CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health
Years Ended December 31, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

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

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2013 and 2012

Contents

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Report of Independent Auditors

The Board of Directors
Parkview Health System, Inc.

We have audited the accompanying consolidated financial statements of Parkview Health System, Inc. and subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Parkview Health System, Inc. and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying details of consolidated balance sheets as of December 31, 2013 and 2012, and the details of consolidated statements of operations and changes in net assets for the years then ended, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst + Young LLP

March 27, 2014

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

Consolidated Balance Sheets

(In Thousands)

	December 31	
	2013	**2012**
Assets		
Current assets:		
Cash and cash equivalents	**$ 106,161**	$ 65,980
Short-term investments	**12,645**	–
Patient accounts receivable, less allowances for bad debts of $68,535 and $62,168 in 2013 and 2012, respectively	**165,480**	156,649
Inventories	**16,907**	15,992
Prepaid expenses and other current assets	**28,724**	27,153
Estimated third-party payor settlements	**4,393**	4,790
Collateral from securities lending agreement	**1,309**	2,028
Total current assets	**335,619**	272,592
Investments:		
Board-designated investments	**507,688**	424,621
Funds held by trustees	**24,900**	24,670
Securities pledged	**2,280**	3,231
Other investments	**157**	139
	535,025	452,661
Property and equipment:		
Cost	**1,555,520**	1,570,240
Less accumulated depreciation and amortization	**582,486**	559,392
	973,034	1,010,848
Other assets:		
Interest rate swaps	**2,767**	6,447
Deferred financing costs, net	**2,614**	2,929
Investments in joint ventures	**3,189**	3,055
Goodwill and intangible assets, net	**82,029**	82,805
Other assets	**26,046**	22,775
	116,645	118,011
Total assets	**$1,960,323**	$ 1,854,113

	December 31	
	2013	**2012**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 57,633**	$ 55,534
Salaries, wages, and related liabilities	**79,894**	70,707
Accrued interest	**2,740**	2,951
Estimated third-party payor settlements	**3,750**	6,705
Payable under securities lending agreement	**2,324**	3,275
Current portion of long-term debt	**27,515**	26,589
Total current liabilities	**173,856**	165,761
Noncurrent liabilities:		
Long-term debt, less current portion	**621,056**	646,141
Interest rate swaps	**48,506**	87,043
Accrued pension obligations	**–**	57,725
Other	**16,739**	19,347
	686,301	810,256
Net assets:		
Parkview Health System, Inc.	**1,070,619**	853,689
Noncontrolling interest in subsidiaries	**19,908**	15,487
Total unrestricted net assets	**1,090,527**	869,176
Temporarily restricted net assets	**8,729**	8,011
Permanently restricted net assets	**910**	909
Total net assets	**1,100,166**	878,096
Total liabilities and net assets	**$1,960,323**	$ 1,854,113

See accompanying notes.

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

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended December 31	
	2013	2012
Revenues:		
Net patient care service revenue (net of contractual allowances and discounts)	**$ 1,203,292**	$ 1,146,244
Provision for bad debts	**(119,125)**	(104,835)
Net patient care service revenue, less provision for bad debts	**1,084,167**	1,041,409
Other revenue	**76,478**	77,925
	1,160,645	1,119,334
Expenses:		
Salaries and benefits	**547,016**	510,609
Supplies	**146,626**	136,198
Purchased services	**136,926**	131,947
Utilities, repairs, and maintenance	**47,750**	44,656
Depreciation and amortization	**83,870**	75,379
Other	**74,850**	104,920
	1,037,038	1,003,709
Operating income	**123,607**	115,625
Nonoperating income (expense):		
Interest, dividends, and realized gains/losses on sales of investments, net	**13,321**	24,516
Unrealized gains on investments, net	**31,125**	20,368
Interest expense	**(19,819)**	(15,764)
Loss on bond refinancing	**–**	(6,863)
Unrealized gains/losses on interest rate swaps, net	**34,965**	(635)
Other	**(9,203)**	(7,617)
Excess of revenues over expenses	**173,997**	129,630
Excess of revenues over expenses attributable to noncontrolling interest in subsidiaries	**22,945**	14,585
Excess of revenues over expenses attributable to Parkview Health System, Inc.	**$ 151,052**	$ 115,045

See accompanying notes.

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

Consolidated Statements of Operations and Changes in Net Assets (continued)

(In Thousands)

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

See accompanying notes.

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

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	Year Ended December 31, 2012		
	Total	**Controlling Interest**	**Noncontrolling Interest**
Unrestricted net assets			
Excess of revenues over expenses	$ 129,630	$ 115,045	$ 14,585
Distributions to noncontrolling interests	(13,362)	–	(13,362)
Pension-related changes other than net periodic pension cost	(4,748)	(4,748)	–
Other	246	246	–
Increase in unrestricted net assets	111,766	110,543	1,223
Temporarily restricted net assets			
Contributions	4,661	4,661	–
Investment income	89	89	–
Net assets released from restrictions	(1,085)	(1,085)	–
Increase in temporarily restricted net assets	3,665	3,665	–
Permanently restricted net assets			
Contributions	7	7	–
Increase in permanently restricted net assets	7	7	–
Increase in net assets	115,438	114,215	1,223
Net assets at beginning of year	762,658	748,394	14,264
Net assets at end of year	$ 878,096	$ 862,609	$ 15,487

See accompanying notes.

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

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2013	2012
Operating activities		
Increase in net assets	**$ 222,070**	$ 115,438
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	**119,125**	104,835
Depreciation and amortization	**83,870**	75,379
Unrealized gains/losses on interest rate swaps, net	**(34,899)**	700
Amortization of deferred financing costs and discount	**(606)**	3,413
Loss on bond refinancing	**–**	6,863
Loss from disposal of property and equipment	**422**	333
Pension-related changes other than net periodic pension cost	**(65,760)**	4,748
Changes in operating assets and liabilities:		
Patient accounts receivable	**(127,956)**	(131,011)
Inventories	**(915)**	(3,397)
Prepaid expenses and other current assets	**(842)**	98
Trading securities, net	**(95,008)**	44,029
Accounts payable, accrued expenses, and other current liabilities	**10,124**	(12,122)
Estimated third-party payor settlements	**(2,557)**	(4,599)
Accrued pension obligation	**1,513**	(4,567)
Collateral posted on swaps	**4,994**	1,413
Other	**9,741**	5,614
Net cash provided by operating activities	**123,316**	207,167
Investing activities		
Property and equipment additions	**(40,287)**	(146,913)
Business acquisitions, net of cash acquired	**(705)**	(38,507)
Proceeds from sale of investment property	**–**	2,168
Proceeds from sale of property and equipment	**374**	217
Net cash used in investing activities	**(40,618)**	(183,035)
Financing activities		
Principal payments of long-term debt	**(21,015)**	(11,756)
Proceeds from issuance of long-term debt	**–**	132,647
Early refunding of long-term debt	**–**	(99,449)
Borrowing from capital lease obligations	**3,494**	19,565
Payments of capital lease obligations	**(5,128)**	(2,161)
Early retirement of capital lease obligations	**(879)**	(2,681)
Distributions to noncontrolling interests	**(19,209)**	(13,362)
Other	**220**	(108)
Net cash (used in) provided by financing activities	**(42,517)**	22,695
Increase in cash and cash equivalents	**40,181**	46,827
Cash and cash equivalents at beginning of year	**65,980**	19,153
Cash and cash equivalents at end of year	**$ 106,161**	$ 65,980

See accompanying notes.

1. Organization

Nature of Operations

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

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

PH and PVH are the sole members of Managed Care Services, LLC, which provides third-party administrative services to PH's employee health plan and acts as a preferred provider organization network of providers for self-funded employers. Managed Care Services, LLC also assumes risk on a Medicaid managed care program through MDwise.

1. Organization (continued)

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

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

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

1. Organization (continued)

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

Acquisitions

During 2013 and 2012, PH acquired several physician groups for a total purchase price of $963 and $607, respectively. The groups are included in PPG. The acquisitions were accounted for as business combinations. Goodwill of $406 and $169 was recognized upon purchase in 2013 and 2012, respectively, which represents the excess of purchase price over identifiable assets and liabilities.

On December 31, 2012, Orthopaedic Hospital at Parkview North, LLC acquired an ambulatory surgery center on the PRMC campus from Orthopaedics Northeast for a total purchase price of $37,900 (the ONE acquisition). This surgery center is a wholly owned subsidiary of Orthopaedic Hospital at Parkview North, LLC. The transaction has been accounted for as a business combination in accordance with the provisions of Accounting Standards Codification (ASC) 805, Business Combinations, whereby the purchase price is allocated to the acquired assets and liabilities at fair value. Goodwill recorded as a result of the transaction amounted to $29,699. The Corporation acquired the ambulatory surgery center as part of its long-term growth strategy and believes the resulting goodwill reflects its continual enhancement and expansion of high-quality health care services in the region. In connection with the purchase price allocation, the Corporation estimated the fair values of its acquired long-lived and intangible assets and certain liabilities with the assistance of a third-party valuation firm. In valuing these assets and liabilities, the fair values were based upon, but not limited to, a consideration of three approaches: income, where valuation techniques are used to convert future monetary benefits (e.g., cash flow or earnings) to a single present value indicated by current market expectations of those future benefits; market, where prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities are used; and cost, where value is indicated based upon the amount that currently would be required to replace the current service capacity of an asset.

1. Organization (continued)

The allocation of the purchase price of the ONE acquisition, as reflected in the balance sheet as of December 31, 2012, is as follows:

Patient accounts receivable, net	$ 2,392
Supplies	300
Property and equipment	413
Goodwill and intangible assets	34,856
Accounts payable, accrued expenses, and income taxes payable	(61)
Net assets acquired	$ 37,900

The inputs used in the estimation of the fair values consist primarily of Level 3 inputs (see Note 4).

Community Benefits and Charity Care

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

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

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

1. Organization (continued)

The cost of charity care provided in 2013 and 2012 approximates $16,273 and $12,514, respectively. The Corporation estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. The Corporation also offers a discount for all uninsured patients.

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

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

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of PH and all majority-owned or majority-controlled subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where ownership is 20% to 50% and PH has significant influence. For the years ended December 31, 2013 and 2012, PH's share of income recorded using the equity method approximated $2,322 and $2,420, respectively, and is recorded as other revenue in the consolidated statements of operations and changes in net assets.

Use of Estimates

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

Cash and Cash Equivalents

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

2. Significant Accounting Policies (continued)

Patient Accounts Receivable, Estimated Third-Party Payor Settlements, and Net Patient Care Service Revenue

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

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

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

2. Significant Accounting Policies (continued)

Inventories

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

Investments

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

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

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

2. Significant Accounting Policies (continued)

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

Property and Equipment

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

Goodwill

PH records goodwill arising from a business combination as the excess of purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. PH annually reviews, as of the first day of the fourth quarter, the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed if an event occurs or circumstances change that would make it more likely than not that the fair value of a reporting unit is below its carrying amount. Management has determined that the Corporation is the reporting unit at which fair value is measured. If such circumstances suggest that the recorded amounts of goodwill cannot be recovered, the carrying value is reduced to fair value. If the carrying value of goodwill is impaired, a material charge may be incurred to results of operations. No goodwill impairment was required in 2013 or 2012.

2. Significant Accounting Policies (continued)

Intangible Assets

Costs allocated to customer relationships and other intangible assets are based on their fair value at the date of acquisition. The cost of intangible assets is amortized on a straight-line basis over the assets' estimated useful life ranging from 3 to 20 years. Amortization expense recorded in the consolidated statements of operations and changes in net assets was $1,260 and $160 at December 31, 2013 and 2012, respectively. There are no indefinite-lived intangible assets (see Note 3).

Impairment

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

Derivative Financial Instruments

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

2. Significant Accounting Policies (continued)

Employee Benefit Plans

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

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

Income Taxes

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

Performance Indicator

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

2. Significant Accounting Policies (continued)

Operating and Nonoperating Income (Expense)

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Investment return is allocated to unrestricted and temporarily restricted net assets based on the respective net asset balances and the wishes of the donor. The net assets are generally restricted for indigent and other patient services, medical education and research programs, facilities, medical supplies, and equipment.

Distributions to Noncontrolling Interests

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

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health records (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

Reclassification

There was a reclassification of prior year Indiana Hospital Assessment Fee expense (See FootNote 15) in the amount of $31,156 from a deduction in net patient care service revenue to an increase in other operating expense to conform to current year presentation. This reclassification had no impact on revenue in excess of expenses or on changes in net assets.

3. Goodwill and Intangible Assets

The following tables summarize goodwill and other intangibles as of and for the years ended December 31, 2013 and 2012:

Goodwill balance at December 31, 2011	$	44,436
Acquisitions		30,567
Goodwill balance at December 31, 2012		75,003
Acquisitions		**406**
Goodwill balance at December 31, 2013	**$**	**75,409**

	December 31, 2013		**December 31, 2012**	
	Original Amount	**Accumulated Amortization**	**Original Amount**	**Accumulated Amortization**
Intangible assets	**$ 8,626**	**$ 2,006**	$ 8,548	$ 746

Amortization expense of $1,260 and $160 was recognized in 2013 and 2012, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

4. Fair Value Measurement

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

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

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

(Dollars in Thousands)

4. Fair Value Measurement (continued)

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 106,161	$ 106,161	$ –	$ –
Short-term investments	$ 12,645	$ 12,645	$ –	$ –
Investments:				
Cash and short-term investments	$ 55,700	$ 47,592	$ 8,108	$ –
U.S. government and agency obligations	42,616	36,845	5,771	–
Corporate bonds	23,228	–	23,228	–
Mortgage- and asset-backed securities	13,701	–	13,701	–
Domestic equities	46,004	46,004	–	–
International equities	29,367	22,668	6,699	–
Commingled funds	65,255	–	65,255	–
Mutual funds:				
Equity type	62,881	62,881	–	–
Balanced type	31,294	31,294	–	–
Fixed income type	58,928	58,875	53	–
Total investments at fair value	428,974	$ 306,159	$ 122,815	$ –
Investments not at fair value	106,051			
Total investments	$ 535,025			
Deferred compensation plan assets – mutual funds	$ 14,418	$ 14,418	$ –	$ –
Interest rate swaps	2,767	–	2,767	–
Collateral from securities lending program – cash and short-term investments	1,309	–	1,309	–
	$ 18,494	$ 14,418	$ 4,076	$
Liabilities				
Interest rate swaps	$ (48,506)	$ –	$ (48,506)	$ –
Collateral under swap agreements	–	–	–	–
Net liability under swap agreements	$ (48,506)	$ –	$ (48,506)	$
Obligations to return collateral under securities lending program	$ 2,324	$ –	$ 2,324	$ –

(Dollars in Thousands)

4. Fair Value Measurement (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2012:

	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 65,980	$ 65,980	$ –	$ –
Investments:				
Cash and short-term investments	$ 35,091	$ 31,882	$ 3,209	$ –
U.S. government and agency obligations	31,604	24,924	6,680	–
Corporate bonds	35,771	–	35,771	–
Mortgage- and asset-backed securities	19,512	–	19,512	–
Domestic equities	41,895	41,794	101	–
International equities	36,149	28,605	7,544	–
Commingled funds	25,485	–	25,485	–
Mutual funds:				
Equity type	39,720	39,720	–	–
Balanced type	46,288	46,288	–	–
Fixed income type	64,378	64,378	–	–
Total investments at fair value	375,893	$ 277,591	$ 98,302	$ –
Investments not at fair value	76,768			
Total investments	$ 452,661			
Deferred compensation plan assets – mutual funds	$ 13,154	$ 13,154	$ –	$ –
Interest rate swaps	6,447	–	6,447	–
Collateral from securities lending program – cash and short-term investments	2,028	–	2,028	–
	$ 21,629	$ 13,154	$ 8,475	$ –
Liabilities				
Interest rate swaps	$ (87,043)	$ –	$ –	$ (87,043)
Collateral under swap agreements	4,994	–	4,994	–
Net liability under swap agreements	$ (82,049)	$ –	$ 4,994	$ (87,043)
Obligations to return collateral under securities lending program	$ 3,275	$ –	$ 3,275	$ –

4. Fair Value Measurement (continued)

Certain of PH's investments are made through alternative investments and private investment funds, primarily partnership trusts. PH accounts for its ownership in these funds under the equity method, and as a result, investments totaling $86,111 and $56,828 as of December 31, 2013 and 2012, respectively, are excluded from the fair value disclosure. Deferred compensation plan assets are included in other assets in the consolidated balance sheets. PH held real estate for investment purposes of $19,940 as of December 31, 2013 and 2012, which is accounted for at cost and assessed for impairment when indicators exist. The real estate is written down to fair value as estimated by third-party valuation experts when impairment exists (which are nonrecurring fair value measurements using Level 3 inputs), with losses recorded in realized gains (losses) on investments in the consolidated statements of operations and changes in net assets. Following is a description of the Corporation's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. The fair values of other fixed income securities included in Level 2 are based on quoted market prices for similar assets. The fair values of commingled funds are based on either the fair value of the underlying investments of the fund, as determined by the fund, or on the ownership interest in the NAV per share or its equivalent, of the respective fund. The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) discount curve in order to reflect the credit value adjustment for nonperformance risk. The credit spread adjustments for liability position interest rate swap contracts are internally valued with the assistance of a third party using other comparably rated entities' bonds priced in the market. Depending on the significance of the credit spread adjustment to the overall fair value of the interest rate swap, the instrument is included in Level 2 or Level 3.

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

(Dollars in Thousands)

4. Fair Value Measurement (continued)

The carrying value of the Corporation's tax-exempt variable rate and other long-term debt approximates fair value. The fair value of the fixed rate debt (all of which is tax-exempt) is estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements, and falls in Level 2 of the fair value hierarchy. The fair value of the Corporation's tax-exempt fixed rate debt at December 31, 2013 and 2012, was $322,747 and $370,564, respectively, compared to book value of $278,010 and $288,505, respectively. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

	Financial Liabilities – Interest Rate Swaps
Fair value at January 1, 2012	$ (85,450)
Realized and unrealized gains/losses on interest rate swaps, net	(1,593)
Fair value at December 31, 2012	**(87,043)**
Sales or retirements	**416**
Realized and unrealized gains/losses on interest rate swaps, net	**38,121**
Transfers out of Level 3 to Level 2	**48,506**
Fair value at December 31, 2013	**$ –**

PH transfers assets and liabilities in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable. At December 31, 2013, the credit spread adjustment associated with the liability position interest

4. Fair Value Measurement (continued)

rate swap contracts became insignificant relative to the fair value on the same swaps and resulted in the change in classification from Level 3 at December 31, 2012, to Level 2 at December 31, 2013.

5. Net Patient Care Service Revenue

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

> *Medicare* – Certain inpatient care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Physician services are reimbursed based upon established fee schedules. Outpatient services are reimbursed using prospectively determined rates.
>
> *Medicaid* – Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
>
> *Other* – Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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

Medicare and Medicaid revenue accounted for approximately 28% and 8%, respectively, of patient service revenue (net of contractual allowances and discounts) for the year ended December 31, 2013, and approximately 31% and 10%, respectively, for the year ended December 31, 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or

(Dollars in Thousands)

5. Net Patient Care Service Revenue (continued)

threatened investigations involving allegations of wrongdoing. While no such regulatory inquiries have been made, compliance with health care industry laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimated settlements could change. It is also reasonably possible that recorded settlements could change by a material amount in the near term. PH received Medicare and Medicaid settlements and resolutions on prior year filed and appealed cost reports and other matters, which increased net patient care service revenue by $13,807 and $6,742 in 2013 and 2012, respectively.

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

The composition of patient service revenue (net of contractual allowances and discounts) by payor for the years ended December 31 is as follows:

	2013	2012
Medicare	**$ 328,463**	$ 335,659
Medicaid	**93,354**	113,108
Managed care and other insurers	**649,501**	535,131
Uninsured	**80,622**	75,800
Other	**31,427**	39,809
	$ 1,183,367	$ 1,099,507

(Dollars in Thousands)

5. Net Patient Care Service Revenue (continued)

The allowance for doubtful accounts was approximately $68,535 and $62,168 as of December 31, 2013 and 2012, respectively. These balances as a percentage of accounts receivable, net of contractual adjustments, charity care, and other discounts, were approximately 29% and 28% as of December 31, 2013 and 2012, respectively. The increase in the allowance for doubtful accounts during the year ended December 31, 2013 was primarily the result of a slight increase in write-off experience and higher net patient care service revenue. The recent past experience with higher write-offs is a key component of the allowance for doubtful accounts calculation.

	Balance at Beginning of Year	Provision	Accounts Written Off, Net of Recoveries and Other	Balance at End of Year
Allowance for doubtful accounts:				
Year ended December 31, 2012	$ 37,171	$ 104,835	$ (79,838)	$ 62,168
Year ended December 31, 2013	**62,168**	**119,125**	**(112,758)**	**68,535**

Components of accounts receivable, net, at December 31, 2013 and 2012, include Medicare, 22%; Medicaid, 3% and 4%, respectively; commercial insurers, 64% and 61%, respectively; and other, 11% and 13%, respectively. One managed care payor represented 24% and 22% of patient accounts receivable at December 31, 2013 and 2012, respectively.

(Dollars in Thousands)

6. Investments

The composition of investments is as follows:

	December 31	
	2013	**2012**
Cash and short-term investments	**$ 55,700**	$ 35,091
Fixed income securities:		
U.S. government and agency obligations	**42,616**	35,698
Corporate and other bonds	**23,228**	35,771
Mortgage- and asset-backed securities	**13,701**	19,512
Domestic equities	**45,987**	41,887
International equities	**29,367**	36,107
Commingled funds	**65,255**	25,485
Mutual funds	**153,103**	150,386
Real estate investment trust	**22,626**	–
Hedge funds	**63,485**	56,828
Real estate held for investment	**19,940**	19,940
Gross investments	**535,008**	456,705
Amounts due to brokers	**–**	(4,134)
Amounts due from brokers	**17**	90
Net investments	**$ 535,025**	$ 452,661

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

6. Investments (continued)

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

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

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

(Dollars in Thousands)

6. Investments (continued)

Composition

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

	Year Ended December 31	
	2013	**2012**
Investment income:		
Unrealized gains/losses on investments, net	**$ 30,899**	$ 20,982
Dividend and interest income	**5,182**	7,833
Net realized gains on the sale of investments	**8,652**	17,612
Total investment return	**$ 44,733**	$ 46,427
Presentation		
Other revenue	**$ 302**	$ 1,454
Temporarily restricted – investment return	**(15)**	89
Interest, dividends, and realized gains on sales of investments, net	**13,321**	24,516
Unrealized gains/losses on investments, net	**31,125**	20,368
Total investment return	**$ 44,733**	$ 46,427

Securities Lending

The Corporation participates in securities lending transactions whereby a portion of its investments are loaned to a broker in return for cash, letters of credit, or U.S. government securities from the broker as collateral for securities loaned. The Corporation participates in a program with its trustee to reinvest the cash collateral received in other short-term investments. The Corporation earns income on the collateral pledged while related securities are outstanding but has risk of loss on the collateral received due to the reinvestment program. In the accompanying consolidated balance sheets, the fair value of securities purchased with the cash collateral held for loaned marketable securities was $1,309 and $2,028 at December 31, 2013 and 2012, respectively, and is reported as a current asset. A payable for repayment of cash collateral received, upon settlement of the lending arrangement, is reported as other current liabilities of $2,324 and $3,275 at December 31, 2013 and 2012, respectively.

(Dollars in Thousands)

7. Property and Equipment

The costs of property and equipment consist of the following:

	December 31	
	2013	**2012**
Land and improvements	**$ 120,099**	$ 117,562
Buildings	**749,519**	734,614
Equipment	**683,476**	705,379
Construction in progress	**2,426**	12,685
	$ 1,555,520	$ 1,570,240

The cost of commitments to complete construction-in-progress projects is estimated to be $25,921 at December 31, 2013. Depreciation expense recorded in the consolidated statements of operations and changes in net assets was $75,543 and $70,063 at December 31, 2013 and 2012, respectively. Amortization expense on leasehold improvements recorded in the consolidated statements of operations and changes in net assets was $1,972 and $1,935 at December 31, 2013 and 2012, respectively. Amortization expense on other intangibles recorded in the statements of operations and changes in net assets was $1,260 and $160 at December 31, 2013 and 2012, respectively. Amortization expense on capital leases recorded in the consolidated statements of operations and changes in net assets was $5,095 and $3,221 at December 31, 2013 and 2012, respectively. Assets under capital leases at December 31, 2013 and 2012, were $28,483 and $30,318, respectively. Accumulated amortization on assets under capital leases at December 31, 2013 and 2012, was $9,573 and $8,901, respectively.

(Dollars in Thousands)

8. Long-Term Debt

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

Description	Interest Rates	December 31 2013	December 31 2012
Tax-exempt, variable rate bonds:			
Series 2010A due through 2040	0.99%	**$ 28,000**	$ 28,000
Series 2009BCD due through 2031	0.05%	**223,665**	223,665
Series 2007 due through 2032	0.05%	**21,115**	21,820
Series 2001 due through 2031	0.12%–0.14%	**14,975**	16,175
Tax-exempt, fixed rate serial and term bonds:			
Series 2012A due through 2029	2.0%–5.0%	**83,695**	85,115
Series 2009A due through 2031	5.0%–5.75%	**194,315**	203,390
Various notes to banks	Various	**49,881**	58,292
Mortgages on real estate	Various	**11,733**	11,982
Other	Various	**113**	113
Capital leases	Various	**15,477**	17,988
		642,969	666,540
Less unamortized original issue premium/discount, net		**(5,602)**	(6,190)
		648,571	672,730
Less current portion		**27,515**	26,589
		$ 621,056	$ 646,141

(Dollars in Thousands)

8. Long-Term Debt (continued)

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

Year ending December 31:	
2014	$ 27,515
2015	28,533
2016	25,584
2017	32,868
2018	17,690
Thereafter	510,779
	$ 642,969

Total interest paid was $20,348 and $25,786 in 2013 and 2012, respectively. Interest cost of $3 and $5,169 in 2013 and 2012, respectively, was capitalized as part of the cost of construction.

Obligations Through Use of Master Indenture

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

On May 24, 2012, PH and PVH issued $85,115 of fixed rate tax-exempt revenue bonds (the 2012A Bonds) using the Master Indenture and through the Indiana Finance Authority. The proceeds were used to refund all of the remaining Series 1998 Bonds, legally defease $37,335 of the 2009A Bonds, and pay financing costs. A loss on early extinguishment of the Series 1998 Bonds and 2009A Bonds amounted to $6,863 and is recorded as a nonoperating expense in the accompanying consolidated statement of operations and changes in net assets. Interest on the 2012A Bonds is paid semiannually.

8. Long-Term Debt (continued)

On May 4, 2010, PH arranged for the issuance of $28,000 of variable rate, tax-exempt private placement bonds using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds and certain other funds of PH were used to finance the construction and furnishing of the new Parkview Whitley Hospital. The funds were drawn as required through construction. The total amount drawn was $28,000. The bonds bear interest monthly, and interest is paid monthly. The bonds mature in May 2017, but can be renewed annually for an additional five-year term.

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

PH entered into two direct-pay Letters of Credit agreements (the LOCs) issued by PNC Bank (Series 2009C Bonds) and Wells Fargo Bank (Series 2009B&D Bonds) to enhance the marketability of the bonds. Under the terms of the LOCs, if bonds are not successfully remarketed and thereby purchased by the banks, the principal maturities of the bonds purchased are accelerated over the subsequent three-year period commencing at least one year and one day from the draw on the LOC, and PH would pay a defined rate, based on a formula in the agreements, at a minimum rate of 7.0% for the first 180 days after bank purchase, and 8.0% thereafter. The current LOCs expire August 26, 2016. At December 31, 2013, all bonds had been successfully remarketed.

8. Long-Term Debt (continued)

On March 15, 2007, PLH issued $24,930 of adjustable rate, tax-exempt revenue bonds. The bonds were issued through the Indiana Health and Education Facility Financing Authority. The proceeds of the Series 2007 Bonds and certain other funds of PLH were used to finance the construction and furnishing of a new hospital facility and to pay financing costs. These Series 2007 Bonds bear interest at a weekly rate, and interest is paid monthly. The Series 2007 Bonds are secured by an irrevocable direct-pay LOC issued by PNC Bank that matures on August 26, 2016. This LOC has a maximum rate of 15%. At December 31, 2013, all bonds had been successfully remarketed. The borrower's obligations under the bond documents are secured by a security interest in and lien upon all of the borrower's real and personal property.

In November 2001, PH and PVH issued $220,000 of variable rate, tax-exempt auction revenue bonds (the Series 2001 Bonds) using the Master Indenture and through the Indiana Health Facility Financing Authority. These Series 2001 Bonds auction every 28 days. The bonds have a maximum rate of 15%. Beginning in February 2008 and continuing through December 31, 2013, PH's Series 2001 Bonds failed to attract sufficient bids to be remarketed. As a result of the failed auctions, interest rates are set based upon a formula contained in the bond documents. The interest rate formula is based upon the 7-day AA Composite Commercial Paper rate times a factor. This factor can vary from 125% to 225%, depending upon the credit rating of the bond. The bond rating is equal to the rating of either the insurer of the debt or the issuer, whichever is higher. At December 31, 2013 and 2012, the factor was 175%. The Series 2001 Bonds are secured by a financial guaranty insurance policy provided by Ambac Assurance Corporation (Ambac). Ambac is rated Caa2 by Moody's, while PH has retained its Moody's rating of A1.

8. Long-Term Debt (continued)

Term Loan

On December 31, 2012, the ONE acquisition was completed (see Note 1) and the transaction was financed, in part, through execution of a fully amortizable five-year loan with a bank in the amount of approximately $37,900. The loan has a floating rate with interest computed monthly based on the 30-day LIBOR plus 160 basis points. The loan is collateralized by all personal property assets of Orthopaedic Hospital at Parkview North, LLC.

Debt Guarantee

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

9. Interest Rate Swaps and Other Derivatives

PH uses a combination of interest rate swap agreements with the objective to mitigate the impact interest rate fluctuations have on its interest payments. PH uses fixed payor, fixed spread basis, fixed receiver, and forward fixed payor contracts entered into with various third parties. Interest rate swap contracts between PH and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. This is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for PH's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. PH does not anticipate nonperformance by its counterparties. The fair value of the certain fixed payor and fixed spread basis swaps obligations exceeded contractual thresholds and triggered the necessity of PH to post collateral with the

(Dollars in Thousands)

9. Interest Rate Swaps and Other Derivatives (continued)

counterparties. Collateral required to be posted by PH totaled $0 and $4,994 at December 31, 2013 and 2012, respectively, and is included with other assets in the consolidated balance sheets. PH's policy is to present the collateral on a gross basis in the consolidated balance sheets.

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

Expiration Date	PH Pays	PH Receives	Notional Amount 2013	Notional Amount 2012
2020–2031	3.47%–3.71%[1]	67% of one-month LIBOR	**$ 36,125**	$ 37,325
2028–2033	3.26%–3.49%[1]	62.4% of one-month LIBOR + 0.29% margin	**92,190**	96,260
2033	3.49%[2]	62.4% of one-month LIBOR + 0.29% margin	**75,000**	75,000
2013–2016	BMA/SIFMA Index[2]	3.81%–4.0%	**30,000**	60,000
2037	3.81%[1]	61.8% of one-month LIBOR + 0.31% margin	**147,955**	148,310
2014–2025	BMA/SIFMA Index[3]	68% of one-month LIBOR + 0.37%–0.52% margin	**180,000**	180,000
			$ 561,270	$ 596,895

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

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

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

(Dollars in Thousands)

9. Interest Rate Swaps and Other Derivatives (continued)

The fair value of derivative instruments is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Classification	December 31 2013	December 31 2012
Interest rate swap agreements	Interest rate swaps (Other assets)	**$ 2,767**	$ 6,447
Interest rate swap agreements	Interest rate swaps (Noncurrent liabilities)	**(48,506)**	(87,043)
Total derivatives		**$ (45,739)**	$ (80,596)

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Excess of Revenues Over Expenses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenue Over Expenses December 31 2013	2012
Interest rate swap agreements – unrealized gains/losses	Unrealized gains/losses on interest rate swaps, net	**$ 34,965**	$ (635)
Interest rate swap agreements – net cash payments	Other – nonoperating	**(9,015)**	(7,300)
Total derivatives		**$ 25,950**	$ (7,935)

Interest rate swap settlement payments, net were $9,015 and $9,191 in 2013 and 2012, respectively, of which $0 and $1,891 was capitalized as part of the cost of construction in 2013 and 2012, respectively.

(Dollars in Thousands)

10. Pension Plans

Defined Benefit Pension Plan

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

	2013	2012
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 393,278**	$ 342,874
Service cost	**9,688**	9,167
Interest cost	**16,758**	16,841
Actuarial (gain) loss	**(39,119)**	33,440
Benefits paid	**(10,242)**	(9,044)
Projected benefit obligation at end of year	**370,363**	393,278
Change in plan assets		
Plan assets at fair value at beginning of year	**335,553**	285,330
Actual return on plan assets	**41,874**	43,967
Corporation and subsidiary contributions	**9,700**	15,300
Benefits paid	**(10,242)**	(9,044)
Plan assets at fair value at end of year	**376,885**	335,553
Funded status of the Plan (recognized as accrued pension obligation in 2012 and other long-term assets in 2013)	**$ 6,522**	$ (57,725)

(Dollars in Thousands)

10. Pension Plans (continued)

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

	2013	2012
Unrecognized net actuarial loss	**$ 55,345**	$ 121,082
Unrecognized prior service cost	**77**	100
	$ 55,422	$ 121,182

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

	2013	2012
Current year actuarial (gain) loss	**$ (55,016)**	$ 13,146
Recognized actuarial loss	**(10,721)**	(8,222)
Current year amortization of prior service cost	**(23)**	(176)
	$ (65,760)	$ 4,748

The actuarial loss and prior service cost included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ending December 31, 2014, total $3,031 and $22, respectively.

(Dollars in Thousands)

10. Pension Plans (continued)

	Year Ended December 31 2013	2012
Periodic benefit cost		
Service cost	**$ 9,688**	$ 9,167
Interest cost	**16,758**	16,841
Expected return on plan assets	**(25,977)**	(23,673)
Amortization of unrecognized net loss	**10,721**	8,222
Amortization of unrecognized prior service cost	**23**	176
Net periodic benefit cost	**$ 11,213**	$ 10,733

	December 31 2013	2012
Accumulated benefit obligation	**$ 347,775**	$ 363,813

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

	2013	2012
Assumptions – benefit obligations:		
Discount rate	**4.98%**	4.32%
Rate of compensation increase	**3.00**	3.50
Assumptions – net periodic benefit cost:		
Discount rate	**4.32%**	4.98%
Expected return on plan assets	**8.00**	8.00
Rate of compensation increase	**3.50**	3.50

(Dollars in Thousands)

10. Pension Plans (continued)

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Plan. The increase in the discount rate from December 31, 2012 to December 31, 2013, resulted in a decrease in the projected benefit obligation of $36,858. The decrease in the rate of compensation increase from December 31, 2012 to December 31, 2013, resulted in a decrease in the projected benefit obligation of $3,926.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The Plan's allocation is currently weighted toward growth assets (60%) versus fixed income (40%). The Corporation's policy on investment allocation for the Plan consists of an allocation of 35% to 75% for growth investments and 30% to 60% for fixed income investments. Within the growth investment classification, the Plan's asset strategy encompasses equity and equity-like instruments that are of both public and private market investments. These equity and equity-like instruments are public equity securities that are well diversified and invested in U.S. and international companies. Management believes its active strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the Plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

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

	2013	**2012**
Real estate investment trust fund	**4%**	–%
Commingled funds	**18**	15
International equities	**6**	10
Domestic equities	**12**	13
Mutual funds – equity	**13**	20
Mutual funds – fixed income	**37**	39
Mutual funds – balanced	**3**	–
Cash and short-term investments	**5**	1
Guaranteed investment contract	**2**	2
Total	**100%**	100%

(Dollars in Thousands)

10. Pension Plans (continued)

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

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

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

(Dollars in Thousands)

10. Pension Plans (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2012:

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Commingled fund	$ 49,377	$ –	$ 49,377	$ –
International equity	35,282	29,501	5,781	–
Domestic equity	43,895	43,895	–	–
Mutual funds – equity	67,701	–	67,701	–
Mutual funds – fixed income	129,245	–	129,245	–
Cash and short-term investments	3,428	3,428	–	–
Guaranteed investment contract	6,625	–	–	6,625
	$ 335,553	$ 76,824	$ 252,104	$ 6,625

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

	Financial Assets
Fair value at January 1, 2012	$ 7,518
Purchases, issuances, and settlements	(1,167)
Actual return on plan assets	274
Fair value at December 31, 2012	6,625
Purchases, issuances, and settlements	**12,027**
Actual return on plan assets	**1,213**
Fair value at December 31, 2013	**$ 19,865**

(Dollars in Thousands)

10. Pension Plans (continued)

Estimated future benefit payments:		
2014	$	12,134
2015		13,547
2016		14,893
2017		16,694
2018–2023		134,352

The Corporation expects to contribute $10,000 to its defined benefit pension plan in 2014.

Defined Contribution and Other Pension Plans

Eligible employees hired after December 31, 2004, and employees who were active at December 31, 2004, and elected at that time to participate in the defined contribution plan and freeze their benefits in the defined benefit plan participate in the defined contribution plan. The accrued liability for the defined contribution pension plan is $13,210 and $12,222 at December 31, 2013 and 2012, respectively, and is recorded as a current liability on the consolidated balance sheets. During 2013 and 2012, expense for this plan totaled $13,240 and $12,305, respectively, and is reported as salaries and benefits.

Contributions to the tax-sheltered annuity and 401(k) plans are based on a percentage of eligible employee salaries, as defined. The contributions for the tax-sheltered annuity and 401(k) plans were $7,355 and $7,104 in 2013 and 2012, respectively, and were reported as salaries and benefits.

11. Malpractice Insurance

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

11. Malpractice Insurance (continued)

Malpractice claims for incidents that may give rise to litigation have been asserted against the Corporation by various claimants. The claims are in various stages of resolution, and some may ultimately be brought to trial. There are also reported incidents that have occurred through December 31, 2013, which may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients. The reserve for medical malpractice includes amounts for claims and related legal expenses for these incurred but not reported incidents. This reserve is actuarially determined by combining industry data and the Corporation's historical experience. Accrued malpractice losses and insurance recovery receivables have been discounted at 5% in both 2013 and 2012 and, in management's opinion, provide adequate reserve for loss contingencies. The Corporation recorded receivable balances to reflect the expected recovery from commercial insurance coverage. The Corporation is reporting $347 and $261 in prepaid expenses and other current assets at December 31, 2013 and 2012, respectively, and $994 and $895 in other assets at December 31, 2013 and 2012, respectively. The Corporation has recorded $1,703 and $1,475 in accounts payable and accrued expenses as of December 31, 2013 and 2012, respectively, and $5,601 and $5,316 at December 31, 2013 and 2012, respectively, is reported as other liabilities in the consolidated balance sheets.

The Corporation established a revocable, restricted trust for claims not covered by commercial insurance for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreements, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The balance of the trust was $4,142 and $4,011 at December 31, 2013 and 2012, respectively. The trust is included in Investments – Funds held by trustee in the accompanying consolidated balance sheets.

(Dollars in Thousands)

12. Commitments and Contingencies

Certain property and equipment are leased using noncancelable operating and capital lease arrangements. Rental expense associated with the operating leases was $22,962 and $23,303 for the years ended December 31, 2013 and 2012, respectively. The leases expire in various years through 2020. Future minimum lease payments required under noncancelable operating and capital leases for property and equipment as of December 31, 2013, are as follows:

	Operating Leases	Capital Leases
Year ending December 31:		
2014	$ 12,491	$ 6,582
2015	10,971	6,468
2016	8,890	2,469
2017	8,465	931
2018	6,513	–
Thereafter	31,002	–
Total minimum lease payments	$ 78,332	16,450
Less amount representing interest		973
Present value of net minimum lease payments		$ 15,477

As of December 31, 2013, PH had a commitment to fund an additional $21 million to a new alternative investment fund which occurred on January 2, 2014.

13. Functional Expenses

The Corporation, as an integrated health care delivery system, provides and manages the health care needs of its patients. Aggregate direct expenses for these services as a percentage of total expenses were approximately 91% and 90% for the years ended December 31, 2013 and 2012, respectively.

14. Indiana Medicaid Disproportionate Share

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

In 2013, PH recognized $4,902 and $6,077 from the Indiana Medicaid Disproportionate Share payment program pertaining to state fiscal years 2012 and 2013, respectively.

In 2012, PH recognized no income from Indiana Medicaid Disproportionate Share payments, which pertained to state fiscal year 2012. No change in estimate was recorded by PH in 2012.

At December 31, 2013 and 2012, PH recorded State DSH payments receivable of $0 and $480, respectively.

15. Indiana Hospital Assessment Fee Program

In May 2012, the Indiana Hospital Assessment Fee program (HAF) was approved by the federal Centers for Medicare & Medicaid Services (CMS) for the period of July 1, 2011 through June 30, 2013. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the state's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the hospitals from the state and an assessment against the hospitals, which is paid to the state the same year. The state of Indiana has approved HAF effective July 2013 through June 2017. As of December 31, 2013, this extension was awaiting approval from the CMS. Subsequently, on March 21, 2014, CMS approved the extension of the program another four years.

15. Indiana Hospital Assessment Fee Program (continued)

Payments to PH recognized for the six months ended June 30, 2013, totaled $30,319 and assessments against PH for the same period were $19,925. For the period July 1, 2013 to December 31, 2013, no payments to PH have been received or revenue recorded and no assessments against PH paid or expense recorded because the approval by CMS had not been obtained as of December 31, 2013. Because the program was approved mid-year 2012, payments to PH recognized for the year ended December 31, 2012, included payments to PH totaling $28,840 and assessments against PH of $15,581 related to the period July 1, 2011 through December 31, 2011. Payments to PH recognized for the 12-month period covering January 1, 2012 through December 31, 2012, totaled $56,108 and assessments against PH for the same period totaled $31,156. HAF payments to PH are included in net patient service care revenue in the consolidated statements of operations and changes in net assets. HAF Assessments against PH are included in other operating expense in the consolidated statement of operations and changes in net assets.

16. Subsequent Events

PH evaluated events and transactions occurring subsequent to December 31, 2013 through March 27, 2014, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the consolidated financial statements.

Supplementary Information

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

Details of Consolidated Balance Sheet
(In Thousands)

December 31, 2013

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

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

Details of Consolidated Balance Sheet (continued)
(In Thousands)

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

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

Details of Consolidated Balance Sheet
(In Thousands)

December 31, 2012

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Assets														
Current assets:														
Cash and cash equivalents	$ (1,465)	$ 67,023	$ 66	$ (92)	$ (67)	$ 8	$ –	$ (40)	$ 324	$ 51	$ 63	$ 109	$ –	$ 65,980
Patient accounts receivable, net	98,950	32,957	6,366	6,559	6,768	3,713	–	1,336	–	–	–	–	–	156,649
Inventories	11,373	3,850	219	146	208	196	–	–	–	–	–	–	–	15,992
Prepaid expenses and other current assets	(452,900)	498,107	2,380	(29,393)	4,205	(352)	5,923	1,727	2,408	34	55	10	(5,051)	27,153
Estimated third-party payor settlements	4,024	59	213	163	227	104	–	–	–	–	–	–	–	4,790
Collateral from securities lending agreement	–	2,028	–	–	–	–	–	–	–	–	–	–	–	2,028
Total current assets	(340,018)	604,024	9,244	(22,617)	11,341	3,669	5,923	3,023	2,732	85	118	119	(5,051)	272,592
Investments:														
Board-designated cash and investments	18,751	318,818	29,037	42,205	–	–	–	–	12,940	794	1,608	468	–	424,621
Funds held by trustees	–	24,670	–	–	–	–	–	–	–	–	–	–	–	24,670
Securities pledged	–	3,231	–	–	–	–	–	–	–	–	–	–	–	3,231
Other investments	–	–	–	–	–	–	–	–	–	139	–	–	–	139
	18,751	346,719	29,037	42,205	–	–	–	–	12,940	933	1,608	468	–	452,661
Property and equipment:														
Cost	999,145	491,222	14,879	17,523	15,178	30,080	790	1,148	221	22	18	14	–	1,570,240
Less accumulated depreciation and amortization	312,673	203,655	10,471	10,511	10,757	9,431	702	994	181	9	5	3	–	559,392
	686,472	287,567	4,408	7,012	4,421	20,649	88	154	40	13	13	11	–	1,010,848
Other assets:														
Interest rate swaps	–	6,447	–	–	–	–	–	–	–	–	–	–	–	6,447
Deferred financing costs	–	2,829	–	–	–	100	–	–	–	–	–	–	–	2,929
Investment in joint ventures	1,296	1,759	–	–	–	–	–	–	–	–	–	–	–	3,055
Goodwill and intangible assets, net	1,543	75,410	–	–	841	5,011	–	–	–	–	–	–	–	82,805
Other assets	1,030	30,223	42	55	19	2	–	–	–	–	–	–	(8,596)	22,775
	3,869	116,668	42	55	860	5,113	–	–	–	–	–	–	(8,596)	118,011
Total assets	$ 369,074	$ 1,354,979	$ 42,731	$ 26,655	$ 16,622	$ 29,431	$ 6,011	$ 3,177	$ 15,712	$ 1,031	$ 1,739	$ 598	$ (13,647)	$ 1,854,113

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

Details of Consolidated Balance Sheet (continued)

(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Whitley Hospital Foundation	Noble Hospital Foundation	Huntington Hospital Foundation	Eliminations	Consolidated
Liabilities and net assets														
Current liabilities:														
Accounts payable and accrued expenses	$ 28,464	$ 20,796	$ 873	$ 689	$ 314	$ 489	$ 3,840	$ 61	$ 8	$ –	$ –	$ –	$ –	$ 55,534
Salaries, wages, and related liabilities	10,650	57,162	624	804	651	452	117	247	–	–	–	–	–	70,707
Accrued interest	–	2,949	–	–	–	2	–	–	–	–	–	–	–	2,951
Estimated third-party payor settlements	4,646	178	198	38	1,499	146	–	–	–	–	–	–	–	6,705
Payable under securities lending agreement	–	3,275	–	–	–	–	–	–	–	–	–	–	–	3,275
Current portion of long-term debt	2,173	28,422	138	77	67	763	–	–	–	–	–	–	(5,051)	26,589
Total current liabilities	45,933	112,782	1,833	1,608	2,531	1,852	3,957	308	8	–	–	–	(5,051)	165,761
Noncurrent liabilities:														
Long-term debt, less current portion	6,236	617,818	320	272	233	21,262	–	–	–	–	–	–	–	646,141
Interest rate swaps	–	87,043	–	–	–	–	–	–	–	–	–	–	–	87,043
Accrued pension obligations	–	57,725	–	–	–	–	–	–	–	–	–	–	–	57,725
Other	473	18,090	41	549	14	8,596	169	–	10	–	–	–	(8,596)	19,347
	6,709	780,677	361	821	247	29,858	169	–	10	–	–	–	(8,596)	810,256
Net assets:														
Parkview Health System, Inc.	316,432	445,988	40,491	24,226	13,843	(2,279)	1,885	2,869	8,014	684	1,175	361	–	853,689
Noncontrolling interest in subsidiaries	–	15,440	47	–	–	–	–	–	–	–	–	–	–	15,487
Total unrestricted net assets	316,432	461,428	40,538	24,226	13,843	(2,279)	1,885	2,869	8,014	684	1,175	361	–	869,176
Temporarily restricted net assets	–	92	–	–	–	–	–	–	6,862	256	564	237	–	8,011
Permanently restricted net assets	–	–	–	–	–	–	–	–	818	91	–	–	–	909
Total net assets	316,432	461,520	40,538	24,226	13,843	(2,279)	1,885	2,869	15,694	1,031	1,739	598	–	878,096
Total liabilities and net assets	$ 369,074	$ 1,354,979	$ 42,731	$ 26,655	$ 16,622	$ 29,431	$ 6,011	$ 3,177	$ 15,712	$ 1,031	$ 1,739	$ 598	$ (13,647)	$ 1,854,113

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

Details of Consolidated Statement of Operations and Changes in Net Assets
(In Thousands)

Year Ended December 31, 2013

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Revenues:														
Patient care service revenue (net of contractual allowances and discounts)	$ 784,079	$ 278,740	$ 52,576	$ 48,510	$ 55,329	$ 29,676	$ –	$ 7,944	$ –	$ –	$ –	$ –	$ (53,562)	$ 1,203,292
Provision for bad debts	(78,682)	(18,740)	(6,516)	(4,651)	(7,217)	(3,300)	–	(19)	–	–	–	–	–	(119,125)
Net patient care service revenue less provision for bad debts	705,397	260,000	46,060	43,859	48,112	26,376	–	7,925	–	–	–	–	(53,562)	1,084,167
Other revenue	28,035	51,315	3,749	2,871	1,984	1,010	35,793	2,254	1,417	232	217	211	(52,610)	76,478
	733,432	311,315	49,809	46,730	50,096	27,386	35,793	10,179	1,417	232	217	211	(106,172)	1,160,645
Expenses:														
Salaries and benefits	248,484	270,438	16,468	17,999	16,869	11,019	3,327	5,755	474	79	96	90	(44,082)	547,016
Supplies	92,410	40,922	3,900	3,454	3,528	1,821	50	519	21	–	1	–	–	146,626
Purchased services	76,220	54,157	6,525	6,766	6,376	4,926	28,972	1,993	186	–	–	–	(49,195)	136,926
Utilities, repairs, and maintenance	18,365	23,903	1,354	1,530	1,562	1,170	70	130	4	1	1	1	(341)	47,750
Depreciation and amortization	46,634	32,055	1,185	1,374	889	1,641	10	65	8	3	3	3	–	83,870
Other	163,685	(122,692)	11,459	12,522	12,445	6,883	541	773	1,398	154	121	115	(12,554)	74,850
	645,798	298,783	40,891	43,645	41,669	27,460	32,970	9,235	2,091	237	222	209	(106,172)	1,037,038
Operating income (loss)	87,634	12,532	8,918	3,085	8,427	(74)	2,823	944	(674)	(5)	(5)	2	–	123,607
Nonoperating income (expense):														
Interest, dividends, and realized gains/losses on sales of investments, net	540	10,348	1,013	1,439	(17)	(2)	–	–	–	–	–	–	–	13,321
Unrealized gains on investments, net	1,036	26,176	1,581	2,332	–	–	–	–	–	–	–	–	–	31,125
Interest expense	(361)	(19,204)	(19)	(15)	(13)	(206)	–	–	–	–	–	–	–	(19,819)
Loss on bond refinancing	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Unrealized gains on interest rate swaps	–	34,965	–	–	–	–	–	–	–	–	–	–	–	34,965
Other	(26)	(9,376)	186	19	(1)	(6)	–	1	–	–	–	–	–	(9,203)
Excess (deficit) of revenues over expenses	88,823	55,441	11,679	6,860	8,396	(288)	2,823	945	(674)	(5)	(5)	2	–	173,997
Excess (deficit) of revenues over expenses attributable to:														
Noncontrolling interest in subsidiaries	–	22,868	77	–	–	–	–	–	–	–	–	–	–	22,945
Parkview Health System, Inc.	88,823	32,573	11,602	6,860	8,396	(288)	2,823	945	(674)	(5)	(5)	2	–	151,052
Other changes in net assets attributable to:														
Noncontrolling interest in subsidiaries	–	4,295	126	–	–	–	–	–	–	–	–	–	–	4,421
Parkview Health System, Inc.	(95,207)	165,893	(11,853)	(7,262)	(8,403)	56	–	–	414	(16)	7	23	–	43,652
(Decrease) increase in net assets	(6,384)	225,629	(48)	(402)	(7)	(232)	2,823	945	(260)	(21)	2	25	–	222,070
Net assets (liabilities) at beginning of year	316,432	461,520	40,538	24,226	13,843	(2,279)	1,885	2,869	15,694	1,031	1,739	598	–	878,096
Net assets (liabilities) at end of year	$ 310,048	$ 687,149	$ 40,490	$ 23,824	$ 13,836	$ (2,511)	$ 4,708	$ 3,814	$ 15,434	$ 1,010	$ 1,741	$ 623	$ –	$ 1,100,166

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

Details of Consolidated Statement of Operations and Changes in Net Assets
(In Thousands)

Year Ended December 31, 2012

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Revenues:														
Patient care service revenue (net of contractual allowances and discounts)	$ 753,203	$ 233,849	$ 55,554	$ 53,188	$ 59,626	$ 31,916	$ –	$ 7,195	$ –	$ –	$ –	$ –	$ (48,286)	$ 1,146,244
Provision for bad debts	(69,872)	(12,617)	(6,308)	(4,856)	(7,709)	(3,399)	–	(74)	–	–	–	–	–	(104,835)
Net patient care service revenue less provision for bad debts	683,331	221,232	49,246	48,332	51,917	28,517	–	7,121	–	–	–	–	(48,286)	1,041,409
Other revenue	28,516	45,827	3,718	3,926	2,595	1,014	34,686	2,503	2,374	315	361	283	(48,193)	77,925
	711,847	267,059	52,964	52,258	54,512	29,531	34,686	9,624	2,374	315	361	283	(96,479)	1,119,334
Expenses:														
Salaries and benefits	232,667	247,649	15,597	17,741	15,947	10,948	3,110	5,368	437	81	91	88	(39,115)	510,609
Supplies	86,170	36,662	3,570	4,255	3,171	1,773	50	519	28	–	–	–	–	136,198
Purchased services	85,212	35,474	5,926	6,479	6,500	5,376	30,009	1,864	250	–	–	–	(45,143)	131,947
Utilities, repairs, and maintenance	16,239	23,389	1,301	1,480	1,357	1,136	62	101	4	1	1	1	(416)	44,656
Depreciation and amortization	41,846	27,954	946	1,647	1,092	1,807	11	36	31	3	3	3	–	75,379
Other	167,060	(96,233)	11,204	12,940	11,814	6,774	522	755	1,596	93	115	85	(11,805)	104,920
	629,194	274,895	38,544	44,542	39,881	27,814	33,764	8,643	2,346	178	210	177	(96,479)	1,003,709
Operating income (loss)	82,653	(7,837)	14,420	7,716	14,631	1,717	922	981	28	137	151	106	–	115,625
Nonoperating income (expense):														
Interest, dividends, and realized gains/losses on sales of investments, net	1,273	18,513	1,940	2,791	–	(1)	–	–	–	–	–	–	–	24,516
Unrealized gains on investments, net	828	16,413	1,263	1,864	–	–	–	–	–	–	–	–	–	20,368
Interest expense	(291)	(15,165)	(23)	(17)	(11)	(256)	–	–	(1)	–	–	–	–	(15,764)
Loss on bond refinancing	–	(6,863)	–	–	–	–	–	–	–	–	–	–	–	(6,863)
Unrealized losses on interest rate swaps	–	(635)	–	–	–	–	–	–	–	–	–	–	–	(635)
Other	(208)	(7,337)	–	(71)	–	2	–	(3)	–	–	–	–	–	(7,617)
Excess (deficit) of revenues over expenses	84,255	(2,911)	17,600	12,283	14,620	1,462	922	978	27	137	151	106	–	129,630
Excess (deficit) of revenues over expenses attributable to:														
Noncontrolling interest in subsidiaries	–	14,473	112	–	–	–	–	–	–	–	–	–	–	14,585
Parkview Health System, Inc.	84,255	(17,384)	17,488	12,283	14,620	1,462	922	978	27	137	151	106	–	115,045
Other changes in net assets attributable to:														
Noncontrolling interest in subsidiaries	–	1,191	32	–	–	–	–	–	–	–	–	–	–	1,223
Parkview Health System, Inc.	(81,600)	109,222	(17,594)	(12,981)	(14,592)	(1,458)	–	3	3,425	36	110	14	–	(15,415)
Increase (decrease) in net assets	2,655	107,502	38	(698)	28	4	922	981	3,452	173	261	120	–	115,438
Net assets at beginning of year	313,777	354,018	40,500	24,924	13,815	(2,283)	963	1,888	12,242	858	1,478	478	–	762,658
Net assets at end of year	$ 316,432	$ 461,520	$ 40,538	$ 24,226	$ 13,843	$ (2,279)	$ 1,885	$ 2,869	$ 15,694	$ 1,031	$ 1,739	$ 598	$ –	$ 878,096

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