The Methodist Hospitals, Inc.

Consolidated Financial Report
December 31, 2015

Contents

Plante & Moran, PLLC
Suite 200
2155 Point Blvd.
Elgin, IL 60123
Tel: 847.697.6161
Fax: 847.697.6176
plantemoran.com

Independent Auditor's Report

To the Board of Directors
The Methodist Hospitals, Inc.

We have audited the accompanying consolidated financial statements of The Methodist Hospitals, Inc. (the "Hospital"), which comprise the consolidated balance sheet as of December 31, 2015 and 2014 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

To the Board of Directors
The Methodist Hospitals, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Methodist Hospitals, Inc. as of December 31, 2015 and 2014 and the consolidated results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

April 15, 2016

Consolidated Balance Sheet

	December 31, 2015	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	$ 19,279,010	$ 12,792,047
Short-term investments (Note 5)	7,916,844	7,875,243
Accounts receivable - Net (Note 2)	43,825,667	41,891,893
Cost report settlements receivable (Note 3)	9,078,768	24,171,561
Other current assets (Note 7)	14,678,285	15,258,843
Total current assets	94,778,574	101,989,587
Assets Limited as to Use (Note 5)	141,024,711	147,954,633
Property and Equipment - Net (Note 8)	124,753,798	125,075,134
Other Assets	5,777,324	5,860,119
Total assets	**$ 366,334,407**	**$ 380,879,473**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 10)	$ 3,256,749	$ 3,001,922
Accounts payable	11,201,781	11,759,880
Cost report settlements payable (Note 3)	4,649,386	7,889,169
Accrued liabilities and other (Note 9)	15,155,437	20,241,946
Total current liabilities	34,263,353	42,892,917
Long-term Debt - Net of current portion (Note 10)	68,251,438	71,826,864
Other Liabilities (Note 11)	32,009,576	36,056,022
Total liabilities	134,524,367	150,775,803
Net Assets		
Unrestricted	231,398,861	229,737,492
Temporarily restricted	386,179	341,178
Permanently restricted	25,000	25,000
Total net assets	231,810,040	230,103,670
Total liabilities and net assets	**$ 366,334,407**	**$ 380,879,473**

The Methodist Hospitals, Inc.

Consolidated Statement of Operations

	Year Ended December 31, 2015	Year Ended December 31, 2014
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	$ 303,045,789	$ 290,592,252
Provision for bad debts	(23,054,758)	(18,545,848)
Net patient service revenue less provision for bad debts	279,991,031	272,046,404
Investment (expense) income (Note 5)	(1,459,365)	4,285,622
Other operating revenue	4,538,803	4,823,779
Medicaid disproportionate share revenue	50,873,132	52,590,965
Net assets released from restrictions used for operations	98,841	233,629
Total unrestricted revenue, gains, and other support	334,042,442	333,980,399
Operating Expenses		
Salaries and wages	141,932,415	137,377,405
Employee benefits and payroll taxes	31,850,394	31,253,959
Supplies	56,365,583	56,041,008
Outside services	42,363,638	40,431,926
Professional and other liability costs	3,914,307	3,836,155
Utilities	6,461,527	6,852,356
Repairs and maintenance	7,574,635	7,252,063
Medicaid assessment fee (Note3)	11,145,387	11,472,670
Depreciation and amortization	18,546,302	19,694,800
Interest expense	4,025,310	4,860,568
Other	5,821,929	8,745,267
Total operating expenses (Note 16)	330,001,427	327,818,177
Operating Income	4,041,015	6,162,222
Nonoperating Income	35,000	22,917
Excess of Revenue Over Expenses	4,076,015	6,185,139
Pension-related Changes Other than Net Periodic Cost (Note 14)	(2,414,646)	(22,362,835)
Increase (Decrease) in Unrestricted Net Assets	**$ 1,661,369**	**$ (16,177,696)**

Consolidated Statement of Changes in Net Assets

	Year Ended December 31, 2015	Year Ended December 31, 2014
Unrestricted Net Assets		
Excess of revenue over expenses	$ 4,076,015	$ 6,185,139
Pension-related changes other than net periodic cost	(2,414,646)	(22,362,835)
Increase (Decrease) in Unrestricted Net Assets	1,661,369	(16,177,696)
Temporarily Restricted Net Assets		
Restricted contributions	143,842	275,174
Net assets released from restriction	(98,841)	(233,629)
Increase in Temporarily Restricted Net Assets	45,001	41,545
Increase (Decrease) in Net Assets	1,706,370	(16,136,151)
Net Assets - Beginning of year	230,103,670	246,239,821
Net Assets - End of year	**$ 231,810,040**	**$ 230,103,670**

Consolidated Statement of Cash Flows

	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 1,706,370	$ (16,136,151)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	18,546,302	19,191,124
Net change in unrealized net losses on investments	7,138,932	3,845,886
Realized gains on investments	(1,945,298)	(5,097,066)
Pension-related changes other than net periodic costs	2,414,646	22,362,835
Gain on disposal of property and equipment	(247,383)	(14,114)
Amortization of bond premium	(294,005)	(270,563)
Temporarily restricted contributions	(143,842)	(275,174)
Provision for bad debts	23,054,758	18,545,848
Loss on refunding of bonds	-	503,676
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(24,988,532)	(19,660,207)
Other current assets	580,558	(607,960)
Cost report settlements receivable	15,092,793	(3,084,425)
Other assets	82,795	825,707
Accounts payable	(558,098)	(1,732,301)
Accrued liabilities and other	(5,086,509)	1,018,972
Cost report settlements payable	(3,239,783)	(1,571,406)
Other liabilities	(6,461,092)	(5,887,712)
Net cash provided by operating activities	25,652,612	11,956,969
Cash Flows from Investing Activities		
Purchase of property and equipment	(18,298,309)	(14,727,394)
Proceeds from sale of property and equipment	320,726	28,500
Purchase of investments and assets limited as to use	(160,717,632)	(111,019,793)
Proceeds from sale and maturities of investments and assets limited as to use	162,412,320	126,138,905
Net cash (used in) provided by investing activities	(16,282,895)	420,218
Cash Flows from Financing Activities		
Proceeds from issuance of debt, including original issue premium	-	52,517,507
Early termination of debt	-	(59,228,676)
Debt issuance costs	-	(665,228)
Payments on capital lease obligations	(294,111)	(269,437)
Principal payments on long-term debt	(2,732,485)	(816,652)
Temporarily restricted contributions	143,842	275,174
Net cash used in financing activities	(2,882,754)	(8,187,312)
Net Increase in Cash and Cash Equivalents	6,486,963	4,189,875
Cash and Cash Equivalents - Beginning of year	12,792,047	8,602,172
Cash and Cash Equivalents - End of year	**$ 19,279,010**	**$ 12,792,047**
Supplemental Cash Flow Information - Cash paid for interest	**$ 4,115,326**	**$ 5,055,804**

Note 1 - Nature of Business and Significant Accounting Policies

Organization - The Methodist Hospitals, Inc. (the "Hospital") is an Indiana nonprofit corporation operating a 269-bed general acute-care facility in Gary, Indiana (Northlake Campus) and a 313-bed general acute-care facility in Merrillville, Indiana (Southlake Campus). The Hospital also provides physician services to patients through the following wholly owned limited liability companies: Methodist Cardiographics, LLC, Methodist Anesthesia, LLC, and Methodist Pathology, LLC.

The Hospital is the sole member of The Methodist Hospitals Foundation, Inc. (the "Foundation") which was established to support and benefit the Hospital. The Foundation has been accounted for within the Hospital's financial statements.

Basis of Consolidation - The consolidated financial statements include the accounts of The Methodist Hospitals, Inc., The Methodist Hospitals Foundation, Inc., Methodist Cardiographics, LLC, Methodist Anesthesia, LLC, and Methodist Pathology, LLC; all intercompany accounts have been eliminated in consolidation.

Cash and Cash Equivalents - Cash and cash equivalents include cash and highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

The Hospital's cash balances are only insured up to the Federal Deposit Insurance Corporation limit. As of December 31, 2015 and 2014, there was approximately $21.6 million and $16.6 million of uninsured cash, respectively. The Hospital evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

Goodwill - The recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. The Hospital assesses goodwill annually for impairment. No impairment charge was recognized in the years ended December 31, 2015 and 2014. It is reasonably possible that management's estimates of the carrying amount of goodwill will change in the near term. Goodwill is recorded within other assets in the consolidated balance sheet.

Inventories - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost or market, determined on a first-in, first-out basis.

Assets Limited as to Use - Assets limited as to use include assets designated by the governing board for future capital improvement, over which the board retains control and may, at its discretion, subsequently use for other purposes. Included in these investments are assets held by trustees under bond indenture agreements, and assets held in self-insurance trust arrangements. Restricted foundation investments consist of assets whose use by the Hospital has been restricted by the donor.

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Repairs and maintenance costs are charged to expense as incurred.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Classification of Net Assets - Net assets of the Hospital are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Hospital's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Excess of Revenue Over Expenses - The consolidated statement of changes in net assets includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets and pension-related changes other than periodic benefit costs.

Net Patient Service Revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources is as follows:

	Third-party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts) - December 31, 2015	$ 277,320,917	$ 25,724,872	$ 303,045,789
Patient service revenue (net of contractual allowances and discounts) - December 31, 2014	$ 259,052,840	$ 31,539,412	$ 290,592,252

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Contributions - The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of changes in net assets as net assets released from restriction.

The Hospital reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expiration of donor restrictions when the assets are placed in service.

Professional and Other Liability Insurance - The Hospital accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional service and other liability claims occurring during the year as well as for those claims that have not been reported at year end. Amounts receivable from insurance related to stop-loss provisions are recorded as a receivable and included in other assets.

Accounting for Conditional Asset Retirement Obligation - Management has considered its legal obligation to report asset retirement activities, such as asbestos removal, on its existing properties. Over the past 20 years, management has systematically renovated, replaced, or constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management has calculated the present value of the retirement obligation and the amount has been recognized as a liability on the consolidated balance sheet within other liabilities.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions, and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients.

Electronic Health Records Incentive Payments - The American Recovery and Reinvestment Act of 2009 (ARRA) established funding in order to provide incentive payments to hospitals and physicians that implement the use of electronic health record (EHR) technology by 2014. The Hospital may receive an incentive payment for up to four years, provided the Hospital demonstrates meaningful use of certified EHR technology for the EHR reporting period. The revenue from the incentive payments is recognized ratably over the EHR reporting period when there is reasonable assurance that the Hospital will comply with eligibility requirements during the EHR reporting period and an incentive payment will be received. In 2015 and 2014, approximately $554,000 and $1,300,000, respectively, is recorded within other operating revenue as incentive payments are related to the Hospital's ongoing and central activities, yet not critical to the delivery of patient service.

Federal Income Tax - The Internal Revenue Service (IRS) has ruled that the Hospital and its subsidiaries are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no tax provision is reflected in the consolidated financial statements.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Fair Value of Financial Instruments - The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- **Cash and Cash Equivalents** - The carrying amount approximates fair value because of the short maturity of those instruments.
- **Investments and Assets Limited as to Use** - Fair values, which are the amounts reported in the consolidated balance sheet, are based on quoted market prices, if available, or estimates using quoted market prices for similar securities.
- **Accounts Receivable, Accounts Payable, and Accrued Liabilities** - The carrying amount reported in the consolidated balance sheet for accounts receivable, accounts payable, and accrued liabilities approximates its fair value due to the short-term nature during which such amounts will be settled.
- **Estimated Third-party Payor Settlements Receivable and Payable** - The carrying amount reported in the consolidated balance sheet for estimated third-party payor settlements receivable and payable approximates its fair value.

New Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Hospital's year ending December 31, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Hospital has not yet determined which application method it will use or the potential effects of the new standard on the consolidated financial statements, if any.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the consolidated balance sheet. The reporting of lease-related expenses in the consolidated statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Hospital's year ending December 31, 2019 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Hospital's consolidated financial statements as a result of the leases for facilities and equipment classified as operating leases. The effect of applying the new lease guidance on the consolidated financial statements has not yet been determined.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including April 15, 2016, which is the date the consolidated financial statements were issued.

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2015	2014
Patient accounts receivable	$ 142,634,690	$ 119,597,080
Less allowance for uncollectible accounts	(21,842,078)	(19,104,644)
Less allowance for contractual adjustments	(76,966,945)	(58,600,543)
Net patient accounts receivable	$ 43,825,667	$ 41,891,893

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows as of December 31:

	Percentage	
	2015	2014
Medicare	38 %	40 %
Commercial and managed care	33	33
Medicaid	22	15
Self-pay	7	12
Total	100 %	100 %

Note 3 - Cost Report Settlements

A significant portion of the Hospital's net patient service revenue is received from the Medicare and Medicaid programs. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.

- **Medicaid and Hospital Assessment Fee** - Inpatient and outpatient services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge or per procedure.

  The Indiana Hospital Association (IHA) and the Office of Medicaid Policy and Planning (OMPP) worked together to develop and implement a hospital assessment fee program as enacted by the 2011 Session of the Indiana General Assembly. In 2012, the Centers for Medicare and Medicaid Services (CMS) approved the state plan amendment necessary to implement these changes with a retroactive effective date of July 1, 2011. The program expired on June 30, 2013. In March 2014, the program was again approved by CMS, with an effective date of July 1, 2013, and will continue through June 30, 2016. Under this program, OMPP will collect an assessment fee from eligible hospitals. The fee will be used in part to increase reimbursement to eligible hospitals for services provided in both fee-for-service and managed care programs, and as the state share of Disproportionate Share Hospital (DSH) payments. During 2015 and 2014, the Hospital incurred $11,145,387 and $11,472,670, respectively, in Medicaid assessment fees under this program, which is reflected in total operating expenses in the accompanying consolidated statement of operations. At December 31, 2015 and 2014, there is $2,267,932 and $0, respectively, included in cost report settlement payable in the consolidated balance sheet related to the hospital assessment fee program.

  Final reimbursement under the Medicare and Medicaid programs is subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements. The effect of prior year settlements received in 2015 and 2014 resulted in an increase in net revenue of approximately $755,000 and $1,218,000, respectively.

Note 3 - Cost Report Settlements (Continued)

- **Other Third-party Payors** - The Hospital has also entered into agreements with certain commercial carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement to the Hospital under these agreements is discounts from established charges, prospectively determined rates per discharge, and prospectively determined daily rates.

The Hospital qualifies as a Medicaid Disproportionate Share (DSH) provider under Indiana law and, as such, is eligible to receive DSH payments linked to the State of Indiana's fiscal year end, which is June 30. The Hospital records DSH program revenue and receivables when the related amounts are determinable and when collectibility is reasonably assured.

At December 31, 2015 and 2014, the Hospital recorded approximately $9.1 million and $24.2 million, respectively, in amounts due from the State of Indiana under the DSH program. These amounts are reflected in cost report settlements receivable in the accompanying consolidated balance sheet. The amounts recorded represent estimated reimbursement due to the Hospital for services provided through December 31, 2015. During the years ended December 31, 2015 and 2014, approximately $18 million and $49 million, respectively, was received in cash related to the DSH program.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare and Medicaid programs that are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Indiana Family and Social Services Administration (FSSA) has initiated a Medicaid Advisory Committee (MAC) initiative, whereby claims will be reviewed by contractors for validity, accuracy, and proper documentation. The Hospital is unable to determine the extent of liability for overpayments, if any. The potential exists for significant overpayment of claims liability for the Hospital at a future date.

Note 4 - Charity Care

In support of its mission, the Hospital's policy is to treat patients in need of medical services without regard to their ability to pay for such services. Charity care covers services provided to persons who cannot afford to pay. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total operating expenses divided by gross patient service revenue. The Hospital estimates that it provided approximately $10.8 million and $18.2 million of services to indigent patients during 2015 and 2014, respectively.

In addition, the Hospital performs many activities of community benefit, including programs provided to persons with inadequate healthcare resources or for other groups within the community that need special services and support. Examples include programs related to the poor, the elderly, those suffering from substance abuse, victims of child abuse, and others with specific particular healthcare needs. They also include broader populations who benefit from health community initiatives such as health promotion, education, and health screening.

The Hospital also participates in the Medicare and Medicaid programs. At present, the reimbursement rates for both programs do not fully cover the cost of providing care to these patients. This represents the estimated "shortfall" created when a facility receives payments below the costs of treating Medicare and Medicaid beneficiaries. These uncompensated costs are not included above.

Note 5 - Assets Limited as to Use

The details of assets limited as to use are summarized in the following schedule at December 31:

	2015	2014
Funds held by trustees under bond indenture	$ 4,332,917	$ 4,339,434
Funds held in trust for payment of professional and other liability claims	5,386,267	5,792,245
Funds held by board for future capital improvements	131,280,527	137,797,954
Funds held by donors for specific purposes	25,000	25,000
Total assets limited as to use	$ 141,024,711	$ 147,954,633

Note 5 - Assets Limited as to Use (Continued)

Investments, including short-term investments, consist of the following at December 31:

	2015	2014
Money market investments	$ 8,733,130	$ 8,830,098
Government securities	6,708,665	11,456,159
Mutual funds	105,503,685	76,560,558
Corporate bonds	25,518,767	55,535,806
Pooled funds	2,477,308	3,447,255
Total	$ 148,941,555	$ 155,829,876
Classified as:		
Short-term investments	$ 7,916,844	$ 7,875,243
Assets limited as to use	141,024,711	147,954,633
Total	$ 148,941,555	$ 155,829,876

Funds held by the trustee under a bond indenture are held for the purpose of making future bond principal and interest payments. Investment income accrues to the funds as earned.

Investment income and gains and losses are comprised of the following for the years ended December 31:

	2015	2014
Interest and dividends	$ 3,734,269	$ 2,530,766
Change in net unrealized losses	(7,138,932)	(3,845,886)
Realized gains - Net	1,945,298	5,600,742
Total	$ (1,459,365)	$ 4,285,622

Note 6 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Hospital's assets measured at fair value on a recurring basis at December 31, 2015 and 2014 and the valuation techniques used by the Hospital to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Hospital has the ability to access.

Note 6 - Fair Value Measurements (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Short-term Investments -				
Money market investments	$ 1,822,221	$ -	$ -	$ 1,822,221
Assets Limited as to Use				
Money market investments	6,856,138	-	-	6,856,138
Mutual funds:				
U.S. companies	28,049,556	-	-	28,049,556
International companies	29,348,046	-	-	29,348,046
Fixed income	39,238,967	-	-	39,238,967
Balanced funds	8,867,116	-	-	8,867,116
Fixed income:				
U.S. Treasuries	-	4,174,180	-	4,174,180
Governmental agency bonds	-	2,534,485	-	2,534,485
Pooled funds	-	2,477,308	-	2,477,308
Asset-backed securities	-	5,295,384	-	5,295,384
Mortgage-backed securities	-	8,349,063	-	8,349,063
Corporate - Domestic	-	8,539,592	-	8,539,592
Corporate - International	-	3,334,728	-	3,334,728
Total assets limited as to use	112,359,823	34,704,740	-	147,064,563
Total	$ 114,182,044	$ 34,704,740	$ -	$ 148,886,784

Note 6 - Fair Value Measurements (Continued)

The assets limited as to use and short-term investments included in the consolidated balance sheet at December 31, 2015 included money market investments of $54,771, which are not measured at fair value on a recurring basis and therefore are not in the table above.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Short-term Investments -				
Money market investments	$ 1,820,569	$ -	$ -	$ 1,820,569
Assets Limited as to Use				
Money market investments	6,862,403	-	-	6,862,403
Mutual funds:				
U.S. companies	32,072,592	-	-	32,072,592
International companies	25,030,882	-	-	25,030,882
Fixed income	9,323,848	-	-	9,323,848
Balanced funds	10,133,236	-	-	10,133,236
Fixed income:				
U.S. Treasuries	-	4,177,467	-	4,177,467
Governmental agency bonds	-	7,278,692	-	7,278,692
Pooled funds	-	3,447,255	-	3,447,255
Asset-backed securities	-	16,898,573	-	16,898,573
Mortgage-backed securities	-	18,619,105	-	18,619,105
Corporate - Domestic	-	14,958,346	-	14,958,346
Corporate - International	-	5,059,782	-	5,059,782
Total assets limited as to use	83,422,961	70,439,220	-	153,862,181
Total	$ 85,243,530	$ 70,439,220	$ -	$ 155,682,750

The assets limited as to use and short-term investments included in the consolidated balance sheet at December 31, 2014 include money market investments of $147,126, which are not measured at fair value on a recurring basis and therefore are not in the table above.

The fair value of fixed-income securities at December 31, 2015 and 2014 was determined primarily based on Level 2 inputs. The Methodist Hospitals, Inc. estimates the fair value of these investments using the fair market values as determined by the investment custodians.

The Hospital's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. For the years ended December 31, 2015 and 2014, there were no significant transfers.

Note 7 - Other Current Assets

The details of other assets at December 31, 2015 and 2014 are as follows:

	2015	2014
Prepaid expenses	$ 2,664,101	$ 3,340,384
Inventory	11,481,883	10,977,428
Other	532,301	941,031
Total	$ 14,678,285	$ 15,258,843

Note 8 - Property and Equipment

The cost of property, plant, and equipment and depreciable lives are summarized as follows:

	2015	2014	Depreciable Life - Years
Land	$ 3,745,499	$ 3,745,499	-
Buildings	256,898,993	255,456,781	2-40
Equipment	176,497,981	239,609,479	3-5
Construction in progress	6,446,211	3,535,559	-
Total cost	443,588,684	502,347,318	
Accumulated depreciation	(318,834,886)	(377,272,184)	
Net property and equipment	$ 124,753,798	$ 125,075,134	

Depreciation and amortization expense, including assets under capital lease, totaled approximately $18,546,000 and $19,191,000 in 2015 and 2014, respectively.

The Hospital holds buildings under capital leases with an original cost of approximately $22,131,000 at both December 31, 2015 and 2014. Accumulated amortization for buildings under capital lease obligations was approximately $6,230,000 and $5,610,000 at December 31, 2015 and 2014, respectively.

During the year ended December 31, 2015, the Hospital recorded the retirement of certain fully depreciated property and equipment having an original cost of approximately $77 million, which were physically disposed of in prior years.

Construction in progress consists primarily of costs incurred for the emergency department and intensive care unit renovation, installation and implementation of software systems, and installation of various clinical equipment. Remaining costs to complete the project are approximately $14,315,000 as of December 31, 2015.

Note 9 - Accrued Liabilities and Other

The details of accrued liabilities at December 31 are as follows:

	2015	2014
Payroll and related items	$ 5,503,486	$ 10,959,516
Compensated absences	8,868,018	8,468,381
Interest	659,531	749,547
Other	124,402	64,502
Total accrued liabilities	$ 15,155,437	$ 20,241,946

Note 10 - Long-term Debt

The following is a summary of long-term debt and capital lease obligations at December 31, 2015 and 2014:

	2015	2014
Indiana Finance Authority Hospital Revenue Refunding Bonds, Series 2014A, interest ranging from 4.00 percent to 5.00 percent, due in installments through 2031	$45,225,000	$47,100,000
Promissory notes issued in conjunction with IMA Endoscopy SurgiCenter, PC acquisition in 2013, interest at 5.00 percent, due in installments through 2016	900,359	1,757,844
Urgent care building capital lease obligation, expires October 31, 2020, collateralized by the leased building. Subsequent to year end, the Hospital entered into a purchase agreement for the urgent care building which at December 31, 2015 was under a capital lease obligation. The purchase price was approximately $3.5 million and was paid through operating cash	934,342	1,057,473
Medical office building capital lease obligations, expire December 31, 2045, collateralized by leased medical office buildings	19,455,882	19,602,188
Total - Before unamortized premium	66,515,583	69,517,505
Add original issue premium	4,992,604	5,311,281
Less current portion	(3,256,749)	(3,001,922)
Long-term portion	$68,251,438	$71,826,864

Note 10 - Long-term Debt (Continued)

The Indiana Health Facility Financing Authority (the "IHFFA") has issued bonds on behalf of The Methodist Hospitals, Inc. Obligated Group (the "Obligated Group") and has loaned the proceeds to the Obligated Group under the terms of the master indenture.

Hospital Obligated Group Bonds Payable, Series 2014A consist of hospital revenue bonds issued by the Indiana Finance Authority (previously the IHFFA). The bonds consist of serial bonds payable in annual installments for 2015 through 2031, ranging from $1,875,000 to $3,465,000 at interest rates ranging from 4 percent to 5 percent and term bonds payable in annual installments beginning in 2030 through 2031, ranging from $3,375,000 to $3,555,000 at 5 percent interest.

The Series 2014A Bonds have been issued under a master trust indenture and are secured by the gross revenue of the Hospital. In connection with the bond indenture and loan agreements, the Obligated Group is subject to certain financial covenants related to, among others, transfer of assets, restrictions on additional indebtedness, and maintenance of certain financial covenants, including a minimum debt service coverage ratio and minimum debt service reserve funds.

The Hospital has entered into a series of capital lease arrangements for a medical office building on the Merrillville hospital campus. The Hospital is leasing the underlying land to the developer under terms of a ground lease. The medical office building houses physician offices, laboratory and diagnostic facilities, and an ambulatory surgery center. The lease agreements have terms from 6 to 31 years.

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows as of December 31:

Years Ending December 31		Long-term Debt	Capital Lease Obligations
2016		$ 2,955,359	$ 2,005,224
2017		2,145,000	2,005,224
2018		2,250,000	2,005,224
2019		2,350,000	2,005,224
2020		2,455,000	1,959,690
Thereafter		33,970,000	24,261,552
	Total	46,125,359	34,242,138
	Less amount representing interest under capital lease obligations	-	(13,851,914)
	Total debt and present value of minimum lease payments	$ 46,125,359	$ 20,390,224

Note 10 - Long-term Debt (Continued)

The fair value of the Series 2014A Bonds, promissory notes, and capital leases is $71,798,281 and $75,892,997 at December 31, 2015 and 2014, respectively. The Series 2014A Bonds were estimated based on current traded values. The determination of fair value of the tax-exempt bond obligations, capital leases, and promissory notes is consistent with a Level 2 measurement under the fair value hierarchy.

Note 11 - Other Liabilities

The detail of other liabilities is shown below:

	2015	2014
Accrued pension cost (Note 14)	$ 22,477,140	$ 28,127,127
Accrued professional and other liability claims (Note 15)	7,870,993	6,474,632
Other	1,661,443	1,454,263
Total other liabilities	$ 32,009,576	$ 36,056,022

Note 12 - Operating Leases

The Hospital is obligated under certain operating leases, primarily for facilities and equipment. Total rent expense under these leases was approximately $2,063,000 and $2,080,000 for the years ended December 31, 2015 and 2014, respectively.

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Years Ending December 31	Amount
2016	$ 2,152,464
2017	1,319,443
2018	1,001,058
2019	830,534
2020	709,337
Thereafter	1,048,947
Total	$ 7,061,783

Note 13 - Defined Contribution Plan

The Hospital established a defined contribution retirement plan effective January 1, 2006, which allows for employee contributions and requires a matching employer contribution of 50 percent of the first 6 percent of employees' earnings. Expense for the years ended December 31, 2015 and 2014 was approximately $1,966,000 and $1,826,000, respectively.

Note 14 - Pension Plan

The Methodist Hospitals, Inc. participates in a defined benefit pension plan covering certain employees.

The board of directors of the Hospital elected to freeze the employees' participation in the future accrual of benefits under the existing defined benefit plan effective December 31, 2005.

Effective June 1, 2007, the plan was amended to provide early retirement window benefits to participants who had attained age 50 and completed 10 or more years of service on or before June 30, 2007. Under the terms of the amendment, eligible participants who elected to participate received three years of additional benefits accrual based on 2006 compensation, and the early retirement reduction was calculated assuming a participant was 50 years or older. Participants were allowed to take their full benefit as a lump sum. A significant portion of participants eligible for the early retirement program elected to participate in the program.

Obligations and Funded Status

	Pension Benefits	
	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 128,525,698	$ 106,631,245
Service cost	15,000	19,000
Interest cost	5,210,114	5,250,319
Actuarial (gain) loss	(4,621,921)	20,502,890
Benefits paid	(3,972,190)	(3,877,756)
Benefit obligation at end of year	125,156,701	128,525,698
Change in plan assets:		
Fair value of plan assets at beginning of year	100,398,571	94,602,233
Actual (loss) return on plan assets	(146,820)	4,874,094
Employer contributions	6,400,000	4,800,000
Benefits paid	(3,972,190)	(3,877,756)
Fair value of plan assets at end of year	102,679,561	100,398,571
Funded status at end of year	$ (22,477,140)	$ (28,127,127)

Note 14 - Pension Plan (Continued)

The components of net periodic benefit cost and other amounts recognized are as follows:

Net Periodic Benefit Cost

	Pension Benefits	
	2015	2014
Service cost	$ 15,000	$ 19,000
Interest cost	5,210,114	5,250,319
Expected return on plan assets	(6,889,747)	(6,734,039)
Amortization of net loss	2,334,956	393,907
Total cost (income)	$ 670,323	$ (1,070,813)

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension cost:

	Pension Benefits	
	2015	2014
Net loss	$ 2,414,646	$ 22,362,835

Assumptions

Weighted average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits	
	2015	2014
Discount rate	4.40 %	4.10 %

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

	Pension Benefits	
	2015	2014
Discount rate	4.10 %	5.00 %
Expected long-term return on plan assets	6.75	7.10

In selecting the expected long-term rate of return on assets, the Hospital considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this plan. This included considering the allocation of trust assets and the expected returns likely to be earned over the life of the plan.

Note 14 - Pension Plan (Continued)

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the Hospital, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits. Pension funds are invested in growth-oriented securities up to 65 percent in equities, including international equities.

The target allocation range of percentages for plan assets is 65 percent equity securities and 35 percent debt securities as of December 31, 2015 and 2014.

Restatement - Due to a re-evaluation of the significance of the inputs used in the valuation of certain common collective trust equity funds, it was determined that certain investments previously classified as Level 1 should have been classified as Level 2 based on the fair value hierarchy. Accordingly, the 2014 fair value disclosure has been updated to reflect this change.

The fair values of the Hospital's pension plan assets at December 31, 2015 and 2014 by major asset categories are as follows:

Fair Value Measurements at December 31, 2015

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category				
Equity securities:				
U.S. companies	$ 21,774,408	$ 21,774,408	$ -	$ -
International companies	25,315,961	25,315,961	-	-
Debt securities	52,483,346	-	52,483,346	-
Fixed income - Pooled funds	1,239,736	-	1,239,736	-
Common collective trust - Equity fund	1,851,356	-	1,851,356	-
Total	$ 102,664,807	$ 47,090,369	$ 55,574,438	$ -

Note 14 - Pension Plan (Continued)

Fair Value Measurements at December 31, 2014

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category				
Equity securities:				
U.S. companies	$ 24,383,656	$ 24,383,656	$ -	$ -
International companies	23,427,129	23,427,129	-	-
Debt securities	49,449,441	-	49,449,441	-
Fixed income - Pooled funds	1,256,037	-	1,256,037	-
Common collective trust - Equity fund	1,867,555	-	1,867,555	-
Total	$ 100,383,818	$ 47,810,785	$ 52,573,033	$ -

The pension plan assets shown above included cash and cash equivalents of $14,754 and $14,753 at December 31, 2015 and 2014, respectively. Cash and cash equivalents are not measured at fair value on a recurring basis and therefore are not included in the tables above.

The tables above present information about the pension plan assets measured at fair value at December 31, 2015 and 2014 and the valuation techniques used by the Hospital to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Hospital has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Note 14 - Pension Plan (Continued)

The fair value of debt securites, fixed-income securities, and common collective trust fund at December 31, 2015 and 2014 was determined primarily based on Level 2 inputs. The Methodist Hospitals, Inc. estimates the fair value of these investments using the fair market values as determined by the investment custodians.

The Hospital's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. For the years ended December 31, 2015 and 2014, there were no significant transfers between levels.

Cash Flow

Contributions

The Hospital expects to contribute $6.4 million to the pension plan in 2016.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years Ending December 31	Pension Benefits
2016	$ 4,339,618
2017	4,561,295
2018	4,905,107
2019	5,242,774
2020	5,557,584
2021-2025	33,204,627

Note 15 - Professional Liability Self-insurance

On April 2, 1983, the Hospital became qualified under the Indiana Medical Malpractice Act (the "Act"). The Act limits the amount of individual claims to $1,250,000 ($7,500,000 annual aggregate), of which $1,000,000 would be paid by the State of Indiana Patient Compensation Fund and $250,000 by the Hospital. The Hospital carries commercial insurance coverage for incidents that would exceed coverages specified by the self-insurance program. Prior to April 2, 1983, the Hospital carried commercial insurance for professional liability risks on an occurrence basis. The Hospital's liability for medical malpractice self-insurance is actuarially determined based upon the Hospital's estimated claims reserves and various assumptions, and includes an estimate for claims incurred but not yet reported.

Note 15 - Professional Liability Self-insurance (Continued)

In connection with the self-insurance program, the Hospital established a trust. Under the trust agreement, the trust assets can only be used for payment of professional liability losses, related expenses, and the costs of administering the trust. The assets of the trust are included in unrestricted funds and income from the trust assets and administrative costs are included in the consolidated statement of operations.

Note 16 - Functional Expenses

The Hospital provides general healthcare services to residents within its geographical location.

Expenses related to providing these services are as follows:

	2015	2014
Healthcare services	$ 291,386,976	$ 289,614,516
General and administrative	38,614,451	38,203,661
Total	$ 330,001,427	$ 327,818,177