiana Finance Authority, Adjustable Rate			
Hospital Revenue Bonds, Series 2009B	CHNw		
Interest payable monthly			
Due July 1, 2009 to July 1, 2039		$ -	$ 58,760
Unamoritized discount		-	(203)
		$ -	$ 58,557
Indiana Health Facility Financing Authority,			
Hospital Revenue Bonds, Series 2005A;			
Interest payable semiannually	CHNw		
4.50% serial bonds due May 1, 2008 to May 1, 2025		$ -	$ 62,515
5.00% term bonds due May 1, 2035		-	78,970
Unamortized premium		-	3,634
		$ -	$ 145,119
Indiana Health Facility Financing Authority, Adjustable			
Rate Hospital Revenue Bonds, Series 2005B;			
Interest payable monthly	CHNw		
Due May 1, 2008 to May 1, 2035		$ -	$ 17,000
Indiana Health Facility Financing Authority, Adjustable			
Rate Hospital Revenue Bonds, Series 2005C;			
Interest payable monthly	CHNw		
Due May 1, 2008 to May 1, 2035		$ -	$ 17,000
Indiana Finance Authority, Adjustable Rate Hospital			
Revenue Bonds, Series 2005A and 2005B;	Howard		
Interest payable monthly (0.11% effective rate at			
December 31, 2012) due January 1, 2007 to January 1, 2035		$ 45,420	$ -
Indiana Health Facility Financing Authority, Adjustable			
Rate Hospital Revenue Bonds, Series 2000A and 2000B;			
Interest payable monthly (0.15% effective rate at	CHNw		
December 31, 2012) due July 1, 2002 to July 1, 2028		$ 37,800	$ 38,000
Indiana Health Facility Financing Authority, Adjustable			
Rate Hospital Revenue Bonds, Series 1997A and 1997B;			
Interest payable monthly	CHNw		
due July 1, 2020 to July 1, 2027		$ -	$ 30,000
Indiana Health Facility Financing Authority, Hospital			
Revenue Refunding and Improvement Bonds,			
Series 1995; interest payable semiannually	CHNw		
5.6% term bonds due May 15, 2014		$ -	$ 5,985
5.7% term bonds due May 15, 2022		-	37,368
Unamortized discount		-	(262)
		$ -	$ 43,091

Community Health Network, Inc. and Affiliates
Consolidated Statements of Cash Flows (in 000's)
December 31, 2012 and 2011

	Obligated Entity	2012	2011
Indiana Health Facility Financing Authority, Hospital Revenue Bonds, Series 1993; interest payable semiannually	CHA		
6.00% term bonds, due January 1, 2023		$ -	$ 12,920
Indiana Health Facility Financing Authority, Hospital Revenue Refunding and Improvement Bonds, Series 1992; interest payable semiannually:	CHNw		
6.40% term bonds due May 1, 2012 with mandatory redemption from May 1, 2006 to 2012		$ -	$ 6,810
Unamortized discount		$ -	$ (7)
		$ -	$ 6,803
Indiana Health Facility Financing Authority, Hospital Revenue Bonds, Series 1992A; interest payable semiannually	CHNw		
6.85% term bonds due July 1, 2022		$ -	$ 11,250
Hospital Authority of Madison County, Inc., Hospital Revenue Bonds, Series 1988A; interest payable semiannually	CHA		
8.00% term bonds, due January 1, 2014		$ -	$ 2,600
Fifth Third Bank, Term Loan; interest payable quarterly (1.50% effective rate at December 31, 2012), due Due December 31, 2014	WV	$ 6,108	$ 6,430
Salin Bank Notes, interest payable monthly (3.16% effective rate at December 31, 2012), Due September 8, 2025	Howard	$ 9,406	$ -
Other long-term debt		$ 10,303	$ 3,259
		$ 625,760	$ 431,073
Less: Current portion of long-term debt		16,240	17,141
Long-term debt, net of current portion		$ 609,520	$ 413,932

Series 2012A and 2012B
On November 27, 2012, the Indiana Finance Authority ("IFA") issued Hospital Revenue Bonds, Series 2012A and Adjustable Rate Hospital Revenue Bonds, Series 2012B, in the aggregate amount of $450,445 for the purpose of making a loan to CHNw. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHNw. The Series 2012 A and Series 2012 B bonds are subject to redemption prior to their stated maturity at the option of CHNw on a thirty day notice in whole or in part, at a redemption price equal to 100% of the principal amount plus interest at the date of redemption.

Proceeds from the issuance of the Series 2012A and Series 2012B bonds were used to refinance the following series of bonds: 1988, 1993, 1992, 1995, 1997A and B, 2005A, B and C, and 2009B.Series 2009A and 2009B

Series 2009A and 2009B
On June 30, 2009, the Indiana Finance Authority ("IFA") issued Adjustable Rate Hospital Revenue Bonds, Series 2009A and 2009B, in the aggregate amount of $100,000 for the purpose of making a loan to CHI. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHI. As mentioned above, the Series 2009B was refunded with proceeds of Series 2012B. As a result, the letter of credit is no longer outstanding. As credit support for the 2009A bonds, the Network has an outstanding letter of credit with a bank for a maximum aggregate principal draw amount of $38,335 plus accrued interest as of December 31, 2012. The letter of credit expires for the Series 2009A on September 9, 2015. The Series 2009A bonds are subject to redemption prior to their stated maturity at the option of CHNw on a thirty day notice in whole or in part, at redemption price equal to 100% of the principal amount plus interest at the date of redemption.

Series 2005A, 2005B and 2000C
On May 1, 2005, the Indiana Health Financing Authority, (the “Authority”) issued Hospital Revenue Bonds, Series 2005A and Adjustable Rate Hospital Revenue Bonds, Series 2005B and 2005C, in the aggregate amount of $190,320 for the purpose of making a loan to CHNw. The proceeds of this loan from the Authority were available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHI. As credit support for the 2005B and 2005C bonds, the Network had two outstanding letters of credit with banks for a maximum aggregate principal draw amount of $34,000. The Series 2005B and Series 2005C bonds were refunded with proceeds from the Series 2012A and Series 2012B bonds. The Series 2005A bonds were advanced refunded with proceeds from the Series 2012A bonds and were legally defeased.

Series 2000A and 2000B
On November 1, 2000, the Authority issued Adjustable Rate Hospital Revenue Bonds, Series 2000A and 2000B, in the aggregate amount of $40,000 for the purpose of making a loan to the Network. The proceeds of this loan from the Authority were available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHNw. As of December 31, 2012, the outstanding letter of credit with the bank associated with this debt is the principal amount of $37,800 plus accrued interest. The letter of credit expires September 9, 2015. The Series 2000A and 2000B bonds are subject to redemption at the option of CHNw on a thirty day notice at a redemption price equal to 100% of the principal amount plus interest at the date of redemption.

Series 1997A and 1997B
On August 1, 1997, the Authority issued its Adjustable Rate Hospital Revenue Bonds, Series 1997A and Series 1997B in the aggregate amount of $30,000 for the purpose of making a loan to the Network. The proceeds of this loan from the Authority were used for the financing of certain health facility property. The Series 1997A and Series 1997B bonds were refunded with proceeds from the Series 2012A bonds.

Series 1995
On November 15, 1995, the Authority issued $75,050 of Hospital Revenue Refunding and Improvement Bonds (Series 1995 Bonds). Concurrent with the issuance of the bonds, the Network and the Authority entered into a loan agreement (the "Agreement") in which the Network agreed to make loan payments to meet the terms of the hospital revenue bonds. A bank purchased the tendered bonds for par value. Simultaneously, CHNw and the bank entered into an interest rate swap agreement (the "1995 swap"), the purpose of which was to synthetically convert the tendered bonds from a fixed rate to a variable rate based on the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA") plus 0.30 percent. The Series 1995 bonds were refunded with proceeds from the Series 2012A bonds. The 1995 swap was terminated on November 27, 2012 consistent with when the Series 1995 bonds were refunded.

Series 1993, 1992, 1992A, and 1988A
With respect to the Series 1993, 1992, 1992A, and 1988A Hospital Revenue Bonds, there were loan agreements between CHNw, CHA and the conduit issuing authorities with similar terms as described for the Series 1995 Hospital Revenue Bonds except the bonds were callable as follows: January 1, 2007 for Series 1993; May 1, 2002 for Series 1992; July 1, 2002 for Series 1992A; and January 1, 2001 for Series 1988A.

A bank purchased the tendered bonds at par value. Simultaneously, CHI and the bank entered into an interest rate swap agreement (the "1992 swap"), the purpose of which was to synthetically convert the tendered bonds from a fixed rate to a variable rate based on the Bond Market Association Municipal Swap Index plus 0.40 percent.

Series 1998, 1993, 1992A and 1988 bonds were refunded with proceeds from the Series 2012A bonds. The Series 1992 bonds matured on May 1, 2012. The 1992 interest rate swap was terminated on November 27, 2012 consistent with when the Series 1992 bonds were refunded. The 1992A interest rate swap was terminated on May 1, 2012 when the outstanding principal on the Series 1992A bonds was paid.

Series 2005A and 2005B - Howard
On July 1, 2012, Howard affiliated with the Network and its results since that date are consolidated with the Network. As a result, Howard's outstanding bonds are now reflected on the Network's consolidated balance sheet as of December 31, 2012. On January 1, 2005, the Indiana Finance Authority ("IFA") issued Adjustable Rate Hospital Revenue Bonds, Series 2005A and Series 2005B, in the aggregate amount of $50,000 for the purpose of making a loan to Howard. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by Howard. As of December 31, 2012, the outstanding letters of credit with the bank associated with this debt is the principal amount of $45,420 plus accrued interest. The letters of credit expires November 13, 2015. The Series 2005A and Series 2005B bonds are subject to redemption prior to their stated maturity at the option of CHNw on a thirty day notice in whole or in part, at redemption price equal to 100% of the principal amount plus interest at the date of redemption.

Consolidated Statements of Cash Flows (in 000's)

Howard has interest rate swap agreements related to its Series 2005A and Series 2005B bonds. Through the swaps, Howard pays a fixed rate on a portion of the Series 2005A and Series 2005B bonds. The swaps mature on January 1, 2035 consistent with the maturity date of the bonds. See Note 8 for further disclosure related to the interest rate swaps.

Term Loan
On December 29, 2011, Westview refunded its Hospital Authority of Marion County Adjustable Rate Demand Hospital Revenue Bonds, Series 2004 with a term loan financed through Fifth Third Bank ("Term Loan".) The Term Loan bears interest at the 30 day LIBOR rate plus 125 basis points adjusted monthly. Principal and interest payments are due quarterly with a final balloon payment of approximately $5,250 due December 30, 2014. The Term Loan is secured by a general security agreement pledging Westview's assets and the unconditional guarantee by CHNw.

Salin Bank Notes
On September 8, 2005, Howard entered into promissory notes with Salin Bank. The notes bear interest at a five year fixed interest rate equal to the five year U.S. Treasury rate constant plus 1.75%. The interest rate is adjusted every five years on the anniversary date of the loans. The loans mature September 8, 2025. The notes are secured by a pledge of unrestricted receivables.

In general, the various Network debt agreements restrict the amount of indebtedness that the Network may incur, the sale, lease or other disposition of operating assets, and the acceptable investments of the trust funds. In addition, these agreements require a debt service ratio at the end of any fiscal year of at least 1.10. The Network was in compliance with all debt covenants at December 31, 2012.

Scheduled principal repayments on long-term debt are as follows:

2013	$ 16,240
2014	15,596
2015	13,946
2016	15,951
2017	13,734
Thereafter	522,350
	597,817
Plus: Unamortized premium, net	27,943
	$ 625,760

For 2012 and 2011, interest cost incurred and capitalized in connection with the construction of capital assets aggregated $520 and $173, respectively.

8. Derivative Instruments

Howard has two interest rate swap agreements outstanding on its Series 2005A and Series 2005B bonds. The terms and fair values (level 2) of the outstanding swaps are as follows as of December 31, 2012:

Consolidated Statements of Cash Flows (in 000's)

Notional	Notional	Effective Date	Fixed Rate	Rate	Fair Value	Termination Date
$ 30,000	$ 27,250	October 3, 2005	3.550%	0.11%	$ (6,567)	January 1, 2035
10,000	9,085	October 3, 2005	3.550%	0.11%	(2,190)	January 1, 2035
					$ (8,757)	

The swaps were entered into as a means to manage interest rate risk on Howard's variable rate bond debt. The intention of the swap agreements were to effectively change Howard's variable interest rate on the Series 2005A and 2005B bonds to a fixed rate of 3.55%. The variable rate on the swaps is 70% of the USD-LIBOR BBA and resets monthly. The swaps have been deemed ineffective and have been dedesignated as hedges. As such, Howard accounts for changes in the fair value of the swaps on a marked to market basis each month with the unrealized gains/loss from the changes in the fair value of the swaps being recorded in the Network's non operating income/loss section of the consolidated statement of operations. The net interest activity from the monthly settlement of the swaps is recorded in interest expense in the statement of operations.

The following amounts have been recorded in the Network's consolidated statement of operations as of December 31, 2012:

	2012
Non Operating Income (Expenses)	
Net unrealized gains (losses) on changes in fair value of interest rate swaps	$ 710
Income from Operations	
Interest expense, net	$ 616

9. Employee Benefit Plans

Defined Benefit and Other Postretirement Benefit Plans

The Network has defined benefit retirement plans covering substantially all employees of CHNw, CHA, CHHS and CHVH. Effective December 27, 2010, all Network employees excluding CHA employees, are employed by CHNw and leased to the Network's respective subsidiaries and/or affiliates rather than being employed by individual employers. Effective with the adoption of the single Network employer on December 27, 2010, CHNw also became the sponsor for all of the Network's defined benefit and defined contributions plans, excluding the CHA and Westview plans.

The Network's funding policy is to contribute the equivalent of the minimum funding required by the Employee Retirement Income Security Act of 1974, as amended. The benefits for these plans are based primarily on years of service and the 60-consecutive-month period of employment producing the highest total income. The measurement date for the Network's plan is December 31 except for the Replacement Plan which is January 1.

The CHNw Retirement Plan is a defined benefit plan. The provisions of this plan relate to all employees of CHNw, CHA, CHHS, IHH and CPI. These employees are eligible to participate in the plan after one year of eligible service as defined by the plan document. Participants are 100% vested after five years of service. Effective May 27, 2006, CHA froze the accrual of benefits and participation in the CHNw Retirement Plan and established its own 403(b) plan. Effective March 8, 2010, the CHNw Retirement Plan was amended to limit the maximum benefit that may be accrued by individuals who choose to remain participants in the CHNw Retirement Plan after March 7, 2010. Additionally, participants in the CHNw Retirement Plan were offered a onetime choice between continued participation in the CHNw Retirement Plan, and, if applicable, CHNw's 403(b) plan, or participation in the Network's 401(k) plan as of March 8, 2010. All participants who remained in the CHNw Retirement Plan and CHNw 403(b) plan as of March 8, 2010 ceased participation in those plans effective as of December 25, 2011 and began participation in the Network's 401(k) plan effective as of December 26, 2011. In conjunction with the freeze of benefits in the CHNw Retirement Plan, the Network recognized income of $5,669 for the year ended December 31, 2011. CHNw made contributions to the plan of $24,574 and $29,686 during 2012 and 2011, respectively.

Consolidated Statements of Cash Flows (in 000's)

The Replacement plan is a defined benefit plan. The Network began accounting for the Replacement plan in 2011 and the fair value of the plan assets was $10,153 and $11,395 at January 1, 2012 and January 1, 2011, respectively. The defined benefit provisions of the plan apply to all employees of the Network hired prior to January 1, 1984. The plan was originally established on that date to provide such employees those benefits otherwise available under the Federal Insurance Contributions Act during the period January 1, 1981 to December 31, 1983 when the Network withdrew coverage of its employees under the Act. Pursuant to the Social Security Amendment Act of 1983, the Network reentered the Social Security system on January 1, 1984. As a result funding of the plan was terminated during 1985. If authorized by the Network's Board of Directors, each Replacement plan participant may elect to contribute to the plan an amount each pay period, subject to the maximum established by the Board of Directors. Such authorization was not granted during 2012 and 2011. During 2012, CHNw made contributions to the plan of $2,100. No contributions were made during 2011.

The Network also has other postretirement benefit plans covering substantially all of its employees, providing retirees' health insurance benefits for the same premium as the Network pays for active employees. The Network funds the plan on a cash basis.

Effect on Operations

The components of net periodic pension expense for defined benefit retirement plans and the postretirement benefit plan for the year ended December 31 were as follows:

	Pension Benefits		Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Service cost	$ 1,757	$ 6,846	$ 359	$ 278
Interest cost	25,922	25,903	164	129
Expected return on plan assets	(32,171)	(27,491)	-	-
Amortization of net (gain) loss	2,284	(6,527)	(42)	(107)
Net pension (income) expense	$ (2,208)	$ (1,269)	$ 481	$ 300

Consolidated Statements of Cash Flows (in 000's)

Obligations and Funded Status

The change in benefit obligations, plan assets and funded status for the Network's defined benefit retirement plans are as follows:

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Change in benefit obligation				
Benefit obligation, beginning of period	$ 572,407	$ 480,453	$ 3,578	$ 2,334
Service cost	1,757	6,846	359	278
Interest cost	25,922	25,903	164	129
Amendments	-	-	2,560	-
Actuarial gain (loss)	81,073	75,682	845	877
Participant contributions	-	-	13	35
Expenses paid - actual	(3,554)	(177)	-	-
Benefits paid - actual	(17,799)	(16,300)	(21)	(75)
Benefit obligation, end of period	$ 659,806	$ 572,407	$ 7,498	$ 3,578

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Change in plan assets				
Fair value of plan assets, beginning of year	$ 389,601	$ 368,725	$ -	$ -
Actual return on plan assets	54,032	7,667		-
Contributions	26,675	29,686	21	75
Expenses paid - actual	(3,554)	(177)		-
Benefit paid – actual	(17,799)	(16,300)	(21)	(75)
Fair value of plan assets, end of year	$ 448,955	$ 389,601	$ -	$ -

	Pension Benefits		Postretirement Benefits	
	2012	2011	2,012	2011
Reconciliation of Funded status				
Accrued pension cost	$ (21,622)	$ (50,504)	$ (5,010)	$ (4,537)
Prepaid pension (liability) asset	(189,229)	(132,302)	(2,488)	959
(Under) funded status	(210,851)	(182,806)	(7,498)	(3,578)
Unrecognized net actuarial loss (gain)	189,567	132,726	(190)	(1,094)
Unrecognized prior service (cost) credit	(338)	(424)	2,678	135
Accrued pension cost	$ (21,622)	$ (50,504)	$ (5,010)	$ (4,537)

Consolidated Statements of Cash Flows (in 000's)

Accumulated Benefit Obligation

Selected information from the plans with accumulated benefit obligation in excess of plan assets at December 31, were as follows:

	Pension Benefits		Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Projected benefit obligation	$ 659,806	$ 572,407	$ -	$ -
Accumulated benefit obligation	$ 659,806	$ 572,407	$ 7,498	$ 3,578
Fair value of plan assets	$ 448,955	$ 389,601	$ -	$ -

Actuarial Assumptions

Weighted average assumptions used to determine benefit obligations as of December 31:

	Pension Benefits		Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Discount rate	3.91%	4.61%	3.91%	4.61%
Rate of compensation increase	N/A	3.50%	-	-

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits		Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Discount rate	4.61%	5.48%	4.61%	5.60%
Rate of compensation increase	N/A	3.50%	-	-
Expected long-term rate of return on plan assets	8.20%- 8.40%	7.40-8.40%	-	-

The expected long term rate of return assumes targeted allocations are maintained and returns fall within standard deviation derived from simulation of ten year range of returns on each plan's assets. The rate is reevaluated based on actual returns in the current period. The rate was 8.20-8.40% and 7.40 -8.40% for 2012 and 2011, respectively.

Assumed Health Care Costs

In establishing the net periodic postretirement benefit expense and year end benefit obligation, a 6.9% and 7.0% annual rate of increase in per capital cost of covered health benefits was assumed for 2012 and 2011, respectively. The rate was assumed to decrease gradually to 4.5% and 4.5% over a 15-year period and an 18-year period for 2012 and 2011, respectively. Changing the assumed health care cost trend rates by one percentage point in each year would cause an incremental increase in the accumulated postretirement benefit obligation of less than $882 and $472 in 2012 and 2011, respectively. In addition, changing the assumed health care cost trend rates by one percentage point in each year would cause an incremental increase in the service cost and interest cost components of the net periodic postretirement benefit cost of $85 and $67 in 2012 and 2011, respectively.

Consolidated Statements of Cash Flows (in 000's)

Plan Assets

The weighted-average allocation of the defined benefit plans at December 31, 2012 and 2011, by asset category are as follows:

	Retirement Plan			Replacement Plan		
	2012		2011	2012		2011
	Target Allocation	Actual Allocation	Actual Allocation	Target Allocation	Actual Allocation	Actual Allocation
Equity securities [a]	41%	44%	40%	52%	43%	51%
Fixed income [a] securities	35%	33%	37%	20%	33%	23%
Real estate [a]	6%	6%	6%	8%	7%	7%
Other	18%	17%	17%	20%	17%	19%
Total	100%	100%	100%	100%	100%	100%

(a) Includes mutual funds

The plans are administered under a single investment policy statement, which outlines objectives and guidelines for supervising investment strategy and evaluating the investment performance for all investment assets of CHNw. The policy seeks to preserve principal, emphasizing long-term growth without undue exposure to risk. Investment performance return targets are based on consumer price, corporate bond and stock indexes as well as volatility standards (beta) and positive risk-adjusted performance (alpha). The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and monitoring asset allocations. Target allocation ranges are guidelines, not limitations, and plan fiduciaries may occasionally approve allocations above or below a target range.

Consolidated Statements of Cash Flows (in 000's)

The following tables present the fair values of the plan assets at December 31, 2012 and 2011. Refer to Note 3 for explanations of fair value designation.

2012	**Fair Value Measurement at Reporting Date Using**			
Description	**2012**	**Level 1**	**Level 2**	**Level 3**
Cash & Cash Equivalents	$ 2,154	$ 2,154	$ -	$ -
Equity securities	29,718	29,718	-	-
Corporate bonds	72,665	-	72,665	-
Mutual Funds	253,030	253,030	-	-
U.S. Treasury Obligations	71,855	-	71,855	-
Hedge Fund of Funds	19,533	-	-	19,533
	$ 448,955	$ 284,902	$ 144,520	$ 19,533

2011	**Fair Value Measurement at Reporting Date Using**			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash & Cash Equivalents	$ 6,622	$ 6,622	$ -	$ -
Equity securities	38,466	38,466	-	-
Corporate bonds	78,772	-	78,772	-
Mutual Funds	190,626	190,626		-
U.S. Treasury Obligations	57,084	-	57,084	-
Hedge Fund of Funds	18,031	-	-	18,031
	$ 389,601	$ 235,714	$ 135,856	$ 18,031

	Rollforward of Level 3 Investments
Balance as of January 1, 2011	$ 16,574
Replacement plan	540
Purchases	1,600
Investment gain-realized/unrealized	(683)
Balance as of December 31, 2011	$ 18,031
Balance as of January 1, 2012	$ 18,031
Purchases	-
Investment gain-realized/unrealized	1,502
Balance as of December 31, 2012	$ 19,533

Consolidated Statements of Cash Flows (in 000's)

Cash Flows

The Network expects to make a contribution of $7,830 to the CHNw Retirement Plan and $176 to CHNw Postretirement Plan in fiscal 2013.

Estimated Future Benefit Payments

Plan benefit payments, which reflect expected future service, are expected to be paid as follows:

	Pension Benefits	Postretirement Benefits
2013	$ 20,484	$ 176
2014	$ 22,218	$ 259
2015	$ 23,897	$ 334
2016	$ 25,673	$ 431
2017	$ 27,450	$ 501
2018-2022	$ 160,220	$ 847

Other

The Network sponsors defined contribution plans covering certain employees. As mentioned above, CHNw became the employer of all employees throughout the Network except for CHA and Westview. Effective with the adoption of the single employer on December 27, 2010, CHNw became the sponsor of all the Network's defined benefit and defined contributions plans except for the CHA and Westview plans. Employer contributions are made to these plans based on a percentage of employee compensation. The cost of the Network's defined contribution plans was approximately $32,024 and $23,099 for 2012 and 2011, respectively.

Effective July 1, 2012, Howard's two existing defined contribution plans were merged into the Network's defined contribution plans. The assets transferred into the Network's 401k plan were $21,588. The assets transferred into the Network's 403b plan were $11,988. All employees of Howard became CHNw employees effective with the affiliation date of July 1, 2012 and participate in the Network's 401k plan.

One of the defined contribution plans relates to VEI's profit sharing 401(k) plan, in which employees are eligible to participate immediately upon hire and after attaining 21 years of age. Effective January 1, 2011, VEI's plan was amended to remove the requirement that an employee must be 21 years of age to participate in the plan. Participants may contribute from 1% to 50% of compensation, as defined. Each year, VEI's Board of Directors may elect to match a portion of participant contributions through a discretionary profit sharing contribution.

IHH has a 401(k) plan, in which employees are eligible to participate immediately upon hire and after attaining 21 years of age. Participants may contribute from 1% to 100% of compensation, as defined. IHH matches 50% of participant contributions up to 5% of the participants' compensation.

CPI has a defined contribution profit sharing plan in which employees who are designated as CPI physicians and are paid on the compensation model are eligible to participate after the completion of one year of service. This plan is an employer funded plan whereby the funding is charged to the participating physician's practice as an overhead expense. The year ending December 31, 2009 was the final year that employer contributions were made to the plan. CPI terminated the plan effective December 31, 2009. CPI distributed the assets of the plan during 2012.

CHA has a defined contribution 403(b) plan Employees are eligible to participate immediately upon employment. Participants may contribute up to 100% of compensation, as defined. CHA is permitted to match 100% of participant contributions up to 3% of the participant's compensation. CHA elected to cease matching participant contributions effective May 10, 2009.

The Network has a 401(k) plan. Employees of the Network hired after February 9, 2008 are eligible to participate immediately upon employment. Participants may contribute up to 100% of compensation, as defined. The Network matches 100% of participant contributions up to 6% of the participant's compensation. Each year, the Network may elect to provide a discretionary employer contribution to plan participants.

Westview has a 401(k) plan. Employees are eligible to participate in the plan after completing more than one year of service, working 1,000 hours during the year and after attaining 21 years of age. Participants may contribute up to 100% of compensation, as defined. Westview provides funding rates of 5% of each eligible employee's compensation not in excess of the taxable wage base and 10% over the taxable wage base.

10. Income Taxes

For 2012 and 2011, federal taxable income originating in the Network's for-profit entities was approximately $10,300 and $9,300, respectively. Income tax (benefit) expense of $5,215 and ($2,958) respectively, has been provided thereon. The primary difference between income tax expense and taxes computed at the federal statutory rate of 34 percent is state income taxes and the recognition of income tax benefit on net operating loss carryforwards ("NOLS"). The recognition of NOLs was the result of the merger of Indiana ProHealth, Inc. into a subsidiary of VEI effective December 31, 2011.

At December 31, 2012, VEI has unused federal income tax operating loss carry forwards of approximately $5,516, which expire at various dates through 2032.

11. Operating Leases

The Network leases certain of its facilities and equipment under noncancelable operating lease agreements. The leases contain various renewal options and clauses for escalation based on increases in interest costs, as defined. Rental expense for these leased facilities and equipment aggregated $45,618 and $37,429 for 2012 and 2011, respectively.

Consolidated Statements of Cash Flows (in 000's)

Future minimum rental payments for each of the next five years at December 31, 2012 are as follows:

2013	$	46,849
2014		34,931
2015		28,963
2016		23,926
2017		19,560
Thereafter		76,582
	$	230,811

12. Functional Expenses

The Network provides services to residents within its geographic locations. Expenses related to providing these services are as follows:

		2012		2011
Nursing services	$	301,090	$	261,971
Other professional services		639,789		457,608
General services		103,572		53,262
Fiscal services		248,213		164,615
Administrative services		145,099		144,047
Employee health and welfare		141,265		162,711
Health service claims expense		(68,021)		(40,071)
Depreciation and amortization		75,390		64,511
Provision for bad debts		314		1,209
Interest		32,433		13,202
	$	1,619,144	$	1,283,065

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Network has been limited by donors to a specific time period or purpose. Temporarily restricted net assets as of December 31, 2012 and 2011 are available for the following purposes:

		2012		2011
Medical education	$	2,119	$	1,530
Clinical/patient support		1,163		719
Capital improvements		2,552		2,424
	$	5,834	$	4,673

Consolidated Statements of Cash Flows (in 000's)

Permanently restricted net assets have been restricted by donors to be maintained by the Network in perpetuity. Permanently restricted net assets as of December 31, 2012 and 2011 are as follows, with a description of how the investment income is to be used:

	2012	2011
Medical education	$ 2,405	$ 2,413
Clinical/patient support	258	209
Capital improvements	1,708	1,695
	$ 4,371	$ 4,317

The Network is an income beneficiary of certain irrevocable trusts. The aggregated income (loss) from these trusts was $897 and ($175) for the years ended December 31, 2012 and 2011, respectively.

14. Commitments and Contingencies

Community Hospital of Anderson and Madison County
On August 9, 1996, the Network entered into an affiliation agreement with CHA. The agreement provides that if the Network merges, affiliates, or is acquired by another health care organization, the Network must deposit $31,900 into a foundation to fund health care programs and initiatives in Madison County, Indiana.

Pending Litigation and Medical Malpractice Insurance Coverage
Claims for employment matters, medical malpractice and breach of contract have been asserted against the Network by various claimants, and provision for such claims is made in the financial statements when management considers the likelihood of loss from the contingency to be probable and reasonably estimable. The claims are in various stages of processing and some will ultimately be brought to trial. There are known incidents occurring through December 31, 2012 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past.

The Network is in compliance with the Indiana Medical Malpractice Act which limits the amount of recovery to $1,250 for individual malpractice claims, $250 of which would be paid by the Network and the balance being paid by the State of Indiana Patient Compensation Fund. Management believes the ultimate disposition of existing medical malpractice and other claims will not have a material effect on the consolidated financial position or results of operations of the Network.

Purchase Commitments
As of December 31, 2012, the Network had purchase commitments for various equipment and services of $101,894.

Consolidated Statements of Cash Flows (in 000's)

15. Acquisitions

On July 1, 2012, the Network affiliated with Howard. No consideration was exchanged related to the affiliation. The affiliation was accounted for as an acquisition and thus purchase accounting rules were applied in accordance with ASC 958-805, *Not for Profit Entities: Mergers and Acquisitions* ("ASC 958"). The Network recognized the fair value of Howard's assets and liabilities in its consolidated financial statements as of July 1, 2012 using various fair value techniques, including independent appraisals for property, plant and equipment. The excess of the fair value of the assets received over the liabilities acquired represents an inherent contribution received and is recorded as the excess of net assets acquired in the accompanying consolidated financial statements. Howard's profit and losses are reflected in the Network's accompanying consolidated statement of operations from July 1, 2012 through December 31, 2012.

The fair value of the assets and liabilities acquired as of July 1, 2012 is as follows:

Cash and cash equivalents	$ 25,015
Patient accounts receivable, net	10,882
Other current assets	19,640
Property, plant and equipment	126,173
Other long term assets	3,788
Total assets	185,498
Current liabilities	24,551
Long term debt	69,317
Total liabilities	93,868
Excess in fair value of net assets acquired before noncontrolling interest	$ 91,630
Noncontrolling interest	2,663
Excess in fair valueof net assets acquired net of noncontrolling interest	$ 88,967

On August 1, 2011, the Network affiliated with Westview. No consideration was exchanged related to the affiliation. The affiliation was accounted for as an acquisition and thus purchase accounting rules were applied in accordance with ASC 958. The Network recognized the fair value of Westview's assets and liabilities in its consolidated financial statements as of August 1, 2011 using various fair value techniques, including independent appraisals for property, plant and equipment. The excess of the fair value of the assets received over the liabilities acquired represents an inherent contribution received and is recorded as the excess of net assets acquired in the accompanying consolidated financial statements. Westview's profit and losses are reflected in the Network's accompanying consolidated statement of operations from August 1, 2011 through December 31, 2011.

Consolidated Statements of Cash Flows (in 000's)

The fair value of the assets and liabilities acquired as of August 1, 2011 is as follows:

Cash and cash equivalents	$	5,192
Patient accounts receivable, net		8,259
Other current assets		1,127
Property, plant and equipment		34,262
Other long term assets		6,869
Total assets		55,709
Current liabilities		7,439
Long term debt		6,134
Total liabilities		13,573
Excess in fair value of net assets acquired	$	42,136

Included in the excess in fair value of net assets acquired is a contribution of $7,500 made by the Network to Westview shortly before the affiliation. This was not considered part of the consideration transferred to Westview in accordance with applicable business combination guidance.