

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

Consolidated Financial Report
and Supplementary Information
December 31, 2017

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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, 2017 and 2016, 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, the 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, 2017 and 2016, 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 and 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 27, 2018

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

**Consolidated Balance Sheets
December 31, 2017 and 2016
(In Thousands)**

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 124,044	\$ 100,032
Short-term investments	309	306
Patient accounts receivable, less allowances for bad debts of \$87,569 and \$79,034 in 2017 and 2016, respectively	211,441	183,477
Inventories	24,653	23,169
Prepaid expenses and other current assets	29,752	25,392
Estimated third-party payor settlements	2,784	3,960
Total current assets	392,983	336,336
Investments:		
Board-designated investments	1,096,024	936,056
Funds held by trustees	15,636	49,969
Other investments	874	789
	1,112,534	986,814
Property and equipment:		
Cost	1,962,636	1,795,851
Less accumulated depreciation and amortization	861,013	770,713
	1,101,623	1,025,138
Other assets:		
Interest rate swaps	2,344	1,732
Investments in joint ventures	1,986	2,188
Goodwill and intangible assets, net	101,947	103,107
Other assets	29,856	36,346
	136,133	143,373
Total assets	\$ 2,743,273	\$ 2,491,661

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

**Consolidated Balance Sheets (Continued)
December 31, 2017 and 2016
(In Thousands)**

	2017	2016
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 142,093	\$ 91,360
Salaries, wages and related liabilities	110,807	101,669
Accrued interest	3,098	2,806
Estimated third-party payor settlements	5,509	5,214
Current portion of long-term debt	21,346	27,251
Total current liabilities	282,853	228,300
Noncurrent liabilities:		
Long-term debt, less current portion	616,815	595,663
Interest rate swaps	67,967	73,144
Accrued pension obligations	106,123	90,826
Other	25,629	24,180
	816,534	783,813
Net assets:		
Parkview Health System, Inc.	1,593,032	1,433,217
Noncontrolling interest in subsidiaries	35,466	31,367
Total unrestricted net assets	1,628,498	1,464,584
Temporarily restricted net assets	13,834	13,420
Permanently restricted net assets	1,554	1,544
	1,643,886	1,479,548
Total liabilities and net assets	\$ 2,743,273	\$ 2,491,661

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, 2017 and 2016
(In Thousands)

	2017	2016
Revenues:		
Net patient care service revenue	\$ 1,668,998	\$ 1,531,312
Provision for bad debts	(102,959)	(110,744)
Net patient care service revenue, less provision for bad debts	<u>1,566,039</u>	<u>1,420,568</u>
Capitation revenue	55,058	98,514
Other revenue	47,701	45,173
	<u>1,668,798</u>	<u>1,564,255</u>
Expenses:		
Salaries and benefits	853,848	766,375
Supplies	249,114	223,915
Purchased services	156,037	169,245
Utilities, repairs and maintenance	61,449	60,322
Depreciation and amortization	99,396	95,377
Hospital assessment fee	49,004	38,090
Interest and financing costs	24,132	27,348
Other, net	69,233	63,420
	<u>1,562,213</u>	<u>1,444,092</u>
Operating income	<u>106,585</u>	<u>120,163</u>
Nonoperating income (expense):		
Interest, dividends and realized gains on sales of investments, net	70,344	21,750
Unrealized gains on investments, net	27,983	34,099
Unrealized gains on interest rate swaps, net	5,694	4,456
Loss on early refunding of long-term debt	(9,480)	-
Other, net	(173)	(1,318)
	<u>94,368</u>	<u>58,987</u>
Excess of revenues over expenses	<u>200,953</u>	<u>179,150</u>
Excess of revenues over expenses attributable to noncontrolling interest in subsidiaries	<u>29,342</u>	<u>30,847</u>
Excess of revenues over expenses attributable to Parkview Health System, Inc.	<u>\$ 171,611</u>	<u>\$ 148,303</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
Years Ended December 31, 2017 and 2016
(In Thousands)

	Year Ended December 31, 2017		
	Total	Controlling Interest	Noncontrolling Interest
Unrestricted net assets:			
Excess of revenues over expenses	\$ 200,953	\$ 171,611	\$ 29,342
Distributions to noncontrolling interests	(25,243)	-	(25,243)
Pension-related changes other than net periodic pension cost	(15,268)	(15,268)	-
Net assets released from restriction used for property and equipment, and other	3,472	3,472	-
Increase in unrestricted net assets	<u>163,914</u>	<u>159,815</u>	<u>4,099</u>
Temporarily restricted net assets:			
Contributions	5,117	5,117	-
Investment gain	100	100	-
Net assets released from restrictions	(4,803)	(4,803)	-
Increase in temporarily restricted net assets	<u>414</u>	<u>414</u>	<u>-</u>
Permanently restricted net assets:			
Contributions	10	10	-
Increase in permanently restricted net assets	<u>10</u>	<u>10</u>	<u>-</u>
Increase in net assets	164,338	160,239	4,099
Net assets:			
Beginning of year	<u>1,479,548</u>	<u>1,448,181</u>	<u>31,367</u>
End of year	<u>\$ 1,643,886</u>	<u>\$ 1,608,420</u>	<u>\$ 35,466</u>

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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, 2017 and 2016
(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 Cash Flows
Years Ended December 31, 2017 and 2016
(In Thousands)

	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 164,338	\$ 168,089
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	102,959	110,744
Depreciation and amortization	99,396	95,377
Contributions restricted for capital	(2,078)	(1,419)
Undistributed (earnings) loss from alternative investments	(6,834)	931
Unrealized gains on interest rate swaps, net	(5,832)	(4,555)
Amortization of deferred financing costs and net premium	(2,362)	(461)
Loss on early refunding of long-term debt	9,480	-
Loss from disposal of property and equipment	429	1,157
Pension-related changes other than net periodic pension cost	15,268	(16,316)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Patient accounts receivable	(130,923)	(119,121)
Inventories	(1,484)	(2,780)
Prepaid expenses and other current assets	(4,360)	5,252
Trading securities, net	(118,889)	(200,223)
Accounts payable, accrued expenses and other current liabilities	60,163	24,400
Estimated third-party payor settlements	1,471	1,411
Accrued pension obligation	29	13,062
Other	31,517	12,281
Net cash provided by operating activities	212,288	87,829
Cash flows from investing activities:		
Property and equipment additions	(169,111)	(116,768)
Business acquisitions, net of cash acquired	(61)	(3,057)
Proceeds from sale of property and equipment	348	4,587
Net cash used in investing activities	(168,824)	(115,238)
Cash flows from financing activities:		
Principal payments of long-term debt	(28,314)	(35,130)
Proceeds from issuance of long-term debt	160,800	38,229
Early refunding of long-term debt	(125,304)	-
Payments of capital lease obligations	(2,653)	(4,060)
Distributions to noncontrolling interests	(25,243)	(27,380)
Contributions restricted for capital	2,078	1,419
Other	(816)	(124)
Net cash used in financing activities	(19,452)	(27,046)
Increase (decrease) in cash and cash equivalents	24,012	(54,455)
Cash and cash equivalents:		
Beginning of year	100,032	154,487
End of year	\$ 124,044	\$ 100,032
Schedule of noncash investing and financing activities:		
Assets acquired through capital leases	\$ 3,601	\$ 5,885

See notes to the 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 only 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 \$55,058 in 2017 and \$98,514 in 2016, and is recorded in 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, Parkview Regional Medical Center and Parkview Randallia Hospital	PH and PPG
Parkview Hospital, Inc. Orthopaedic Hospital at Parkview North, LLC	Parkview Ortho Hospital	PVH ORTHO
Huntington Memorial Hospital, Inc.	Parkview Huntington Hospital	PHH
Whitley Memorial Hospital, Inc. Community Hospital of Noble County, Inc.	Parkview Whitley Hospital Parkview Noble Hospital	PWH PNH
Community Hospital of LaGrange County, Inc.	Parkview LaGrange Hospital	PLH
Managed Care Services, LLC	Managed Care Services	MCS
Parkview Wabash Hospital, Inc. Parkview Foundation, Inc.	Parkview Wabash Hospital Parkview Foundation	PWB PVHF
Whitley Memorial Hospital Foundation, Inc. Community Hospital of Noble County Foundation, Inc.	Parkview Whitley Hospital Foundation Parkview Noble Hospital Foundation	PWHF 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 2017, PH acquired 1 physician group and 1 physical therapy group for a total purchase price of \$79. In 2016, PH acquired 3 physician groups and a physical therapy practice with a total purchase price of \$3,057. The physician groups are included in PPG. The acquisitions were accounted for as business combinations. Goodwill of \$61 and \$2,585 was recognized upon purchase in 2017 and 2016, 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)

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 Corporation estimates the cost of charity 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. In July 2016, the Corporation changed its charity policy. First, an automated algorithm identifies and writes off presumptive charity services based upon individual patients' historical propensity-to-pay factors. Second, the Corporation began writing off non-covered Medicaid and HIP services as charity care. The cost of charity care provided in 2017 and 2016 approximates \$27,398 and \$15,744, respectively.

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.

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.

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 2. Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of PH and all majority-owned or majority-controlled subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where ownership is 20% to 50% and PH has significant influence. 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, 2017 and 2016, PH's share of income recorded using the equity method approximated \$1,043 and \$644, 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.

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.

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)

Inventories: Inventories consist primarily of drugs and supplies, are stated at the lesser of cost or net realizable value, 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 (NAV) of these funds 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.

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. At December 31, 2017, a net settlement payable to brokers of \$46,386 is included in accounts payable and accrued expenses in the consolidated balance sheet. At December 31, 2016, a net settlement payable of \$515 is presented within investments in the consolidated balance sheet.

**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)

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. In 2017, the estimated useful life of the Parkview Wabash facility, which is expected to be replaced with a new facility in June 2018, was shortened, resulting in recognition of accelerated depreciation expense of \$4,073.

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 and amortization 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 2017 or 2016.

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 \$1,223 and \$1,222 in 2017 and 2016, respectively.

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 2017 or 2016.

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

Note 2. Significant Accounting Policies (Continued)

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). Net settlement payments on interest rate swaps are included in interest and other financing costs in the consolidated statements of operations and changes in net assets.

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, 2017 and 2016, 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 generally no longer subject to examination for the year 2013 and prior.

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

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

Note 2. Significant Accounting Policies (Continued)

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

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.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The Corporation adopted ASU 2014-09 on January 1, 2018 using the modified retrospective method of transition. The effect on the Corporation's consolidated financial statements of adopting ASU 2014-09 is considered immaterial as revenue recognition under the new standard is not materially different compared to the Corporation's current practice. The primary effect is certain amounts previously reported as provision for doubtful accounts will now be considered implicit price concessions reported as a reduction of gross patient care service revenue. The remaining provision for doubtful accounts is reported as an operating expense under the new revenue recognition standard rather than as a reduction of net patient care service revenue.

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Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

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. 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.

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Notes to Consolidated Financial Statements
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Note 2. Significant Accounting Policies (Continued)

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the income statement separately from the service component and outside a subtotal of income from operations, if one is presented. ASU 2017-07 further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization. The new standard will be effective for the Corporation's December 31, 2019 consolidated financial statements. Early adoption is permitted. ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement, and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

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

In 2017, the Corporation elected to change the presentation of interest expense and net settlement payments on interest rate swaps in the consolidated statement of operations and changes in net assets to a component of operating income. Such amounts were previously reported within nonoperating income (expense). Management believes that this presentation enhances comparability of the Corporation's consolidated financial statements with its peer organizations' financial statements, and provides better information regarding the Corporation's operating performance to users of the Corporation's consolidated financial statements. The 2016 presentation has been adjusted to conform to the 2017 presentation, reclassifying 2016 interest expense of \$18,483 and net settlement payments on interest rate swaps of \$8,865, with no effect on the excess of revenues over expenses.

Note 3. Goodwill and Intangible Assets

The following table summarizes goodwill and other intangibles as of and for the years ended December 31, 2017 and 2016:

	2017	2016
Goodwill balance, beginning of year	\$ 100,127	\$ 97,542
Acquisitions	61	2,585
Goodwill balance, end of year	<u>100,188</u>	<u>100,127</u>
Intangible assets, end of year	8,703	8,701
Accumulated amortization	(6,944)	(5,721)
Intangible assets, net, end of year	<u>1,759</u>	<u>2,980</u>
Goodwill and intangible assets, net	<u>\$ 101,947</u>	<u>\$ 103,107</u>

Amortization expense of \$1,223 and \$1,222 was recognized in 2017 and 2016, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

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Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 3. Goodwill and Intangible Assets (Continued)

Estimated future amortization of intangible asset balances is as follows:

Year Ending December 31:		
2018	\$	213
2019		133
2020		119
2021		36
2022		22
Thereafter		27
	\$	<u>550</u>

Note 4. Fair Value Measurement

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

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

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

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Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 4. Fair Value Measurement (Continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2017:

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments:				
Mutual funds	\$ 309	\$ 309	\$ -	\$ -
Total short-term investments	\$ 309	\$ 309	\$ -	\$ -
Investments:				
U.S. government and agency obligations	\$ 98,069	\$ 96,703	\$ 1,366	\$ -
Municipal bonds	2,524	-	2,524	-
Corporate bonds	123,268	-	121,468	1,800
Commercial paper and certificates of deposit	45,758	-	45,758	-
Contracts and swaps	2,732	-	-	2,732
Mortgage and asset-backed securities	127,920	-	127,920	-
Domestic equities (includes preferred stock)	82,259	73,298	8,961	-
International equities	29,799	29,799	-	-
Mutual funds:				
Equity type	132,542	132,542	-	-
Balanced type	17	17	-	-
Fixed income type	209,719	25,169	184,550	-
Total investments at fair value	854,607	\$ 357,528	\$ 492,547	\$ 4,532
Investments not at fair value:				
Cash equivalents	18,330			
Commingled funds	21,339			
Real estate investment trust	41,511			
Real estate investment fund	39,502			
Hedge funds	120,690			
Real estate held for investment	16,555			
Total investments	\$ 1,112,534			
Deferred compensation plan:				
Assets - mutual funds	\$ 11,451	\$ 11,451	\$ -	\$ -
Assets - guaranteed income fund	3,394	-	-	3,394
Interest rate swaps	2,344	-	2,344	-
	\$ 17,189	\$ 11,451	\$ 2,344	\$ 3,394
Liabilities				
Interest rate swaps	\$ (67,967)	\$ -	\$ -	\$ (67,967)

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

Note 4. Fair Value Measurement (Continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 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	<u>589,203</u>	<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
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Note 4. Fair Value Measurement (Continued)

Certain of PH's investments are made through alternative investments and private investment funds, primarily partnership trusts. PH accounts for its ownership in these funds under the equity method, and as a result, hedge fund, real estate investment trust, and real estate investment fund investments totaling \$201,704 and \$220,974 as of December 31, 2017 and 2016, 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 as of both December 31, 2017 and 2016, 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 the Corporation's 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.

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

Note 4. Fair Value Measurement (Continued)

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

	Financial Assets - Investments	Financial Assets - Deferred Compensation Investments
Fair value at January 1, 2016	\$ -	\$ 3,841
Purchases	-	710
Sales	-	(1,009)
Realized and unrealized gains, net	-	95
Fair value at December 31, 2016	-	3,637
Purchases	4,517	651
Sales	-	(954)
Realized and unrealized gains, net	15	60
Fair value at December 31, 2017	<u>\$ 4,532</u>	<u>\$ 3,394</u>

	Financial Liabilities - Interest Rate Swaps
Fair value at January 1, 2016	\$ (80,128)
Realized and unrealized gains on interest rate swaps, net	6,984
Fair value at December 31, 2016	(73,144)
Realized and unrealized gains on interest rate swaps, net	5,177
Fair value at December 31, 2017	<u>\$ (67,967)</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, 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. As of December 31, 2017, the credit valuation adjustment was \$3,884 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 5. Net Patient Care Service Revenue and Accounts Receivable

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

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

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

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

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

Medicare and Medicaid revenue accounted for approximately 27% and 11%, respectively, of patient service revenue (net of contractual allowances and discounts) for the years ended December 31, 2017 and 2016. 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 \$811 and \$1,830 in 2017 and 2016, 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.

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

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

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

	2017	2016
Medicare	\$ 446,979	\$ 417,411
Medicaid	186,566	163,071
Managed care and other insurers	966,686	870,653
Uninsured	24,789	39,765
Other	43,978	40,412
	<u>\$ 1,668,998</u>	<u>\$ 1,531,312</u>

The allowance for bad debts was approximately \$87,569 and \$79,034 as of December 31, 2017 and 2016, respectively. These balances as a percentage of accounts receivable, net of contractual adjustments and other discounts, were approximately 29% and 30% as of December 31, 2017 and 2016, respectively. The increase in the allowance for bad debts during 2017 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, 2016	\$ 65,249	\$ 110,744	\$ (96,959)	\$ 79,034
December 31, 2017	79,034	102,959	(94,424)	87,569

Components of patient accounts receivable, net, at December 31, 2017 and 2016, include Medicare, 21% and 19%, respectively; Medicaid, 8% and 4%, respectively; commercial insurers, 63% and 68%, respectively; and other, 8% and 9%, respectively. One managed care payor represented 22% and 26% of patient accounts receivable at December 31, 2017 and 2016, respectively.

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Notes to Consolidated Financial Statements
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Note 6. Investments

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

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 month to up to two years (25% every six months), which may reduce liquidity. As of December 31, 2017, \$5,000 was committed for the purchase of additional hedge funds and 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:

	2017	2016
Investment income:		
Unrealized gain on investments, net	\$ 28,120	\$ 34,253
Dividend and interest income	16,349	15,223
Net realized gains on the sale of investments	55,214	6,998
Total investment return	<u>\$ 99,683</u>	<u>\$ 56,474</u>
Presentation:		
Other revenue	\$ 1,256	\$ 550
Temporarily restricted – investment gain	100	75
Interest, dividends, and realized gains on sales of investments, net	70,344	21,750
Unrealized gain on investments, net	27,983	34,099
Total investment return	<u>\$ 99,683</u>	<u>\$ 56,474</u>

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Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 7. Property and Equipment

The costs of property and equipment consist of the following:

	2017	2016
Land and improvements	\$ 145,112	\$ 142,904
Buildings	926,006	862,548
Equipment	771,699	725,270
Construction in progress and items not yet placed into service	119,819	65,129
	<u>\$ 1,962,636</u>	<u>\$ 1,795,851</u>

The cost of commitments to complete construction-in-progress projects is estimated to be \$53,560 at December 31, 2017. Depreciation expense recorded in the consolidated statements of operations and changes in net assets was \$91,301 and \$87,988 in 2017 and 2016, respectively.

Amortization expense on leasehold improvements recorded in the consolidated statements of operations and changes in net assets was \$4,150 and \$2,658 in 2017 and 2016, respectively. Amortization expense on other intangibles recorded in the consolidated statements of operations and changes in net assets was \$1,223 and \$1,222 in 2017 and 2016, respectively. Amortization expense on capital leases recorded in the consolidated statements of operations and changes in net assets was \$2,721 and \$3,509 in 2017 and 2016, respectively. Assets under capital leases at December 31, 2017 and 2016, were \$14,975 and \$11,573, respectively. Accumulated amortization on assets under capital leases at December 31, 2017 and 2016, was \$6,819 and \$4,280, respectively.

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**Notes to Consolidated Financial Statements
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Note 8. Long-Term Debt

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

	Interest rate as of December 31, 2017	2017	2016
Tax-exempt, variable rate bonds:			
Series 2016B due through 2046	1.71%	\$ 51,000	\$ 12,789
Series 2016C due through 2040	1.60%	25,760	26,535
Series 2009BCD due through 2031	1.74-1.75%	222,365	223,665
Series 2007 due through 2032	1.72%	17,970	18,810
Series 2001 due through 2031	2.07-2.57%	9,275	10,875
Tax-exempt, fixed rate serial and term bonds:			
Series 2017A due through 2030	2.30%	110,630	-
Series 2016A due through 2041	3.20%	25,000	25,000
Series 2012A due through 2029	3.70%	74,560	79,255
Series 2009A due through 2031	5.70%	26,650	157,185
Various notes to banks	Various	10,332	17,912
Mortgages on real estate	Various	36,487	41,326
Other	Various	331	581
Capital leases	Various	8,271	7,323
		<u>618,631</u>	<u>621,256</u>
Unamortized original issue premium, net		22,573	3,887
Unamortized deferred financing costs, net		(3,043)	(2,229)
		<u>638,161</u>	<u>622,914</u>
Less current portion		21,346	27,251
		<u>\$ 616,815</u>	<u>\$ 595,663</u>

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Note 8. 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:	
2018	\$ 21,346
2019	41,936
2020	23,410
2021	27,641
2022	25,473
Thereafter	478,825
	<u>\$ 618,631</u>

The Thereafter amount in the table above does not include \$7,000 of the Series 2016B bond issue that has not been drawn as of December 31, 2017.

Total interest paid was \$18,623 and \$18,834 in 2017 and 2016, respectively. Interest cost of \$1,750 and \$453 in 2017 and 2016, 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 10, 2017, PH and PVH issued \$110,630 of fixed rate tax-exempt revenue bonds (the Series 2017A Bonds) using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds were used to legally defease all but \$26,650 of the Series 2009A Bonds and pay for financing costs. A loss on early refunding of long-term debt of \$9,382 was recognized in the 2017 consolidated statement of operations and changes in net assets. Interest on the Series 2017A Bonds is paid semiannually. The Series 2017A Bonds mature through November 2030.

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 \$51,000 was drawn and outstanding as of December 31, 2017. 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.

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

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. On October 31, 2017, \$1,660 of the Series 2012A Bonds were defeased and a loss on early refunding of long-term debt of \$98 was recognized in the 2017 consolidated statement of operations and changes in net assets. Interest on the Series 2012A Bonds is paid semiannually. The Series 2012A Bonds mature through May 2029.

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, 2020, and the 2009C LOC expires on July 19, 2022. At December 31, 2017, 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.

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Note 8. Long-Term Debt (Continued)

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, 2017, 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, 2017 and 2016, 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 a 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 variable rate loan with a bank in the amount of approximately \$37,900. The loan is collateralized by all personal property assets of Orthopaedic Hospital at Parkview North.

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, 2017 and 2016, the Corporation had guaranteed approximately \$2,242 and \$2,511, 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, 2017 and 2016, the Corporation has no amounts accrued related to these guarantees.

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Note 9. Interest Rate Swaps and Other Derivatives

PH uses a combination of interest rate swap agreements with the objective to mitigate the impact interest rate fluctuations have on its interest payments. PH uses fixed payor, fixed spread basis, fixed receiver, and forward fixed payor contracts entered into with various third parties. Interest rate swap contracts between PH and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. This is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for PH's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. PH does not anticipate nonperformance by its counterparties. The interest rate swap agreements require PH to post collateral if the liability balance, depending on the counterparty, is greater than \$15,000 to \$30,750. No collateral was required to be posted by PH at December 31, 2017 and 2016. PH's policy is to present the collateral on a gross basis in the consolidated balance sheets.

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

Expiration Date	PH Pays	PH Receives	Notional Amount	
			2017	2016
2020-2031	3.47% - 3.71% ¹	67% of one-month LIBOR	\$ 30,525	\$ 32,025
2028-2033	3.26% - 3.49% ¹	62.4% of one-month LIBOR + 0.29% margin	150,925	155,445
2037	3.81% ²	61.8% of one-month LIBOR + 0.31% margin	145,615	145,615
2025	BMA/SIFMA Index ³	68% of one-month LIBOR + 0.514%-0.52% margin	120,000	120,000
			<u>\$ 447,065</u>	<u>\$ 453,085</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 these two interest rate swaps is to mitigate interest rate fluctuations and synthetically fix certain variable rate exposure.

(3) 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
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Note 9. Interest Rate Swaps and Other Derivatives (Continued)

The fair value of derivative instruments is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Classification	December 31,	
		2017	2016
Interest rate swap agreements	Interest rate swaps (Other assets)	\$ 2,344	\$ 1,732
Interest rate swap agreements	Interest rate swaps (Noncurrent liabilities)	(67,967)	(73,144)
		<u>\$ (65,623)</u>	<u>\$ (71,412)</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 on Derivatives Recognized in Excess of Revenue Over Expenses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenue Over Expenses	
		December 31,	
		2017	2016
Interest rate swap agreements - unrealized gain	Unrealized gains on interest rate swaps, net	\$ 5,694	\$ 4,456
Interest rate swap agreements - settlement payments	Interest and other financing costs	(8,215)	(9,226)
		<u>\$ (2,521)</u>	<u>\$ (4,770)</u>

Interest rate swap settlement payments, net were \$8,868 and \$9,390 in 2017 and 2016, respectively, of which \$653 and \$164 was capitalized as part of the cost of construction in 2017 and 2016, respectively.

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Notes to Consolidated Financial Statements
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Note 10. Pension Plans

Defined benefit pension plan

The Corporation sponsors a noncontributory defined benefit pension plan (the Plan) covering eligible employees employed prior to January 2005. Plan benefits are based on years of service and an employee's compensation during a consecutive five-year term of employment within the ten years prior to benefit determination, which results in the highest earnings.

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:

	2017	2016
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 473,401	\$ 465,276
Service cost	7,875	8,674
Interest cost	20,177	20,186
Actuarial loss (gain)	43,044	(6,242)
Benefits paid	(30,130)	(14,493)
Projected benefit obligation at end of year	<u>514,367</u>	<u>473,401</u>
Change in plan assets:		
Plan assets at fair value at beginning of year	382,575	371,196
Actual return on plan assets	42,899	25,872
Employer contributions	12,900	-
Benefits paid	(30,130)	(14,493)
Plan assets at fair value at end of year	<u>408,244</u>	<u>382,575</u>
Funded status of the Plan (recognized as accrued pension obligations)	<u>\$ (106,123)</u>	<u>\$ (90,826)</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:

	2017	2016
Unrecognized net actuarial loss	\$ 150,861	\$ 135,581
Unrecognized prior service cost	-	12
	<u>\$ 150,861</u>	<u>\$ 135,593</u>

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

	2017	2016
Current year actuarial (loss) gain	\$ (26,320)	\$ 5,455
Current year amortization of actuarial loss	11,040	10,839
Current year amortization of prior service cost	12	22
	<u>\$ (15,268)</u>	<u>\$ 16,316</u>

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Note 10. Pension Plans (Continued)

The actuarial loss cost included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ending December 31, 2018, total \$13,689.

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

	2017	2016
Service cost	\$ 7,875	\$ 8,674
Interest cost	20,177	20,186
Expected return on plan assets	(26,175)	(26,658)
Amortization of unrecognized net loss	11,040	10,839
Amortization of unrecognized prior service cost	12	22
Net periodic benefit cost	<u>\$ 12,929</u>	<u>\$ 13,063</u>

The accumulated benefit obligation at December 31, 2017 and 2016, was \$480,326 and \$449,367, 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:

	2017	2016
Assumptions – benefit obligations:		
Discount rate	3.78%	4.34%
Rate of compensation increase	4.70% for 2018 & 2019, then 3.50% after 2019	3.00%
Assumptions – net periodic benefit cost:		
Discount rate	4.34%	4.41%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%

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 4.34% to 3.78% for 2017. This change had the impact of increasing the projected benefit obligation by approximately \$38,100.

In 2017, a change from the RP-2014 Healthy Annuitant Male and Female mortality tables with a generational improvement projection scale MP-2016 to the RP-2014 Healthy Annuitant Male and Female mortality tables with a generational improvement projection scale MP-2017 was made in the calculation of the benefit obligation. This change from the MP-2016 scale to the MP-2017 scale had the impact of decreasing the projected benefit obligation by approximately \$3,200.

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

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:

	2017	2016
Real estate investment trust	5 %	5 %
Real estate investment fund	4	4
Commingled funds	3	22
International equities	5	4
Domestic equities	18	21
Mortgage- and asset-backed securities	9	9
Corporate bonds	10	9
Municipal bonds	1	2
Mutual funds – equity	20	16
Mutual funds – balanced	-	4
Mutual funds – bond	20	-
US government and agency obligations	3	2
Cash and short-term investments	1	1
Guaranteed investment contract	1	1
	<u>100 %</u>	<u>100 %</u>

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Note 10. Pension Plans (Continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2017:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
International equity	\$ 19,441	\$ 19,441	\$ -	\$ -
Domestic equity	73,411	64,834	8,577	-
Mortgage- and asset-backed securities	35,300	-	35,300	-
Municipal bonds	5,941	-	5,941	-
Corporate bonds	39,845	-	39,845	-
Mutual funds - equity	81,724	81,724	-	-
Mutual funds - bond	81,814	8,632	73,182	-
US government and agency obligations	13,555	13,256	299	-
Cash and short-term investments	3,720	7	3,713	-
Guaranteed investment contract	3,383	-	-	3,383
	<u>358,134</u>	<u>\$ 187,894</u>	<u>\$ 166,857</u>	<u>\$ 3,383</u>
Investments not at fair value:				
Real estate investment trust	20,864			
Real estate investment fund	17,872			
Commingled funds	11,683			
Amount due to brokers	(309)			
Total investments	<u>\$ 408,244</u>			

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>			

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Note 10. 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, 2016	\$ 4,938
Purchases, issuances, and settlements	(2,402)
Actual return on plan assets	272
Fair value at December 31, 2016	2,808
Purchases, issuances, and settlements	260
Actual return on plan assets	315
Fair value at December 31, 2017	<u>\$ 3,383</u>

Estimated future benefit payments are as follows:

Year ending December 31:	
2018	\$ 18,909
2019	20,530
2020	21,996
2021	23,469
2022	24,956
2023 - 2027	143,442

The Corporation expects to make no contributions to its defined benefit pension plan in 2018.

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 \$21,601 and \$19,178 at December 31, 2017 and 2016, respectively, and is recorded as a current liability on the consolidated balance sheets. During 2017 and 2016, expense for this plan totaled \$21,832 and \$19,265, 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 \$10,308 and \$9,308 in 2017 and 2016, respectively, and were reported as salaries and benefits expense.

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Note 11. Malpractice Insurance

The Corporation and its affiliates are subject to pending and threatened legal actions that arise in the normal course of their activities. Medical malpractice coverage is provided through a program of self-insurance and commercial insurance and considers limitations imposed by the Indiana Medical Malpractice Act, as amended (the Act). The Act limits the amount of individual claims to \$1,250 (effective July 1, 1999 through June 30, 2017), of which \$1,000 would be paid by the State of Indiana Patient Compensation Fund (PCF) and \$250 by the Corporation or by its commercial insurer, The Medical Protective Company. Effective July 1, 2017, this limit increased to \$1,650, of which \$1,250 would be paid by the PCF and \$400 by the Corporation or its commercial insurer.

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, 2017, 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 2017 and 2016 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 \$1,129 and \$756 in prepaid expenses and other current assets at December 31, 2017 and 2016, respectively, and \$1,422 and \$1,070 in other assets at December 31, 2017 and 2016, respectively. The Corporation has recorded malpractice liabilities of \$2,714 and \$2,243 in accounts payable and accrued expenses as of December 31, 2017 and 2016, respectively, and \$6,742 and \$6,236 at December 31, 2017 and 2016, 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 \$6,622 and \$5,845 at December 31, 2017 and 2016, respectively. The trust is included in Investments – Funds held by trustees in the consolidated balance sheets.

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Note 12. Commitments and Contingencies

Certain property and equipment are leased using noncancelable operating and capital lease arrangements. Rental expense associated with the operating leases was \$15,062 and \$13,616 in 2017 and 2016, respectively. The leases expire in various years through 2028. Future minimum lease payments required under noncancelable operating and capital leases for property and equipment as of December 31, 2017, are as follows:

	Operating Leases	Capital Leases
Year ending December 31:		
2018	\$ 7,335	\$ 2,835
2019	5,742	2,165
2020	4,365	1,969
2021	3,855	1,111
2022	3,723	416
Thereafter	9,629	515
Total minimum lease payments	<u>\$ 34,649</u>	9,011
Less amount representing interest		(740)
Present value of net minimum lease payments		<u>\$ 8,271</u>

PVH owns the Ortho Hospital building and leases the space to ORTHO under a non-cancelable operating lease that will expire in 2022. 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.

Note 13. Functional Expenses

The Corporation, as an integrated health care delivery system, provides and manages the health care needs of its patients. Aggregate direct expenses for these services as a percentage of total expenses were approximately 91% for each of the years ended December 31, 2017 and 2016.

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

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 14. Indiana Medicaid Disproportionate Share

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

In 2017, PH recognized \$1,087 in income from Indiana Medicaid Disproportionate Share payments, \$522 of which pertained to state fiscal year 2017. In 2016, PH recognized \$985 in income from Indiana Medicaid Disproportionate Share payments, \$0 of which pertained to state fiscal year 2016.

At December 31, 2017 and 2016, PH had no State DSH payments receivable recorded.

Note 15. Indiana Hospital Assessment Fee Program

In May 2012, the Indiana Hospital Assessment Fee program (HAF) was approved by the federal Centers for Medicare & Medicaid Services (CMS) through June 30, 2017. Effective July 1, 2017, the HAF program was renewed through June 30, 2019. 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.

Beginning in February 2017, the HAF payments to providers were incorporated into claim-by-claim payments from both Medicaid and the Medicaid Managed Care Entities. Therefore, payments to PH recognized for the year ended December 31, 2017 cannot be separately identified. HAF assessments against PH for the same period were \$49,004.

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.

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 16. Subsequent Events

PH has evaluated subsequent events for potential recognition and/or disclosure through March 27, 2018, the date the consolidated financial statements were issued.

On February 1, 2018, Parkview Health System, Inc. financed the purchase of a medical office building on the campus of the Parkview Regional Medical Center. The purchase was financed through execution of a variable rate 10-year taxable loan attached to the Master Trust Indenture in the amount of \$16,200.

Supplementary Information

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

Details of Consolidated Balance Sheet
December 31, 2017
(In Thousands)

	Parkview Hospital ¹	Parkview Health System, Inc. ¹	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital ²	Parkview Wabash Hospital ²	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	Obligated Group Eliminations ¹	Credit Group Eliminations ²	Other Eliminations	Consolidated
Assets																		
Current assets:																		
Cash and cash equivalents	\$ (236)	\$ 117,962	\$ 3	\$ 140	\$ 2	\$ 73	\$ 1,663	\$ -	\$ (17)	\$ 3,276	\$ 80	\$ 86	\$ 184	\$ 828	\$ -	\$ -	\$ -	\$ 124,044
Short-term investments	-	309	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	309
Patient accounts receivable, net	139,186	44,427	7,021	9,334	8,245	4,617	5,964	-	1,398	-	-	-	-	-	-	-	(8,751)	211,441
Inventories	17,163	5,841	243	400	430	292	284	-	-	-	-	-	-	-	-	-	-	24,653
Prepaid expenses and other current assets	(487,630)	563,726	(6,508)	3,532	(148)	(2,414)	(22,829)	11,875	1,194	419	145	151	174	15	(31,923)	-	(27)	29,752
Estimated third-party payor settlements	2,344	-	105	164	169	2	-	-	-	-	-	-	-	-	-	-	-	2,784
Total current assets	(329,173)	732,265	864	13,570	8,698	2,570	(14,918)	11,875	2,575	3,695	225	237	358	843	(31,923)	-	(8,778)	392,983
Investments:																		
Board-designated investments	24,136	965,825	37,278	54,327	-	-	-	-	-	8,116	631	1,803	421	3,487	-	-	-	1,096,024
Funds held by trustees	-	10,050	-	-	-	-	5,586	-	-	-	-	-	-	-	-	-	-	15,636
Other investments	-	-	-	-	-	-	-	-	-	-	203	-	-	671	-	-	-	874
	24,136	975,875	37,278	54,327	-	-	5,586	-	-	8,116	834	1,803	421	4,158	-	-	-	1,112,534
Property and equipment:																		
Cost	1,133,643	664,886	17,583	39,697	18,631	32,696	51,867	1,182	2,214	184	21	18	14	-	-	-	-	1,962,636
Less accumulated depreciation and amortization	481,222	302,680	12,620	13,428	12,089	16,558	19,788	1,064	1,329	183	21	17	14	-	-	-	-	861,013
	652,421	362,206	4,963	26,269	6,542	16,138	32,079	118	885	1	-	1	-	-	-	-	-	1,101,623
Other assets:																		
Interest rate swaps	-	2,344	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,344
Investments in joint ventures	1,177	809	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,986
Goodwill and intangible assets, net	22,492	73,357	246	-	841	5,011	-	-	-	-	-	-	-	-	-	-	-	101,947
Other assets	437	33,746	44	-	5	-	-	1,227	-	-	-	-	-	-	56	4,700	(10,359)	29,856
	24,106	110,256	290	-	846	5,011	-	1,227	-	-	-	-	-	-	56	4,700	(10,359)	136,133
Total assets	\$ 371,490	\$ 2,180,802	\$ 43,395	\$ 94,166	\$ 16,086	\$ 23,719	\$ 22,747	\$ 13,220	\$ 3,460	\$ 11,812	\$ 1,059	\$ 2,041	\$ 779	\$ 5,001	\$ (31,867)	\$ 4,700	\$ (19,137)	\$ 2,743,273

¹ Parkview Obligated Group entity.

² Parkview Credit Group entity.

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

Details of Consolidated Balance Sheet (Continued)
December 31, 2017
(In Thousands)

	Parkview Hospital ¹	Parkview Health System, Inc. ¹	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital ²	Parkview Wabash Hospital ²	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	Obligated Group Eliminations ¹	Credit Group Eliminations ²	Other Eliminations	Consolidated
Liabilities and Net Assets																		
Current liabilities:																		
Accounts payable and accrued expenses	\$ 44,110	\$ 91,507	\$ 1,096	\$ 1,317	\$ 1,609	\$ 1,101	\$ 3,453	\$ 6,566	\$ 82	\$ 28	\$ 1	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ (8,778)	\$ 142,093
Salaries, wages and related liabilities	14,677	92,281	777	906	779	580	461	128	218	-	-	-	-	-	-	-	-	110,807
Accrued interest	-	2,936	-	-	-	29	133	-	-	-	-	-	-	-	-	-	-	3,098
Estimated third-party payor settlements	3,123	376	35	39	49	611	1,276	-	-	-	-	-	-	-	-	-	-	5,509
Current portion of long-term debt	1,415	49,854	43	140	143	907	767	-	-	-	-	-	-	-	(31,923)	-	-	21,346
Total current liabilities	63,325	236,954	1,951	2,402	2,580	3,228	6,090	6,694	300	28	1	1	-	-	(31,923)	-	(8,778)	282,853
Noncurrent liabilities:																		
Long-term debt, less current portion	4,196	560,922	111	9,982	257	17,038	24,309	-	-	-	-	-	-	-	-	-	-	616,815
Interest rate swaps	-	67,967	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	67,967
Accrued pension obligations	-	106,123	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	106,123
Other	301	20,855	44	-	-	5,897	-	4,367	-	5	-	-	-	-	56	4,700	(10,596)	25,629
	4,497	755,867	155	9,982	257	22,935	24,309	4,367	-	5	-	-	-	-	56	4,700	(10,596)	816,534
Net assets:																		
Parkview Health System, Inc.	303,668	1,152,751	41,289	81,782	13,249	(2,584)	(15,088)	2,159	3,160	6,487	654	1,234	451	3,583	-	-	237	1,593,032
Noncontrolling interest in subsidiaries	-	35,030	-	-	-	-	436	-	-	-	-	-	-	-	-	-	-	35,466
Total unrestricted net assets	303,668	1,187,781	41,289	81,782	13,249	(2,584)	(14,652)	2,159	3,160	6,487	654	1,234	451	3,583	-	-	237	1,628,498
Temporarily restricted net assets	-	-	-	-	-	140	7,000	-	-	4,464	313	806	328	783	-	-	-	13,834
Permanently restricted net assets	-	-	-	-	-	-	-	-	-	828	91	-	-	635	-	-	-	1,554
	303,668	1,187,781	41,289	81,782	13,249	(2,444)	(7,652)	2,159	3,160	11,779	1,058	2,040	779	5,001	-	-	237	1,643,886
Total liabilities and net assets	\$ 371,490	\$ 2,180,602	\$ 43,395	\$ 94,166	\$ 16,086	\$ 23,719	\$ 22,747	\$ 13,220	\$ 3,460	\$ 11,812	\$ 1,059	\$ 2,041	\$ 779	\$ 5,001	\$ (31,867)	\$ 4,700	\$ (19,137)	\$ 2,743,273

¹ Parkview Obligated Group entity.

² Parkview Credit Group entity.

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

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

	Parkview Hospital ¹	Parkview Health System, Inc. ¹	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital ²	Parkview Wabash Hospital ²	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	Obligated Group Eliminations ¹	Credit Group Eliminations ²	Other 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)	(16,842)	-	(199)	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	(16,842)	-	(10,828)	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	30,465	42	-	5	-	-	11,181	-	-	-	-	-	-	-	4,700	(10,596)	36,346
	24,080	107,864	288	-	845	5,011	-	11,181	-	-	-	-	-	-	-	4,700	(10,596)	143,373
Total assets	\$ 372,688	\$ 1,901,967	\$ 43,050	\$ 94,856	\$ 16,417	\$ 24,553	\$ 29,460	\$ 18,998	\$ 4,604	\$ 10,984	\$ 865	\$ 1,743	\$ 618	\$ 4,424	\$ (16,842)	\$ 4,700	\$ (21,424)	\$ 2,491,661

¹ Parkview Obligated Group entity.

² Parkview Credit Group entity.

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

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

	Parkview Hospital ¹	Parkview Health System, Inc. ¹	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital ²	Parkview Wabash Hospital ²	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	Obligated Group Eliminations ¹	Credit Group Eliminations ²	Other 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	(16,842)	-	(10,828)	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	-	-	-	-	-	4,700	(10,596)	24,180
	3,765	720,045	196	9,888	400	23,832	25,069	6,508	-	6	-	-	-	-	-	4,700	(10,596)	783,813
Net assets:																		
Parkview Health System, Inc.	310,179	980,976	40,705	81,858	13,833	(2,647)	(7,479)	906	4,287	5,512	497	1,016	341	3,233	-	-	-	1,433,217
Noncontrolling interest in subsidiaries	-	31,157	-	-	-	-	210	-	-	-	-	-	-	-	-	-	-	31,367
Total unrestricted net assets	310,179	1,012,133	40,705	81,858	13,833	(2,647)	(7,269)	906	4,287	5,512	497	1,016	341	3,233	-	-	-	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	1,012,133	40,705	81,858	13,833	(2,511)	(269)	906	4,287	10,780	865	1,743	618	4,421	-	-	-	1,479,548
Total liabilities and net assets	\$ 372,688	\$ 1,901,967	\$ 43,050	\$ 94,856	\$ 16,417	\$ 24,553	\$ 29,460	\$ 18,998	\$ 4,604	\$ 10,984	\$ 865	\$ 1,743	\$ 618	\$ 4,424	\$ (16,842)	\$ 4,700	\$ (21,424)	\$ 2,491,661

¹ Parkview Obligated Group entity.

² Parkview Credit Group entity.

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, 2017
(In Thousands)

	Parkview Hospital ¹	Parkview Health System, Inc. ¹	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital ²	Parkview Wabash Hospital ²	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	Obligated Group Eliminations ¹	Credit Group Eliminations ²	Other Eliminations	Consolidated
Revenues:																		
Net patient care service revenue	\$ 1,073,427	\$ 382,074	\$ 67,750	\$ 81,316	\$ 77,358	\$ 42,546	\$ 37,848	\$ -	\$ 8,148	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (101,469)	\$ 1,668,998
Provision for bad debts	(57,953)	(9,072)	(6,483)	(10,659)	(9,589)	(5,076)	(4,068)	-	-	-	-	-	-	-	-	-	-	(102,959)
Net patient care service revenue, less provision for bad debts	1,015,474	373,002	61,267	70,657	67,769	37,470	33,780	-	8,089	-	-	-	-	-	-	-	-	1,566,039
Capitation revenue	-	-	-	-	-	-	-	55,068	-	-	-	-	-	-	-	-	-	55,068
Other revenue	44,750	33,587	1,615	2,544	1,460	1,432	883	4,650	3,864	1,901	224	423	206	581	(10,276)	(3,230)	(36,913)	47,701
	1,060,224	406,589	62,882	73,201	69,229	38,902	34,663	59,708	11,953	1,901	224	423	206	581	(10,276)	(3,230)	(138,382)	1,668,798
Expenses:																		
Salaries and benefits	324,308	509,227	19,825	23,080	20,071	13,331	12,050	2,754	9,111	1,059	103	113	117	127	-	-	(81,428)	853,848
Supplies	175,952	61,535	5,930	5,513	7,536	4,238	3,707	32	853	30	3	4	-	4	-	(610)	(15,613)	249,114
Purchased services	48,024	60,108	4,749	7,549	6,255	5,179	4,735	54,011	1,652	239	2	-	2	-	(342)	(2,498)	(33,628)	156,037
Utilities, repairs and maintenance	22,618	30,887	1,701	2,033	1,619	1,352	1,285	26	1,285	3	-	-	-	-	222	(297)	-	61,449
Depreciation and amortization	43,422	40,625	1,036	2,569	1,097	1,698	8,766	17	166	-	-	-	-	-	-	-	-	99,396
Hospital assessment fee	40,782	1,318	1,375	1,809	1,675	1,181	864	-	-	-	-	-	-	-	-	-	-	49,004
Interest and financing costs	226	22,970	7	116	20	282	510	-	-	1	-	-	-	-	-	-	-	24,132
Other	280,134	(271,960)	17,543	22,394	17,256	9,114	10,277	1,378	1,058	(415)	(57)	(10)	(61)	54	(9,637)	(122)	(7,713)	69,233
	935,466	454,710	52,166	65,063	55,529	36,375	42,194	58,218	13,062	917	51	107	58	185	(10,276)	(3,230)	(138,382)	1,562,213
Operating income (loss)	124,758	(48,121)	10,716	8,138	13,700	2,527	(7,531)	1,490	(1,109)	984	173	316	148	396	-	-	-	106,585
Nonoperating income (expense):																		
Interest, dividends and realized gains (losses) on sales of investments, net	1,975	61,715	2,690	3,966	2	(1)	(3)	-	-	-	-	-	-	-	-	-	-	70,344
Unrealized gains on investments, net	587	25,181	895	1,320	-	-	-	-	-	-	-	-	-	-	-	-	-	27,983
Unrealized gains on interest rate swaps, net	-	5,694	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,694
Loss on early refunding of long-term debt	-	(9,480)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,480)
Other	(1)	(116)	(14)	(20)	1	(6)	1	-	(18)	-	-	-	-	-	-	-	-	(173)
Excess (deficit) of revenues over expenses	\$ 127,319	\$ 34,873	\$ 14,287	\$ 13,404	\$ 13,703	\$ 2,520	\$ (7,533)	\$ 1,490	\$ (1,127)	\$ 984	\$ 173	\$ 316	\$ 148	\$ 396	\$ -	\$ -	\$ -	\$ 200,953
Excess (deficit) of revenues over expenses attributable to:																		
Noncontrolling interest in subsidiaries	\$ -	\$ 29,266	\$ -	\$ -	\$ -	\$ -	\$ 76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,342
Parkview Health System, Inc. and subsidiaries	127,319	5,607	14,287	13,404	13,703	2,520	(7,609)	1,490	(1,127)	984	173	316	148	396	-	-	-	171,611
Other changes in net assets attributable to:																		
Noncontrolling interest in subsidiaries	-	(25,393)	-	-	-	-	150	-	-	-	-	-	-	-	-	-	-	(25,243)
Parkview Health System, Inc. and subsidiaries	(133,830)	166,168	(13,703)	(13,480)	(14,287)	(2,453)	-	(237)	-	15	20	(19)	13	184	-	-	237	(11,372)
(Decrease) increase in net assets	(6,511)	175,648	584	(76)	(584)	67	(7,383)	1,253	(1,127)	999	193	297	161	580	-	-	237	164,338
Net assets (deficit):																		
Beginning of year	310,179	1,012,133	40,705	81,858	13,833	(2,511)	(269)	906	4,287	10,780	865	1,743	618	4,421	-	-	-	1,479,548
End of year	\$ 303,668	\$ 1,187,781	\$ 41,289	\$ 81,782	\$ 13,249	\$ (2,444)	\$ (7,652)	\$ 2,159	\$ 3,160	\$ 11,779	\$ 1,058	\$ 2,040	\$ 779	\$ 5,001	\$ -	\$ -	\$ 237	\$ 1,643,886

¹ Parkview Obligated Group entity.

² Parkview Credit Group entity.

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 ¹	Parkview Health System, Inc. ¹	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital ²	Parkview Wabash Hospital ²	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	Obligated Group Eliminations ¹	Credit Group Eliminations ²	Other Eliminations	Consolidated
Revenues:																		
Net patient care service revenue	\$ 999,270	\$ 365,616	\$ 62,762	\$ 71,954	\$ 70,395	\$ 37,265	\$ 36,759	\$ -	\$ 7,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (38)	\$ -	\$ (120,031)	\$ 1,531,312
Provision for bad debts	(67,908)	(12,034)	(5,744)	(9,581)	(7,990)	(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	-	-	-	-	-	(38)	-	(120,031)	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	(11,066)	(2,759)	(32,311)	45,173
	970,838	387,221	58,477	64,594	63,857	34,626	33,955	102,831	10,673	2,100	313	307	290	378	(11,104)	(2,759)	(152,342)	1,564,255
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	-	(379)	(12,754)	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	(255)	(2,297)	(58,121)	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
Interest and financing costs	165	26,532	6	105	20	210	310	-	-	-	-	-	-	-	-	-	-	27,348
Other	233,281	(219,675)	13,238	16,655	13,791	7,470	12,571	892	1,097	1,513	232	151	216	113	(10,508)	(83)	(7,534)	63,420
	837,948	425,862	45,132	57,021	48,263	31,507	41,295	108,078	11,334	2,648	346	272	341	250	(11,104)	(2,759)	(152,342)	1,444,092
Operating income (loss)	132,890	(38,641)	13,345	7,573	15,594	3,119	(7,340)	(5,247)	(661)	(548)	(33)	35	(51)	128	-	-	-	120,163
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 gains on investments, net	909	29,756	1,387	2,046	-	-	1	-	-	-	-	-	-	-	-	-	-	34,099
Unrealized gains on interest rate swaps, net	-	4,456	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,456
Other	(341)	(1,032)	10	38	(6)	10	2	-	1	-	-	-	-	-	-	-	-	(1,318)
Excess (deficit) of revenues over expenses	\$ 134,055	\$ 13,524	\$ 15,625	\$ 10,948	\$ 15,587	\$ 3,127	\$ (7,340)	\$ (5,247)	\$ (660)	\$ (548)	\$ (33)	\$ 35	\$ (51)	\$ 128	\$ -	\$ -	\$ -	\$ 179,150
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
(Decrease) increase in net assets	5,842	128,812	56	46,048	-	-	(7,641)	(5,244)	(660)	821	40	20	(75)	70	-	-	-	168,089
Net assets (deficit):																		
Beginning of year	304,337	883,321	40,649	35,810	13,833	(2,511)	7,372	6,150	4,947	9,959	825	1,723	693	4,351	-	-	-	1,311,459
End of year	\$ 310,179	\$ 1,012,133	\$ 40,705	\$ 81,858	\$ 13,833	\$ (2,511)	\$ (269)	\$ 906	\$ 4,287	\$ 10,780	\$ 865	\$ 1,743	\$ 618	\$ 4,421	\$ -	\$ -	\$ -	\$ 1,479,548

¹ Parkview Obligated Group entity.

² Parkview Credit Group entity.

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

Note to Details of Consolidation
December 31, 2017

Obligated Group and Credit Group

The Obligated Group, as defined in the Amended and Restated Master Trust Indenture between Parkview Health System, Inc.; Parkview Hospital, Inc.; and certain other entities referred to herein as members of the Obligated Group and U.S. Bank National Association (successor to National City Bank of Indiana), as Master Trustee, dated as of November 1, 1998, consists of Parkview Health System, Inc.; Parkview Hospital, Inc.; and any other Obligated Group Affiliate that has fulfilled the requirements for entry into the Obligated Group. Parkview Hospital, Inc. includes Parkview Regional Medical Center and the accounts and activities of Parkview Hospital Randallia, Parkview Behavioral Health and Parkview Home Health and Hospice. Parkview Professional Programs, Inc. is a wholly owned subsidiary of Parkview Hospital, Inc. Included with Parkview Health System, Inc. are the entities of Parkview Physicians Group; Midwest Community Health Associates, Inc.; Parkview Care Partners LLC; New Vision Professional Park, LLC; and the joint ventures of Foundation Surgery Affiliates of Fort Wayne, LLC and Orthopaedic Hospital at Parkview North, LLC and its wholly owned subsidiaries of Parkview Ortho Center, LLC and Parkview Ortho Performance Center, LLC.

On July 20, 2011, the Community Hospital of LaGrange County, Inc. became a designated affiliate of the Obligated Group. On August 17, 2016, Parkview Wabash Hospital, Inc. became a designated affiliate of the Obligated Group and is part of, along with Parkview Health System, Inc., Parkview Hospital, Inc. and the Community Hospital of LaGrange County, Inc., the Credit Group. The Credit Group for the year ended December 31, 2017, consists of the Obligated Group members (Parkview Health System, Inc. and Parkview Hospital, Inc.) and the designated affiliates (the Community Hospital of LaGrange County, Inc. and Parkview Wabash Hospital, Inc.). Included with Parkview Wabash Hospital, Inc. is a joint venture of Wabash MRI LLC.