Community Health Network, Inc.

Consolidated Financial Statements
December 31, 2016 and 2015

Community Health Network, Inc.
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December 31, 2016 and 2015

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Community Health Network, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Health Network, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Indianapolis, IN
April 20, 2017

Community Health Network, Inc.
Consolidated Balance Sheets (in 000's)
As of December 31, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 259,298	$ 260,270
Patient accounts receivable, less allowance for doubtful accounts of $469,818 and $551,919 in 2016 and 2015	263,248	273,688
Estimated third-party payor settlements receivable	34,445	7,797
Current portion of assets limited as to use–held by trustee	78,163	36,729
Inventories	29,681	28,133
Other accounts receivable	39,569	46,093
Other current assets	17,912	15,755
Total current assets	722,316	668,465
Assets limited as to use		
Funds held by trustee, net of current portion	44,677	100,637
Board-designated funds	656,674	592,527
Reinsurance trust assets	16,657	13,831
Property, plant and equipment, net	852,811	822,473
Investments in unconsolidated affiliates	34,486	31,648
Capitalized software, net	67,662	77,533
Other assets	16,960	7,960
Total assets	$ 2,412,243	$ 2,315,074
Liabilities and net assets		
Current liabilities		
Current portion of long-term debt	$ 21,924	$ 21,483
Accounts payable	118,940	91,771
Accrued salaries and wages	107,854	82,619
Estimated third-party payor settlements payable	10,296	13,432
Self-insured liabilities	27,170	29,327
Accrued pension	-	92,800
Other current liabilities	38,716	30,160
Total current liabilities	324,900	361,592
Long-term debt, net of current portion	771,568	782,482
Accrued pension	2,062	3,438
Other liabilities	9,814	17,546
Total liabilities	1,108,344	1,165,058
Net assets		
Unrestricted net assets		
Network unrestricted net assets	1,267,232	1,117,923
Noncontrolling interest	21,104	20,201
Total unrestricted net assets	1,288,336	1,138,124
Temporarily restricted net assets	8,711	6,769
Permanently restricted net assets	6,852	5,123
Total net assets	1,303,899	1,150,016
Total liabilities and net assets	$ 2,412,243	$ 2,315,074

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

Community Health Network, Inc.
Consolidated Statements of Operations and Changes in Net Assets (in 000's)
Years ended December 31, 2016 and 2015

	2016	2015
Revenues and gains		
Net patient service revenue	$ 2,180,249	$ 2,103,897
Provisions for bad debts	107,243	137,873
Net patient service revenue less provision for bad debts	2,073,006	1,966,024
Service fee revenue	18,567	25,661
Other revenue	55,065	67,514
Earnings from unconsolidated affiliates	22,727	17,312
Total unrestricted revenues and gains	2,169,365	2,076,511
Operating expenses		
Salaries, benefits and pension	1,129,557	1,056,369
Defined Benefit pension settlement charge	220,839	-
Supplies and other expenses	788,080	734,814
Depreciation and amortization	86,762	84,672
Westview impairment and closing charge	26,020	-
Accelerated Amortization of System	12,185	-
Interest and financing costs	29,108	24,827
Total operating expenses	2,292,551	1,900,682
(Loss) income from operations	(123,186)	175,829
Total investment income (loss)	48,332	(34,815)
Other, net	456	(1,010)
Excess of (expenses over revenues) revenues over expenses before income taxes	(74,398)	140,004
Provision for income taxes	7,813	4,765
Excess of (expenses over revenues) revenues over expenses	(82,211)	135,239
Excess of expenses over revenues attributable to noncontrolling interest	(20,490)	(20,119)
Excess of (expenses over revenues) revenues over expenses attributable to the Network	$ (102,701)	$ 115,120

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

Community Health Network, Inc.
Consolidated Statements of Operations and Changes in Net Assets (in 000's)
Years ended December 31, 2016 and 2015

	2016	2015
Change in unrestricted net assets		
Excess of (expenses over revenues) revenues over expenses attributable to the Network	$ (102,701)	$ 115,120
Increase (decrease) to unrecognized pension due to actuarial gains and amortizations	34,143	(8,329)
Increase to recognized pension losses	220,839	-
Change in noncontrolling interest	903	3,193
Other changes, net	(2,972)	222
Increase in total unrestricted net assets	150,212	110,206
Change in temporarily restricted net assets		
Increase (decrease) in temporarily restricted net assets	1,942	(1,298)
Change in permanently restricted net assets		
Increase in permanently restricted net assets	1,729	645
Increase in total net assets	153,883	109,553
Total net assets, beginning of year	1,150,016	1,040,463
Total net assets, end of year	$ 1,303,899	$ 1,150,016

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

Community Health Network, Inc.
Consolidated Statements of Cash Flows (in 000's)
Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Increase in net assets	$ 153,883	$ 109,553
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	86,395	84,672
Accelerated Amortization of System	12,185	-
Westview impairment and closing charge	26,020	-
Provision for bad debts	107,243	138,423
Deferred tax benefit provision	621	(294)
Loss on extinguishment of debt	1,094	-
Earnings from unconsolidated affiliates	(22,727)	(17,312)
Unrealized and realized gains on investments	(31,821)	53,347
Distributions received from unconsolidated affiliates	19,917	15,509
Change in accrued pension	(94,176)	(137,210)
Defined Benefit pension settlement charge	220,839	-
Other	367	-
Changes in operating assets and liabilities		
Patient accounts receivable	(96,803)	(190,216)
Other assets	(7,992)	(4,150)
Accounts payable	7,687	7,960
Estimated third-party payor settlements	(29,785)	(9,330)
Other liabilities	(202,584)	3,597
Net cash provided by operating activities	150,363	54,549
Cash flows from investing activities		
Purchases of property, plant and equipment	(111,496)	(87,190)
Purchases of capitalized software	(12,630)	(22,690)
Proceeds from sale of property, plant and equipment	324	4,664
Proceeds from Wellspring Pharmacy sale	4,600	-
Purchases of investments	(289,406)	(413,667)
Sales of investments	271,606	318,664
Investments in unconsolidated affiliates	(28)	(314)
Distribution received from Unconsolidated Affiliates	-	88
Net cash used in investing activities	(137,030)	(200,445)
Cash flows from financing activities		
Proceeds from issuance of debt	112,600	200,827
Repayments of debt	(124,079)	(25,057)
Changes in restricted contributions and investment income	(2,826)	(276)
Cash flows provided by (used in) financing activities	(14,305)	175,494
Net increase in cash and cash equivalents	(972)	29,598
Cash and cash equivalents, beginning of year	260,270	230,672
Cash and cash equivalents, end of year	$ 259,298	$ 260,270
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	$ 30,490	$ 25,096
Income taxes	9,275	7,670
Non cash disclosures of cash flow information		
Acquisition of property, plant and equipment included in accounts payable at December 31	$ 19,482	$ 6,743

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

1. Organization and Summary of Significant Accounting Policies

Organization

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

Effective September 30, 2016, the Network acquired Alpha Home Physical Therapy ("Alpha"), a home health company located on the South side of Indianapolis. Alpha's business merged into the Network's existing home health business.

Effective August 1, 2015, the Network made a capital contribution in return for a 50% ownership in Primaria Health, LLC., ("Primaria"). Primaria is a management service organization that provides certain health population management services for physician practices. The Network accounts for its investment in the joint venture on the equity method of accounting.

Basis of Presentation and Consolidation

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

The consolidated financial statements include the following wholly owned entities:

- Community Hospital South, Inc. ("CHS"), a non-profit corporation which operates an acute care hospital facility on the south side of Indianapolis; CHNw and CHS are collectively referred to as ("CHI").
- Community Hospitals of Anderson and Madison County, Inc. ("CHA"), a non-profit corporation which provides acute health care services to residents of Anderson, Indiana and surrounding communities;
- Indianapolis Osteopathic Hospital, Inc. d/b/a Westview Hospital ("Westview"), a non-profit corporation which provides acute health care services to residents on the west side of Indianapolis. Health Institute of Indiana, Inc. ("Healthplex") is a non-profit wholly owned fitness center of Westview. Effective December 16, 2016, the Network closed Community Westview Hospital and adjoining medical office building. The Healthplex facility remains open and was put up for sale March 2017.
- Community Howard Regional Health, Inc., ("Howard") a non-profit corporation which provides acute health care services to residents in Howard County, Indiana and surrounding areas;
- Community Physicians of Indiana, Inc. ("CPI") d/b/a Community Physicians Network, a non-profit corporation which employs the Network's primary care and specialty physicians;
- Community Health Network Foundation, Inc., a non-profit corporation established to raise and expend funds for the benefit of CHNw and other related organizations;
- Visionary Enterprises, Inc. ("VEI"), a taxable, for-profit subsidiary corporation which consists primarily of ambulatory surgery center development in Indiana and Michigan, and management and other consulting services. In 2016, VEI sold the Wellspring Pharmacy business;

- Community Home Health Services, Inc. ("CHHS"), a non-profit corporation whose operations consist primarily of providing home health care and hospice services to patients in central Indiana counties. CHHS transferred its business associated with Community at Home, LLC, to VEI in March 2015 and then subsequently dissolved Community at Home, LLC on August 27, 2015;
- Indiana ProHealth Network, LLC ("ProHealth"), a provider association consisting of physicians and hospital members in central Indiana and the primary vehicle by which the Network contracts for risk with payors; ProHealth is a pass-through taxable entity that is consolidated into VEI for income tax purposes;
- CHN Assurance Company, Ltd. ("Captive") is a company incorporated under the law of the Cayman Islands and a wholly owned subsidiary of CHNw. The Captive reinsures policies for the Network including: primary hospital professional liability, doctor's professional liability and general liability. The Captive's professional liability policy is on a claims-made basis and includes prior acts coverage for various entities owned by the Network, while the general liability policy is on an occurrence basis. On an annual basis, the Captive's ceding insurer requires the Captive to maintain an outstanding letter of credit to address any potential exposure between premiums paid and expected losses. Due to favorable claims experience and adequate funding, the fronting company does not require a letter of credit for the policy years beginning March 1, 2016 and 2017, respectively;
- Community LTC, Inc. ("LTC"), a wholly owned not-for-profit subsidiary of CHA that operates nursing homes and assisted living facilities in Madison County, Indiana; and
- North Campus Surgery Center, LLC ("NCSC"), a wholly owned for profit subsidiary of VEI and CHNw on the campus of Community Hospital North. NCSC provides outpatient surgeries.

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

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

Intercompany accounts and transactions have been eliminated.

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

Reclassifications
Certain immaterial reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

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

Allowance for Doubtful Accounts and Contractual Adjustments
The Network's patient accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments. In evaluating the collectability of accounts receivable, the Network analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for contractual adjustments and provision for bad debts. For receivables associated with services provided to patients who have third party coverage, the Network analyzes contractually due amounts and provides an allowance for contractual adjustments. Generally, for receivables associated with self-pay patients, including patient deductibles and co-insurance, the Network records a provision for bad debts in the period of service on the basis of its past experience, which indicates many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is adjusted through the allowance for doubtful accounts. Certain accounts that are sent to collection companies remain as accounts receivable on the balance sheet. These accounts are not written off unless returned from the collection company, however they are fully reserved within the allowance for doubtful accounts.

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

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

The State of Indiana's Hospital Assessment Fee and Medicaid Disproportionate Share payments, further described in Note 2, are recorded to estimated third-party payor settlements receivable and payable.

Inventories

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

Assets Limited as to Use

Assets limited as to use consist of cash and cash equivalents, commercial paper, U.S. Government obligations, corporate bonds, mutual funds, marketable equity securities and hedge fund of funds and are stated at fair value. The investments are classified as trading securities and marked to market each month. The trading securities classification is based on the Network's investment strategy and investment philosophies which permit investment managers to execute purchases and sales of investments without prior approval of Network management. All unrestricted unrealized gains and losses are included in excess of revenues over expenses.

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

Property, Plant and Equipment

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

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

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

Change in Estimates for Long-lived Assets

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

Investments in Unconsolidated Affiliates

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

Deferred Financing Costs
Costs associated with the issuance of long-term debt are capitalized and presented on the balance sheet as a direct deduction from the carrying amount of the debt. The debt issuance costs related to line-of-credit arrangements is presented as a component of other noncurrent assets. Deferred financing cost are amortized to interest expense utilizing the effective interest method over the life of the related debt. Amortization of deferred financing costs is recorded as part of interest expense and totaled $200 and $202 for the years ended December 31, 2016 and 2015, respectively. The increase in amortization expense during 2016 relates to a write-off of deferred financing costs associated with Series 2000A, 2000B, 2005A, 2005B and 2009A debt that was replaced with Series 2016A and 2016B debt in September 2016. The total loss on extinguishment of debt was $1,094.

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

Capitalized Software
The costs of obtaining or developing internal-use software, including external direct costs for materials and services and directly related payroll costs are capitalized. Amortization begins when the internal-use software is ready for its intended use. The software costs are amortized over the estimated useful lives of the software. The estimated useful lives range from 5-10 years. Costs incurred during the preliminary project stage and post-implementation stage as well as maintenance and training costs are expensed as incurred. Amortization expense related to capitalized software was approximately $22,558 and $8,840 for the years ended December 31, 2016 and 2015, respectively. The increase in amortization expense during 2016 relates to accelerated amortization of the Cerner system assets at Howard. The Cerner system was replaced by the Network's EPIC system on February 1, 2017. During 2016, the total accelerated amortization recognized was $12,185.

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

Reserves for professional and general liability risks, including self-insured liabilities, were $15,138 and $14,553 at December 31, 2016 and 2015, respectively. These amounts are recorded and included in the self-insured liabilities on the consolidated balance sheets.

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

The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The changes to the estimated reserve amounts are included in current operating results for the years ended December 31, 2016 and 2015.

Notes to Consolidated Financial Statements (in 000's)

The Network is self-insured for employee medical benefit risks through ProHealth. Reserves for medical claims liabilities and estimated self-insured claims were $5,226 and $7,946, net of claims liabilities payable to the Network providers, at December 31, 2016 and 2015, respectively. These amounts are recorded and included in self-insured liabilities on the consolidated balance sheets for the Network. Self-insured claims reserves are determined using individual case-basis data and are continually reviewed and adjusted as new experienced information becomes known. The changes in estimated reserve amounts are included in current operating results.

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

Derivative Instruments

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

The Network terminated its two outstanding interest rate swaps in September 2016 thus the Network has no swaps outstanding as of December 31, 2016. The Network had two interest rate swaps outstanding at December 31, 2015. See Note 7 for further discussion of the two swap transactions.

Temporarily and Permanently Restricted Net Assets

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

Net Patient Service Revenue

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

Patient service revenue, net of contractual allowances and discounts recognized in the period from these major payor sources, is as follows for the years ended December 31, 2016 and 2015, respectively:

2016	**Third Party Payors**	**Self- Pay**	**Total All Payors**
Patient service revenue (net of contractual allowances and discounts)	$ 2,100,098	$ 80,151	$ 2,180,249

Notes to Consolidated Financial Statements (in 000's)

2015	Third Party Payors	Self- Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 1,985,324	$ 118,573	$ 2,103,897

Charity Care

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

Charity care at cost was $6,426 and $10,566 for the years ended December 31, 2016 and 2015, respectively. Charity care cost was estimated on the application of the associated cost-to-charge ratios. The decrease in charity care is the result of more patients being covered under health exchange programs mandated by the Affordable Health Care Act and the Healthy Indiana Plan 2.0.

Donor-restricted Gifts

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

Pledge receivables as of December 31, 2016 and 2015 are not material.

Taxes and Tax Status

Deferred tax liabilities and assets are classified as noncurrent in our consolidated balance sheet at December 31, 2016 and 2015.

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

Fair Value of Financial Instruments/Measurements

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

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

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

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

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

Subsequent Events
The Network evaluated subsequent events through April 20, 2017, the date the Network consolidated financial statements were issued.

Recently Issued Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (the "FASB") issued authoritative guidance which changes the requirements for recognizing revenue when entities enter into contracts with customers. Under the new provisions, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. It also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for annual and interim periods beginning on or after December 15, 2018. The Network is currently evaluating the impact of the new standard on its results of operations, financial position and cash flows.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. The Company adopted the provisions as ASU 2014-15 in 2016. The adoption of ASU 2014-15 did not have a material impact on the Company's financial position, results of operations and changes in net assets or cash flows.

In May 2015, the FASB issued ASU 2015-07, Fair value measurement of Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent). This guidance requires entities to present investments that use NAV as a practical expedient for valuation purposes separately from other investments categorized in the fair value hierarchy described in Note 1. The standard is effective for fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact of the standard on its notes to consolidated financial statements.

In February 2016, the FASB issued amended authoritative guidance on accounting for leases. The new provisions require that a lessee of operating leases recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The lease liability will be equal to the present value of lease payments, with the right-of-use asset based upon the lease liability. The classification criteria for distinguishing between finance (or capital) leases and operating leases are substantially similar to the previous lease guidance, but with no explicit bright lines. As such, operating leases will result in straight-line rent expense similar to current practice. For short term leases (term of 12 months or less), a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities, which would generally result in lease expense being recognized on a straight-line basis over the lease term. The guidance is effective for annual and interim periods beginning after December 15, 2019, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition. While the Network expects to record significant leased assets and corresponding lease liabilities based on its existing population of individual leases, the Network continues to evaluate the impact on its results of operations, financial position and cash flows.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. This standard marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new guidance, the existing three categories of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted net assets into a single category called "net assets with donor restrictions" and renames unrestricted net assets as "net assets without donor restrictions." There will be new reporting requirements for expenses and additional disclosures to describe an organization's liquidity. The standard is effective for fiscal years beginning after December 15, 2017. The Network is currently assessing the impact this standard will have on their 2018 consolidated financial statements.

2. Net Patient Service Revenue and Concentrations of Credit Risk

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

- Medicare—Inpatient acute care services, outpatient services and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Network is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Network and audits thereof by the Medicare fiscal intermediary. The Network's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Network. The Network's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2013. Laws and regulations governing the Medicare program are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates could change by a material amount in the near term. Adjustments to revenue related to prior period cost reports increased net patient service revenue by approximately $1,468 and $0 for the years ended December 31, 2016 and 2015, respectively. Medicare patients account for approximately 42.1% and 41.2% of gross patient charges for years ended December 31, 2016 and 2015, respectively.

- Medicaid—Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge and outpatient services are reimbursed based on a fee for service basis, based on predetermined fee schedules. Medicaid patients account for approximately 18.5% and 16.4% of gross patient charges for years ended December 31, 2016 and 2015, respectively. The increase is driven by higher participation in the State of Indiana Healthy Indiana Plan 2.0.

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

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

The Network has qualified as a Medicaid Disproportionate Share ("DSH") provider under Indiana Law (IC 12-15-16(1-3)) and, as such, is eligible to receive DSH payments for the most recently determined state fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent and cost of uncompensated care as well as other factors. For the years ended December 31, 2016 and 2015, DSH payments have been made by the State of Indiana and amounts received were recorded as revenue based on data acceptable to the State of Indiana less any amounts management believes may be subject to adjustment. DSH payments are recorded by the Network after eligibility is determined by the State of Indiana and the payments are determined to be earned. If payments are received prior to eligibility being determined, the payments are recorded as current deferred revenue and recorded in current other liabilities until eligibility is determined. There is no deferred revenue related to DSH at December 31, 2016 or 2015. DSH amounts of $32,031 and $19,873 were recorded as revenue for the years ended December 31, 2016 and 2015, respectively.

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

The Network recognizes revenues and related fees associated with the HAF program in the period in which amounts are estimable and collection of payment is reasonably assured. Reimbursement under the program is reflected within net patient service revenue and the fees paid for participation in the HAF program are recorded in supplies and other expenses within the consolidated statements of operations and changes in net assets. The fees and reimbursements are settled monthly. Revenue recognized related to the HAF program was $69,047 and $71,953 for the years ended December 31, 2016 and 2015, respectively. Expense for fees related to the HAF program was $40,627 and $41,044 for the years ended December 31, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (in 000's)

The HAF program runs on an annual cycle from July 1 to June 30 and is effective until June 30, 2017. The consolidated balance sheet at December 31, 2016 includes less than one month of HAF activity, or $3,470 and $4,202 in estimated third-party payor settlements receivable and payable, respectively, related to the HAF program.

As discussed in Note 1, as a result of our participation in the Medicare and Medicaid programs, the Network is subject to various reviews, audits and investigations. In 2015, the Network entered into a five year corporate integrity agreement (the "CIA") with the Office of Inspector General of the United States Department of Health and Human Services to promote compliance with the statutes, regulations and written directives of Medicare, Medicaid and all other Federal health care programs. Key requirements under the CIA include maintaining the existing compliance program with required attestations provisions, minimum hours of training and education and external review of claims submitted by two of the Network's provider based locations, among others.

Net patient service revenue, as reflected in the accompanying consolidated statements of operations and changes in net assets, consist of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Gross patient service revenue	$ 6,205,768	$ 5,734,585
Deductions from gross patient service revenue		
Medicare/Medicaid contractual adjustments	2,822,650	2,339,601
Other contractual adjustments	1,184,114	1,254,213
Charity discounts for patient care	18,755	36,874
Net patient service revenue	2,180,249	2,103,897
Provision for bad debts	107,243	137,873
Net patient service revenue less provision for bad debts	$ 2,073,006	$ 1,966,024

The decrease in the provision for bad debts from 2015 to 2016 is primarily attributable to the decrease in receivables from patients. The Network grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. A significant portion of the Network's revenue is concentrated by payor mix. The concentration of gross receivables by payor class for both patients and third-party payors at December 31, 2016 and 2015 is as follows:

	2016	2015
Medicare	33 %	30 %
Medicaid	13 %	14 %
Managed care and commercial insurance	44 %	42 %
Patients	10 %	14 %
	100 %	100 %

Notes to Consolidated Financial Statements (in 000's)

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

3. Assets Limited as to Use

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

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

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

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

Funds Held by Trustee

The following is a summary of assets limited as to use, which are held by trustees, at December 31, 2016 and 2015:

	2016	2015
Cash and cash equivalents	$ 122,840	$ 73,372
U.S. Treasury obligations	-	63,994
	122,840	137,366
Less amount classified as current assets to meet current obligations	78,163	36,729
Noncurrent asset	$ 44,677	$ 100,637

2016	Fair Value Measurements at Reporting Date			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 122,840	$ 122,840	$ -	$ -
U.S. Treasury Obligations	-	-	-	-
Total	$ 122,840	$ 122,840	$ -	$ -

Notes to Consolidated Financial Statements (in 000's)

2015 Description	Fair Value Measurements at Reporting Date Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 73,372	$ 73,372	$ -	$ -
U.S. Treasury Obligations	63,994	-	63,994	-
Total	$ 137,366	$ 73,372	$ 63,994	$ -

There were no material transfers between Level 1 and Level 2 during 2016 or 2015.

The Hospital Revenue Bond Agreements (Note 6) require that the initial bond proceeds be held by a bank trustee until such funds are expended for eligible assets. Certain other funds are also held by the bank trustee as additional security for the bondholders and the periodic deposits of principal and interest requirements. These amounts, including interest earned from temporary investments, are segregated in accounts maintained by a bank trustee. Use of the funds is restricted to debt service requirements. The funds reflected in current assets relate to construction costs anticipated to be incurred during 2017. The increase in the current assets represents funds that will be used to fund the Network's East Campus revitalization construction during 2017.

Investment income for 2016 and 2015 related to funds held by trustee consists of the following:

	2016	2015
Interest and dividend income	$ 484	$ 198
Net realized gain on sales of investment securities	35	117
Total investment income	$ 519	$ 315

Board-Designated Funds
The following is a summary of assets limited as to use, which are board-designated funds, at December 31, 2016 and 2015:

	2016 Cost	2016 Market	2015 Cost	2015 Market
Cash and cash equivalents	$ 9,161	$ 9,161	$ 4,895	$ 4,895
Equity securities	773	761	2,886	3,013
Corporate bonds	3,044	2,871	870	870
Mutual funds	533,849	576,884	542,641	523,363
Hedge fund of funds/REITS/Other	57,112	66,997	50,760	60,386
	$ 603,939	$ 656,674	$ 602,052	$ 592,527

Notes to Consolidated Financial Statements (in 000's)

2016 Description	Fair Value Measurement at Reporting Date Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 9,161	$ 9,161	$ -	$ -
Equity securities	761	736	25	-
Corporate bonds	2,871	-	2,871	-
Mutual funds	576,884	576,884	-	-
Hedge fund of funds/REITS/Other	66,997	-	-	66,997
Total	$ 656,674	$ 586,781	$ 2,896	$ 66,997

2015 Description	Fair Value Measurement at Reporting Date Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 4,895	$ 4,895	$ -	$ -
Equity securities	3,013	2,984	29	-
Corporate bonds	870	-	870	-
Mutual funds	523,363	523,363	-	-
Hedge fund of funds/REITS/Other	60,386	-	-	60,386
Total	$ 592,527	$ 531,242	$ 899	$ 60,386

	Rollforward of Level 3 Investments
Balance as of January 1, 2015	$ 58,097
Purchases	2,355
Investment loss-realized/unrealized	(66)
Balance as of December 31, 2015	$ 60,386
Balance as of January 1, 2016	$ 60,386
Purchases	5,200
Investment gain-realized/unrealized	304
Balance as of December 31, 2016	$ 65,890

There were no material transfers between Level 1 and Level 2 during 2016 or 2015.

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

Notes to Consolidated Financial Statements (in 000's)

The following table presents liquidity information for the financial instruments carried at net asset value at December 31, 2016 and 2015:

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

Investment income for 2016 and 2015 related to Board-designated funds consists of the following:

	2016	2015
Interest and dividend income	$ 16,524	$ 18,412
Unrealized gain (loss)	52,733	(54,692)
Net realized (loss) gain on sales of investment securities	(20,925)	1,531
Total investment income (loss)	$ 48,332	$ (34,749)

Reinsurance Trust Assets

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

The following is a summary of the assets limited as to use, which are reinsurance trust assets, at December 31, 2016 and 2015:

	2016 Cost	2016 Market	2015 Cost	2015 Market
Cash and cash equivalents held in trust	$ 1,930	$ 1,930	$ 1,192	$ 1,192
Corporate bonds	15,096	14,494	12,921	12,440
Equities	231	233	231	199
	$ 17,257	$ 16,657	$ 14,344	$ 13,831

Notes to Consolidated Financial Statements (in 000's)

2016	**Fair Value Measurement at Reporting Date**			
Description	**2016**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents held in trust	$ 1,930	$ 1,930	$ -	$ -
Corporate bonds	14,494	-	14,494	-
Equities	233	233	-	-
Total	$ 16,657	$ 2,163	$ 14,494	$ -

2015	**Fair Value Measurement at Reporting Date**			
Description	**2015**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents held in trust	$ 1,192	$ 1,192	$ -	$ -
Corporate bonds	12,440	-	12,440	-
Equities	199	199	-	-
Total	$ 13,831	$ 1,391	$ 12,440	$ -

There were no material transfers between Level 1 and Level 2 during 2016 or 2015.

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

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

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

Investment income for 2016 and 2015 related to reinsurance trust assets consists of the following:

	2016	**2015**
Interest income	$ 448	$ 403
Net realized/unrealized (losses) on investment securities	(102)	(587)
Total investment income (loss)	$ 346	$ (184)

Notes to Consolidated Financial Statements (in 000's)

4. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation consist of the following at December 31, 2016 and 2015:

	Estimated Useful Lives	2016	2015
Land and land improvements	0–20 years	$ 39,898	$ 39,713
Buildings and improvements	2–90 years	1,036,887	1,030,966
Equipment and other	3–20 years	725,434	675,507
Construction in progress		79,398	26,372
		1,881,617	1,772,558
Less: Accumulated depreciation		1,028,806	950,085
		$ 852,811	$ 822,473

Depreciation expense was $76,389 and $75,829 for the years ended 2016 and 2015, respectively.

Property, plant and equipment include $2,500 and $1,531 of capitalized interest at December 31, 2016 and 2015, respectively.

The Network recognized impairment charges of $21,326 in 2016 on the long-lived assets associated with the Westview Campus because the fair value of those assets or groups of assets indicated that the carrying amount was not recoverable. The fair value estimates were derived from appraisals, established market values of comparable assets, or internal estimates of future net cash flows.

5. Investments in Unconsolidated Affiliates

The Network has equity investments in various surgery centers, Mid America Clinical Laboratory ("MACL") and other entities. The following is a summary of the Network's investments in unconsolidated affiliates for the years ended December 31, 2016 and 2015:

	Surgery Centers	MACL	Other	Total
Balance, December 31, 2014	$ 10,518	$ 7,885	$ 11,216	29,619
Capital contributions	312	-	2	314
Distributions	(7,910)	(2,261)	(5,426)	(15,597)
Equity in net income	8,075	3,173	6,064	17,312
Balance, December 31, 2015	10,995	8,797	11,856	31,648
Capital contributions	28			28
Distributions	(9,007)	(3,976)	(6,934)	(19,917)
Equity in net income	9,889	3,087	9,751	22,727
Balance, December 31, 2016	$ 11,905	$ 7,908	$ 14,673	$ 34,486

Notes to Consolidated Financial Statements (in 000's)

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

	Surgery Centers	MACL	Other	Total
Total assets	$ 20,344	$ 44,631	$ 59,313	$ 124,288
Total liabilities	5,181	8,668	16,922	30,771
Net assets	15,163	35,963	42,391	93,517
Revenues	61,833	118,183	107,893	287,909
Operating income	21,384	14,037	27,732	63,153
Net income	21,384	14,032	27,720	63,136
Network's equity in net income of unconsolidated affiliates	9,889	3,087	9,751	22,727

6. Debt

Short-term Borrowings
Short-term borrowings represent outstanding borrowings under bank lines of credit. At December 31, 2016 and 2015 there were no amounts outstanding. The maximum borrowings are $50,000 for CHI and $2,000 for CHA. The bank lines of credit are due on demand. CHI's short-term debt is collaterized under the same terms as the Master Indentures described below. Interest is at a floating rate.

Long–term Debt
Long-term debt at December 31, 2016 and 2015 is summarized as follows:

Notes to Consolidated Financial Statements (in 000's)

	Obligated Entity	2016	2015
Indiana Finance Authority, Variable Rate			
Hospital Revenue Bonds, Series 2016A	CHNw		
Due May 1, 2017 to 2045		$ 86,600	$ -
		86,600	-
Indiana Finance Authority, Variable Rate			
Hospital Revenue Bonds, Series 2016B	CHNw		
Due May 1, 2017 to 2028		26,000	-
		26,000	-
Indiana Finance Authority, Fixed Rate			
Hospital Revenue Bonds, Taxable Series 2015A	CHNw		
4.24% Due May 1, 2025		100,000	100,000
5.43% Due May 1, 2045		101,728	101,728
Unamortized Discount		(839)	(901)
		200,889	200,827
Indiana Finance Authority, Fixed Rate			
Hospital Revenue Bonds, Series 2012A	CHNw		
Due May 1, 2013 to May 1, 2028		91,570	96,760
4.00% term bonds due May 1, 2025		88,930	88,930
5.00% term bonds due May 1, 2042		174,455	174,455
Unamortized premium		24,320	25,258
		379,275	385,403
Indiana Finance Authority, Variable Rate			
Hospital Revenue Bonds Series 2012B,			
Due November 27, 2012 to November 27, 2039	CHNw	67,540	69,305
		67,540	69,305
Indiana Finance Authority, Adjustable Rate			
Hospital Revenue Bonds, Series 2009A	CHNw		
Due July 1, 2009 to July 1, 2039		-	35,605
Unamortized discount		-	(116)
		-	35,489
Indiana Finance Authority, Adjustable Rate Hospital			
Revenue Bonds, Series 2005A and 2005B;	Howard		
due January 1, 2007 to January 2, 2035		-	42,455
Indiana Health Facility Financing Authority, Adjustable			
Rate Hospital Revenue Bonds, Series 2000A	CHNw		
and 2000B due July 1, 2002 to July 1, 2028		-	29,100
PNC Bank; Term Loan interest payable monthly	CHNw		
Due January 1, 2022		6,000	7,143
BMO Harris Bank; Term Loan;	CHNw		
Due November 18, 2020		29,379	36,296
Other long-term debt		2,864	4,248
		798,547	810,266
Less: Current portion of long-term debt		21,924	21,483
Deferred financing costs, net		5,055	6,301
Long-term debt, net of current portion and deferred financing costs		$ 771,568	$ 782,482

Series 2016A and 2016B

On September 22, 2016, the Indiana Finance Authority ("IFA") issued Hospital Revenue Bonds, Series 2016A and Series 2016B, in the aggregate amount of $112,600 for the purpose of making a loan to CHNw. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHNw. The Series 2016A and Series 2016B bonds are subject to redemption prior to their stated maturity at the option of CHNw on a thirty day notice in whole or in part, at a redemption price equal to 100% of the principal amount plus interest at the date of redemption. Interest rates are variable for the Series 2016A and 2016B bonds, with stated rates of 1.1% and 1.3% as of 12/30/2016.

Proceeds from the issuance of the Series 2016A and Series 2016B bonds were used to refinance the following series of bonds: 2000A, 2000B, 2005A, 2005B and 2009A.

Series 2015 A

On June 1, 2015, CHNw issued Taxable Bonds, Series 2015A in the aggregate amount of $201,728. The proceeds of this loan are available to pre-fund the termination of the Network's defined benefit retirement plan, finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHNw. The Series 2015A bonds are subject to redemption prior to their stated maturity at the option of CHNw on a thirty day notice in whole or in part, at a redemption price equal to 100% of the principal amount plus interest at the date of redemption. Interest rates are fixed for the Series 2015A bonds, with stated rates of 4.24% and 5.43%.

Series 2012A and 2012B

On November 27, 2012, the Indiana Finance Authority ("IFA") issued Hospital Revenue Bonds, Series 2012A and Adjustable Rate Hospital Revenue Bonds, Series 2012B, in the aggregate amount of $450,445 for the purpose of making a loan to CHNw. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHNw. The Series 2012 A and Series 2012 B bonds are subject to redemption prior to their stated maturity at the option of CHNw on a thirty day notice in whole or in part, at a redemption price equal to 100% of the principal amount plus interest at the date of redemption. Interest rates are fixed for the Series 2012A bonds, with stated rates of 4% and 5%. The Series 2012B bond has a variable rate set at 70% of the 30 day LIBOR, subject to change daily and payable monthly with stated rate of 1.4% as of December 31, 2016.

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

Series 2009A and 2009B

On June 30, 2009, the IFA issued Adjustable Rate Hospital Revenue Bonds, Series 2009A and 2009B, in the aggregate amount of $100,000 for the purpose of making a loan to CHI. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHI. As mentioned above, the Series 2009B was refinanced with proceeds of Series 2012B and the Series 2009A was refinanced with proceeds from the Series 2016A. As a result, the letter of credit is no longer outstanding.

Series 2005A and 2005B - Howard
On August 1, 2005, the IFA issued Adjustable Rate Hospital Revenue Bonds, Series 2005A and Series 2005B, in the aggregate amount of $50,000 for the purpose of making a loan to Howard. The proceeds of this loan from IFA are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by Howard. As mentioned above, the Series 2005A and 2005B bonds were refinanced with proceeds from the Series 2016A bonds.

In conjunction with refunding the Series 2005A and 2005B bonds, the Network terminated the interest rate swap agreements related to Howard's Series 2005A and 2005B bonds. See Note 7 for further disclosure related to interest rate swaps.

Series 2000A and 2000B
On November 1, 2000, the IFA issued Adjustable Rate Hospital Revenue Bonds, Series 2000A and 2000B, in the aggregate amount of $40,000 for the purpose of making a loan to the Network. The proceeds of this loan from the IFA were available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHNw. As mentioned above, the Series 2000A and 2000B bonds were refinanced with proceeds from the Series 2016B bonds.

Term Loan – CHNw
On December 22, 2014, CHNw entered into a Master Note Obligation, Series 2014-TL to evidence and secure payments between CHNw and PNC Bank. The loan was made to refinance Howard's promissory notes. Principal is due quarterly and interest payments are due monthly. The loan matures January 1, 2022. The loan bears interest at rates determined monthly and payable on the first business day of each calendar month. Interest is computed based on LIBOR plus 85 basis points and was 1.46% as of December 31, 2016. Principal payments are due quarterly.

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

In general, the various Network debt agreements restrict the amount of indebtedness that the Network may incur, the sale, lease or other disposition of operating assets, and the acceptable investments of the trust funds. These agreements require a debt service ratio at the end of any fiscal year of at least 1.10. The Network was in compliance with this financial debt covenant at December 31, 2016.

Notes to Consolidated Financial Statements (in 000's)

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

2017	$	21,924
2018		22,410
2019		22,461
2020		22,407
2021		15,443
Thereafter		670,421
		775,066
Plus: Unamortized premium, net		23,481
	$	798,547

The fair value of the Network's long-term debt instruments (Level 2) approximates $806,525 and $818,397 as compared to carrying values of $798,547 and $810,266 as of December 31, 2016 and 2015, respectively.

For 2016 and 2015, interest cost incurred and capitalized in connection with the construction of capital assets aggregated $1,119 and $196, respectively.

7. Derivative Instruments

In September 2016, the Network terminated Howard's two interest rate swap agreements related to Howard's Series 2005A and 2005B bonds. The terms and fair values (Level 2) of the outstanding swaps are as follows as of December 31, 2015:

As of December 31, 2015

Original Notional	Current Notional	Effective Date	Fixed Rate	Rate	Fair Value	Termination Date
$ 30,000	$ 25,470	October 3, 2005	3.550 %	0.25%	$ (5,450)	January 1, 2035
10,000	8,493	October 3, 2005	3.550 %	0.25%	(1,818)	January 1, 2035
					$ (7,268)	

The swaps were entered into as a means to manage interest rate risk on Howard's variable rate bond debt. The intention of the swap agreements were to effectively change Howard's variable interest rate on the Series 2005A and 2005B bonds to a fixed rate of 3.55%. The variable rate on the swaps was 70% of the USD-LIBOR BBA and resets monthly. The swaps were ineffective and were designated as hedges.

Notes to Consolidated Financial Statements (in 000's)

The following amounts have been recorded in the Network's consolidated statements of operations and changes in net assets as of December 31, 2016 and 2015:

	2016	2015
Non Operating Income (Expenses)		
Net realized (losses) gains on changes in fair value of interest rate swaps	$ (1,181)	$ 59
Income from Operations		
Interest expense, net	$ (807)	$ 1,158

8. Employee Benefit Plans

The Network has defined benefit retirement plans covering substantially all employees of CHNw, CHA and CHHS. Effective December 27, 2010, all Network employees, excluding CHA employees, are employed by CHNw and leased to the Network's respective subsidiaries and/or affiliates rather than being employed by individual employers. Effective with the adoption of the single Network employer on December 27, 2010, CHNw became the sponsor of the entire Network's defined benefit and defined contributions plans, except the CHA plan. Employer contributions are made to the Defined Contribution plans based on a percentage of employee compensation.

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

Defined Benefit and Other Postretirement Benefit Plans
The Retirement Plan was a defined benefit plan. The assets of the Retirement Plan were distributed out of the plan by December 31, 2016. As a result of terminating the plan and distributing the assets, the Network recognized a plan settlement charge of approximately $221,000 during 2016.

The provisions of this plan relate to all employees of CHNw, CHA, CHHS and CPI. These employees were eligible to participate in the plan after one year of eligible service as defined by the plan document. Participants are 100% vested after five years of service. Effective May 27, 2006, CHA froze the accrual of benefits and participation in the CHNw Retirement Plan and established its own 403(b) plan. Effective March 8, 2010, the Retirement Plan was amended to limit the maximum benefit that may be accrued by individuals who choose to remain participants in the Retirement Plan after March 7, 2010. Additionally, participants in the Retirement Plan were offered a onetime choice between continued participation in the Retirement Plan, and, if applicable, CHNw's 403(b) plan, or participation in the Network's 401(k) plan as of March 8, 2010. All participants who remained in the Retirement Plan and CHNw 403(b) plan as of March 8, 2010 ceased participation in those plans effective as of December 25, 2011 and began participation in the Network's 401(k) plan effective as of December 26, 2011. On May 2, 2016, CHNw received a favorable determination letter from the IRS acknowledging the termination date of the Retirement Plan of June 30, 2015. CHNw made contributions to the plan of $54,985 and $154,329 during 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (in 000's)

The Replacement Plan is a defined benefit plan. The fair value of the plan assets was $12,549 and $13,821 at December 31, 2016 and December 31, 2015, respectively. The defined benefit provisions of the Replacement Plan apply to all employees of the Network hired prior to January 1, 1984. The Replacement Plan was originally established on that date to provide such employees those benefits otherwise available under the Federal Insurance Contributions Act during the period January 1, 1981 to December 31, 1983 when the Network withdrew coverage of its employees under the Act. Pursuant to the Social Security Amendment Act of 1983, the Network reentered the Social Security system on January 1, 1984. As a result, funding of the plan was terminated during 1985. If authorized by the Network's Board of Directors, each Replacement Plan participant may elect to contribute to the plan an amount each pay period, subject to the maximum established by the Board of Directors. Such authorization was not granted during 2016 and 2015. During 2016, CHNw made contributions to the Replacement Plan of $0. During 2015, CHNw made contributions to the Replacement Plan of $172.

Effect on Operations

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

	2016	2015
Service cost	$ 2,699	$ 4,956
Interest cost	9,390	29,689
Expected return on plan assets	(22,366)	(30,957)
Amortization of net loss and prior service cost	6,077	6,023
Plan Settlement	220,839	-
Net pension expense	$ 216,639	$ 9,711

Obligations and Funded Status

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

	2016	2015
Change in benefit obligation		
Benefit obligation, beginning of period	$ 691,036	$ 719,054
Service cost	2,699	4,956
Interest cost	9,390	29,689
Actuarial (gain)	(9,271)	(36,092)
Expenses paid – actual	(3,042)	(2,644)
Benefits paid – actual	(24,826)	(23,927)
Plan Settlement	(651,375)	-
Benefit obligation, end of period	$ 14,611	$ 691,036

Notes to Consolidated Financial Statements (in 000's)

	2016	2015
Change in plan assets		
Fair value of plan assets, beginning of year	$ 595,644	$ 487,115
Actual return on plan assets	41,163	(19,402)
Contributions	54,985	154,501
Expenses paid – actual	(3,042)	(2,643)
Benefit paid – actual	(24,826)	(23,927)
Plan Settlement	(651,375)	-
Fair value of plan assets, end of year	$ 12,549	$ 595,644

	2016	2015
Reconciliation of funded status		
Accrued pension income, net	$ 580	$ 162,234
Prepaid pension liability	(2,642)	(257,626)
(Under) funded status	(2,062)	(95,392)
Unrecognized net actuarial loss	-	257,706
Unrecognized prior service cost	-	(80)
Accrued pension (expense) income, net	$ (2,062)	$ 162,234

Accumulated Benefit Obligation

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

	2016	2015
Projected benefit obligation	$ 14,612	$ 691,036
Accumulated benefit obligation	14,612	691,036
Fair value of plan assets	12,549	595,644

As a result of the Retirement plan's asset distribution in 2016, the portion of the accrued pension attributed to the Retirement Plan is classified as a current liability on the consolidated balance sheet as of December 31, 2015.

Actuarial Assumptions

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

	2016	2015
Discount rate	4.19 %	1.40 %

Notes to Consolidated Financial Statements (in 000's)

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

	2016	2015
Discount rate	4.47 %	4.21 %
Expected long-term rate of return on plan assets	8.70 %	6.52 %

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

Plan Assets

The weighted-average allocation of the defined benefit plans at December 31, 2016 and 2015, by asset category, are as follows:

	Retirement Plan	Replacement Plan		
	2015	2016		2015
	Actual Allocation	Target Allocation	Actual Allocation	Actual Allocation
Equity securities[(a)]	10 %	71 %	77 %	60 %
Fixed income securities[(a)]	80 %	6	6	12
Real estate[(a)]	4 %	12	5	6
Other	5 %	11	12	22
Total	100 %	100 %	100 %	100 %

(a) Includes mutual funds

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

Notes to Consolidated Financial Statements (in 000's)

The following tables present the fair values of the plan assets at December 31, 2016 and 2015. Refer to Note 3 for explanations of fair value designation.

2016	**Fair Value Measurements at Reporting Date**			
Description	**2016**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ -	$ -	$ -	$ -
Mutual funds	11,079	11,079	-	-
Hedge fund of funds	1,470	-	-	1,470
Total	$ 12,549	$ 11,079	$ -	$ 1,470

2015	**Fair Value Measurements at Reporting Date**			
Description	**2015**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 62,758	$ 62,758	$ -	$ -
Corporate bonds	224,856	-	224,856	-
Mutual funds	129,603	129,603	-	-
U.S. Treasury Obligations	176,990	-	176,990	-
Hedge fund of funds	1,437	-	-	1,437
Total	$ 595,644	$ 192,361	$ 401,846	$ 1,437

	Rollforward of Level 3 Investments
Balance as of January 1, 2015	$ 39,657
Purchases	-
Sales	(39,141)
Investment gain-realized/unrealized	921
Balance as of December 31, 2015	$ 1,437
Balance as of January 1, 2016	$ 1,437
Purchases	-
Sales	-
Investment gain-realized/unrealized	33
Balance as of December 31, 2016	$ 1,470

There were no material transfers between Level 1 and Level 2 during 2016 or 2015.

Cash Flows
The Network has no plans to contribute any amounts to the Replacement Plan during 2017.

Notes to Consolidated Financial Statements (in 000's)

Estimated Future Benefit Payments

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

2017	$	1,490
2018		842
2019		868
2020		883
2021		900
2022–2026		4,557

Other

The Network sponsors defined contribution plans covering certain employees. As mentioned above, CHNw became the employer of all employees throughout the Network except for the CHA 403(b) plan. Effective with the adoption of the single employer on December 27, 2010, CHNw became the sponsor all of the Network's defined contributions plans except for the CHA 403(b) plan. Employer contributions are made to these plans based on a percentage of employee compensation. The cost of the Network's defined contribution plans approximated $27,032 and $38,143 for 2016 and 2015, respectively.

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

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

9. Income Taxes

For 2016 and 2015, federal taxable income originating in the Network's for-profit entities was approximately $18,500 and $6,300, respectively. Income tax expense of $7,813 and $4,765, respectively, has been provided thereon. The primary difference between income tax expense and taxes computed at the federal statutory rate of 34 percent is state income taxes.

At December 31, 2016, VEI has no unused federal income tax operating loss carry forwards.

10. Operating Leases

The Network leases certain of its facilities and equipment under noncancelable operating lease agreements. The leases contain various renewal options and clauses for escalation based on increases in interest costs, as defined. Rental expense for these leased facilities and equipment aggregated $40,862 and $39,465 for 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (in 000's)

Future minimum rental payments for each of the next five years at December 31, 2016 are as follows:

2017	$	38,829
2018		35,703
2019		31,875
2020		27,084
2021		22,181
Thereafter		76,886
	$	232,558

11. Functional Expenses

The Network provides health care services to residents within its community and surrounding areas. We allocate our expenses based on both our direct expenditures and on our cost allocations from time incurred by our Network personnel and other factors. Although our methods used to allocate these expenses are appropriate, alternative methods may provide different results. Expenses related to providing these services approximate the following:

	2016	2015
Healthcare services	$ 1,479,862	$ 1,390,178
Administrative and general	812,689	510,504
Total expenses	$ 2,292,551	$ 1,900,682

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Network has been limited by donors to a specific time period or purpose. Temporarily restricted net assets as of December 31, 2016 and 2015 are available for the following purposes:

	2016	2015
Medical education	$ 1,833	$ 1,554
Clinical/patient support	5,697	3,241
Capital improvements	1,181	1,974
	$ 8,711	$ 6,769

Notes to Consolidated Financial Statements (in 000's)

Permanently restricted net assets have been restricted by donors to be maintained by the Network in perpetuity. Permanently restricted net assets as of December 31, 2016 and 2015 are as follows, with a description of how the investment income is to be used:

	2016	2015
Medical education	$ 2,229	$ 2,783
Clinical/patient support	3,941	617
Capital improvements	682	1,723
	$ 6,852	$ 5,123

The Network is an income beneficiary of certain irrevocable trusts. The aggregated income from these trusts was $693 and $396 for the years ended December 31, 2016 and 2015, respectively.

13. Commitments and Contingencies

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

Pending Litigation
Claims for employment matters, and breach of contract have been asserted against the Network by various claimants, and provision for such claims is made in the financial statements when management considers the likelihood of loss from the contingency to be probable and reasonably estimable. The claims are in various stages of processing and some will ultimately be brought to trial. There are known incidents occurring through December 31, 2016 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. We do not believe that claims and lawsuits individually or in aggregate will have a material adverse effect on the Network's future consolidated financial position, results from operations, or cash flows.

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

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

Beginning July 1, 2017, the limits related to the Indiana Medical Malpractice Act have been amended whereby the amount of recovery is $1,650 for individual malpractice claims of which $400 would be by the paid the Network and the remainder paid by the State of Indiana Patient

Compensation Fund. These levels will increase effective July 1, 2019 to $1,800 and $500, respectively.

Purchase Commitments

As of December 31, 2016, the Network had purchase commitments for various equipment and services of $58,582.