

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

Consolidated Financial Report
and Supplementary Information
December 31, 2016

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RSM US LLP

Independent Auditor's Report

The Board of Directors
Parkview Health System, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Parkview Health System, Inc. and subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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 (collectively, financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 financial position of Parkview Health System, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets, are presented for purposes of additional analysis rather than to present the financial position, results of operations, and changes in net assets of the individual entities and are not a required part of the 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 details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets have been subjected to the auditing procedures applied in the audits 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 of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Chicago, Illinois
March 22, 2017

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

Consolidated Balance Sheets
December 31, 2016 and 2015
(In Thousands)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 100,032	\$ 154,487
Short-term investments	306	7,961
Patient accounts receivable, less allowances for bad debts of \$79,034 and \$65,249 in 2016 and 2015, respectively	183,477	175,100
Inventories	23,169	20,389
Prepaid expenses and other current assets	25,392	30,371
Estimated third-party payor settlements	3,960	4,908
Total current assets	336,336	393,216
Investments:		
Board-designated investments	936,056	753,559
Funds held by trustees	49,969	25,446
Other investments	789	863
	986,814	779,868
Property and equipment:		
Cost	1,795,851	1,718,641
Less accumulated depreciation and amortization	770,713	719,966
	1,025,138	998,675
Other assets:		
Interest rate swaps	1,732	4,203
Investments in joint ventures	2,188	2,183
Goodwill and intangible assets, net	103,107	101,721
Other assets	36,346	20,717
	143,373	128,824
Total assets	\$ 2,491,661	\$ 2,300,583

See notes to consolidated financial statements.

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

**Consolidated Balance Sheets
December 31, 2016 and 2015
(In Thousands)**

	2016	2015
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 91,360	\$ 74,219
Salaries, wages and related liabilities	101,669	94,617
Accrued interest	2,806	2,599
Estimated third-party payor settlements	5,214	4,752
Current portion of long-term debt	27,251	27,998
Total current liabilities	228,300	204,185
Noncurrent liabilities:		
Long-term debt, less current portion	595,663	590,654
Interest rate swaps	73,144	80,128
Accrued pension obligations	90,826	94,080
Other	24,180	20,077
	783,813	784,939
Net assets:		
Parkview Health System, Inc.	1,433,217	1,269,008
Noncontrolling interest in subsidiaries	31,367	27,900
Total unrestricted net assets	1,464,584	1,296,908
Temporarily restricted net assets	13,420	12,941
Permanently restricted net assets	1,544	1,610
	1,479,548	1,311,459
Total liabilities and net assets	\$ 2,491,661	\$ 2,300,583

See notes to consolidated financial statements.

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

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2016 and 2015
(In Thousands)

	2016	2015
Revenues:		
Net patient care service revenue	\$ 1,531,312	\$ 1,454,499
Provision for bad debts	(110,744)	(116,964)
Net patient care service revenue, less provision for bad debts	<u>1,420,568</u>	<u>1,337,535</u>
Capitation revenue	98,514	57,900
Other revenue	45,173	45,933
	<u>1,564,255</u>	<u>1,441,368</u>
Expenses:		
Salaries and benefits	766,375	677,201
Supplies	223,915	201,608
Purchased services	169,245	142,845
Utilities, repairs and maintenance	60,322	54,614
Depreciation and amortization	95,377	90,379
Hospital assessment fee	38,090	34,446
Other, net	63,420	63,139
	<u>1,416,744</u>	<u>1,264,232</u>
Operating income	<u>147,511</u>	<u>177,136</u>
Nonoperating income (expense):		
Interest, dividends and realized gains on sales of investments, net	21,750	12,830
Unrealized gains (losses) on investments, net	34,099	(32,502)
Interest expense	(18,483)	(17,525)
Unrealized gains (losses) on interest rate swaps, net	4,456	(224)
Contribution of unrestricted net assets of Wabash County Hospital	-	37,444
Other, net	(10,183)	849
	<u>31,639</u>	<u>872</u>
Excess of revenues over expenses	<u>179,150</u>	<u>178,008</u>
Excess of revenues over expenses attributable to noncontrolling interest in subsidiaries	<u>30,847</u>	<u>29,412</u>
Excess of revenues over expenses attributable to Parkview Health System, Inc.	<u>\$ 148,303</u>	<u>\$ 148,596</u>

See notes to consolidated financial statements.

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

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2016 and 2015
(In Thousands)

	Year Ended December 31, 2016		
	Total	Controlling Interest	Noncontrolling Interest
Unrestricted net assets:			
Excess of revenues over expenses	\$ 179,150	\$ 148,303	\$ 30,847
Distributions to noncontrolling interests	(27,380)	-	(27,380)
Pension-related changes other than net periodic pension cost	16,316	16,316	-
Net assets released from restriction used for property and equipment, and other	(410)	(410)	-
Increase in unrestricted net assets	<u>167,676</u>	<u>164,209</u>	<u>3,467</u>
Temporarily restricted net assets:			
Contributions	1,419	1,419	-
Investment gain	75	75	-
Net assets released from restrictions	(1,015)	(1,015)	-
Increase in temporarily restricted net assets	<u>479</u>	<u>479</u>	<u>-</u>
Permanently restricted net assets:			
Contributions	1	1	-
Other	(67)	(67)	-
Decrease in permanently restricted net assets	<u>(66)</u>	<u>(66)</u>	<u>-</u>
Increase in net assets	168,089	164,622	3,467
Net assets:			
Beginning of year	<u>1,311,459</u>	<u>1,283,559</u>	<u>27,900</u>
End of year	<u>\$ 1,479,548</u>	<u>\$ 1,448,181</u>	<u>\$ 31,367</u>

See notes to consolidated financial statements.

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

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2016 and 2015
(In Thousands)

	Year Ended December 31, 2015		
	Total	Controlling Interest	Noncontrolling Interest
Unrestricted net assets:			
Excess of revenues over expenses	\$ 178,008	\$ 148,596	\$ 29,412
Distributions to noncontrolling interests	(27,223)	-	(27,223)
Pension-related changes other than net periodic pension cost	(1,165)	(1,165)	-
Net assets released from restriction used for property and equipment, and other	4,737	4,256	481
Increase in unrestricted net assets	<u>154,357</u>	<u>151,687</u>	<u>2,670</u>
Temporarily restricted net assets:			
Contributions	1,972	1,972	-
Contribution of temporarily restricted net assets of Wabash County Hospital	7,000	7,000	-
Investment gain	51	51	-
Net assets released from restrictions	(27,352)	(27,352)	-
Decrease in temporarily restricted net assets	<u>(18,329)</u>	<u>(18,329)</u>	<u>-</u>
Permanently restricted net assets:			
Contributions	700	700	-
Increase in permanently restricted net assets	<u>700</u>	<u>700</u>	<u>-</u>
Increase in net assets	136,728	134,058	2,670
Net assets:			
Beginning of year	<u>1,174,731</u>	<u>1,149,501</u>	<u>25,230</u>
End of year	<u>\$ 1,311,459</u>	<u>\$ 1,283,559</u>	<u>\$ 27,900</u>

See notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015
(In Thousands)

	2016	2015
Cash flows from operating activities:		
Increase in net assets	\$ 168,089	\$ 136,728
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	110,744	116,964
Depreciation and amortization	95,377	90,379
Contributions restricted for capital	(1,419)	(8,972)
Undistributed loss (earnings) from alternative investments	931	(4,448)
Unrealized (gains) losses on interest rate swaps, net	(4,555)	158
Amortization of deferred financing costs and net premium	(461)	(592)
Loss from disposal of property and equipment	1,157	276
Gain from step acquisition	-	(10,073)
Pension-related changes other than net periodic pension cost	(16,316)	1,165
Contribution of net assets of Wabash County Hospital	-	(22,844)
Changes in operating assets and liabilities, net of effects from contribution of Wabash County Hospital and acquisitions:		
Patient accounts receivable	(119,121)	(116,110)
Inventories	(2,780)	(2,888)
Prepaid expenses and other current assets	5,252	(6,159)
Trading securities, net	(200,223)	(6,343)
Accounts payable, accrued expenses and other current liabilities	24,400	30,973
Estimated third-party payor settlements	1,411	(14,927)
Accrued pension obligation	13,062	11,245
Other	12,281	6,155
Net cash provided by operating activities	87,829	200,687
Cash flows from investing activities:		
Property and equipment additions	(116,768)	(62,909)
Business acquisitions, net of cash acquired	(3,057)	(10,907)
Proceeds from sale of property and equipment	4,587	343
Cash and cash equivalents received from contribution of Wabash County Hospital	-	13,810
Net cash used in investing activities	(115,238)	(59,663)
Cash flows from financing activities:		
Principal payments of long-term debt	(35,130)	(27,436)
Proceeds from issuance of long-term debt	38,229	-
Payments of capital lease obligations	(4,060)	(5,955)
Distributions to noncontrolling interests	(27,380)	(27,223)
Contributions restricted for capital	1,419	8,972
Other	(124)	243
Net cash used in financing activities	(27,046)	(51,399)
(Decrease) increase in cash and cash equivalents	(54,455)	89,625
Cash and cash equivalents:		
Beginning of year	154,487	64,862
End of year	\$ 100,032	\$ 154,487

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

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015
(In Thousands)

	2016	2015
Schedule of noncash investing and financing activities:		
Assets acquired through capital leases	<u>\$ 5,885</u>	<u>\$ 535</u>
Contribution of Wabash County Hospital:		
Working capital	\$ -	\$ 17,191
Investments	-	3,899
Property and equipment	-	2,008
Long-term debt	-	(254)
	-	22,844
Less: cash and cash equivalents contributed	-	(13,810)
Noncash net identifiable assets contributed	<u>\$ -</u>	<u>\$ 9,034</u>
Equity method investment contributed in step acquisition	<u>\$ -</u>	<u>\$ 10,873</u>

See notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 1. Organization

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

PH is the sole corporate member of Parkview Hospital, Inc. (PVH). PVH comprises one acute care hospital; a behavioral health hospital; and a flagship tertiary care center, Parkview Regional Medical Center, which opened March 17, 2012. In total, PVH offers 714 beds in Fort Wayne, Indiana. PH is the majority owner (60%) of the Orthopaedic Hospital at Parkview North LLC (ORTHO), which is a for-profit joint venture hospital with a large orthopaedic physician group. ORTHO operates the Orthopaedic Hospital, a 37-bed orthopaedic specialty hospital, and an ambulatory surgical center, acquired on December 31, 2012. In addition, PH is the sole corporate member of Huntington Memorial Hospital, Inc.; Whitley Memorial Hospital, Inc.; Community Hospital of Noble County, Inc.; Community Hospital of LaGrange County, Inc.; and Parkview Wabash Hospital, Inc., each of which operates an acute care community hospital and related facilities in the northeast region of Indiana. These hospitals are referred to collectively as the Hospital Affiliates.

PH and PVH are the sole members of Managed Care Services, LLC, which provides third-party administrative services to PH's employee health plan and acts as a preferred provider organization network of providers for self-funded employers. Managed Care Services, LLC also assumes risk on a Medicaid managed care program through MDwise. Capitation revenue relating to this program was \$98,514 in 2016 and \$57,900 in 2015, and is recorded in other revenue in the consolidated statements of operations and changes in net assets.

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

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 1. Organization (Continued)

The legal entity names, marketing brand names, and 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 Wabash Hospital, Inc.	Parkview Wabash Hospital	PWB
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
Parkview Wabash Hospital Foundation, Inc.	Parkview Wabash Hospital Foundation	WBHF
Parkview Occupational Health Centers, Inc.	Parkview Occupational Health Centers	POH

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 revenue, investment income from affiliated foundations, and equity income of unconsolidated affiliates and joint ventures.

Acquisitions: In 2016, PH acquired 3 physician groups and a physical therapy practice with a total purchase price of \$3,057. In 2015, PH acquired a physician group and 50% of a surgery center for a total purchase price of \$21,780. The physician groups are included in PPG. The 2015 50% acquisition of the surgery center increased PH's total ownership to 100% and is included in PVH. The acquisitions were accounted for as business combinations. Goodwill of \$2,585 and \$20,976 was recognized upon purchase in 2016 and 2015, respectively, which represents the excess of purchase price over identifiable assets and liabilities.

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

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

Note 1. Organization (Continued)

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

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

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

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

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

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

The cost of charity care provided in 2016 and 2015 approximates \$15,744 and \$14,159, 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 contribute generously 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.

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 1. Organization (Continued)

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 and outreach, including Cancer Services of Northeast Indiana, YMCA, Boys & Girls Club and the Center for Whitely County Youth. PH provides subsidies for the emergency medical services of the counties where its community hospitals reside. An association with Fort Wayne Community Schools has provided nursing services and physicals to at-risk and underserved 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 Clinics and Matthew 25 Health and Dental Clinic. PH affiliates have supported youth organizations, county councils on aging, emergency shelters and health clinics. Awareness and prevention programs focused on dealing with safety, trauma, drugs, and alcohol are projects of PH.

Note 2. Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of PH and all majority-owned or majority-controlled subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where ownership is 20% to 50% and PH has significant influence. The equity method of accounting is also used for hedge funds with ownership of 3% to 50% and where PH has significant influence. For the years ended December 31, 2016 and 2015, PH's share of income recorded using the equity method approximated \$644 and \$2,372, 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 and funds held by trustees, are considered cash equivalents. The Corporation routinely invests in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. Financial instruments that potentially subject the Corporation to concentrations of credit risk include the Corporation's cash and cash equivalents. The Corporation places its cash and cash equivalents with institutions of high credit quality. However, at certain times, such cash and cash equivalents may be in excess of government-provided insurance limits.

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

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

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

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

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

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices. Investments in hedge funds are recorded under the equity method of accounting, based on information provided by the funds' managers. Generally, the net asset value of these funds (NAV) reflects the contributed capital, as well as an allocated share of the underlying limited partnership's realized and unrealized gains and losses. Commingled investments are funds formed from the pooling of investments under common management. Unlike mutual funds, these investments are not registered investment companies 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 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 financial institutions. All Board-designated funds are classified as trading securities, with the exception of land held as an investment, alternative investments and private investment funds.

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

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

Note 2. Significant Accounting Policies (Continued)

Funds held by trustees include investments restricted for payment of malpractice and general liability losses and proceeds of debt issuances restricted for payment of constructions costs. All funds held by trustees, as well as short-term investments, are classified as trading securities.

Short-term investments are comprised of corporate bonds with maturities less than twelve months and money market mutual funds with readily determinable fair values, that are used for short-term working cash management. Investment income or loss is reported as other nonoperating income (expense). Investments purchased and sold are reported based on transaction date.

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

The costs of obtaining or developing internal-use software, including external direct costs for materials and services and directly related payroll costs, are capitalized. Amortization begins when the internal-use software is ready for its intended use. The software costs are amortized over the estimated useful lives of the software. The estimated useful lives range from 3 to 7 years. Costs incurred during the preliminary project stage and post-implementation stage, as well as maintenance and training costs, are expensed as incurred.

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. Management has determined that the Corporation is the reporting unit at which fair value is measured. 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. 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 charge was required in 2016 or 2015.

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 \$1,222 and \$1,218 in 2016 and 2015, respectively.

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

Note 2. Significant Accounting Policies (Continued)

Impairment: Property and equipment 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. No impairment was recorded in 2016 or 2015.

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

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

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

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

The Corporation and its tax-exempt affiliated entities each file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the tax-exempt status of each entity, the continued tax-exempt status of bonds, the nature, characterization and taxability of joint venture income, and various positions relating to potential sources of unrelated business taxable income (reported on Form 990T). As of December 31, 2016 and 2015, there are no unrecognized tax benefits resulting from uncertain tax positions.

Forms 990 and 990T filed by the Corporation and its tax-exempt affiliated entities are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 and 990T filed by the Corporation and its tax-exempt affiliated entities are no longer subject to examination for the year 2012 and prior.

**Parkview Health System, Inc. and Subsidiaries
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**Notes to Consolidated Financial Statements
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Note 2. Significant Accounting Policies (Continued)

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. With the exception of Wabash County Hospital, which was accounted for as a business combination, contributions of long-lived assets, pension-related changes other than net periodic pension cost, net assets released from restriction for acquisition of long-lived assets, and distributions to noncontrolling interests are excluded from excess of revenues over expenses.

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

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

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.

Newly adopted accounting pronouncement: In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest— Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The Corporation adopted the provisions of ASU 2015-03, which require retrospective application, in the accompanying consolidated financial statements. Accordingly, the December 31, 2015 consolidated balance sheet has been restated to reclassify \$2,105 of net deferred financing costs previously reported as other assets as a reduction of long-term debt.

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Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for the Corporation's December 31, 2018 consolidated financial statements. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The Corporation has not yet selected a transition method and is currently evaluating the effect that the pending adoption of the updated standard will have on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. ASU 2016-01 also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 will be effective for the Corporation's December 31, 2019 consolidated financial statements. In 2015, the Corporation elected to early adopt the amendment within ASU 2016-01 that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein. The Corporation is currently evaluating the effect of the pending adoption of the remaining provisions of ASU 2016-01 on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for the Corporation's December 31, 2019 consolidated financial statements. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Corporation is currently evaluating the effect of the pending adoption of the new standard on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The ASU will be effective for the Corporation's December 31, 2018 consolidated financial statements. Early adoption is permitted. Retrospective application is required for many provisions of this guidance. The Corporation is currently evaluating the effect of the pending adoption of the new standard on the consolidated financial statements.

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Note 2. Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The new standard will be effective for the Corporation's December 31, 2019 consolidated financial statements. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Corporation is currently evaluating the effect of the pending adoption of the new standard on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. Its provisions require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard will be effective for the Corporation's December 31, 2019 consolidated financial statements. Early adoption is permitted. ASU 2016-18 requires a retrospective transition method. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This pronouncement eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

The pronouncement also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. The Corporation will still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

The Corporation will be required to adopt ASU 2017-04 for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 requires adoption on a prospective basis.

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

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

Note 3. Business Acquisitions

Effective January 1, 2015, PH became the sole member of Wabash County Hospital. The transaction was accounted for as an acquisition with no consideration, and accordingly the excess of the fair value of assets acquired over liabilities assumed was recognized as an inherent contribution received by PH. Transaction costs for legal and consulting services that are included in the consolidated statements of operations and changes in net assets were insignificant.

The table below summarizes the estimated fair value of the net assets acquired:

Current assets:		Current liabilities:	
Cash and cash equivalents	\$ 13,810	Accounts payable	\$ 4,215
Patient accounts receivable	7,460	Accrued expenses and other	1,812
Inventories	861	Current maturities of long-term debt	137
Estimated settlements due from third-party payors	255	Total current liabilities	<u>6,164</u>
Prepaid expenses and other assets	969	Noncurrent liabilities:	
Total current assets	<u>23,355</u>	Long-term debt, less current maturities	254
		Total liabilities	<u>6,418</u>
		Net assets:	
Investments	3,899	Unrestricted	37,444
Property and equipment	23,608	Temporarily restricted	7,000
		Total net assets	<u>44,444</u>
Total assets	<u>\$ 50,862</u>	Total liabilities and net assets	<u>\$ 50,862</u>

In October 2015, PH increased its ownership investment in Premier Surgery Center, LLC (Premier) from 50% to 100% through a "step acquisition." Prior to this transaction, PH had accounted for Premier as an unconsolidated affiliate under the equity method of accounting.

As the buyer in a step acquisition, PH measured the acquisition date fair value of its previously held equity position in Premier and recognized a non-cash gain of \$10,073. This gain of \$10,073 is included in the 2015 consolidated statement of operations and changes in net assets in other nonoperating income (expense).

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

Note 3. Business Acquisitions (Continued)

The components of the consideration transferred and the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed were as follows:

Consideration:

Fair value at acquisition date of previously held interest	\$	10,873
Fair value of consideration exchanged for 50% interest in Premier		10,874
Total consideration	<u>\$</u>	<u>21,747</u>

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash and cash equivalents	\$	149
Patient accounts receivable		4
Prepaid expenses and other assets		13
Property and equipment		652
Accounts payable		(3)
Accrued expenses and other		(16)
Total identifiable net assets	<u>\$</u>	<u>799</u>
Goodwill		20,948
	<u>\$</u>	<u>21,747</u>

The fair value of PH's previously held interest and the fair value of the equity exchange for the 50% interest in Premier were estimated using the income approach and market approach.

Goodwill resulting from this transaction consists of expected long-term revenue growth, reputation and knowledge, established patient relationships, and the location of the surgery center.

Note 4. Goodwill and Intangible Assets

The following table summarizes goodwill and other intangibles as of and for the years ended December 31, 2016 and 2015:

	2016	2015
Goodwill balance, beginning of year	\$ 97,542	\$ 76,566
Acquisitions	2,585	20,976
Goodwill balance, end of year	<u>100,127</u>	<u>97,542</u>
Intangible assets, end of year	8,701	8,678
Accumulated amortization	(5,721)	(4,499)
Intangible assets, net, end of year	<u>2,980</u>	<u>4,179</u>
Goodwill and intangible assets, net	<u>\$ 103,107</u>	<u>\$ 101,721</u>

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

Note 4. Goodwill and Intangible Assets (Continued)

Amortization expense of \$1,222 and \$1,218 was recognized in 2016 and 2015, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

Estimated future amortization of intangible asset balances is as follows:

Year Ending December 31:		
2017	\$	1,222
2018		212
2019		132
2020		118
2021		34
Thereafter		54
	\$	<u>1,772</u>

Note 5. 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.

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

Note 5. 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, 2016:

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments:				
Mutual funds	\$ 306	\$ 306	\$ -	\$ -
Total short-term investments	<u>\$ 306</u>	<u>\$ 306</u>	<u>\$ -</u>	<u>\$ -</u>
Investments:				
U.S. government and agency obligations	\$ 40,297	\$ 31,582	\$ 8,715	\$ -
Municipal bonds	9,387	-	9,387	-
Corporate bonds	89,226	-	89,226	-
Mortgage- and asset-backed securities	65,370	-	65,370	-
Domestic equities (includes preferred stock)	114,896	102,577	12,319	-
International equities	38,885	38,885	-	-
Mutual funds:				
Equity type	173,391	173,391	-	-
Balanced type	53,882	53,882	-	-
Fixed income type	3,869	3,869	-	-
Total investments at fair value	589,203	<u>\$ 404,186</u>	<u>\$ 185,017</u>	<u>\$ -</u>
Investments not at fair value:				
Cash equivalents	16,186			
Commingled funds	144,411			
Real estate investment trust	39,002			
Real estate investment fund	37,797			
Hedge funds	144,175			
Real estate held for investment	16,555			
Amounts due brokers	(515)			
Total investments	<u>\$ 986,814</u>			
Deferred compensation plan:				
Assets - mutual funds	\$ 8,053	\$ 8,053	\$ -	\$ -
Assets - guaranteed income fund	3,637	-	-	3,637
Interest rate swaps	1,732	-	1,732	-
	<u>\$ 13,422</u>	<u>\$ 8,053</u>	<u>\$ 1,732</u>	<u>\$ 3,637</u>
Liabilities				
Interest rate swaps	<u>\$ (73,144)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (73,144)</u>

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

Note 5. 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, 2015:

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments:				
Mutual funds	\$ 452	\$ 452	\$ -	\$ -
Corporate bonds	7,509	-	7,509	-
Total short-term investments	<u>\$ 7,961</u>	<u>\$ 452</u>	<u>\$ 7,509</u>	<u>\$ -</u>
Investments:				
U.S. government and agency obligations	\$ 36,946	\$ 29,312	\$ 7,634	\$ -
Municipal bonds	5,453	-	5,453	-
Corporate bonds	54,531	-	54,531	-
Mortgage- and asset-backed securities	50,682	-	50,682	-
Domestic equities (includes preferred stock)	79,204	78,882	322	-
International equities	40,549	31,960	8,589	-
Mutual funds:				
Equity type	126,856	126,856	-	-
Balanced type	50,634	50,634	-	-
Fixed income type	2,571	2,571	-	-
Total investments at fair value	<u>447,426</u>	<u>\$ 320,215</u>	<u>\$ 127,211</u>	<u>\$ -</u>
Investments not at fair value:				
Cash equivalents	9,214			
Commingled funds	127,803			
Real estate investment trust	29,288			
Real estate investment fund	25,608			
Hedge funds	125,611			
Real estate held for investment	15,741			
Amounts due brokers	(823)			
Total investments	<u>\$ 779,868</u>			
Deferred compensation plan:				
Assets - mutual funds	\$ 6,437	\$ 6,437	\$ -	\$ -
Assets - guaranteed income fund	3,841	-	-	3,841
Interest rate swaps	4,203	-	4,203	-
	<u>\$ 14,481</u>	<u>\$ 6,437</u>	<u>\$ 4,203</u>	<u>\$ 3,841</u>
Liabilities				
Interest rate swaps	<u>\$ (80,128)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (80,128)</u>

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

Note 5. Fair Value Measurement (Continued)

Certain of PH's investments are made through alternative investments and private investment funds, primarily partnership trusts. PH accounts for its ownership in these funds under the equity method, and as a result, hedge fund, real estate investment trust, and real estate investment fund investments totaling \$220,974 and \$180,507 as of December 31, 2016 and 2015, 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 \$16,555 and \$15,741 as of December 31, 2016 and 2015, 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. 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 and is excluded from the total investments at fair value.

Following is a description of the Corporation's valuation methodologies for assets and liabilities measured at fair value, not classified as Level 1. The fair values of assets listed as Level 2 investments are determined with the assistance of our custodian and are calculated from various observable inputs and other market data by a source contracted by the custodian. Funds not held by the custodian are reviewed by management for similarities with custodian-held assets and are assigned a comparable level. The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) discount curve in order to reflect the credit value adjustment for nonperformance risk. The credit valuation adjustments for asset and liability position interest rate swap contracts are internally valued with the assistance of a third party using other comparably rated entities' bonds priced in the market. Depending on the significance of the credit spread adjustment to the overall fair value of the interest rate swap, the instrument is included in Level 2 or Level 3.

The 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, 2015	\$ (79,288)
Realized and unrealized gains/losses on interest rate swaps, net	(840)
Fair value at December 31, 2015	(80,128)
Realized and unrealized gains/losses on interest rate swaps, net	6,984
Fair value at December 31, 2016	<u>\$ (73,144)</u>

PH transfers assets and liabilities in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable. As of December 31, 2015, the credit valuation adjustment was \$4,376 and significant relative to the fair value on the same swaps and resulted in maintaining the Level 3 classification. As of December 31, 2016, the credit valuation adjustment was \$4,522 and significant relative to fair value on the same swaps and resulted in maintaining the Level 3 classification.

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

Note 6. Net Patient Care Service Revenue and Accounts Receivable

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

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

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

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

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

Medicare and Medicaid revenue accounted for approximately 27% and 11%, respectively, of patient service revenue (net of contractual allowances and discounts) for the year ended December 31, 2016, and approximately 26% and 10%, respectively, for the year ended December 31, 2015. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of wrongdoing. While no such regulatory inquiries have been made, compliance with health care industry laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimated settlements could change. It is also reasonably possible that recorded settlements could change by a material amount in the near term. PH received Medicare and Medicaid settlements and resolutions on prior year filed and appealed cost reports and other matters, which increased net patient care service revenue by \$1,830 and \$1,349 in 2016 and 2015, respectively.

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

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Note 6. Net Patient Care Service Revenue and Accounts Receivable (Continued)

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

	2016	2015
Medicare	\$ 417,411	\$ 383,166
Medicaid	163,071	139,162
Managed care and other insurers	870,653	830,477
Uninsured	39,765	74,864
Other	40,412	26,830
	<u>\$ 1,531,312</u>	<u>\$ 1,454,499</u>

The allowance for bad debts was approximately \$79,034 and \$65,249 as of December 31, 2016 and 2015, respectively. These balances as a percentage of accounts receivable, net of contractual adjustments and other discounts, were approximately 28% and 27% as of December 31, 2016 and 2015, respectively. The increase in the allowance for bad debts during 2016 was primarily the result of increases within the write-off experience of insured payers. A summary of activity in the allowance for bad debts follows:

	Balance, Beginning of Year	Provision	Accounts Written Off, Net of Recoveries and Other	Balance, End of Year
Allowance for bad debts:				
December 31, 2015	\$ 68,157	\$ 116,964	\$ (119,872)	\$ 65,249
December 31, 2016	65,249	110,744	(96,959)	79,034

Components of patient accounts receivable, net, at December 31, 2016 and 2015, include Medicare, 19% and 18%, respectively; Medicaid, 4% and 7%, respectively; commercial insurers, 68% and 66%, respectively; and other, 9% and 9%, respectively. One managed care payor represented 26% and 23% of patient accounts receivable at December 31, 2016 and 2015, respectively.

Note 7. Investments

PH's investments are exposed to various kinds and levels of risk. Fixed income securities expose PH to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Certain investment funds held contain a 45-day to 90-day redemption notice requirement with up to a one year lock up period.

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.

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Note 7. Investments (Continued)

Hedge funds also expose PH to market, performance, and liquidity risk. Hedge funds are not necessarily readily marketable. The funds often employ complex strategies, including short sales on securities and trading on futures contracts, options, foreign currency contracts, other derivative instruments, and private equity investments, and the composition of the individual investments within these funds is not readily determinable. The hedge fund investments are partnership interests in limited partnerships. These investments are not publicly traded, and the net asset value, or NAV, is based upon information provided by the fund manager. The hedge funds have restrictions on the timing of withdrawals ranging from one to three months, which may reduce liquidity. As of December 31, 2016, \$0 was committed for the purchase of additional hedge funds and additional commingled funds.

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

Composition

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

	2016	2015
Investment income:		
Unrealized gain (losses) on investments, net	\$ 34,253	\$ (32,948)
Dividend and interest income	15,223	11,743
Net realized gains on the sale of investments	6,998	1,597
Total investment return	<u>\$ 56,474</u>	<u>\$ (19,608)</u>
Presentation:		
Other revenue	\$ 528	\$ 13
Temporarily restricted – investment gain	97	51
Interest, dividends, and realized gains on sales of investments, net	21,750	12,830
Unrealized gain (losses) on investments, net	34,099	(32,502)
Total investment return	<u>\$ 56,474</u>	<u>\$ (19,608)</u>

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Note 8. Property and Equipment

The costs of property and equipment consist of the following:

	2016	2015
Land and improvements	\$ 142,904	\$ 136,872
Buildings	862,548	830,072
Equipment	725,270	717,507
Construction in progress and items not yet placed into service	65,129	34,190
	<u>\$ 1,795,851</u>	<u>\$ 1,718,641</u>

The cost of commitments to complete construction-in-progress projects is estimated to be \$102,804 at December 31, 2016. Depreciation expense recorded in the consolidated statements of operations and changes in net assets was \$87,988 and \$82,220 at December 31, 2016 and 2015, respectively.

Amortization expense on leasehold improvements recorded in the consolidated statements of operations and changes in net assets was \$2,658 and \$2,156 in 2016 and 2015, respectively. Amortization expense on other intangibles recorded in the consolidated statements of operations and changes in net assets was \$1,222 and \$1,218 in 2016 and 2015, respectively. Amortization expense on capital leases recorded in the consolidated statements of operations and changes in net assets was \$3,509 and \$4,785 in 2016 and 2015, respectively. Assets under capital leases at December 31, 2016 and 2015, were \$11,573 and \$29,163, respectively. Accumulated amortization on assets under capital leases at December 31, 2016 and 2015, was \$4,280 and \$18,491, respectively.

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Note 9. Long-Term Debt

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

	Interest rate as of December 31,		
	2016	2016	2015
Tax-exempt, variable rate bonds:			
Series 2016B due through 2046	1.19%	\$ 12,789	\$ -
Series 2016C due through 2040	1.08%	26,535	-
Series 2010A refunded in 2016	-	-	27,280
Series 2009BCD due through 2031	0.68-0.72%	223,665	223,665
Series 2007 due through 2032	0.77%	18,810	19,610
Series 2001 due through 2031	0.65%-1.12%	10,875	12,350
Tax-exempt, fixed rate serial and term bonds:			
Series 2016A due through 2041	3.20%	25,000	-
Series 2012A due through 2029	2.0%-5.0%	79,255	81,255
Series 2009A due through 2031	5.0%-5.75%	157,185	174,975
Various notes to banks	Various	49,822	61,959
Mortgages on real estate	Various	9,416	9,628
Other	Various	581	113
Capital leases	Various	7,323	5,498
		<u>621,256</u>	<u>616,333</u>
Unamortized original issue premium (discount), net		3,887	4,424
Unamortized deferred financing costs, net		(2,229)	(2,105)
		<u>622,914</u>	<u>618,652</u>
Less current portion		<u>27,251</u>	<u>27,998</u>
		<u>\$ 595,663</u>	<u>\$ 590,654</u>

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**Notes to Consolidated Financial Statements
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Note 9. Long-Term Debt (Continued)

Following are the scheduled maturities and mandatory redemptions of long-term debt, assuming successful remarketing of variable rate bonds, and renewal of letter of credit agreements, as discussed below. If the bonds are not successfully remarketed and the letter of credit agreements are not renewed or drawn on, the annual maturities shown below may be materially different.

Year Ending December 31:

2017	\$	27,251
2018		35,028
2019		44,682
2020		21,044
2021		20,644
Thereafter		472,607
	\$	<u>621,256</u>

Total interest paid was \$18,834 and \$18,168 in 2016 and 2015, respectively. Interest cost of \$453 and \$296 in 2016 and 2015, 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 August 17, 2016, PWB issued \$25,000 of fixed rate tax-exempt private placement bonds (the Series 2016A Bonds) using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds and certain other funds will be used to finance construction and furnishings of the new Parkview Wabash Hospital facility. Interest on the Series 2016A Bonds is paid semiannually. The bonds mature in November 2041.

On August 17, 2016, PH issued variable rate, tax exempt private placement bonds (the Series 2016B Bonds) using the Master Indenture and through the Indiana Finance Authority. A total of \$58,000 is available under this facility, of which \$12,789 was drawn and outstanding as of December 31, 2016. The proceeds of the bonds and certain other funds will be used to finance construction and furnishings of the Parkview Cancer Institute on the PRMC campus. Interest on the Series 2016B Bonds is paid monthly. The bonds mature in November 2046, but contain a ten-year put option that expires in August 2026.

On August 17, 2016, PH issued \$27,280 of variable rate, tax exempt private placement bonds (the Series 2016C Bonds) using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds were used to refund all of the outstanding Indiana Finance Authority Series 2010A bonds. Interest on the Series 2016C Bonds is paid monthly. The bonds mature in November 2040, but contain a seven-year put option that expires in August 2023.

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

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Note 9. Long-Term Debt (Continued)

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

PH entered into four direct-pay Letter of Credit agreements (the LOCs) issued by PNC Bank (Series 2007 Bonds), Sumitomo Mitsui Banking Corporation (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 7.5%. The current Series 2007A, Series 2009B, and 2009D LOCs expire July 20, 2019, and the 2009C LOC was closed on July 22, 2016. At December 31, 2016, all bonds had been successfully remarketed.

On March 15, 2007, PLH issued \$24,930 of adjustable rate, tax-exempt revenue bonds (the Series 2007 Bonds). These bonds were issued through the Indiana Health and Education Facility Financing Authority. The proceeds of the Series 2007 Bonds and certain other funds of PLH were used to finance the construction and furnishing of a new hospital facility and to pay financing costs. The Series 2007 Bonds bear interest at a weekly rate, and interest is paid monthly. The Series 2007 Bonds mature through March 2032.

In November 2001, PH and PVH issued \$220,000 of variable rate, tax-exempt auction revenue bonds (the Series 2001 Bonds) using the Master Indenture and through the Indiana Health Facility Financing Authority. These Series 2001 Bonds auction every 28 days. The bonds have a maximum rate of 15%. Beginning in February 2008 and continuing through December 31, 2016, PH's Series 2001 Bonds failed to attract sufficient bids to be remarketed, and have not been successfully remarketed since. As a result of the failed auctions, interest rates are set based upon a formula contained in the bond documents. The interest rate formula is based upon the 7-day AA Composite Commercial Paper rate times a factor. This factor can vary from 125% to 225%, depending upon the credit rating of the bond. The bond rating is equal to the rating of either the insurer of the debt or the issuer, whichever is higher. At December 31, 2016 and 2015, the factor was 175%. The Series 2001 Bonds are secured by a financial guaranty insurance policy provided by Ambac Assurance Corporation (Ambac). Ambac's rating has been withdrawn by Moody's, while PH has been upgraded by Moody's to rating of Aa3. The Series 2001 Bonds mature through November 2031.

Term loan

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

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

Note 9. Long-Term Debt (Continued)

NMTC financing

In December 2014, PH entered into a New Markets Tax Credit (NMTC) financing transaction to fund a portion of the construction of a new medical complex in Warsaw, Indiana. The new complex will be reported as part of Parkview Whitley Hospital. The NMTC structure includes PH, as a leveraged lender, and a tax credit investor formed for purposes of this transaction. As part of this structure, PH made a \$6,894 leveraged loan to an investment fund where, when coupled with a capital contribution from another party and after deducting certain fees, two loans were made to Parkview Whitley Hospital for a combined \$9,700. The notes on these loans bear interest of 1% and mature in 2044. Interest-only payments are made during the first seven years of the notes. This transaction includes a put/call provision that becomes effective at the end of the seven-year compliance/recapture period by which the structure is unwound and all loans and obligations will be satisfied.

Debt guarantees

At December 31, 2016 and 2015, the Corporation had guaranteed approximately \$2,511 and \$1,862, respectively, of certain outstanding debt obligations of unconsolidated entities. If the unconsolidated entities default on their debt obligation, the Corporation would then be responsible for the obligation. At December 31, 2016 and 2015, the Corporation has no amounts accrued related to these guarantees.

Note 10. Interest Rate Swaps and Other Derivatives

PH uses a combination of interest rate swap agreements with the objective to mitigate the impact interest rate fluctuations have on its interest payments. PH uses fixed payor, fixed spread basis, fixed receiver, and forward fixed payor contracts entered into with various third parties. Interest rate swap contracts between PH and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. This is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for PH's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. PH does not anticipate nonperformance by its counterparties. The interest rate swap agreements require PH to post collateral if the liability balance, depending on the counterparty, is greater than \$15,000 to \$30,750. No collateral was required to be posted by PH at December 31, 2016 and 2015. PH's policy is to present the collateral on a gross basis in the consolidated balance sheets.

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Notes to Consolidated Financial Statements
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Note 10. Interest Rate Swaps and Other Derivatives (Continued)

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	
			2016	2015
2020-2031	3.47% - 3.71% ¹	67% of one-month LIBOR	\$ 32,025	\$ 33,500
2028-2033	3.26% - 3.49% ¹	62.4% of one-month LIBOR + 0.29% margin	155,445	159,305
2016	BMA/SIFMA Index ²	4.005%	-	30,000
2037	3.81% ³	61.8% of one-month LIBOR + 0.31% margin	145,615	146,290
2025	BMA/SIFMA Index ⁴	68% of one-month LIBOR + 0.514%-0.52% margin	120,000	120,000
			<u>\$ 453,085</u>	<u>\$ 489,095</u>

- (1) The objective of these five interest rate swaps is to mitigate interest rate fluctuations and synthetically fix certain variable rate exposure.
- (2) The objective of this interest rate swap was to create a basis swap.
- (3) The objective of these two interest rate swaps is to mitigate interest rate fluctuations and synthetically fix certain variable rate exposure.
- (4) The objective of these two interest rate swaps is to take advantage of yield curve differences and mitigate risk on future bond offerings. These interest rate swaps are not associated with outstanding debt.

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Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 10. 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	
		2016	2015
Interest rate swap agreements	Interest rate swaps (Other assets)	\$ 1,732	\$ 4,203
Interest rate swap agreements	Interest rate swaps (Noncurrent liabilities)	(73,144)	(80,128)
		<u>\$ (71,412)</u>	<u>\$ (75,925)</u>

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Excess of Revenue Over Expenses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenue Over Expenses	
		December 31	
		2016	2015
Interest rate swap agreements - unrealized gain (loss)	Unrealized gains (losses) on interest rate swaps, net	\$ 4,456	\$ (224)
Interest rate swap agreements - settlement payments	Other, net - nonoperating	(9,226)	(9,075)
		<u>\$ (4,770)</u>	<u>\$ (9,299)</u>

Interest rate swap settlement payments, net were \$9,390 and \$9,186 in 2016 and 2015, respectively, of which \$164 and \$111 was capitalized as part of the cost of construction in 2016 and 2015, respectively.

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Notes to Consolidated Financial Statements
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Note 11. 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.

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:

	2016	2015
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 465,276	\$ 471,380
Service cost	8,674	9,609
Interest cost	20,186	19,096
Actuarial gain	(6,242)	(21,788)
Benefits paid	(14,493)	(13,021)
Projected benefit obligation at end of year	<u>473,401</u>	<u>465,276</u>
Change in plan assets:		
Plan assets at fair value at beginning of year	371,196	389,710
Actual return on plan assets	25,872	(5,493)
Benefits paid	(14,493)	(13,021)
Plan assets at fair value at end of year	<u>382,575</u>	<u>371,196</u>
Funded status of the Plan (recognized as accrued pension obligations)	<u>\$ (90,826)</u>	<u>\$ (94,080)</u>

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

	2016	2015
Unrecognized net actuarial loss	\$ 135,581	\$ 151,876
Unrecognized prior service cost	12	33
	<u>\$ 135,593</u>	<u>\$ 151,909</u>

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Notes to Consolidated Financial Statements
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Note 11. Pension Plans (Continued)

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

	2016	2015
Current year actuarial gain (loss)	\$ 5,455	\$ (12,898)
Current year amortization of actuarial loss	10,839	11,711
Current year amortization of prior service cost	22	22
	<u>\$ 16,316</u>	<u>\$ (1,165)</u>

The actuarial loss and prior service cost included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ending December 31, 2017, total \$11,040 and \$12, respectively.

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

	2016	2015
Service cost	\$ 8,674	\$ 9,609
Interest cost	20,186	19,096
Expected return on plan assets	(26,658)	(29,193)
Amortization of unrecognized net loss	10,839	11,711
Amortization of unrecognized prior service cost	22	22
Net periodic benefit cost	<u>\$ 13,063</u>	<u>\$ 11,245</u>

The accumulated benefit obligation at December 31, 2016 and 2015 was \$449,367 and \$435,395, respectively.

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

	2016	2015
Assumptions – benefit obligations:		
Discount rate	4.34%	4.41%
Rate of compensation increase	3.00	3.00
Assumptions – net periodic benefit cost:		
Discount rate	4.41%	4.11%
Expected return on plan assets	7.00	7.50
Rate of compensation increase	3.00	3.00

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Notes to Consolidated Financial Statements
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Note 11. 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 discount rate was changed from 4.41% to 4.34% for 2016. This change had the impact of increasing the projected benefit obligation by approximately \$4,600.

In 2016, a change from the RP-2014 Healthy Annuitant Male and Female mortality tables with a generational improvement projection scale MP-2015 to the RP-2014 Healthy Annuitant Male and Female mortality tables with a generational improvement projection scale MP-2016 was made in the calculation of the benefit obligation. This change from the MP-2015 scale to the MP-2016 scale had the impact of decreasing the projected benefit obligation by approximately \$6,500.

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 (58%) versus fixed income (42%). 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:

	2016	2015
Real estate investment trust	5 %	5 %
Real estate investment fund	4	4
Commingled funds	22	23
International equities	4	7
Domestic equities	21	17
Mortgage- and asset-backed securities	9	10
Corporate bonds	9	9
Municipal bonds	2	1
Mutual funds – equity	16	15
Mutual funds – balanced	4	3
US government and agency obligations	2	4
Cash and short-term investments	1	1
Guaranteed investment contract	1	1
	<u>100 %</u>	<u>100 %</u>

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Note 11. Pension Plans (Continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2016:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
International equity	\$ 15,760	\$ 15,760	\$ -	\$ -
Domestic equity	80,508	71,352	9,156	-
Mortgage- and asset-backed securities	34,584	-	34,584	-
Municipal bonds	6,569	-	6,569	-
Corporate bonds	34,412	-	34,412	-
Mutual funds - equity	62,208	62,208	-	-
Mutual funds - balanced	13,557	13,557	-	-
US government and agency obligations	9,473	9,473	-	-
Cash and short-term investments	5,537	15	5,522	-
Guaranteed investment contract	2,808	-	-	2,808
	<u>265,416</u>	<u>\$ 172,365</u>	<u>\$ 90,243</u>	<u>\$ 2,808</u>
Investments not at fair value:				
Real estate investment trust	19,602			
Real estate investment fund	17,101			
Commingled funds	80,764			
Amount due to brokers	(308)			
Total investments	<u>\$ 382,575</u>			

The fair value of pension plan assets was determined using the following inputs at December 31, 2015:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
International equity	\$ 23,768	\$ 16,377	\$ 7,391	\$ -
Domestic equity	64,149	63,879	270	-
Mortgage- and asset-backed securities	37,817	-	37,817	-
Municipal bonds	5,097	-	5,097	-
Corporate bonds	33,529	-	33,529	-
Mutual funds - equity	55,614	55,614	-	-
Mutual funds - balanced	11,736	11,736	-	-
US government and agency obligations	12,440	11,916	524	-
Cash and short-term investments	4,423	4,423	-	-
Guaranteed investment contract	4,938	-	-	4,938
	<u>253,511</u>	<u>\$ 163,945</u>	<u>\$ 84,628</u>	<u>\$ 4,938</u>
Investments not at fair value:				
Real estate investment trust	18,130			
Real estate investment fund	15,853			
Commingled funds	83,702			
Total investments	<u>\$ 371,196</u>			

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

Note 11. Pension Plans (Continued)

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 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, 2015	\$ 5,253
Purchases, issuances, and settlements	(577)
Actual return on plan assets	262
Fair value at December 31, 2015	4,938
Purchases, issuances, and settlements	(2,402)
Actual return on plan assets	272
Fair value at December 31, 2016	<u>\$ 2,808</u>

Estimated future benefit payments are as follows:

Year ending December 31:	
2017	\$ 17,177
2018	18,863
2019	20,441
2020	22,060
2021	23,574
2022 - 2026	138,590

The Corporation expects to make no contributions to its defined benefit pension plan in 2017.

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 \$19,178 and \$16,797 at December 31, 2016 and 2015, respectively, and is recorded as a current liability on the consolidated balance sheets. During 2016 and 2015, expense for this plan totaled \$19,265 and \$16,799, respectively, and is included in salaries and benefits expense.

Contributions to the tax-sheltered annuity and 401(k) plans are based on a percentage of eligible employee salaries, as defined. The contributions for the tax-sheltered annuity and 401(k) plans were \$9,308 and \$8,714 in 2016 and 2015, respectively, and were reported as salaries and benefits expense.

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 12. 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.

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, 2016, which may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients. The liability for medical malpractice includes amounts for claims and related legal expenses for these incurred but not reported incidents. This liability is actuarially determined by combining industry data and the Corporation's historical experience. Accrued malpractice losses and insurance recovery receivables have been discounted at 4% in 2016 and 2015 and, in management's opinion, provide adequate reserve for loss contingencies. The Corporation recorded receivable balances to reflect the expected recovery from commercial insurance coverage. The Corporation is reporting receivables of \$756 and \$580 in prepaid expenses and other current assets at December 31, 2016 and 2015, respectively, and \$1,070 and \$910 in other assets at December 31, 2016 and 2015, respectively. The Corporation has recorded malpractice liabilities of \$2,243 and \$2,013 in accounts payable and accrued expenses as of December 31, 2016 and 2015, respectively, and \$6,236 and \$5,904 at December 31, 2016 and 2015, respectively, in other liabilities in the consolidated balance sheets.

The Corporation established a revocable, restricted trust for claims not covered by commercial insurance for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreements, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The balance of the trust was \$5,845 and \$4,349 at December 31, 2016 and 2015, respectively. The trust is included in Investments – Funds held by trustees in the consolidated balance sheets.

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

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

Note 13. Commitments and Contingencies

Certain property and equipment are leased using noncancelable operating and capital lease arrangements. Rental expense associated with the operating leases was \$21,015 and \$19,938 in 2016 and 2015, respectively. The leases expire in various years through 2027. Future minimum lease payments required under noncancelable operating and capital leases for property and equipment as of December 31, 2016, are as follows:

	Operating Leases	Capital Leases
Year ending December 31:		
2017	\$ 6,465	\$ 2,546
2018	4,979	2,110
2019	3,627	1,440
2020	2,366	1,284
2021	1,946	528
Thereafter	7,676	8
Total minimum lease payments	<u>\$ 27,059</u>	7,916
Less amount representing interest		(593)
Present value of net minimum lease payments		<u>\$ 7,323</u>

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

During 2016, PH entered into a seven-year agreement with a lab testing system vendor which involves a commitment for the purchase of supplies and the use of various lab testing equipment. This agreement will be recorded in 2017 when the system is placed in service. The contract commitment is estimated at approximately \$15,300 over the seven-year term of the agreement.

Note 14. Functional Expenses

The Corporation, as an integrated health care delivery system, provides and manages the health care needs of its patients. Aggregate direct expenses for these services as a percentage of total expenses were approximately 91% for each of the years ended December 31, 2016 and 2015.

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

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

Note 15. 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 2016, PH recognized \$985 in income from Indiana Medicaid Disproportionate Share payments, \$0 of which pertained to state fiscal year 2016. In 2015, PH recognized \$2,638 in income from Indiana Medicaid Disproportionate Share payments, \$755 of which pertained to state fiscal year 2015.

At December 31, 2016 and 2015, PH had no State DSH payments receivable recorded.

Note 16. 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) through June 30, 2017. 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.

Payments to PH recognized for the year ended December 31, 2016, totaled \$43,076 and assessments against PH for the same period were \$38,090.

Payments to PH recognized for the year ended December 31, 2015, totaled \$45,658 and assessments against PH for the same period were \$34,446.

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 operating expense in the consolidated statements of operations and changes in net assets.

Note 17. Subsequent Events

PH has evaluated subsequent events for potential recognition and/or disclosure through March 22, 2017, the date the consolidated financial statements were issued.

Supplementary Information

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

Details of Consolidated Balance Sheet
December 31, 2016
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Parkview Wabash Hospital Foundation	Eliminations	Consolidated
Assets																
Current assets:																
Cash and cash equivalents	\$ (154)	\$ 94,985	\$ 3	\$ 297	\$ 2	\$ 40	\$ 2,555	\$ -	\$ (13)	\$ 1,082	\$ 163	\$ 201	\$ 269	\$ 602	\$ -	\$ 100,032
Short-term investments	-	306	-	-	-	-	-	-	-	-	-	-	-	-	-	306
Patient accounts receivable, net	122,122	39,259	6,530	7,527	7,363	4,484	5,583	-	1,238	-	-	-	-	-	(10,629)	183,477
Inventories	17,389	4,209	273	344	351	332	271	-	-	-	-	-	-	-	-	23,169
Prepaid expenses and other current assets	(431,650)	481,360	(2,841)	8,715	1,037	(2,593)	(22,630)	7,685	2,467	803	(54)	71	85	(22)	(17,041)	25,392
Estimated third-party payor settlements	2,946	18	230	117	565	47	37	-	-	-	-	-	-	-	-	3,960
Total current assets	(289,347)	620,137	4,195	17,000	9,318	2,310	(14,184)	7,685	3,692	1,885	109	272	354	580	(27,670)	336,336
Investments:																
Board-designated investments	21,787	816,894	33,693	49,039	-	-	-	-	-	9,098	571	1,470	264	3,240	-	936,056
Funds held by trustees	-	26,432	-	-	-	-	23,537	-	-	-	-	-	-	-	-	49,969
Other investments	-	-	-	-	-	-	-	-	-	-	185	-	-	604	-	789
	21,787	843,326	33,693	49,039	-	-	23,537	-	-	9,098	756	1,470	264	3,844	-	986,814
Property and equipment:																
Cost	1,056,841	596,803	16,736	39,745	18,647	32,218	31,128	1,180	2,316	184	21	18	14	-	-	1,795,851
Less accumulated depreciation and amortization	440,673	266,163	11,862	10,928	12,393	14,986	11,021	1,048	1,404	183	21	17	14	-	-	770,713
	616,168	330,640	4,874	28,817	6,254	17,232	20,107	132	912	1	-	1	-	-	-	1,025,138
Other assets:																
Interest rate swaps	-	1,732	-	-	-	-	-	-	-	-	-	-	-	-	-	1,732
Investments in joint ventures	1,039	1,149	-	-	-	-	-	-	-	-	-	-	-	-	-	2,188
Goodwill and intangible assets, net	22,492	74,518	246	-	840	5,011	-	-	-	-	-	-	-	-	-	103,107
Other assets	549	42,631	42	-	5	-	-	11,181	-	-	-	-	-	-	(18,062)	36,346
	24,080	120,030	288	-	845	5,011	-	11,181	-	-	-	-	-	-	(18,062)	143,373
Total assets	\$ 372,688	\$ 1,914,133	\$ 43,050	\$ 94,856	\$ 16,417	\$ 24,553	\$ 29,460	\$ 18,998	\$ 4,604	\$ 10,984	\$ 865	\$ 1,743	\$ 618	\$ 4,424	\$ (45,732)	\$ 2,491,661

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

Details of Consolidated Balance Sheet (Continued)
December 31, 2016
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Parkview Wabash Hospital Foundation	Eliminations	Consolidated
Liabilities and Net Assets																
Current liabilities:																
Accounts payable and accrued expenses	\$ 39,497	\$ 41,894	\$ 1,291	\$ 2,083	\$ 1,238	\$ 1,503	\$ 2,984	\$ 11,440	\$ 57	\$ 198	\$ -	\$ -	\$ -	\$ 3	\$ (10,828)	\$ 91,360
Salaries, wages and related liabilities	14,128	83,586	817	918	795	522	499	144	260	-	-	-	-	-	-	101,669
Accrued interest	-	2,650	-	-	-	22	134	-	-	-	-	-	-	-	-	2,806
Estimated third-party payor settlements	3,593	279	-	59	-	315	968	-	-	-	-	-	-	-	-	5,214
Current portion of long-term debt	1,526	41,380	41	50	151	870	75	-	-	-	-	-	-	-	(16,842)	27,251
Total current liabilities	58,744	169,789	2,149	3,110	2,184	3,232	4,660	11,584	317	198	-	-	-	3	(27,670)	228,300
Noncurrent liabilities:																
Long-term debt, less current portion	3,498	538,719	154	9,887	400	17,936	25,069	-	-	-	-	-	-	-	-	595,663
Interest rate swaps	-	73,144	-	-	-	-	-	-	-	-	-	-	-	-	-	73,144
Accrued pension obligations	-	90,826	-	-	-	-	-	-	-	-	-	-	-	-	-	90,826
Other	267	17,356	42	1	-	5,896	-	6,508	-	6	-	-	-	-	(5,896)	24,180
	3,765	720,045	196	9,888	400	23,832	25,069	6,508	-	6	-	-	-	-	(5,896)	783,813
Net assets:																
Parkview Health System, Inc.	310,179	993,142	40,705	81,858	13,833	(2,647)	(7,479)	906	4,287	5,512	497	1,016	341	3,233	(12,166)	1,433,217
Noncontrolling interest in subsidiaries	-	31,157	-	-	-	-	210	-	-	-	-	-	-	-	-	31,367
Total unrestricted net assets	310,179	1,024,299	40,705	81,858	13,833	(2,647)	(7,269)	906	4,287	5,512	497	1,016	341	3,233	(12,166)	1,464,584
Temporarily restricted net assets	-	-	-	-	-	136	7,000	-	-	4,444	277	727	277	559	-	13,420
Permanently restricted net assets	-	-	-	-	-	-	-	-	-	824	91	-	-	629	-	1,544
	310,179	1,024,299	40,705	81,858	13,833	(2,511)	(269)	906	4,287	10,780	865	1,743	618	4,421	(12,166)	1,479,548
Total liabilities and net assets	\$ 372,688	\$ 1,914,133	\$ 43,050	\$ 94,856	\$ 16,417	\$ 24,553	\$ 29,460	\$ 18,998	\$ 4,604	\$ 10,984	\$ 865	\$ 1,743	\$ 618	\$ 4,424	\$ (45,732)	\$ 2,491,661

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

Details of Consolidated Balance Sheet
December 31, 2015
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Parkview Wabash Hospital Foundation	Eliminations	Consolidated
Assets																
Current assets:																
Cash and cash equivalents	\$ (223)	\$ 150,389	\$ 3	\$ 367	\$ 2	\$ 3	\$ 957	\$ -	\$ (17)	\$ 2,172	\$ 95	\$ 63	\$ 204	\$ 472	\$ -	\$ 154,487
Short-term investments	-	7,961	-	-	-	-	-	-	-	-	-	-	-	-	-	7,961
Patient accounts receivable, net	113,910	37,822	5,852	6,518	6,087	4,320	7,162	-	1,393	-	-	-	-	-	(7,964)	175,100
Inventories	14,750	4,318	209	214	254	264	380	-	-	-	-	-	-	-	-	20,389
Prepaid expenses and other current assets	(418,805)	475,684	1,391	(23,657)	3,287	(1,206)	(20,591)	20,770	3,074	1,251	(91)	48	77	(20)	(10,841)	30,371
Estimated third-party payor settlements	3,098	106	218	389	190	26	881	-	-	-	-	-	-	-	-	4,908
Total current assets	(287,270)	676,280	7,673	(16,169)	9,820	3,407	(11,211)	20,770	4,450	3,423	4	111	281	452	(18,805)	393,216
Investments:																
Board-designated investments	20,302	642,287	31,421	45,697	-	-	-	-	-	7,981	651	1,608	409	3,203	-	753,559
Funds held by trustees	-	25,446	-	-	-	-	-	-	-	-	-	-	-	-	-	25,446
Other investments	-	-	-	-	-	-	-	-	-	-	168	-	-	695	-	863
	20,302	667,733	31,421	45,697	-	-	-	-	-	7,981	819	1,608	409	3,898	-	779,868
Property and equipment:																
Cost	1,027,101	569,124	14,636	30,274	16,946	30,996	25,674	1,493	2,121	223	21	18	14	-	-	1,718,641
Less accumulated depreciation and amortization	428,397	236,430	11,318	9,032	12,107	14,062	6,109	998	1,268	201	19	14	11	-	-	719,966
	598,704	332,694	3,318	21,242	4,839	16,934	19,565	495	853	22	2	4	3	-	-	998,675
Other assets:																
Interest rate swaps	-	4,203	-	-	-	-	-	-	-	-	-	-	-	-	-	4,203
Investments in joint ventures	992	1,191	-	-	-	-	-	-	-	-	-	-	-	-	-	2,183
Goodwill and intangible assets, net	22,491	73,378	-	-	841	5,011	-	-	-	-	-	-	-	-	-	101,721
Other assets	763	38,787	33	-	9	-	-	-	-	-	-	-	-	-	(18,875)	20,717
	24,246	117,559	33	-	850	5,011	-	-	-	-	-	-	-	-	(18,875)	128,824
Total assets	\$ 355,982	\$ 1,794,266	\$ 42,445	\$ 50,770	\$ 15,509	\$ 25,352	\$ 8,354	\$ 21,265	\$ 5,303	\$ 11,426	\$ 825	\$ 1,723	\$ 693	\$ 4,350	\$ (37,680)	\$ 2,300,583

d/b/a Parkview Health

Details of Consolidated Balance Sheet (Continued)
December 31, 2015
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Parkview Wabash Hospital Foundation	Eliminations	Consolidated	
Liabilities and Net Assets																	
Current liabilities:																	
Accounts payable and accrued expenses	\$ 31,678	\$ 34,836	\$ 791	\$ 4,367	\$ 628	\$ 630	\$ 378	\$ 11,097	\$ 99	\$ 1,460	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (11,744)	\$ 74,219
Salaries, wages and related liabilities	12,708	78,447	713	762	749	490	361	130	257	-	-	-	-	-	-	-	94,617
Accrued interest	-	2,587	-	-	-	12	-	-	-	-	-	-	-	-	-	-	2,599
Estimated third-party payor settlements	3,955	57	152	-	-	588	-	-	-	-	-	-	-	-	-	-	4,752
Current portion of long-term debt	1,621	32,182	70	79	128	859	120	-	-	-	-	-	-	-	-	(7,061)	27,998
Total current liabilities	49,962	148,109	1,726	5,208	1,505	2,579	859	11,227	356	1,460	-	-	-	-	(1)	(18,805)	204,185
Noncurrent liabilities:																	
Long-term debt, less current portion	1,493	560,396	36	9,751	167	18,688	123	-	-	-	-	-	-	-	-	-	590,654
Interest rate swaps	-	80,128	-	-	-	-	-	-	-	-	-	-	-	-	-	-	80,128
Accrued pension obligations	-	94,080	-	-	-	-	-	-	-	-	-	-	-	-	-	-	94,080
Other	190	16,066	34	1	4	6,596	-	3,888	-	7	-	-	-	-	-	(6,709)	20,077
	1,683	750,670	70	9,752	171	25,284	123	3,888	-	7	-	-	-	-	-	(6,709)	784,939
Net assets:																	
Parkview Health System, Inc.	304,337	868,014	40,649	35,810	13,833	(2,617)	(55)	6,150	4,947	4,956	491	1,063	414	3,182	(12,166)	-	1,269,008
Noncontrolling interest in subsidiaries	-	27,473	-	-	-	-	427	-	-	-	-	-	-	-	-	-	27,900
Total unrestricted net assets	304,337	895,487	40,649	35,810	13,833	(2,617)	372	6,150	4,947	4,956	491	1,063	414	3,182	(12,166)	-	1,296,908
Temporarily restricted net assets	-	-	-	-	-	106	7,000	-	-	4,179	243	660	279	474	-	-	12,941
Permanently restricted net assets	-	-	-	-	-	-	-	-	-	824	91	-	-	695	-	-	1,610
	304,337	895,487	40,649	35,810	13,833	(2,511)	7,372	6,150	4,947	9,959	825	1,723	693	4,351	(12,166)	-	1,311,459
Total liabilities and net assets	\$ 355,982	\$ 1,794,266	\$ 42,445	\$ 50,770	\$ 15,509	\$ 25,352	\$ 8,354	\$ 21,265	\$ 5,303	\$ 11,426	\$ 825	\$ 1,723	\$ 693	\$ 4,350	\$ (37,680)	\$	2,300,583

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

Details of Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2016
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Parkview Wabash Hospital Foundation	Eliminations	Consolidated
Revenues:																
Net patient care service revenue	\$ 999,270	\$ 365,616	\$ 62,762	\$ 71,954	\$ 70,395	\$ 37,265	\$ 36,759	\$ -	\$ 7,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (120,069)	\$ 1,531,312
Provision for bad debts	(67,908)	(12,034)	(5,744)	(9,581)	(7,980)	(3,856)	(3,595)	-	(46)	-	-	-	-	-	-	(110,744)
Net patient care service revenue, less provision for bad debts	931,362	353,582	57,018	62,373	62,415	33,409	33,164	-	7,314	-	-	-	-	-	(120,069)	1,420,568
Capitation revenue	-	-	-	-	-	-	-	98,514	-	-	-	-	-	-	-	98,514
Other revenue	39,476	33,639	1,459	2,221	1,442	1,217	791	4,317	3,359	2,100	313	307	290	378	(46,136)	45,173
	<u>970,838</u>	<u>387,221</u>	<u>58,477</u>	<u>64,594</u>	<u>63,857</u>	<u>34,626</u>	<u>33,955</u>	<u>102,831</u>	<u>10,673</u>	<u>2,100</u>	<u>313</u>	<u>307</u>	<u>290</u>	<u>378</u>	<u>(166,205)</u>	<u>1,564,255</u>
Expenses:																
Salaries and benefits	304,281	438,814	18,635	21,697	19,205	12,782	12,746	3,052	7,668	969	102	112	119	126	(73,933)	766,375
Supplies	153,594	56,490	6,075	6,996	6,186	2,837	4,020	56	762	17	7	2	1	5	(13,133)	223,915
Purchased services	44,084	54,984	3,515	6,405	5,681	4,816	4,856	103,921	1,504	140	2	3	2	5	(60,673)	169,245
Utilities, repairs and maintenance	22,781	29,920	1,879	1,778	1,624	1,199	1,276	33	167	4	-	1	-	1	(341)	60,322
Depreciation and amortization	46,580	37,751	915	2,367	949	1,509	5,032	124	136	5	3	3	3	-	-	95,377
Hospital assessment fee	33,182	1,046	869	1,018	807	684	484	-	-	-	-	-	-	-	-	38,090
Other, net	233,281	(219,675)	13,238	16,655	13,791	7,470	12,571	892	1,097	1,513	232	151	216	113	(18,125)	63,420
	<u>837,783</u>	<u>399,330</u>	<u>45,126</u>	<u>56,916</u>	<u>48,243</u>	<u>31,297</u>	<u>40,985</u>	<u>108,078</u>	<u>11,334</u>	<u>2,648</u>	<u>346</u>	<u>272</u>	<u>341</u>	<u>250</u>	<u>(166,205)</u>	<u>1,416,744</u>
Operating income (loss)	<u>133,055</u>	<u>(12,109)</u>	<u>13,351</u>	<u>7,678</u>	<u>15,614</u>	<u>3,329</u>	<u>(7,030)</u>	<u>(5,247)</u>	<u>(661)</u>	<u>(548)</u>	<u>(33)</u>	<u>35</u>	<u>(51)</u>	<u>128</u>	<u>-</u>	<u>147,511</u>
Nonoperating income (expense):																
Interest, dividends and realized gains (losses)																
on sales of investments, net	597	18,985	883	1,291	(1)	(2)	(3)	-	-	-	-	-	-	-	-	21,750
Unrealized (losses) on investments, net	909	29,756	1,387	2,046	-	-	1	-	-	-	-	-	-	-	-	34,099
Interest expense	(165)	(17,667)	(6)	(105)	(20)	(210)	(310)	-	-	-	-	-	-	-	-	(18,483)
Unrealized gains on interest rate swaps, net	-	4,456	-	-	-	-	-	-	-	-	-	-	-	-	-	4,456
Other, net	(341)	(9,897)	10	38	(6)	10	2	-	1	-	-	-	-	-	-	(10,183)
Excess (deficit) of revenues over expenses	<u>\$ 134,055</u>	<u>\$ 13,524</u>	<u>\$ 15,625</u>	<u>\$ 10,948</u>	<u>\$ 15,587</u>	<u>\$ 3,127</u>	<u>\$ (7,340)</u>	<u>\$ (5,247)</u>	<u>\$ (660)</u>	<u>\$ (548)</u>	<u>\$ (33)</u>	<u>\$ 35</u>	<u>\$ (51)</u>	<u>\$ 128</u>	<u>\$ -</u>	<u>\$ 179,150</u>
Excess (deficit) of revenues over expenses attributable to:																
Noncontrolling interest in subsidiaries	\$ -	\$ 30,764	\$ -	\$ -	\$ -	\$ -	\$ 83	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,847
Parkview Health System, Inc. and subsidiaries	134,055	(17,240)	15,625	10,948	15,587	3,127	(7,423)	(5,247)	(660)	(548)	(33)	35	(51)	128	-	148,303
Other changes in net assets attributable to:																
Noncontrolling interest in subsidiaries	-	(27,080)	-	-	-	-	(300)	-	-	-	-	-	-	-	-	(27,380)
Parkview Health System, Inc. and subsidiaries	(128,213)	142,368	(15,569)	35,100	(15,587)	(3,127)	(1)	3	-	1,369	73	(15)	(24)	(58)	-	16,319
Increase (decrease) in net assets	<u>5,842</u>	<u>128,812</u>	<u>56</u>	<u>46,048</u>	<u>-</u>	<u>-</u>	<u>(7,641)</u>	<u>(5,244)</u>	<u>(660)</u>	<u>821</u>	<u>40</u>	<u>20</u>	<u>(75)</u>	<u>70</u>	<u>-</u>	<u>168,089</u>
Net assets (deficit):																
Beginning of year	304,337	895,487	40,649	23,644	13,833	(2,511)	7,372	6,150	4,947	9,959	825	1,723	693	4,351	-	1,311,459
End of year	<u>\$ 310,179</u>	<u>\$ 1,024,299</u>	<u>\$ 40,705</u>	<u>\$ 69,692</u>	<u>\$ 13,833</u>	<u>\$ (2,511)</u>	<u>\$ (269)</u>	<u>\$ 906</u>	<u>\$ 4,287</u>	<u>\$ 10,780</u>	<u>\$ 865</u>	<u>\$ 1,743</u>	<u>\$ 618</u>	<u>\$ 4,421</u>	<u>\$ -</u>	<u>\$ 1,479,548</u>

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

Details of Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2015
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Parkview Wabash Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Parkview Wabash Hospital Foundation	Eliminations	Consolidated	
Revenues:																	
Net patient care service revenue	\$ 937,183	\$ 340,669	\$ 61,316	\$ 57,132	\$ 64,413	\$ 35,223	\$ 37,261	\$ -	\$ 7,784	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (86,482)	\$ 1,454,499
Provision for bad debts	(72,980)	(13,456)	(7,340)	(6,164)	(9,051)	(4,435)	(3,546)	-	8	-	-	-	-	-	-	-	(116,964)
Net patient care service revenue, less provision for bad debts	864,203	327,213	53,976	50,968	55,362	30,788	33,715	-	7,792	-	-	-	-	-	-	(86,482)	1,337,535
Capitation revenue	-	-	-	-	-	-	-	57,900	-	-	-	-	-	-	-	-	57,900
Other revenue	27,226	35,038	1,491	1,203	909	803	608	4,041	2,710	1,964	326	504	347	354	(31,591)	45,933	
	891,429	362,251	55,467	52,171	56,271	31,591	34,323	61,941	10,502	1,964	326	504	347	354	(118,073)	1,441,368	
Expenses:																	
Salaries and benefits	272,858	379,499	17,313	16,997	18,193	12,291	12,467	3,131	6,819	741	94	107	112	130	(63,551)	677,201	
Supplies	133,357	47,799	4,820	4,461	4,127	2,333	5,107	41	737	46	1	-	-	9	(1,230)	201,608	
Purchased services	45,483	50,857	3,555	4,063	4,927	4,346	4,120	59,724	1,748	262	6	-	-	3	(36,249)	142,845	
Utilities, repairs and maintenance	21,635	25,812	1,929	1,313	1,542	1,204	1,305	79	121	12	-	-	-	2	(340)	54,614	
Depreciation and amortization	45,139	35,760	819	1,029	845	1,497	5,030	136	109	6	3	3	3	-	-	90,379	
Hospital assessment fee	29,456	936	1,039	926	1,171	643	275	-	-	-	-	-	-	-	-	34,446	
Other, net	198,731	(179,021)	12,264	15,783	13,077	7,438	7,153	524	966	2,015	280	431	92	109	(16,703)	63,139	
	746,659	361,642	41,739	44,572	43,882	29,752	35,457	63,635	10,500	3,082	384	541	207	253	(118,073)	1,264,232	
Operating income (loss)	144,770	609	13,728	7,599	12,389	1,839	(1,134)	(1,694)	2	(1,118)	(58)	(37)	140	101	-	177,136	
Nonoperating income (expense):																	
Interest, dividends and realized gains (losses) on sales of investments, net	406	10,980	588	859	(1)	(1)	(1)	-	-	-	-	-	-	-	-	-	12,830
Unrealized (losses) on investments, net	(1,145)	(26,997)	(1,748)	(2,578)	-	-	(34)	-	-	-	-	-	-	-	-	-	(32,502)
Interest expense	23	(17,300)	2	(93)	(12)	(135)	(10)	-	-	-	-	-	-	-	-	-	(17,525)
Unrealized losses on interest rate swaps, net	-	(224)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(224)
Contribution of unrestricted net assets of Wabash County Hospital	-	-	-	-	-	-	37,444	-	-	-	-	-	-	-	-	-	37,444
Other, net	(55)	959	-	(54)	1	-	(2)	-	-	-	-	-	-	-	-	-	849
Excess (deficit) of revenues over expenses	\$ 143,999	\$ (31,973)	\$ 12,570	\$ 5,733	\$ 12,377	\$ 1,703	\$ 36,263	\$ (1,694)	\$ 2	\$ (1,118)	\$ (58)	\$ (37)	\$ 140	\$ 101	\$ -	\$ 178,008	
Excess (deficit) of revenues over expenses attributable to:																	
Noncontrolling interest in subsidiaries	\$ -	\$ 29,342	\$ -	\$ -	\$ -	\$ -	\$ 70	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,412
Parkview Health System, Inc. and subsidiaries	143,999	(61,315)	12,570	5,733	12,377	1,703	36,193	(1,694)	2	(1,118)	(58)	(37)	140	101	-	148,596	
Other changes in net assets attributable to:																	
Noncontrolling interest in subsidiaries	-	(27,098)	-	-	-	-	356	-	-	-	-	-	-	-	-	-	(26,742)
Parkview Health System, Inc. and subsidiaries	(147,336)	216,893	(12,500)	(6,466)	(12,377)	(1,703)	(50,847)	-	132	(4,364)	(100)	(101)	(19)	4,250	-	(14,538)	
(Decrease) increase in net assets	(3,337)	157,822	70	(733)	-	-	(14,228)	(1,694)	134	(5,482)	(158)	(138)	121	4,351	-	136,728	
Net assets (deficit):																	
Beginning of year	307,674	737,665	40,579	24,377	13,833	(2,511)	21,600	7,844	4,813	15,441	983	1,861	572	-	-	1,174,731	
End of year	\$ 304,337	\$ 895,487	\$ 40,649	\$ 23,644	\$ 13,833	\$ (2,511)	\$ 7,372	\$ 6,150	\$ 4,947	\$ 9,959	\$ 825	\$ 1,723	\$ 693	\$ 4,351	\$ -	\$ 1,311,459	