Community Health Network, Inc. and Affiliates

Consolidated Financial Statements
December 31, 2014 and 2013

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December 31, 2014 and 2013

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Community Health Network, Inc. and Affiliates (the "Network"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Health Network, Inc. and Affiliates at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 15, 2015
Indianapolis, IN

Community Health Network, Inc. and Affiliates
Consolidated Balance Sheets (in 000's)
Years Ended December 31, 2014 and 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 230,672	$ 253,514
Patient accounts receivable, less allowance for doubtful accounts of $448,827 and $295,102 in 2014 and 2013	221,895	204,734
Estimated third-party payor settlements receivable	13,774	55,622
Current portion of assets limited as to use—held by trustee	23,456	38,172
Inventories	27,376	27,313
Other accounts receivable	39,330	32,567
Other current assets	16,847	12,099
Total current assets	573,350	624,021
Assets limited as to use		
Funds held by trustee, net of current portion	65,500	65,500
Board-designated funds	599,179	540,184
Reinsurance trust assets	13,555	11,951
Property, plant and equipment, net	809,033	792,055
Investments in unconsolidated affiliates	29,619	32,027
Capitalized software, net of accumulated amortization	63,686	59,659
Deferred financing costs, net of accumulated amortization	6,509	6,791
Other assets	9,946	12,229
Total assets	$ 2,170,377	$ 2,144,417
Liabilities and net assets		
Current liabilities		
Short-term borrowings	$ -	$ 50,000
Current portion of long-term debt	22,394	27,248
Accounts payable	77,068	72,032
Accrued salaries and wages	88,020	78,171
Estimated third-party payor settlements payable	28,739	50,352
Self-insured liabilities	29,420	34,370
Other current liabilities	23,640	28,970
Total current liabilities	269,281	341,143
Long-term debt, net of current portion	612,310	632,756
Accrued pension	234,993	115,916
Interest rate swap liabilities	7,327	4,667
Other liabilities	6,003	8,552
Total liabilities	1,129,914	1,103,034
Net assets		
Unrestricted net assets		
Network unrestricted net assets	1,010,910	1,011,580
Noncontrolling interest	17,008	18,220
Total unrestricted net assets	1,027,918	1,029,800
Temporarily restricted net assets	8,067	7,148
Permanently restricted net assets	4,478	4,435
Total net assets	1,040,463	1,041,383
Total liabilities and net assets	$ 2,170,377	$ 2,144,417

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

Community Health Network, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (in 000's)
Years Ended December 31, 2014 and 2013

	2014	2013
Revenues and gains		
Net patient service revenue	$ 1,988,754	$ 1,760,110
Provisions for bad debts	172,862	86,538
Net patient service revenue less provision for bad debts	1,815,892	1,673,572
Service fee revenue	25,532	25,551
Other revenue	78,131	32,875
Other revenue - electronic health record incentive payments	7,800	13,321
Gain on contribution to joint venture	-	8,118
Earnings from unconsolidated affiliates	14,714	9,932
Total unrestricted revenues and gains	1,942,069	1,763,369
Operating expenses		
Salaries, benefits and pension	1,010,789	999,551
Supplies and other expenses	666,451	608,562
Depreciation and amortization	82,155	81,045
Interest and financing costs	20,751	20,062
Total operating expenses	1,780,146	1,709,220
Income from operations	161,923	54,149
Realized and unrealized gains (loss) on investments, net	21,003	57,342
Unrealized gain (loss) on interest rate swaps	(2,660)	4,090
Other, net	(431)	(1,101)
Excess of revenues over expenses for continuing operations before income taxes	179,835	114,480
Provision for income taxes	7,169	7,464
Excess of revenues over expenses for continuing operations	172,666	107,016
Discontinued operations, net of income taxes:		
Excess of expenses over revenues for discontinued operations	(412)	-
Loss on divestiture of discontinued operations	(11,256)	-
Loss from discontinued operations	(11,668)	-
Excess of revenues over expenses	160,998	107,016
Excess of revenues over expenses attributable to noncontrolling interest	(17,400)	(17,879)
Excess of revenues over expenses attributable to the Network	$ 143,598	$ 89,137

Continued on next page

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

Community Health Network, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (in 000's)
Years Ended December 31, 2014 and 2013

	2014	2013
Change in unrestricted net assets		
Excess of revenues over expenses attributable to the Network	$ 143,598	$ 89,137
Over (under) funding of pension assets, net	(144,501)	86,921
Change in noncontrolling interest	(1,212)	1,419
Other changes, net	233	238
(Decrease) Increase in total unrestricted net assets	(1,882)	177,715
Change in temporarily restricted net assets		
Increase in temporarily restricted net assets	919	1,314
Change in permanently restricted net assets		
Increase in permanently restricted net assets	43	64
(Decrease) Increase in total net assets	(920)	179,093
Total net assets, beginning of year	1,041,383	862,290
Total net assets, end of year	$ 1,040,463	$ 1,041,383

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

Community Health Network, Inc. and Affiliates
Consolidated Statements of Cash Flows (in 000's)
December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
(Decrease) increase in net assets	$ (920)	$ 179,093
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	82,155	81,045
Loss on divestiture of discontinued operations	11,256	-
Provision for bad debts	172,969	86,653
Deferred tax benefit	40	3,158
Gain on contribution to joint venture	-	(8,118)
Earnings from unconsolidated affiliates	(14,714)	(9,932)
Unrealized and realized gains (losses) on investments	598	(46,843)
Distributions received from unconsolidated affiliates	13,430	10,976
Change in accrued pension	119,077	(106,553)
Other adjustments	1,816	180
Changes in operating assets and liabilities		
Patient accounts receivable	(190,130)	(63,260)
Other assets	(9,113)	(4,612)
Accounts payable	4,620	(15,079)
Estimated third-party payor settlements	20,235	(984)
Other liabilities	(2,980)	7,259
Net cash provided by operating activities	208,339	112,983
Cash flows from investing activities		
Purchases of property, plant and equipment	(92,558)	(72,612)
Purchases of capitalized software	(11,623)	(8,960)
Hotel business acquisition	(11,000)	-
Proceeds from sale of property, plant and equipment	344	(6)
(Purchases)/sales of investments, net	(42,217)	507
Investments in unconsolidated affiliates	(250)	(4,483)
Distribution received from Unconsolidated Affiliates	3,027	-
Net cash used in investing activities	(154,277)	(85,554)
Cash flows from financing activities		
Proceeds from issuance of debt	8,000	50,000
Repayments of debt	(83,300)	(15,756)
Changes in restricted contributions and investment income	(1,604)	1,802
Cash flows provided by financing activities	(76,904)	36,046
Net increase in cash and cash equivalents	(22,842)	63,475
Cash and cash equivalents, beginning of year	253,514	190,039
Cash and cash equivalents, end of year	$ 230,672	$ 253,514
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 21,985	$ 20,109
Income taxes	$ 8,005	$ 3,694
Non cash disclosures of cash flow information		
Acquisition of property, plant and equipment included in accounts payable at December 31	$ 6,078	$ 5,662

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

1. Organization and Summary of Significant Accounting Policies

Organization

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

Effective September 18, 2014, the Network acquired a hotel business and related assets. On December 23, 2014, the Network ceased operations of the hotel. See Footnote 2 for further discussion.

Effective December 19, 2014, the Network ceased operations of Midwest Racquetball, Inc., a wholly-owned subsidiary of Community Howard Regional Health, Inc. See Footnote 2 for further discussion. Midwest Racquetball, Inc. was legally dissolved December 22, 2014.

While always consolidated into the Network, effective October 1, 2014, the Indiana Heart Hospital, LLC ("CHVH") was merged into CHNw. Thus, CHVH's financial results are consolidated with CHNw's financial results beginning October 1, 2014.

While always consolidated into the Network, effective September 19, 2014, the Westview Hospital Foundation, Inc. ("Westview Foundation") was merged into Community Health Network Foundation, Inc. ("Foundation"). Thus, Westview Foundation's financial results are consolidated with the Foundation's financial results beginning September 19, 2014.

Effective August 19, 2014, Indiana Specialty, LLC ("SpecPrime") dissolved. The Network held a 70% interest in SpecPrime. The Network received a final distribution equal to its investment in SpecPrime upon dissolution.

Effective June 2013, the Network contributed its Hook Rehabilitation business to a rehabilitation hospital joint venture with CRH of Indianapolis, LLC in return for a 51% ownership interest. The Network accounts for its investment in the joint venture under the equity method of accounting.

In April 2013, the Network made a capital contribution in return for a 33.3% ownership interest in Accountable Care Consortium, LLC ("ACC"). The Network accounts for its investment in ACC under the equity method of accounting. In April 2014, the ACC board voted to dissolve the ACC. As of January 1, 2015, there is no further activity in the ACC. Final legal dissolution is anticipated in April 2015.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP") and include the assets, liabilities, revenues and expenses of all wholly-owned subsidiaries, and when applicable, entities that are not wholly-owned for which the Network has a controlling interest.

The consolidated financial statements include the following wholly-owned entities:

- Community Hospital South, Inc. ("CHS"), a non-profit corporation which operates an acute care hospital facility on the south side of Indianapolis; CHNw and CHS are collectively referred to as ("CHI").

- Indiana Heart Hospital, LLC d/b/a Community Heart and Vascular Hospital, a non-profit corporation which operates a specialty hospital specializing in cardiac care as well as provides cardiac services to CHNw. Effective October 1, 2014, CHVH merged into CHNw.
- Community Hospitals of Anderson and Madison County, Inc. ("CHA"), a non-profit corporation which provides acute health care services to residents of Anderson, Indiana and surrounding communities;
- Indianapolis Osteopathic Hospital, Inc. d/b/a Westview Hospital ("Westview"), a non-profit corporation which provides acute health care services to residents on the west side of Indianapolis. Health Institute of Indiana, Inc. ("Healthplex") is a non-profit wholly-owned fitness center of Westview. Westview Hospital Foundation, Inc. is a non-profit corporation organized to support the activities of Westview. Effective September 19, 2014 Westview Foundation merged into the Foundation.
- Community Howard Regional Health, Inc., ("Howard") a non-profit corporation which provides acute health care services to residents in Howard County, Indiana and surrounding areas. Midwest Racquetball, Inc. d/b/a Kokomo Sports Center ("KSC") is a for profit sports facility of Howard; effective December 22, 2014, KSC was dissolved. Community Howard Regional Health Foundation ("Howard Foundation") is a non-profit corporation organized to support the activities of Howard;
- Community Physicians of Indiana, Inc. ("CPI") d/b/a Community Physicians Network, a non-profit corporation which employs the Network's primary care and specialty physicians;
- Community Health Network Foundation, Inc., a non-profit corporation established to raise and expend funds for the benefit of CHNw and other related organizations; The Foundation consolidates its wholly-owned subsidiary, Community Property Holdings, LLC, a non-profit Indiana Corporation which held the Network's hotel operations.
- Visionary Enterprises, Inc. ("VEI"), a taxable, for-profit subsidiary corporation which consists primarily of ambulatory surgery center development in Indiana and Michigan, and management and other consulting services;
- Community Home Health Services, Inc. ("CHHS"), a non-profit corporation whose operations consist primarily of providing home health care and hospice services to patients in central Indiana counties; CHHS consolidates its wholly-owned subsidiary, Community at Home, LLC, a non-profit Indiana corporation which provides sales of home health care products;
- Indiana ProHealth Network, LLC ("ProHealth"), a provider association consisting of physicians and hospital members in central Indiana and the primary vehicle by which the Network contracts for risk with payors; ProHealth is a pass-through taxable entity that is consolidated into VEI for income tax purposes;
- CHN Assurance Company, Ltd. ("Captive") is a company incorporated under the law of the Cayman Islands and a wholly-owned subsidiary of CHNw. The Captive reinsures policies for the Network including: primary hospital professional liability, doctor's professional liability and general liability. The Captive's professional liability policy is on a claims-made basis and includes prior acts coverage for various entities owned by the Network, while the general liability policy is on an occurrence basis. On an annual basis, the Captive's ceding insurer requires the Captive to maintain an outstanding letter of credit to address any potential exposure between premiums paid and expected losses. Due to favorable claims experience and adequate funding, the fronting company does not require a letter of credit for the policy years beginning March 1, 2014 and 2015, respectively.
- Community LTC, Inc. ("LTC")

- North Campus Surgery Center, LLC ("NCSC")

  The Network also consolidates its interest in the following entities, which are not wholly-owned:

  - South Campus Surgery Center, LLC ("SCSC")
  - East Campus Surgery Center, LLC ("ECSC")
  - Hamilton Surgery Center, LLC ("Noblesville")
  - Howard Community Surgery Center, LLC ("Howard Surgery")
  - Northwest Surgery Center, LLC ("Northwest")
  - Howard Regional Specialty Care, LLC ("Howard Rehab")
  - Michigan Surgery Investment, LLC ("MSI")

Intercompany accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements
The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicated with certainty; accordingly the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. The Network evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in its evaluation, as considered necessary. Actual results could differ from those estimates.

Reclassifications
Certain immaterial reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

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

The Network has entered into overnight sweep transaction agreements to purchase and resell direct obligations of, or obligations that are insured as to principal and interest by U.S. Government agencies. At December 31, 2014 and 2013, cash and cash equivalents include $- and $86,249, respectively, of overnight sweep transaction agreements.

Allowance for Doubtful Accounts and Contractual Adjustments
The Network's accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments. In evaluating the collectability of accounts receivable, the Network analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for contractual adjustments and provision for bad debts. For receivables associated with services provided to patients who have third party coverage, the Network analyzes contractually due amounts and provides an allowance for contractual adjustments. For receivables associated with self-pay patients, including patient deductibles and

co-insurance, the Network records a provision for bad debts in the period of service on the basis of its past experience, which indicates many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is adjusted through the allowance for doubtful accounts. Certain accounts that are sent to collection companies remain as accounts receivable on the balance sheet. These accounts are not written off unless returned from the collection company, however are fully reserved within the allowance for doubtful accounts.

Estimated Third-party Payor Settlements Receivable and Payable
The Network's hospitals are required to submit cost reports at least annually to various state and federal agencies administering the respective reimbursement programs. In many instances, interim cash payments to the Network are only an estimate of the amount due for services provided. Any overpayment or underpayment to the Network arising from the completion of a cost report is recorded as a liability or asset, respectively.

As a result of the Network's participation in the Medicare and Medicaid programs, the Network faces and is currently subject to various governmental and internal reviews, audits and investigations to verify the Network's compliance with these programs and applicable laws and regulations. The Network is routinely subject to audits under various government programs, such as the CMS Recovery Audit Contractor program, in which third party firms engaged by CMS conduct extensive reviews of claims data and medical and other records to identify potential improper payments to healthcare providers under the Medicare program. In addition, the Network, like other healthcare providers, is subject to ongoing investigations by the U.S. Department of Health and Human Services Office of Inspector General, the DOJ and state attorneys general into the billing of services provided to Medicare and Medicaid patients. Private pay sources such as third party insurance and managed care entities also often reserve the right to conduct audits. The Network's costs to respond to and defend any such reviews, audits and investigations are significant and are likely to increase in the current enforcement environment. These audits and investigations may require the Network to refund or retroactively adjust amounts that have been paid under the relevant government program or by other payors. Further, an adverse review, audit or investigation also could result in other adverse consequences, particularly if the underlying conduct is found to be pervasive or systemic. These consequences include (1) state or federal agencies imposing fines, penalties and other sanctions on the Network; (2) loss of the Network's right to participate in the Medicare or Medicaid programs or one or more third party payor networks; (3) indemnity claims asserted by customers and others for which the Network provides services; and (4) damage to the Network's reputation, which could adversely affect the Network's ability to attract patients, residents and employees. Any accurals for such matters are recorded to estimated third-party payor settlements payable or as a reduction to estimated third-party payor settlements receivable when a loss is probable and the amount is reasonably determinable.

The State of Indiana's Hospital Assessment Fee and Medicaid Disproportionate Share payments, further described in Note 3, are recorded to estimated third-party payor settlements receivable and payable.

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

Assets Limited as to Use
Assets limited as to use consist of cash and cash equivalents, commercial paper, U.S. Government obligations, corporate bonds, mutual funds, marketable equity securities and hedge

fund of funds and are stated at fair value. The investments are classified as trading securities and marked to market each month. The trading securities classification is based on the Network's investment strategy and investment philosophies which permit investment managers to execute purchases and sales of investments without prior approval of Network management. All unrestricted unrealized gains and losses are included in excess of revenues over expenses.

Reinsurance trust assets are maintained by the Captive. All realized and unrealized gains or losses are recorded in income. Realized gains and losses on sales of investments are determined using the specific identification cost method and are included in excess of revenues over expenses in the period in which the sale occurs.

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

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

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

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

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

Deferred Financing Costs
Costs associated with the issuance of long-term debt are capitalized and amortized to interest expense using the effective interest method over the life of the related debt.

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

Capitalized Software
The costs of obtaining or developing internal-use software, including external direct costs for materials and services and directly related payroll costs are capitalized. Amortization begins when the internal-use software is ready for its intended use. The software costs are amortized over the estimated useful lives of the software. The estimated useful lives range from 5-10 years. Costs incurred during the preliminary project stage and post-implementation stage as well as maintenance and training costs are expensed as incurred. Amortization expense related to capitalized software was approximately $7,660 and $5,838 for the years ended 2014 and 2013, respectively.

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

Reserves for professional and general liability risks, including self-insured liabilities, were $13,774 and $12,337 at December 31, 2014 and 2013, respectively. These amounts are recorded and included in the self-insured liabilities on the consolidated balance sheets.

Provisions for the self-insured risks are based upon actuarially-determined estimates. Loss and loss expense reserves represent the estimated ultimate net cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserves for unpaid losses and loss expenses are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency.

The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The changes to the estimated reserve amounts are included in current operating results for the years ended December 31, 2014 and 2013.

Westview's professional and general liability risks are insured through a self-insurance retention program written by Suburban Health Organization Segregated Portfolio Company, LLC ("SHO Captive"), a captive insurance company. Westview is a member of the SHO Captive through a 20% ownership interest. Westview accounts for its interest in the SHO Captive through the equity method of accounting. The premiums paid to the SHO Captive are reflected in operating expenses on the consolidated statements of operations and changes in net assets. Effective January 1, 2015, Westview transferred its professional and general liability risks from the SHO Captive to the Network's Captive.

Notes to Consolidated Financial Statements (in 000's)

The Network is self-insured for employee medical benefit risks through ProHealth. Reserves for medical claims liabilities and estimated self-insured claims were $9,045 and $16,093, net of claims liabilities payable to the Network providers, at December 31, 2014 and 2013, respectively. These amounts are recorded and included in self-insured liabilities on the consolidated balance sheets for the Network. Self-insured claims reserves are determined using individual case-basis data and are continually reviewed and adjusted as new experienced information becomes known. The changes in estimated reserve amounts are included in current operating results.

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

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

The Network had two interest rate swaps outstanding at December 31, 2014 and 2013. See Note 8 for further discussion of the two swap transactions.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those whose use by the Network has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Network in perpetuity.

Net Patient Service Revenue
The Network recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Network recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates if in accordance with policy. On the basis of historical experience, a portion of the Network's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Network records a provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts recognized in the period from these major payor sources, is as follows for the years ended December 31, 2014 and 2013, respectively:

2014	Third Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 1,846,217	$ 142,537	$ 1,988,754

2013	Third Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 1,666,086	$ 94,024	$ 1,760,110

Charity Care

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

Charity care at cost was $15,657 and $83,731 for the years ended December 31, 2014 and 2013, respectively. Charity care cost was estimated on the application of the associated cost-to-charge ratios. The reduction in charity care and offsetting increase in the allowance for doubtful accounts are reflections of changes the Network made to its charity care policy effective January 1, 2014, which primarily included being more restrictive to provide care to individuals who reside in the Network's service area. Further, beginning in January 2014, more patients were covered under health exchange programs mandated by the Affordable Health Care Act.

Donor-restricted Gifts

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

Pledge receivables as of December 31, 2014 and 2013 are not material.

Electronic Health Record Incentive Payments

The America Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. Under the programs incentive payments will be paid out over a four year period to hospitals and physicians meeting designated EHR meaningful use criteria.

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

The recognition of the income related to the EHR incentive payments is based on Network management's best estimates and the amounts are subject to change, with such changes impacting the operations in the period in which they occur. The Network recognized $7,800 and $13,321 for the years ended December 31, 2014 and 2013, respectively.

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

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

The Network measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Network uses also a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Network uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

Subsequent Events
The Network evaluated subsequent events through April 15, 2015, the date the Network consolidated financial statements were issued. All material matters are disclosed in the footnotes to the consolidated financial statements.

2. Discontinued Operations

On September 18, 2014 the Network acquired a hotel business and related assets that reside on land owned by the Network Foundation for total consideration of $11,000. Prior to the acquisition, the land was leased by the Network Foundation to a third party. The Network ceased operating the hotel on December 23, 2014 and intends to raze the building and sell the remaining furniture, fixtures, and equipment in 2015 to utilize the land for its core healthcare-related operations. For accounting purposes, the furniture, fixtures, and equipment qualified as assets held for sale at December 31, 2014 and the hotel's operating results are reported as discontinued operations in the accompanying consolidated statement of operations and changes in net assets for the year ended December 31, 2014.

Notes to Consolidated Financial Statements (in 000's)

On December 19, 2014, the Network ceased operating Midwest Racquetball, Inc. The Midwest Racquetball, Inc. operating results are reported as discontinued operations in the accompanying consolidated statement of operations and changes in the net assets for the year ended December 31, 2014. The operating results for the year ended December 31, 2013 are not material.

A summary of discontinued operations follows:

	2014
Total operating revenues	$ 2,370
Total operating expenses	2,782
Excess of expenses over revenues for discontinued operations	(412)
Loss on divestiture of discontinued operations	(11,256)
Total loss from discontinued operations	$ (11,668)

3. Net Patient Service Revenue and Concentrations of Credit Risk

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

- Medicare—Inpatient acute care services, outpatient services and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Network is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Network and audits thereof by the Medicare fiscal intermediary. The Network's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Network. The Network's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2011 except for Westview's cost report which has been audited through August 31, 2012 (Westview's prior fiscal year-end) and Howard's stub cost report which has been audited through December 31, 2012 (Howard's stub period-end after the affiliation with the Network). Laws and regulations governing the Medicare program are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates could change by a material amount in the near term. Adjustments to revenue related to prior period cost reports (decreased) increased net patient service revenue by approximately $(7,504) and $886 for the years ended December 31, 2014 and 2013, respectively. Medicare patients account for approximately 41.0% and 41.6% of gross patient charges for years ended December 31, 2014 and 2013, respectively.

- Medicaid—Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge and outpatient services are reimbursed based on a fee for service basis, based on predetermined fee schedules. Medicaid patients account for approximately 13.9% and 13.5% of gross patient charges for years ended December 31, 2014 and 2013, respectively.

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

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

The Network has qualified as a Medicaid Disproportionate Share ("DSH") provider under Indiana Law (IC 12-15-16(1-3)) and, as such, is eligible to receive DSH payments for the most recently determined state fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent and cost of uncompensated care as well as other factors. For the years ended December 31, 2014 and 2013, DSH payments have been made by the State of Indiana and amounts received were recorded as revenue based on data acceptable to the State of Indiana less any amounts management believes may be subject to adjustment. DSH payments are recorded by the Network after eligibility is determined by the State of Indiana and the payments are determined to be earned. If payments are received prior to eligibility being determined, the payments are recorded as current deferred revenue and recorded in current other liabilities until eligibility is determined. There is no deferred revenue related to DSH at December 31, 2014 or 2013. DSH payments received and recorded as revenue were $29,463 and $34,539 for the years ended December 31, 2014 and 2013, respectively.

Beginning June 2012, the State of Indiana offered voluntary participation in the State of Indiana's Hospital Assessment Fee ("HAF") program. The State of Indiana implemented this program to utilize supplemental reimbursement programs for the purpose of providing reimbursement to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. This program is designed with input from Centers for Medicare and Medicaid Services and is funded with a combination of state and federal resources, including fees or taxes levied on the providers.

The Network recognizes revenues and related fees associated with the HAF program in the period in which amounts are estimable and collection of payment is reasonably assured. Reimbursement under the program is reflected within net patient service revenue and the fees paid for participation in the HAF program are recorded in supplies and other expenses within the consolidated statements of operations and changes in net assets. The fees and reimbursements are settled monthly. Revenue recognized related to the HAF program was $85,581 and $91,705 for the years ended December 31, 2014 and 2013, respectively. Expense for fees related to the HAF program was $48,683 and $59,757 for the years ended December 31, 2014 and 2013, respectively.

The HAF program runs on an annual cycle from July 1 to June 30 and was originally effective until June 30, 2013. The program was renewed on March 21, 2014, with a retroactive effective date of July 1, 2013, and is effective until June 30, 2017. As a result of the retroactive application, the Network accrued both the estimated reimbursement and expense for the period July 1, 2013 through December 31, 2013 in estimated third-party payor settlements on the December 31, 2013 balance sheet. The consolidated balance sheet at December 31, 2013 includes $46,036 and $35,240 in estimated third-party payor settlements receivable and payable, respectively, related to the HAF program. The consolidated balance sheet at December 31, 2014 includes less than one month of HAF activity, or $700 and $1,600 in estimated third-party payor settlements receivable and payable, respectively, related to the HAF program.

Notes to Consolidated Financial Statements (in 000's)

As discussed in Note 1, as a result of our participation in the Medicare and Medicaid programs, the Network is subject to various reviews, audits and investigations. The charges recorded in connection with such matters during the year ended December 31, 2014 increased by $12,100 compared to the same period in 2013. No estimate of the possible loss or range of loss in excess of amounts recorded, if any, can be made at this time.

Net patient service revenue, as reflected in the accompanying consolidated statements of operations and changes in net assets, consist of the following for the years ended December 31, 2014 and 2013:

	2014	2013
Gross patient service revenue	$ 5,133,738	$ 4,633,501
Deductions from gross patient service revenue		
Medicare/Medicaid contractual adjustments	2,215,657	1,889,198
Other contractual adjustments	878,096	802,166
Charity discounts for patient care	51,231	182,027
Net patient service revenue	1,988,754	1,760,110
Provision for bad debts	172,862	86,538
Net patient service revenue less provision for bad debts	$ 1,815,892	$ 1,673,572

The Network grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. A significant portion of the Network's revenue is concentrated by payor mix. The concentration of gross receivables by payor class for both patients and third-party payors at December 31, 2014 and 2013 is as follows:

	2014	2013
Medicare	25%	26%
Medicaid	9%	9%
Managed care and commercial insurance	44%	45%
Patients	22%	20%
	100%	100%

Notes to Consolidated Financial Statements (in 000's)

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

4. Assets Limited as to Use

The fair values of the assets limited as to use are provided to the Network's investment manager and are determined as follows:

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

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

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

Funds Held by Trustee

The following is a summary of assets limited as to use, which are held by trustees, at December 31, 2014 and 2013:

	2014	2013
Cash and cash equivalents	$ 38,904	$ 4,621
Commercial Paper	50,052	-
Fixed Income and U.S. Treasury obligations	-	89,193
Mutual Funds	-	9,858
	88,956	103,672
Less amount classified as current assets to meet current obligations	23,456	38,172
Noncurrent asset	$ 65,500	$ 65,500

Notes to Consolidated Financial Statements (in 000's)

2014	Fair Value Measurements at Reporting Date			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 38,904	$ 38,904	$ -	$ -
Commercial Paper	50,052	50,052	-	-
Total	$ 88,956	$ 88,956	$ -	$ -

2013	Fair Value Measurements at Reporting Date			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 4,621	$ 4,621	$ -	$ -
Fixed Income and U.S. Treasury obligations	89,193	-	89,193	-
Mutual Funds	9,858	9,858	-	-
Total	$ 103,672	$ 14,479	$ 89,193	$ -

The Hospital Revenue Bond Agreements (see Note 7) require that the initial bond proceeds be held by a bank trustee until such funds are expended for eligible assets. Certain other funds are also held by the bank trustee as additional security for the bondholders and the periodic deposits of principal and interest requirements. These amounts, including interest earned from temporary investments, are segregated in accounts maintained by a bank trustee. Use of the funds is restricted to debt service requirements. The funds reflected in current assets relate to construction costs anticipated to be incurred during 2015.

Investment income for 2014 and 2013 related to funds held by trustee consists of the following:

	2014	**2013**
Interest and dividend income	$ 276	$ 902
Net realized loss on sales of investment securities	(180)	(836)
Total investment income	$ 96	$ 66

Board-designated Funds
The following is a summary of assets limited as to use, which are board-designated funds at December 31, 2014 and 2013:

Notes to Consolidated Financial Statements (in 000's)

	2014 Cost	2014 Market
Cash and cash equivalents	$ 1,210	$ 1,210
Equity securities	516	707
Corporate bonds	68	60
Mutual funds	500,004	539,105
Hedge fund of funds/REITS/Other	49,485	58,097
	$ 551,283	$ 599,179

	2013 Cost	2013 Market
Cash and cash equivalents	$ 118	$ 118
Equity securities	488	648
Corporate bonds	206	199
Mutual funds	449,452	484,386
Hedge fund of funds/REITS/Other	48,073	54,833
	$ 498,337	$ 540,184

2014	Fair Value Measurement at Reporting Date			
Description	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 1,210	$ 1,210	$ -	$ -
Equity securities	707	651	56	-
Corporate bonds	60	-	60	-
Mutual funds	539,105	539,105	-	-
Hedge fund of funds/REITS/Other	58,097	-	-	58,097
Total	$ 599,179	$ 540,966	$ 116	$ 58,097

2013	Fair Value Measurement at Reporting Date			
Description	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 118	$ 118	$ -	$ -
Equity securities	648	648	-	-
Corporate bonds	199	-	199	-
Mutual funds	484,386	484,386	-	-
Hedge fund of funds/REITS/Other	54,833	-	327	54,506
Total	$ 540,184	$ 485,152	$ 526	$ 54,506

Notes to Consolidated Financial Statements (in 000's)

	Rollfoward of Level 3 Investments
Balance as of January 1, 2013	$ 20,394
Purchases	28,850
Investment gain-realized/unrealized	5,262
Balance as of December 31, 2013	$ 54,506
Balance as of January 1, 2014	$ 54,506
Purchases	1,740
Investment gain-realized/unrealized	1,851
Balance as of December 31, 2014	$ 58,097

As a practical expedient, the Network is permitted under US GAAP to estimate the fair value of investments in investment companies that have a calculated value of their capital account or net asset value ("NAV") at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The Network's investments in mutual funds and hedge fund of funds are fair valued based on the most current NAV.

The following table presents liquidity information for the financial instruments carrried at net asset value at December 31, 2014 and 2013:

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

Investment income for 2014 and 2013 related to Board-designated funds consists of the following:

	2014	**2013**
Interest and dividend income	$ 17,982	$ 14,476
Unrealized gain	2,172	19,819
Net realized gain on sales of investment securities	187	19,842
Total investment income	$ 20,341	$ 54,137

The Network's investment expenses for the years ended December 31, 2014 and 2013 were $343 and $394, respectively.

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

Notes to Consolidated Financial Statements (in 000's)

The following is a summary of the assets limited as to use, which are reinsurance trust assets, at December 31, 2014 and 2013:

	2014 Cost	2014 Market	2013 Cost	2013 Market
Corporate bonds	$ 13,513	$ 13,289	$ 11,819	$ 11,592
Federal Government Agency mortgage backed securities	152	152	157	156
Cash and cash equivalents held in trust	114	114	203	203
	$ 13,779	$ 13,555	$ 12,179	$ 11,951

2014 Description	Fair Value Measurements at Reporting Date 2014	Level 1	Level 2	Level 3
Federal Government Agency and mortgage backed securities	$ 152	$ -	$ 152	$ -
Corporate bonds	13,289	-	13,289	-
Cash and cash equivalents held in trust	114	114	-	-
Total	$ 13,555	$ 114	$ 13,441	$ -

2013 Description	Fair Value Measurements at Reporting Date 2013	Level 1	Level 2	Level 3
Federal Government Agency and mortgage backed securities	$ 156	$ -	$ 156	$ -
Corporate bonds	11,592	-	11,592	-
Cash and cash equivalents held in trust	203	203	-	-
Total	$ 11,951	$ 203	$ 11,748	$ -

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

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

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

Notes to Consolidated Financial Statements (in 000's)

Investment income for 2014 and 2013 related to reinsurance trust assets consists of the following:

	2014	2013
Interest income	$ 331	$ 409
Net realized/unrealized gains on investment securities	(297)	(974)
Total investment income	$ 34	$ (565)

5. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation consist of the following at December 31, 2014 and 2013:

	Estimated Useful Lives	2014	2013
Land and land improvements	0-20 years	$ 38,509	$ 38,700
Buildings and improvements	2-90 years	995,595	937,198
Equipment and other	3-20 years	643,629	615,995
Construction in progress		24,022	29,744
		1,701,755	1,621,637
Less: Accumulated depreciation		892,722	829,582
		$ 809,033	$ 792,055

Depreciation expense was $74,495 and $75,207 for the years ended 2014 and 2013, respectively.

Property, plant and equipment include $1,489 and $1,338 of capitalized interest at December 31, 2014 and 2013, respectively.

6. Investments in Unconsolidated Affiliates

The Network has equity investments in various surgery centers, Mid America Clinical Laboratory ("MACL") and other entities. The following is a summary of the Network's investments in unconsolidated affiliates for the years ended December 31, 2014 and 2013:

Notes to Consolidated Financial Statements (in 000's)

	Surgery Centers	MACL	Other	Total
Balance, December 31, 2012	$ 10,241	$ 5,788	$ 4,441	$ 20,470
Capital contributions	490	-	3,993	4,483
Distributions	(6,683)	(1,725)	(2,568)	(10,976)
Equity in net income	6,850	2,749	333	9,932
Gain on contribution to JV	-	-	8,118	8,118
Balance, December 31, 2013	$ 10,898	$ 6,812	$ 14,317	$ 32,027
Capital contributions	250	-	-	250
Distributions	(8,033)	(1,680)	(6,744)	(16,457)
Equity in net income	7,403	2,753	4,558	14,714
Other	-	-	(915)	(915)
Balance, December 31, 2014	$ 10,518	$ 7,885	$ 11,216	$ 29,619

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

	Surgery Centers	MACL	Other	Total
Total assets	$ 17,064	$ 48,642	$ 58,353	$ 124,059
Total liabilities	5,174	12,782	25,016	42,972
Net assets	11,890	35,860	33,337	81,087
Revenues	54,957	111,830	80,624	247,411
Operating income	16,605	12,528	15,594	44,727
Net income	16,408	12,513	13,608	42,529
Network's equity in net income of unconsolidated affiliates	7,403	2,753	4,558	14,714

7. Debt

Short-term Borrowings

Short-term borrowings represent outstanding borrowings under bank lines of credit. At December 31, 2014 and 2013 the following amounts were outstanding:

	Maximum Borrowings	Outstanding Balance 2014	Outstanding Balance 2013
CHI	$ 50,000	$ -	$ 50,000
CHA	2,000	-	-
		$ -	$ 50,000

The bank lines of credit are due on demand. CHI's short-term debt is collaterized under the same terms as the Master Indentures described below. Interest is at a floating rate.

Notes to Consolidated Financial Statements (in 000's)

Long–term debt

Long–term debt at December 31, 2014 and 2013 is summarized as follows:

	Obligated Entity	2014	2013
Indiana Finance Authority, Adjustable Rate			
Hospital Revenue Bonds, Series 2012A	CHNw		
Due May 1, 2013 to May 1, 2028		$ 101,780	$ 106,700
4.00% term bonds due May 1, 2025		88,930	88,930
5.00% term bonds due May 1, 2042		174,455	174,455
Unamortized premium		26,197	27,135
		$ 391,362	$ 397,220
Indiana Finance Authority, Adjustable Rate			
Hospital Revenue Bonds Series 2012B,	CHNw		
Due November 27, 2012 to November 27, 2039		$ 71,015	$ 72,665
		$ 71,015	$ 72,665
Indiana Finance Authority, Adjustable Rate			
Hospital Revenue Bonds, Series 2009A	CHNw		
Due July 1, 2009 to July 1, 2039		$ 36,545	$ 37,455
Unamortized discount		(121)	(126)
		$ 36,424	$ 37,329

Notes to Consolidated Financial Statements (in 000's)

	Obligated Entity	2014	2013
Indiana Finance Authority, Adjustable Rate Hospital Revenue Bonds, Series 2005A and 2005B; due January 1, 2007 to January 2, 2035	Howard	$ 43,480	$ 44,470
Indiana Health Facility Financing Authority, Adjustable Rate Hospital Revenue Bonds, Series 2000A and 2000B due July 1, 2002 to July 1, 2028	CHNw	$ 32,100	$ 35,000
Fifth Third Bank, Term Loan; interest payable quarterly Paid off June 24, 2014	WV	$ -	$ 5,680
Salin Bank Notes, interest payable monthly Paid off December 19, 2014	Howard	$ -	$ 8,799
PNC Bank; Term Loan interest payable monthly Due January 1, 2022	CHNw	$ 8,000	$ -
BMO Harris Bank; Term Loan; Due November 18, 2020	CHNw	$ 42,990	$ 49,470
Other long-term debt		$ 9,333	$ 9,371
		$ 634,704	$ 660,004
Less: Current portion of long-term debt		22,394	27,248
Long-term debt, net of current portion		$ 612,310	$ 632,756

Series 2012A and 2012B

On November 27, 2012, the Indiana Finance Authority ("IFA") issued Hospital Revenue Bonds, Series 2012A and Adjustable Rate Hospital Revenue Bonds, Series 2012B, in the aggregate amount of $450,445 for the purpose of making a loan to CHNw. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHNw. The Series 2012 A and Series 2012 B bonds are subject to redemption prior to their stated maturity at the option of CHNw on a thirty day notice in whole or in part, at a redemption price equal to 100% of the principal amount plus interest at the date of redemption. Interest rates are fixed for the Series 2012A bonds, with stated rates of 4% and 5%. The Series 2012B bond has a variable rate set at 70% of the 30 day LIBOR, subject to change daily and payable monthly.

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

Series 2009A and 2009B

On June 30, 2009, the Indiana Finance Authority ("IFA") issued Adjustable Rate Hospital Revenue Bonds, Series 2009A and 2009B, in the aggregate amount of $100,000 for the purpose of making a loan to CHI. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHI. As mentioned above, the Series 2009B was refunded with proceeds of Series 2012B. As a result, the letter of credit is no longer outstanding. As credit support for the 2009A bonds, the Network has an outstanding letter of credit with a bank for a maximum aggregate principal draw amount of $36,545 plus accrued interest as of December 31, 2014. The letter of credit expires for the Series 2009A on October 1, 2017. The Series 2009A bonds are subject to redemption prior to their stated maturity at the option of CHNw on a thirty day notice in whole or in part, at redemption price equal to 100% of the principal amount plus interest at the date of redemption. The bonds bear interest at rates determined weekly and payable on the first business day of each calendar month.

Series 2005A and 2005B - Howard
On January 1, 2005, the Indiana Finance Authority ("IFA") issued Adjustable Rate Hospital Revenue Bonds, Series 2005A and Series 2005B, in the aggregate amount of $50,000 for the purpose of making a loan to Howard. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by Howard. As of December 31, 2014, the outstanding letters of credit with the bank associated with this debt is the principal amount of $43,480 plus accrued interest. The letters of credit expires October 1, 2018. The Series 2005A and Series 2005B bonds are subject to redemption prior to their stated maturity at the option of CHNw on a thirty day notice in whole or in part, at redemption price equal to 100% of the principal amount plus interest at the date of redemption. The Series 2005A bond bears interest at rates determined weekly and the Series 2005 bond bears interest at rates determined daily. Interest is payable on the first business day of each calendar month under both series.

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

Series 2000A and 2000B
On November 1, 2000, the Authority issued Adjustable Rate Hospital Revenue Bonds, Series 2000A and 2000B, in the aggregate amount of $40,000 for the purpose of making a loan to the Network. The proceeds of this loan from the Authority were available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHNw. As of December 31, 2014, the outstanding letter of credit with the bank associated with this debt is the principal amount of $ 32,100 plus accrued interest. The letter of credit expires October 1, 2017. The Series 2000A and 2000B bonds are subject to redemption at the option of CHNw on a thirty day notice at a redemption price equal to 100% of the principal amount plus interest at the date of redemption. The bonds bear interest at rates determined weekly and payable on the first business day of each calendar month.

Term Loan - Westview
On December 29, 2011, Westview refunded its Hospital Authority of Marion County Adjustable Rate Demand Hospital Revenue Bonds, Series 2004 with a term loan financed through Fifth Third Bank ("Term Loan".) The Term Loan bears interest at the 30 day LIBOR rate plus 125 basis points adjusted monthly. Principal and interest payments are due quarterly with a final balloon payment of approximately $5,250 due December 30, 2014. The Term Loan is secured by a general security agreement pledging Westview's assets and the unconditional guarantee by CHNw. Westview paid off the Term Loan effective June 24, 2014.

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

Notes to Consolidated Financial Statements (in 000's)

loans mature September 8, 2025. The notes are secured by a pledge of unrestricted receivables. Howard paid off the promissory notes effective December 19, 2014.

Term Loan – CHNw
On November 18, 2013, CHNw entered into a Master Note Obligation, Series 2013-TL to evidence and secure payments between CHNw and BMO Harris Bank. The loan was made to secure costs associated with the Network's electronic medical record information system. Principal and interest payments are due monthly. The loan matures November 18, 2020. The interest is fixed at 1.33%, with principal and interest payments due monthly.

Term Loan – CHNw
On December 22, 2014, CHNw entered into a Master Note Obligation, Series 2014-TL to evidence and secure payments between CHNw and PNC Bank. The loan was made to refinance Howard's promissory notes. Principal is due quarterly and interest payments are due monthly. The loan matures January 1, 2022. The loan bears interest at rates determined monthly and payable on the first business day of each calendar month. Interest is computed based on LIBOR plus 85 basis points. Principal payments are due quarterly.

In general, the various Network debt agreements restrict the amount of indebtedness that the Network may incur, the sale, lease or other disposition of operating assets, and the acceptable investments of the trust funds. In addition, these agreements require a debt service ratio at the end of any fiscal year of at least 1.10. The Network was in compliance with all debt covenants at December 31, 2014.

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

2015	$ 22,394
2016	22,436
2017	22,666
2018	22,620
2019	22,544
Thereafter	495,968
	608,628
Plus: Unamortized premium, net	26,076
	$ 634,704

The fair value of the Network's long-term debt instruments (level 2) and related interest approximates $638,963 and $620,755 as compared to carrying values of $634,704 and $660,004 as of December 31, 2014 and 2013, respectively.
For 2014 and 2013, interest cost incurred and capitalized in connection with the construction of capital assets aggregated $279 and $520, respectively.

8. Derivative Instruments

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

Notes to Consolidated Financial Statements (in 000's)

As of December 31, 2014

Original Notional	Current Notional	Effective Date	Fixed Rate	Rate	Fair Value	Termination Date
$ 30,000	$ 26,085	October 3, 2005	3.550%	0.11%	$ (5,494)	January 1, 2035
10,000	8,698	October 3, 2005	3.550%	0.11%	(1,833)	January 1, 2035
					$ (7,327)	

As of December 31, 2013

Original Notional	Current Notional	Effective Date	Fixed Rate	Rate	Fair Value	Termination Date
$ 30,000	$ 26,680	October 3, 2005	3.550%	0.12%	$ (3,500)	January 1, 2035
10,000	8,895	October 3, 2005	3.550%	0.12%	(1,167)	January 1, 2035
					$ (4,667)	

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

The following amounts have been recorded in the Network's consolidated statements of operations and changes in net assets as of December 31, 2014 and 2013:

	2014	2013
Non Operating Income (Expenses)		
Net unrealized gains (losses) on changes in fair value of interest rate swaps	$ (2,660)	$ 4,090
Income from Operations		
Interest expense, net	$ 1,197	$ 1,216

9. Employee Benefit Plans

Defined Benefit and Other Postretirement Benefit Plans
The Network has defined benefit retirement plans covering substantially all employees of CHNw, CHA and CHHS. Effective December 27, 2010, all Network employees, excluding CHA employees, are employed by CHNw and leased to the Network's respective subsidiaries and/or affiliates rather than being employed by individual employers. Effective with the adoption of the

single Network employer on December 27, 2010, CHNw also became the sponsor for all of the Network's defined benefit and defined contributions plans, excluding the CHA and Westview plans.

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

The CHNw Retirement Plan is a defined benefit plan. The provisions of this plan relate to all employees of CHNw, CHA, CHHS and CPI. These employees are eligible to participate in the plan after one year of eligible service as defined by the plan document. Participants are 100% vested after five years of service. Effective May 27, 2006, CHA froze the accrual of benefits and participation in the CHNw Retirement Plan and established its own 403(b) plan. Effective March 8, 2010, the CHNw Retirement Plan was amended to limit the maximum benefit that may be accrued by individuals who choose to remain participants in the CHNw Retirement Plan after March 7, 2010. Additionally, participants in the CHNw Retirement Plan were offered a onetime choice between continued participation in the CHNw Retirement Plan, and, if applicable, CHNw's 403(b) plan, or participation in the Network's 401(k) plan as of March 8, 2010. All participants who remained in the CHNw Retirement Plan and CHNw 403(b) plan as of March 8, 2010 ceased participation in those plans effective as of December 25, 2011 and began participation in the Network's 401(k) plan effective as of December 26, 2011. CHNw made contributions to the plan of $32,491 and $12,830 during 2014 and 2013, respectively.

The Replacement Plan is a defined benefit plan. The fair value of the plan assets was $13,632 and $13,072 at January 1, 2014 and January 1, 2013, respectively. The defined benefit provisions of the plan apply to all employees of the Network hired prior to January 1, 1984. The plan was originally established on that date to provide such employees those benefits otherwise available under the Federal Insurance Contributions Act during the period January 1, 1981 to December 31, 1983 when the Network withdrew coverage of its employees under the Act. Pursuant to the Social Security Amendment Act of 1983, the Network reentered the Social Security system on January 1, 1984. As a result funding of the plan was terminated during 1985. If authorized by the Network's Board of Directors, each Replacement Plan participant may elect to contribute to the plan an amount each pay period, subject to the maximum established by the Board of Directors. Such authorization was not granted during 2014 and 2013. During 2014, CHNw made contributions to the plan of $459. No contributions were made during 2013.

In August 2013, the Network terminated its postretirement benefit plan which offered retiree health insurance benefits. As a result of terminating the plan, the Network recognized a one time gain of $5,700 in its consolidated statements of operations and changes in net assets for the year ended December 31, 2013.

Effect on Operations

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

Notes to Consolidated Financial Statements (in 000's)

	Pension Benefits	
	2014	**2013**
Service cost	$ 3,606	$ 3,635
Interest cost	30,125	25,365
Expected return on plan assets	(28,918)	(34,360)
Amortization of net (gain) loss	2,866	4,481
Net pension (income) expense	$ 7,679	$ (879)

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

	Pension Benefits	
	2014	**2013**
Change in benefit obligation		
Benefit obligation, beginning of period	$ 571,826	$ 659,806
Service cost	3,606	3,635
Interest cost	30,125	25,365
Amendments	-	-
Actuarial (gain) loss	164,999	(93,942)
Participant contributions	-	-
Expenses paid - actual	(4,908)	(3,569)
Benefits paid - actual	(46,594)	(19,469)
Benefit obligation, end of period	$ 719,054	$ 571,826

Effective December 31, 2014, the Network changed its mortality table to the SOA RP – 2014 table which increased its benefit obligation by $36,813. Additionally, the Network's actuary performed calculations of accrued benefits for participants as the data was migrated into a single electronic database. As a result of performing the calculations, the benefit obligation increased $39,641. Traditionally, the changes in estimates would have been recognized as participants retired. The Network, as plan sponsor, elected to recognize the changes all in one year. During the fourth quarter of 2014, the Network offered terminated vested participants with balances of $50 or less to elect a lump sum payout of their balances. As of December 31, 2014, the retirement plan paid out $25,387 to the participants who elected the payout.

Notes to Consolidated Financial Statements (in 000's)

	Pension Benefits	
	2014	**2013**
Change in plan assets		
Fair value of plan assets, beginning of year	$ 459,117	$ 448,955
Actual return on plan assets	46,550	20,370
Contributions	32,950	12,830
Expenses paid - actual	(4,908)	(3,569)
Benefit paid – actual	(46,594)	(19,469)
Fair value of plan assets, end of year	$ 487,115	$ 459,117

	Pension Benefits	
	2014	**2013**
Reconciliation of Funded status		
Accrued pension income (cost), net	$ 17,359	$ (7,913)
Prepaid pension liability	(249,297)	(104,796)
(Under) funded status	(231,938)	(112,709)
Unrecognized net actuarial (gain) loss	249,463	105,048
Unrecognized prior service cost	(166)	(252)
Accrued pension income (cost), net	$ 17,359	$ (7,913)

Accumulated Benefit Obligation

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

	Pension Benefits	
	2014	**2013**
Projected benefit obligation	$ 719,054	$ 571,826
Accumulated benefit obligation	$ 719,054	$ 571,826
Fair value of plan assets	$ 487,115	$ 459,117

Actuarial Assumptions

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

	Pension Benefits	
	2014	**2013**
Discount rate	4.21%	5.03%

Notes to Consolidated Financial Statements (in 000's)

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

	Pension Benefits	
	2014	**2013**
Discount rate	5.03%	3.91%
Expected long-term rate of return on plan assets	6.40%	7.8-8.0%

The expected long term rate of return assumes targeted allocations are maintained and returns fall within standard deviation derived from simulation of ten year range of returns on each plan's assets. The rate is reevaluated based on actual returns in the current period.

Plan Assets

The weighted-average allocation of the defined benefit plans at December 31, 2014 and 2013, by asset category are as follows:

	Retirement Plan			Replacement Plan		
	2014		**2013**	**2014**		**2013**
	Target Allocation	**Actual Allocation**	**Actual Allocation**	**Target Allocation**	**Actual Allocation**	**Actual Allocation**
Equity securities[(a)]	19%	17%	14%	44%	45%	49%
Fixed income securities[(a)]	55%	60%	54%	20%	21%	18%
Real estate[(a)]	6%	5%	6%	9%	10%	8%
Other	20%	18%	26%	27%	24%	25%
Total	100%	100%	100%	100%	100%	100%

(a) Includes mutual funds

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

The following tables present the fair values of the plan assets at December 31, 2014 and 2013. Refer to Note 4 for explanations of fair value designation.

Notes to Consolidated Financial Statements (in 000's)

2014 Description	Fair Value Measurements at Reporting Date 2014	Level 1	Level 2	Level 3
Cash and Cash Equivalents	$ 1,676	$ 1,676	$ -	$ -
Corporate bonds	150,298	-	150,298	-
Mutual Funds	163,507	163,507	-	-
U.S. Treasury Obligations	131,977	-	131,977	-
Hedge Fund of Funds	39,657	-	-	39,657
Total	$ 487,115	$ 165,183	$ 282,275	$ 39,657

2013 Description	Fair Value Measurements at Reporting Date 2013	Level 1	Level 2	Level 3
Cash and Cash Equivalents	$ 38,383	$ 38,383	$ -	$ -
Corporate bonds	100,846	-	100,846	-
Mutual Funds	166,347	166,347	-	-
U.S. Treasury Obligations	102,334	-	102,334	-
Hedge Fund of Funds	51,207	-	-	51,207
Total	$ 459,117	$ 204,730	$ 203,180	$ 51,207

	Rollforward of Level 3 Investments
Balance as of January 1, 2013	$ 19,533
Purchases	26,320
Investment gain-realized/unrealized	5,354
Balance as of December 31, 2013	$ 51,207
Balance as of January 1, 2014	$ 51,207
Purchases	135
Sales	(13,350)
Investment gain-realized/unrealized	1,665
Balance as of December 31, 2014	$ 39,657

Cash Flows

The Network made contributions of $2,287 to the CHNw Retirement Plan in the first quarter of fiscal 2015. Additionally, effective April 15, 2015, the Network funded $150,000 to satisfy obligations of the Retirement Plan. No additional contributions are expected during 2015.

Notes to Consolidated Financial Statements (in 000's)

Estimated Future Benefit Payments

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

	Pension Benefits
2015	$ 25,574
2016	27,700
2017	29,617
2018	31,693
2019	33,754
2020-2024	190,652

Other

The Network sponsors defined contribution plans covering certain employees. As mentioned above, CHNw became the employer of all employees throughout the Network except for CHA and Westview. Effective with the adoption of the single employer on December 27, 2010, CHNw became the sponsor of the entire Network's defined benefit and defined contributions plans except for the CHA and Westview plans. Employer contributions are made to these plans based on a percentage of employee compensation. The cost of the Network's defined contribution plans approximated $30,549 and $37,523 for 2014 and 2013, respectively.

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

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

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

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

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

Notes to Consolidated Financial Statements (in 000's)

Effective January 1, 2014, VEI, CHVH and Westview merged their respective 401(k) plans into the Network's 401(k) plan.

10. Income Taxes

For 2014 and 2013, federal taxable income originating in the Network's for-profit entities was approximately $14,300 and $15,800, respectively. Income tax expense of $7,169 and $7,464 respectively, has been provided thereon. The primary difference between income tax expense and taxes computed at the federal statutory rate of 34 percent is state income taxes.

At December 31, 2014, VEI has unused federal income tax operating loss carry forwards of approximately $1,172, which expire at various dates through 2017.

11. Operating Leases

The Network leases certain of its facilities and equipment under noncancelable operating lease agreements. The leases contain various renewal options and clauses for escalation based on increases in interest costs, as defined. Rental expense for these leased facilities and equipment aggregated $38,912 and $42,561 for 2014 and 2013, respectively.

Future minimum rental payments for each of the next five years at December 31, 2014 are as follows:

2015	$ 35,349
2016	28,114
2017	25,363
2018	23,069
2019	20,345
Thereafter	97,784
	$ 230,024

12. Functional Expenses

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

Notes to Consolidated Financial Statements (in 000's)

	2014	2013
Nursing services	$ 317,060	$ 308,920
Other professional services	725,595	725,033
General services	124,861	113,421
Fiscal services	270,979	254,419
Administrative services	138,905	133,738
Employee health and welfare	140,151	151,671
Health service claims expense	(40,311)	(79,089)
Depreciation and amortization	82,155	81,045
Interest	20,751	20,062
	$ 1,780,146	$ 1,709,220

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Network has been limited by donors to a specific time period or purpose. Temporarily restricted net assets as of December 31, 2014 and 2013 are available for the following purposes:

	2014	2013
Medical education	$ 1,800	$ 2,175
Clinical/patient support	3,240	1,494
Capital improvements	3,027	3,479
	$ 8,067	$ 7,148

Permanently restricted net assets have been restricted by donors to be maintained by the Network in perpetuity. Permanently restricted net assets as of December 31, 2014 and 2013 are as follows, with a description of how the investment income is to be used:

	2014	2013
Medical education	$ 2,139	$ 2,455
Clinical/patient support	618	264
Capital improvements	1,721	1,716
	$ 4,478	$ 4,435

The Network is an income beneficiary of certain irrevocable trusts. The aggregated income (loss) from these trusts was $257 and $735 for the years ended December 31, 2014 and 2013, respectively.

14. Commitments and Contingencies

Community Hospital of Anderson and Madison County

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

Pending Litigation

Claims for employment matters, and breach of contract have been asserted against the Network by various claimants, and provision for such claims is made in the financial statements when management considers the likelihood of loss from the contingency to be probable and reasonably estimable. The claims are in various stages of processing and some will ultimately be brought to trial. There are known incidents occurring through December 31, 2014 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. We do not believe that claims and lawsuits individually or in aggregate will have a material adverse effect on the Network's future consolidated financial position, results from operations, or cash flows.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Management believes that the Network is in compliance with applicable government laws and regulations. Regulatory inquiries are made in the normal course of business and compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Violations of these regulations could result in the imposition of significant fines and penalties, as well as having a significant effect on reported income from operations or cash flows.

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

Purchase Commitments

As of December 31, 2014, the Network had purchase commitments for various equipment and services of $32,600.