

Reid Hospital and Health Care Services, Inc.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2015 and 2014

Reid Hospital and Health Care Services, Inc.

December 31, 2015 and 2014

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Independent Auditor's Report on Consolidated Financial Statements and Other Information

Board of Directors
Reid Hospital and Health Care Services, Inc.
Richmond, Indiana

We have audited the accompanying consolidated financial statements of Reid Hospital and Health Care Services, Inc., which comprise the consolidated balance sheets 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 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 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 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 opinion.

Opinion

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

Other Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Indianapolis, Indiana
April 28, 2016

Reid Hospital and Health Care Services, Inc.

Consolidated Balance Sheets December 31, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash and cash equivalents	\$ 16,298,381	\$ 11,574,580
Assets limited as to use - current	-	3,450,000
Patient accounts receivable, net of allowance; 2015 - \$30,900,000, 2014 - \$42,700,000	63,890,009	65,760,206
Supplies	7,538,516	7,268,351
Prepaid expenses and other	13,171,471	19,162,218
Total current assets	100,898,377	107,215,355
Investments Limited As To Use		
Internally designated	195,612,572	217,306,159
Internally designated - alternative investments carried at fair value	36,880,915	15,839,142
Held by trustee	-	8,206,923
	232,493,487	241,352,224
Less amounts required to meet current obligations	-	3,450,000
	232,493,487	237,902,224
Property and Equipment, net	272,877,153	278,260,193
Other Assets		
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	28,430,858	28,746,702
Deferred financing costs	1,097,065	1,499,530
Other	5,275,383	4,928,320
	34,803,306	35,174,552
Total assets	\$ 641,072,323	\$ 658,552,324

Reid Hospital and Health Care Services, Inc.
Consolidated Balance Sheets (Continued)
December 31, 2015 and 2014

Liabilities and Net Assets

	2015	2014
Current Liabilities		
Accounts payable and accrued expenses	\$ 15,216,045	\$ 16,311,433
Salaries, wages and related liabilities	20,175,199	16,499,060
Estimated amounts due to third-party payers	4,379,764	5,074,874
Current maturities of long-term debt	4,442,276	3,450,000
Total current liabilities	44,213,284	41,335,367
Long-Term Debt	175,797,315	163,903,939
Interest Rate Swap Agreements	20,512,945	20,254,518
Pension Plan and Postretirement Benefits	23,258,218	25,525,950
Total liabilities	263,781,762	251,019,774
Net Assets		
Unrestricted		
Reid Hospital and Health Care Services, Inc.	347,351,676	376,559,219
Noncontrolling interest	1,508,027	2,226,629
Total unrestricted net assets	348,859,703	378,785,848
Temporarily restricted	28,265,065	28,580,909
Permanently restricted	165,793	165,793
Total net assets	377,290,561	407,532,550
Total liabilities and net assets	\$ 641,072,323	\$ 658,552,324

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted Revenues, Gains and Other Support		
Patient service revenue, net of contractual allowance	\$ 399,429,472	\$ 402,826,534
Provision for uncollectible accounts	(24,122,674)	(43,142,847)
Net patient service revenue less provision for uncollectible accounts	375,306,798	359,683,687
Other	9,986,786	11,393,937
Net assets released from restrictions used for operations	744,170	606,304
Total unrestricted revenues, gains and other support	386,037,754	371,683,928
Expenses and Losses		
Salaries, wages and benefits	204,643,837	190,778,216
Purchased services and professional fees	19,285,249	16,738,272
Supplies and other	123,342,111	108,109,036
Depreciation and amortization	28,870,769	28,321,072
Interest and amortization of financing costs	6,037,860	7,912,106
Hospital assessment fee	9,163,220	10,985,999
Total expenses and losses	391,343,046	362,844,701
Operating Income (Loss)	(5,305,292)	8,839,227
Other Income (Expense)		
Investment return	(4,146,524)	9,850,719
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreements	(258,427)	(7,888,028)
Loss on bond refunding	(22,128,048)	-
Total other income (expense)	(26,532,999)	1,962,691
Excess (Deficiency) of Revenues Over Expenses	\$ (31,838,291)	\$ 10,801,918

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ (31,838,291)	\$ 10,801,918
Net benefit (loss) arising during the period related to defined-benefit plans	4,612,836	(7,862,822)
Distributions to noncontrolling interest	(2,700,690)	(2,366,883)
Other	-	164,996
Increase (decrease) in unrestricted net assets	(29,926,145)	737,209
Temporarily Restricted Net Assets		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	428,326	2,017,883
Net assets released from restriction	(744,170)	(606,304)
Increase (decrease) in temporarily restricted net assets	(315,844)	1,411,579
Change in Net Assets	(30,241,989)	2,148,788
Net Assets, Beginning of Year	407,532,550	405,383,762
Net Assets, End of Year	\$ 377,290,561	\$ 407,532,550

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	\$ (30,241,989)	\$ 2,148,788
Change in net assets attributable to noncontrolling interest	718,602	(170,161)
Change in net assets attributable to Reid Hospital and Health Care Services, Inc.	(29,523,387)	1,978,627
Items not requiring (providing) cash		
Depreciation and amortization	28,870,769	28,321,072
Amortization of deferred financing fees and bond premium	(389,503)	188,249
Provision for uncollectible accounts	24,122,674	43,142,847
Unrealized loss on investments	12,404,394	3,581,991
Realized gain on investments	(5,923,647)	(10,808,629)
Investment (gain) loss on investments carried under equity method	467,707	(440,318)
Change in fair value of interest rate swap agreements	258,427	7,888,028
Undistributed portion of change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	315,844	(1,411,579)
Change in pension obligations	(2,267,732)	7,694,110
Loss on bond refunding	4,440,360	-
Changes in		
Patient accounts receivable	(22,252,477)	(57,350,673)
Estimated amounts due from and to third-party payers	(695,110)	1,879,438
Accounts payable and accrued expenses	3,768,767	545,719
Other current assets and liabilities	5,680,752	(9,163,535)
Noncontrolling interest in net income of equity investees	(718,602)	170,161
Net cash provided by operating activities	18,559,236	16,215,508
Investing Activities		
Purchase of investments	(40,175,948)	(78,371,350)
Proceeds from disposition of investments	33,879,009	93,196,795
Purchase of property and equipment	(22,435,041)	(27,931,732)
Proceeds from disposition of investments used to refund bonds	8,207,222	-
Net cash used in investing activities	(20,524,758)	(13,106,287)
Financing Activities		
Principal payments on long-term debt	(3,450,000)	(3,255,000)
Proceeds from issuance of long-term debt	104,156,808	-
Redemption of long-term debt	(92,795,000)	-
Financing costs paid	(952,946)	-
Capital lease payments	(269,539)	-
Net cash provided by (used in) financing activities	6,689,323	(3,255,000)
Increase (Decrease) in Cash and Cash Equivalents	4,723,801	(145,779)
Cash and Cash Equivalents, Beginning of Year	11,574,580	11,720,359
Cash and Cash Equivalents, End of Year	\$ 16,298,381	\$ 11,574,580
Supplemental Cash Flows Information		
Property and equipment additions included in accounts payable	\$ -	\$ 1,188,016
Property and equipment acquired through capital lease	2,547,937	-
Interest paid (net of amount capitalized)	7,129,393	7,743,313
Premium paid for bond refunding	12,166,808	-

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Reid Hospital and Health Care Services, Inc. (Hospital), located in Richmond, Indiana, is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital provides short-term acute inpatient, outpatient and emergency care to residents of Wayne county and surrounding counties. Admitting physicians are primarily practitioners in the local area.

As of December 31, 2015 and 2014, the Hospital owned 65% of Reid MOB, LLC (Reid MOB). The purpose of Reid MOB is to own, operate and serve as landlord for a medical office building and outpatient care center located on the new campus of Reid Hospital and Health Care Services, Inc.

The Hospital owns 55% and holds a controlling interest in an ambulatory surgery center, Reid Outpatient Surgery and Endoscopy, LLC (ROSE).

The Hospital owns 100% of Reid Physician Associates, Inc. (RPA) and Reid Anesthesia, LLC (RA, LLC), which are not-for-profit corporations as described in Section 501(c)(3) of the Code. As such, RPA and RA, LLC are exempt from income taxes on related income pursuant to Section 501(a) of the Code. RPA provides physician services and RA, LLC provides anesthesia and management services. Reid MOB, ROSE, RPA and RA, LLC are included in the accompanying consolidated financial statements.

The Hospital holds a 50% equity ownership interest in Reid-ANC Home Care Services, LLC, which is accounted for under the equity method.

The consolidated financial statements include the accounts of the Hospital and its controlled subsidiaries, Reid MOB, ROSE, RPA and RA, LLC. All material intercompany accounts and transactions have been eliminated in consolidation. Investments in organizations in which the Hospital's ownership percentage is 50% or less are accounted for under the equity method and are included with other assets on the consolidated balance sheets.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Noncontrolling Interest

Noncontrolling interest represents the following amounts not owned by the Hospital - 35% interest in Reid MOB at December 31, 2015 and 2014 and a 45% interest in ROSE at December 31, 2015 and 2014.

	Total	Controlling Interest	Noncontrolling Interest
Balance, January 1, 2014	\$ 378,048,639	\$ 375,992,171	\$ 2,056,468
Excess of revenues over expenses	10,801,918	8,035,944	2,765,974
Net loss arising during the period related to defined-benefit plan	(7,862,822)	(7,862,822)	-
Distributions to noncontrolling interest	(2,366,883)	-	(2,366,883)
Other	164,996	393,926	(228,930)
Increase in unrestricted net assets	<u>737,209</u>	<u>567,048</u>	<u>170,161</u>
Balance, December 31, 2014	378,785,848	376,559,219	2,226,629
Excess of revenues over expenses	(31,838,291)	(33,936,546)	2,098,255
Net benefit arising during the period related to defined-benefit plans	4,612,836	4,612,836	-
Distributions to noncontrolling interest	(2,700,690)	-	(2,700,690)
Other	-	116,167	(116,167)
Increase in unrestricted net assets	<u>(29,926,145)</u>	<u>(29,207,543)</u>	<u>(718,602)</u>
Balance, December 31, 2015	<u>\$ 348,859,703</u>	<u>\$ 347,351,676</u>	<u>\$ 1,508,027</u>

The change in temporarily restricted and permanently restricted net assets related only to the controlling interest.

Use of Estimates

The preparation of 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2015, the Company's cash accounts exceeded federally insured limits by approximately \$16,800,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Certain alternative investments are reported on the equity method of accounting. Other investments include investments in limited partnerships valued on the income tax basis of accounting, which approximates the equity method of accounting, and investments in limited partnerships carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use include assets held by trustees and assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that 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 or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease are depreciated over the shorter of the asset life or lease term.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2015 and 2014.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Reid Hospital and Health Care Services Foundation, Inc. (Foundation) and the Hospital are financially interrelated organizations. The Foundation seeks private support for, and holds net assets on behalf of, the Hospital. The Hospital accounts for its interest in the net assets of the Foundation (Interest) in a manner similar to the equity method. Changes in the Interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the Interest.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital 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 Hospital in perpetuity.

Net Patient Service Revenue

The Hospital has agreements with third-party payers which provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$30,996,073 and \$25,830,748 for 2015 and 2014, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$9,682,166 and \$8,354,195 for 2015 and 2014, respectively.

The Hospital also provides unreimbursed services to the community, which include free or low cost health screenings, educational programs and information and financial support to, and meeting space for, various community groups. In addition, services to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) are generally provided at governmentally established rates, which are substantially lower than the Hospital's standard rates and are considered part of the Hospital's benefits to the community. Assistance is also provided to senior citizens and other patients and their families for the submission of forms for insurance, financial counseling and the application to the Medicare and Medicaid programs for health service coverage. The costs of these programs are included in operating expenses.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully later in these notes.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include net benefit (loss) arising during the period related to defined-benefit plans, distributions to noncontrolling interests and other.

Self-Insurance

The Hospital has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to expense when incurred. The Hospital has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$275,000.

Income Taxes

The Hospital and RPA have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital and its controlled subsidiaries file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Hospital and its controlled subsidiaries are no longer subject to U.S. federal examinations by tax authorities for years before 2012.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The Hospital met the first-year requirements under the Medicare program in 2013 and the Medicaid program in 2012. After continuing to meet additional requirements, the Hospital recorded revenue of approximately \$1,267,000 and \$1,861,000 under the Medicare program in 2015 and 2014, respectively. The Hospital recorded \$134,000 under the Medicaid program in 2014, which was the final year of payment under this program. All 2014 and 2013 meaningful use revenue is included in other operating revenue within the consolidated statements of operations.

RPA physicians have completed requirements under the Medicare program at various dates. RPA recorded revenue of approximately \$407,000 and \$623,000 in 2015 and 2014, respectively, which is also included in other operating revenue within the consolidated statements of operations.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. 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. This provision for bad debts is presented on the consolidated statements of operations as a component of net patient service revenue.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital is a Medicare Designated Sole Community Hospital. Special Medicare payments under this designation approximated \$13.4 million and \$12 million for the years ended December 31, 2015 and 2014.

Management evaluates program compliance and records a reserve pertaining to certain inpatient and outpatient services that are probable of repayment to the Medicare program.

Medicaid. Inpatient acute care services and substantially all outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$9 million and \$11 million of fees related to the program in 2015 and 2014, respectively, which is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. The program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

The Hospital also receives payment from other third-party payers such as commercial insurance carriers, health maintenance organizations and preferred organizations. Payments are based on Hospital-established charges and prospectively determined daily rates.

The mix of net patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the years ended December 31, 2015 and 2014 is:

	2015	2014
Medicare	\$ 164,389,170	\$ 166,262,459
Medicaid	36,446,671	35,081,716
Other third-party payers	187,736,610	165,936,930
Uninsured patients, including coinsurance and deductibles	<u>10,857,021</u>	<u>35,545,429</u>
	<u>\$ 399,429,472</u>	<u>\$ 402,826,534</u>

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at December 31, 2015 and 2014 is:

	2015	2014
Medicare	38%	23%
Medicaid	11%	8%
Other third-party payers	38%	64%
Uninsured patients, including coinsurance and deductibles	<u>13%</u>	<u>5%</u>
	<u>100%</u>	<u>100%</u>

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use at December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Internally designated by Board		
Trading		
Cash and cash equivalents	\$ 8,222,784	\$ 6,670,839
Domestic equity securities	60,963,979	63,429,423
Non-U.S. equity securities	5,336,900	5,992,635
Domestic equity mutual funds	67,155,944	65,061,227
Domestic fixed income mutual funds	51,447,577	65,948,620
Other than trading		
Alternative investments - private equity	2,126,107	1,653,881
Alternative investments - corporate hedge funds	34,754,809	19,731,825
Alternative investments - real estate hedge funds	2,485,387	4,656,851
	<u>232,493,487</u>	<u>233,145,301</u>
Held by trustee under indenture agreement		
Cash and cash equivalents	<u>-</u>	<u>8,206,923</u>
	<u>\$ 232,493,487</u>	<u>\$ 241,352,224</u>

Total investment return is comprised of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividend income (net of interest paid on derivative investment instrument)	\$ 2,801,930	\$ 2,183,763
Realized gains on trading securities	5,923,647	10,808,629
Unrealized losses on trading securities	(11,351,819)	(4,162,516)
Unrealized gains (losses) on other investments carried at fair value	(1,052,575)	580,525
Investment gains (losses) on investments carried under equity method	<u>(467,707)</u>	<u>440,318</u>
	<u>\$ (4,146,524)</u>	<u>\$ 9,850,719</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

The Hospital classifies substantially all of its investments in debt and equity securities as trading. This classification requires the Hospital to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as nonoperating gains in the consolidated statements of operations and changes in unrestricted net assets.

Alternative Investments Carried at Fair Value

The fair value of alternative investments - corporate hedge funds has been estimated using the net asset value per share of the investments. Alternative investments held at December 31 consist of the following:

	December 31, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Corporate hedge funds	\$ 34,754,809	\$ 623,936	Quarterly - Yearly	95 days
Private equity	2,126,107	2,166,468	N/A	N/A
	December 31, 2014			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Corporate hedge funds	\$ 19,731,825	\$ 1,305,888	Quarterly - Yearly	95 days
Private equity	1,653,881	3,140,863	N/A	N/A

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Alternative Investments Carried Under Equity Method

The five alternative investments reported on the equity method consist of various real estate and corporate hedge funds. These funds invest in other limited partnerships in equity and real estate sectors. All funds are locked-up for the life of the investment with no option for redemption. The remaining five funds have lock-up periods of the life of the investment. Outstanding commitments for these funds approximate \$1.3 million. The financial position and results of operations of the more significant investment positions of which the Hospital owns a portion of, are summarized below on a combined basis for the most recent period in which audited consolidated financial statements are available.

	December 31, 2015
Current assets	\$ 7,188,040
Noncurrent assets	54,218,223
	<u>\$ 61,406,263</u>
Liabilities	<u>\$ 64,539</u>
Equity	<u>\$ 61,341,724</u>
Investment return	<u>\$ 14,938,372</u>
Net income	<u>\$ 14,717,702</u>

Note 5: Interest in Net Assets of Reid Hospital and Health Services Foundation, Inc.

The Foundation was organized to support the activities of the Hospital in Richmond, Indiana. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. The Hospital's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the interest in the net assets of the Foundation, with corresponding decreases or increases in the assets transferred, and have no effect on change in net assets. The Hospital's interest in the net assets of the Foundation is reported in the consolidated balance sheets and was \$28,430,858 and \$28,746,702 at December 31, 2015 and 2014, respectively.

Certain Hospital officers and board members also serve on the Foundation's board of directors.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 6: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. The Hospital is a subscriber in a Vermont captive insurance company, Indiana Healthcare (previously named VHA Central), a reciprocal risk retention group. The Hospital's capital contribution is reported in other assets.

Reserves for professional liability claims were \$741,071 at December 31, 2015 and 2014, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. Although considerable variability is inherent in professional liability reserve estimates, management believes the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

The Hospital's professional liability risks, in excess of certain per claim amounts, are insured through the policies described above. The amount receivable under these insurance contracts was \$741,071 included in prepaid expenses and other at both December 31, 2015 and 2014.

Note 7: Long-Term Debt

	<u>2015</u>	<u>2014</u>
Hospital Revenue Bonds, Series 2009A	\$ -	\$ 94,155,000
Hospital Revenue Bonds, Series 2012	74,235,000	76,325,000
Hospital Revenue Bonds, Series 2015A	91,990,000	-
Capital Lease Obligations	2,278,398	-
	<u>168,503,398</u>	<u>170,480,000</u>
Plus unamortized premium	11,736,193	-
Less unamortized discount	-	(3,126,061)
Less current maturities	<u>(4,442,276)</u>	<u>(3,450,000)</u>
	<u>\$ 175,797,315</u>	<u>\$ 163,903,939</u>

The Hospital Authority of Richmond (Authority) obligated itself in a trust indenture with U.S. Bank National Association. The Authority loaned the proceeds of the bond issues in various loan agreements, which are more fully described below. The current obligations are secured by the Hospital's revenues and substantially all of the Hospital's assets.

In connection with the bond issues, the Hospital entered into various agreements benefiting the respective bond stakeholders. These agreements require the Hospital to meet certain financial performance ratios among other covenants. Management believes they are in compliance with all covenants.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Hospital Revenue Bonds Series 2009A

The Authority issued Revenue Bonds Series 2009A pursuant to a Trust Indenture dated as of March 1, 2009 between the Authority and U.S. Bank National Association, as Trustee. The bonds were special and limited obligations of the Authority and were payable solely from, and secured exclusively by, payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital under a loan agreement dated March 1, 2009, between the Authority and the Hospital.

Proceeds from the bond issue were to refund the Series 2005B and 2005C bonds and also to fund a debt service reserve fund. The 2009A bonds were refunded with \$8.7 million of assets limited as to use related to the 2009A bonds, along with the issuance of the 2015A bonds (\$104 million par value and premium) described below. The Hospital recognized a \$22 million loss on this bond refunding. Approximately \$4.4 million of the Hospital's loss on bond refunding related to unamortized bond costs and discounts of the 2009A bonds.

Hospital Revenue Bonds Series 2012

The Authority issued Revenue Bonds Series 2012 pursuant to a Trust Indenture dated as of December 1, 2012 between the Authority and U.S. Bank National Association, as Trustee. The bonds are special and limited obligations of the Authority and are payable solely from, and secured exclusively by, payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital under a loan agreement dated December 1, 2012, between the Authority and the Hospital.

Proceeds from the bond issue were primarily to refund the Series 2005A bonds.

The fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2013 in amounts ranging from \$1,815,000 to \$3,990,000 and are due in full in December 2019. Interest payments are due on January 1 and July 1, at a fixed rate of 2.15%.

Hospital Revenue Bonds Series 2015A

The Authority issued Revenue Bonds Series 2015A pursuant to a Trust Indenture dated as of February 24, 2015 between the Authority and U.S. Bank National Association, as Trustee. The bonds are special and limited obligations of the Authority and are payable solely from, and secured exclusively by, payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital under a loan agreement dated February 1, 2015, between the Authority and the Hospital.

Proceeds from the bond issue were primarily to refund the Series 2009A bonds.

The fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2016 in amounts ranging from \$1,790,000 to \$6,895,000 and are due in full in January 2039. Interest payments are due on January 1 and July 1, and rates vary from 2.0% to 5.0% at final maturity.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Capital Lease Payable

The Hospital has entered into capital lease obligations for various equipment dated January 2015. The leases have varying rates of imputed interest approximating 2.5% due through 2020 and are collateralized by the equipment. Property and equipment include moveable equipment under capital lease totaling \$2,547,937, net of accumulated depreciation of \$184,000 at December 31, 2015.

Annual Maturities

The bonds listed above are subject to mandatory sinking fund requirements. Aggregate annual maturities and sinking fund requirements of bonds and capital lease payable at December 31, 2015, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2016	\$ 3,950,000	\$ 542,656
2017	4,090,000	542,656
2018	4,250,000	542,656
2019	4,430,000	542,656
2020	4,580,000	234,352
Thereafter	144,925,000	-
	\$ 166,225,000	2,404,976
Less amount representing interest		126,578
Present value of future minimum lease payments		2,278,398
Less current maturities		492,276
Noncurrent portion		\$ 1,786,122

Interest expense for the years ended December 31, 2015 and 2014 was \$6,037,860 and \$7,912,106, respectively.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 8: Interest Rate Swap Agreements

Cash Flow Hedge

In March 2005, the Hospital entered into two interest rate swap agreements (the 2005 Swaps) for notional amounts totaling \$87,500,000. The 2005 Swaps are fixed rate payer swaps that terminate in January 2045 and prior to April 1, 2008, amortized in coordination with the 2005 B and C Series Bonds. Under this agreement, the Hospital pays a fixed rate of 3.702% and receives a floating rate equal to 63.10% of USD-LIBOR + .25% (.52% and .35% at December 31, 2015 and 2014, respectively). The original objective of the 2005 Swaps was to hedge the risk of overall changes in the variable interest payments on the 2005 Series B and C Bonds. The fair value of the 2005 Swaps represents a payable to the counterparty and is recorded as a liability of \$20,512,945 and \$20,254,518 at December 31, 2015 and 2014, respectively.

Beginning on April 1, 2009, the 2005 Swaps were re-designated to hedge the 2005 A Series Bonds. The hedge qualified as an effective hedge through December 17, 2012, the date the 2005 A Series Bonds were refunded, and all changes in the 2005 Swaps subsequent to the accounting election date through the date of refinance are reported in other changes in unrestricted net assets. Beginning December 17, 2012, the 2005 Swaps no longer qualified as an effective hedge due to the refinancing of the 2005 A Series Bonds with a fixed rate instrument, the 2012A Bonds described herein. At this time, the Hospital incurred a one-time charge totaling \$10,280,355, which represented the fair value of the Swaps at the refinancing date, less amounts already recognized in earnings during periods of ineffectiveness and the remaining unamortized loss which was being amortized over the life of the 2005 A Series Bonds. Changes in fair value of the 2005 Swaps since this date have been recorded in other income (expense).

The table below presents certain information regarding the Hospital's interest rate swap agreements at December 31:

	2015	2014
Fair value of interest rate swap agreements	\$ (20,512,945)	\$ (20,254,518)
Balance sheet location of fair value amount	Interest Rate Swap Agreement Liability	Interest Rate Swap Agreement Liability
Location of loss reclassified from unrestricted net assets into deficiency of revenues over expenses	N/A	N/A
Loss recognized in excess revenues over expenses (ineffective portion)	\$ (258,427)	\$ (7,888,028)
Location of loss recognized in excess revenues over expenses (ineffective portion)	Other Income (Expense) - Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreements	Other Income (Expense) - Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreements

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 9: Property and Equipment

Property and equipment and related accumulated depreciation as of December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 48,733,725	\$ 47,563,371
Buildings and improvements	138,015,703	131,819,750
Building equipment	176,832,761	166,992,800
Moveable equipment	166,035,445	154,149,377
Construction in progress	7,202,145	14,550,010
	<u>536,819,779</u>	<u>515,075,308</u>
Accumulated depreciation	<u>(263,942,626)</u>	<u>(236,815,115)</u>
	<u>\$ 272,877,153</u>	<u>\$ 278,260,193</u>

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing.

Note 10: Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are restricted for the interest in net assets of the Foundation. Temporarily restricted net assets totaled \$28,265,065 and \$28,580,909 at December 31, 2015 and 2014, respectively. Permanently restricted net assets totaled \$165,793 at December 31, 2015 and 2014.

Net assets of \$744,170 and \$606,304 were released for use in operations for 2015 and 2014, respectively.

Note 11: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 354,048,054	\$ 335,880,834
General and administrative	<u>37,294,992</u>	<u>26,963,867</u>
	<u>\$ 391,343,046</u>	<u>\$ 362,844,701</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 12: Pension Plans

Defined-Contribution Plan

Effective April 1, 2008, the Hospital implemented a defined-contribution pension plan covering substantially all employees hired after April 1, 2008. Employees hired prior to April 1, 2008 who met the eligibility requirements participate in the defined-benefit plan. Substantially all employees are eligible to participate in the Hospital's 403b plan. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$3,829,386 and \$3,597,245 for 2015 and 2014, respectively.

Defined-Benefit Plan

The Hospital has a noncontributory defined-benefit pension plan covering all employees who meet the eligibility requirements. The Hospital's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Hospital may determine to be appropriate from time to time. The Hospital expects to contribute \$3,000,000 to the plan in 2016.

The defined-benefit pension plan was frozen to all new participants effective April 1, 2008. Effective December 31, 2011, management elected to freeze the plan to all participants. As a result of this freeze, participants will receive no additional credit for service or future wage adjustments. During 2011, as a result of an outsourcing agreement, approximately 145 participants were terminated from the Hospital and subsequently hired by the third-party processor. This termination led to additional benefit payments for terminated employees. Settlement costs in 2015 and 2014 represent the recognition of net periodic benefit costs related to benefit payments made to the terminated employees.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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The Hospital uses a December 31 measurement date for the plan. Information about the plan's funded status follows:

	2015	2014
Changes in projected benefit obligation		
Beginning balance	\$ 62,523,484	\$ 54,150,283
Interest cost	2,411,909	2,506,017
Benefits paid	(5,048,853)	(3,352,900)
Actuarial loss/(gain)	(4,657,816)	9,531,986
Effect of settlement/curtailment	249,940	(311,902)
Ending balance	55,478,664	62,523,484
Changes in fair value of assets		
Fair value at beginning of year	36,997,534	36,318,443
Actual return on plan assets	(1,028,235)	1,331,991
Employer contributions	1,300,000	2,700,000
Benefits paid	(5,048,853)	(3,352,900)
Ending balance	32,220,446	36,997,534
Funded status	\$ (23,258,218)	\$ (25,525,950)

Liabilities recognized in the consolidated balance sheets:

	2015	2014
Noncurrent liabilities	\$ (23,258,218)	\$ (25,525,950)

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	2015	2014
Net loss	\$ 24,979,615	\$ 30,091,666

The accumulated benefit obligation for the defined-benefit pension plan was \$55,478,664 and \$62,523,484 at December 31, 2015 and 2014, respectively.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Information for the pension plan which has an accumulated benefit obligation in excess of plan assets follows:

	2015	2014
Projected benefit obligation	\$ 55,478,664	\$ 62,523,484
Accumulated benefit obligation	55,478,664	62,523,484
Fair value of plan assets	32,220,446	36,997,534

The following table shows the components of net periodic benefit costs:

	2015	2014
Interest cost	\$ 2,411,909	\$ 2,506,017
Expected return on assets	(2,390,971)	(2,549,849)
Recognition of net loss	<u>1,986,610</u>	<u>1,309,402</u>
Net period benefit cost	2,007,548	1,265,570
Settlement cost	<u>2,136,771</u>	<u>1,474,122</u>
Net benefit cost	<u>\$ 4,144,319</u>	<u>\$ 2,739,692</u>

Other changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets at December 31, 2015 and 2014:

	2015	2014
Loss recognized in current year	\$ (4,123,381)	\$ (2,783,524)
Gain (loss) incurred in current year	<u>988,670</u>	<u>(10,437,942)</u>
Other changes in net assets in current year	<u>\$ (5,112,051)</u>	<u>\$ 7,654,418</u>

The estimated net loss for the defined-benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$1,619,312.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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Significant assumptions include:

	Pension Benefits	
	2015	2014
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.50%	4.00%
Rate of compensation increase	0.00%	0.00%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	4.00%	4.75%
Expected return on plan assets	6.75%	7.00%
Rate of compensation increase	0.00%	0.00%

The Hospital has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2015:

2016	\$	3,844,676
2017		4,413,225
2018		4,628,596
2019		4,177,665
2020		3,750,812
2021 - 2025		17,813,207

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds and debentures, U.S. Government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2015 and 2014 are as follows:

	2015	2014
Equity securities	15 - 35%	15 - 35%
Debt securities	45 - 65%	45 - 65%
Other	0 - 40%	0 - 40%

Plan assets are re-balanced quarterly. At December 31, 2015 and 2014, plan assets by category are as follows:

	2015	2014
Equity securities	32%	34%
Debt securities	54%	52%
Other	14%	14%
	<u>100%</u>	<u>100%</u>

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include money market funds, equity securities and debt securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include certain alternative investments. As a practical expedient, the fair value of alternative investments without quoted market prices is determined using the net asset value (or its equivalent) provided by the fund given the Plan can redeem its investment at the net asset value per share at December 31 or within a reasonable period of time. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. The Plan does not have any Level 3 assets at December 31, 2015 or 2014.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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

	2015 Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 578,425	\$ 578,425	\$ -	\$ -
Domestic equity mutual funds	9,141,795	9,141,795	-	-
Non-U.S. equity mutual funds	1,970,352	1,970,352	-	-
Domestic fixed income mutual funds	20,177,069	20,177,069	-	-
Alternative investments - hedge funds	352,805	-	352,805	-
	\$ 32,220,446	\$ 31,867,641	\$ 352,805	\$ -

	2014 Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 863,196	\$ 863,196	\$ -	\$ -
Domestic equity mutual funds	10,516,911	10,516,911	-	-
Non-U.S. equity mutual funds	3,259,950	3,259,950	-	-
Domestic fixed income mutual funds	21,734,916	21,734,916	-	-
Non-U.S. fixed income mutual funds	7	7	-	-
Alternative investments - hedge funds	622,554	-	622,554	-
	\$ 36,997,534	\$ 36,374,980	\$ 622,554	\$ -

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described yet.

Money Market Funds

Where quoted market prices are available in an active market, money market mutual funds are classified within Level 1 of the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities, equity mutual funds and fixed income mutual funds. Level 2 securities include private equity and corporate hedge funds.

Alternative Investments

The fair value of alternative investments is determined using net asset value (or its equivalent) supplied by the respective fund managers, as a practical expedient. Investments for which the Hospital expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Hospital does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3. Hedge funds and private equity are classified as either Level 2 or Level 3 based upon this determination.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Fair value determinations for Level 3 measurements of investments are the responsibility of the Management's office. Management's office utilizes the valuations provided by fund managers to generate fair value estimates on a monthly or quarterly basis and challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting principles generally accepted in the United States of America.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014:

	Fair Value	2015 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 8,222,784	\$ 8,222,784	\$ -	\$ -
Domestic equity securities	60,963,979	60,963,979	-	-
Non-U.S. equity securities	5,336,900	5,336,900	-	-
Domestic equity mutual funds	67,155,944	67,155,944	-	-
Domestic fixed income mutual funds	51,447,577	51,447,577	-	-
Alternative investments - private equity	2,126,107	-	-	2,126,107
Alternative investments - corporate hedge funds	34,754,809	-	34,754,809	-
	<u>\$ 230,008,100</u>	<u>\$ 193,127,184</u>	<u>\$ 34,754,809</u>	<u>\$ 2,126,107</u>
Interest rate swap agreements liability	<u>\$ 20,512,945</u>	<u>\$ -</u>	<u>\$ 20,512,945</u>	<u>\$ -</u>

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

	2014			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Money market funds	\$ 14,877,762	\$ 14,877,762	\$ -	\$ -
Domestic equity securities	63,429,423	63,429,423	-	-
Non-U.S. equity securities	5,992,635	5,992,635	-	-
Domestic equity mutual funds	65,061,227	65,061,227	-	-
Domestic fixed income mutual funds	65,948,620	65,948,620	-	-
Alternative investments - private equity	1,653,881	-	-	1,653,881
Alternative investments - corporate hedge funds	19,731,825	-	19,731,825	-
	<u>\$ 236,695,373</u>	<u>\$ 215,309,667</u>	<u>\$ 19,731,825</u>	<u>\$ 1,653,881</u>
Interest rate swap agreements liability	<u>\$ 20,254,518</u>	<u>\$ -</u>	<u>\$ 20,254,518</u>	<u>\$ -</u>

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Private Equity
Balance, January 1, 2014	\$ 541,290
Contributions	1,025,000
Change in value of private equity fund	151,156
Distributions	<u>(63,565)</u>
Balance, December 31, 2014	1,653,881
Contributions	1,125,000
Change in value of private equity fund	(373,738)
Distributions	<u>(279,036)</u>
Balance, December 31, 2015	<u>\$ 2,126,107</u>

Reid Hospital and Health Care Services, Inc.
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Unobservable (Level 3) Inputs

As previously noted, the Hospital's alternative investments are valued at net asset value (NAV) or its equivalent and classified within the fair value hierarchy based on the Hospital's ability to redeem the fund within a reasonable period of time. Therefore, the valuation of alternative investments is considered to be based on unobservable inputs. There are no quantitative measurements (i.e. discount rates, market return rates, etc.) used to adjust NAV.

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement.

Notes Payable and Long-Term Debt

Fair value is estimated based on the borrowing rates currently available to the Hospital for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Hospital's financial instruments at December 31, 2015 and 2014.

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 24,521,165	\$ 24,521,165	\$ 26,452,342	\$ 26,452,342
Debt securities	51,447,577	51,447,577	65,948,620	65,948,620
Equity securities	133,456,823	133,456,823	134,483,285	134,483,285
Alternative investments	36,880,916	36,880,916	21,385,706	21,385,706
Interest in net assets of the Foundation	28,430,858	28,430,858	28,746,702	28,746,702
Financial liabilities				
Long-term debt	180,239,591	175,870,081	167,353,939	199,509,619
Interest rate swap agreements	20,512,945	20,512,945	20,254,518	20,254,518

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 14: The Fair Value Option

The Hospital has elected to measure certain alternative investments at fair value because it more accurately reflects its financial position. Included in the accompanying consolidated balance sheets are ten alternative investments of which five are reported at fair value of \$36,880,916 and \$21,385,706 at December 31, 2015 and 2014, respectively; the other funds are reported on the equity method at \$2,485,387 and \$4,656,839 at December 31, 2015 and 2014, respectively. Unrealized gains (losses) on investments elected to be measured at fair value were \$(1,052,575) and \$580,525 at December 31, 2015 and 2014, respectively. These gains and losses are reported as a component of investment return on the consolidated statements of operations and changes in net assets. The fair value option was not elected for all of the alternative investments due to a portion being reported on the equity method and not having readily determinable fair value.

Note 15: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 6.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Self Insurance

The Hospital has elected to self-insure certain costs related to employee health insurance programs. In connection with the self-insurance program, the Hospital purchases reinsurance to protect it from catastrophic losses per occurrence. Costs resulting from noninsured losses are charged to expense when incurred.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Pension and Other Postretirement Benefit Obligations

The Hospital has a noncontributory defined-benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. As previously described in these footnotes, the noncontributory defined-benefit pension plan was frozen as of December 31, 2011. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Investments

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 the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 16: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products.

Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs will be substantially decreased. Each state's participation in an expanded Medicaid program is optional. In 2015, the state of Indiana expanded its Medicaid program with the implementation of the Healthy Indiana Plan (HIP) 2.0. Under HIP 2.0, the first \$2,500 of beneficiary medical expenses are reimbursed from special savings accounts funded partly by the state and partly by the beneficiary.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

Other Information

Reid Hospital and Health Care Services, Inc.

Consolidating Schedule - Balance Sheet Information

December 31, 2015

Assets

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 14,838,952	\$ 284,026	\$ 1,026,432	\$ (336,314)	\$ 485,285	\$ -	\$ 16,298,381
Patient accounts receivable, net of allowance; 2015 - \$30,900,000	59,128,987	-	-	4,761,022	-	-	63,890,009
Supplies	7,538,516	-	-	-	-	-	7,538,516
Prepaid expenses and other	265,523,903	45,055	695,449	4,796,690	776,529	(258,666,155)	13,171,471
Total current assets	<u>347,030,358</u>	<u>329,081</u>	<u>1,721,881</u>	<u>9,221,398</u>	<u>1,261,814</u>	<u>(258,666,155)</u>	<u>100,898,377</u>
Assets Limited As To Use							
Internally designated	195,612,572	-	-	-	-	-	195,612,572
Internally designated - fair value option	36,880,915	-	-	-	-	-	36,880,915
	<u>232,493,487</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>232,493,487</u>
Property and Equipment, at cost							
	479,101,215	30,032,477	8,113,247	19,572,840	-	-	536,819,779
Less accumulated depreciation	242,167,716	6,587,626	5,738,421	9,448,863	-	-	263,942,626
	<u>236,933,499</u>	<u>23,444,851</u>	<u>2,374,826</u>	<u>10,123,977</u>	<u>-</u>	<u>-</u>	<u>272,877,153</u>
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	28,430,858	-	-	-	-	-	28,430,858
Deferred financing costs	1,097,065	-	-	-	-	-	1,097,065
Other	8,308,798	-	-	-	-	(3,033,415)	5,275,383
	<u>37,836,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,033,415)</u>	<u>34,803,306</u>
Total assets	<u>\$ 854,294,065</u>	<u>\$ 23,773,932</u>	<u>\$ 4,096,707</u>	<u>\$ 19,345,375</u>	<u>\$ 1,261,814</u>	<u>\$ (261,699,570)</u>	<u>\$ 641,072,323</u>
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 14,692,047	\$ 15,208	\$ 474,972	\$ 234,071,883	\$ 521,497	\$ (234,559,562)	\$ 15,216,045
Salaries, wages and related liabilities	13,406,200	-	-	6,768,999	-	-	20,175,199
Estimated amounts due to third-party payers	4,379,764	-	-	-	-	-	4,379,764
Current maturities of long-term debt	4,442,276	-	-	-	-	-	4,442,276
Total current liabilities	<u>36,920,287</u>	<u>15,208</u>	<u>474,972</u>	<u>240,840,882</u>	<u>521,497</u>	<u>(234,559,562)</u>	<u>44,213,284</u>
Long-Term Debt							
	175,797,315	24,106,592	-	-	-	(24,106,592)	175,797,315
Interest Rate Swap Agreement Liability							
	20,512,945	-	-	-	-	-	20,512,945
Pension Plan and Postretirement Benefits							
	23,258,218	-	-	-	-	-	23,258,218
Total liabilities	<u>256,488,765</u>	<u>24,121,800</u>	<u>474,972</u>	<u>240,840,882</u>	<u>521,497</u>	<u>(258,666,154)</u>	<u>263,781,762</u>
Net Assets							
Unrestricted							
Reid Hospital and Health Care Services, Inc.	569,374,442	(347,868)	3,621,735	(221,495,507)	740,317	(4,541,443)	347,351,676
Noncontrolling interest	-	-	-	-	-	1,508,027	1,508,027
Total unrestricted net assets	<u>569,374,442</u>	<u>(347,868)</u>	<u>3,621,735</u>	<u>(221,495,507)</u>	<u>740,317</u>	<u>(3,033,416)</u>	<u>348,859,703</u>
Temporarily restricted	28,265,065	-	-	-	-	-	28,265,065
Permanently restricted	165,793	-	-	-	-	-	165,793
Total net assets	<u>597,805,300</u>	<u>(347,868)</u>	<u>3,621,735</u>	<u>(221,495,507)</u>	<u>740,317</u>	<u>(3,033,416)</u>	<u>377,290,561</u>
Total liabilities and net assets	<u>\$ 854,294,065</u>	<u>\$ 23,773,932</u>	<u>\$ 4,096,707</u>	<u>\$ 19,345,375</u>	<u>\$ 1,261,814</u>	<u>\$ (261,699,570)</u>	<u>\$ 641,072,323</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Statement of Operations and Changes in Net Assets Information
Year Ended December 31, 2015

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 347,231,995	\$ -	\$ -	\$ 52,197,477	\$ -	\$ -	\$ 399,429,472
Provision for uncollectible accounts	(18,976,350)	-	-	(5,146,324)	-	-	(24,122,674)
Net patient service revenue less provision for uncollectible accounts	328,255,645	-	-	47,051,153	-	-	375,306,798
Other	12,878,176	4,890,886	21,415,802	1,235,955	6,487,085	(36,921,118)	9,986,786
Net assets released from restrictions used for operations	744,170	-	-	-	-	-	744,170
Total unrestricted revenues, gains and other support	341,877,991	4,890,886	21,415,802	48,287,108	6,487,085	(36,921,118)	386,037,754
Expenses and Losses							
Salaries, wages and benefits	122,313,569	20,486	10,272,113	76,273,081	716,623	(4,952,035)	204,643,837
Purchased services and professional fees	13,516,912	65,018	253,040	7,198,813	5,470,518	(7,219,052)	19,285,249
Supplies and other	123,248,360	1,877,829	6,098,448	16,867,505	-	(24,750,031)	123,342,111
Depreciation and amortization	25,575,181	766,247	510,573	2,018,768	-	-	28,870,769
Interest and amortization of financing costs	6,022,860	1,671,242	-	-	-	(1,656,242)	6,037,860
Provider hospital assessment fee	9,163,220	-	-	-	-	-	9,163,220
Total expenses and losses	299,840,102	4,400,822	17,134,174	102,358,167	6,187,141	(38,577,360)	391,343,046
Operating Income (Loss)	42,037,889	490,064	4,281,628	(54,071,059)	299,944	1,656,242	(5,305,292)
Other Income (Expense)							
Investment return	861,977	3,363	(481)	-	-	(5,011,383)	(4,146,524)
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(258,427)	-	-	-	-	-	(258,427)
Loss on bond refunding	(22,128,048)	-	-	-	-	-	(22,128,048)
Total other income (expense)	(21,524,498)	3,363	(481)	-	-	(5,011,383)	(26,532,999)
Excess (Deficiency) of Revenues Over Expenses	20,513,391	493,427	4,281,147	(54,071,059)	299,944	(3,355,141)	(31,838,291)
Other Changes in Unrestricted Net Assets							
Net gain arising during the period related to defined-benefit plans	4,612,836	-	-	-	-	-	4,612,836
Distributions	-	(677,487)	(5,378,342)	-	(52,084)	3,407,223	(2,700,690)
Increase (decrease) in unrestricted net assets	25,126,227	(184,060)	(1,097,195)	(54,071,059)	247,860	52,082	(29,926,145)
Temporarily Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	428,326	-	-	-	-	-	428,326
Net assets released from restriction	(744,170)	-	-	-	-	-	(744,170)
Decrease in temporarily restricted net assets	(315,844)	-	-	-	-	-	(315,844)
Change in Net Assets	24,810,383	(184,060)	(1,097,195)	(54,071,059)	247,860	52,082	(30,241,989)
Net Assets, Beginning of Year	572,994,917	(163,808)	4,718,930	(167,424,448)	492,457	(3,085,498)	407,532,550
Net Assets, End of Year	\$ 597,805,300	\$ (347,868)	\$ 3,621,735	\$ (221,495,507)	\$ 740,317	\$ (3,033,416)	\$ 377,290,561

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Balance Sheet Information
December 31, 2014

Assets

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 10,529,274	\$ 447,452	\$ 631,021	\$ (141,534)	\$ 108,367	\$ -	\$ 11,574,580
Assets limited as to use - current	3,450,000	-	-	-	-	-	3,450,000
Patient accounts receivable, net of allowance; 2014 - \$42,700,000	60,068,072	-	-	5,692,134	-	-	65,760,206
Supplies	7,268,351	-	-	-	-	-	7,268,351
Prepaid expenses and other	218,972,536	37,997	1,778,537	4,671,668	883,267	(207,181,787)	19,162,218
Total current assets	<u>300,288,233</u>	<u>485,449</u>	<u>2,409,558</u>	<u>10,222,268</u>	<u>991,634</u>	<u>(207,181,787)</u>	<u>107,215,355</u>
Assets Limited As To Use							
Internally designated	217,306,159	-	-	-	-	-	217,306,159
Internally designated - fair value option	15,839,142	-	-	-	-	-	15,839,142
Held by trustee	8,206,923	-	-	-	-	-	8,206,923
	<u>241,352,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,352,224</u>
Less amount required to meet current obligations	<u>3,450,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,450,000</u>
	<u>237,902,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,902,224</u>
Property and Equipment, at cost							
	460,207,657	30,019,100	7,901,261	16,947,290	-	-	515,075,308
Less accumulated depreciation	218,120,818	5,824,059	5,227,848	7,642,390	-	-	236,815,115
	<u>242,086,839</u>	<u>24,195,041</u>	<u>2,673,413</u>	<u>9,304,900</u>	<u>-</u>	<u>-</u>	<u>278,260,193</u>
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	28,746,702	-	-	-	-	-	28,746,702
Deferred financing costs	1,499,530	-	-	-	-	-	1,499,530
Other	8,013,818	-	-	-	-	(3,085,498)	4,928,320
	<u>38,260,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,085,498)</u>	<u>35,174,552</u>
Total assets	<u>\$ 818,537,346</u>	<u>\$ 24,680,490</u>	<u>\$ 5,082,971</u>	<u>\$ 19,527,168</u>	<u>\$ 991,634</u>	<u>\$ (210,267,285)</u>	<u>\$ 658,552,324</u>
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 16,221,140	\$ 53,999	\$ 364,041	\$ 181,564,564	\$ 499,177	\$ (182,391,488)	\$ 16,311,433
Salaries, wages and related liabilities	11,112,008	-	-	5,387,052	-	-	16,499,060
Estimated amounts due to third-party payers	5,074,874	-	-	-	-	-	5,074,874
Current maturities of long-term debt	3,450,000	-	-	-	-	-	3,450,000
Total current liabilities	<u>35,858,022</u>	<u>53,999</u>	<u>364,041</u>	<u>186,951,616</u>	<u>499,177</u>	<u>(182,391,488)</u>	<u>41,335,367</u>
Long-Term Debt							
	163,903,939	24,790,299	-	-	-	(24,790,299)	163,903,939
Interest Rate Swap Agreement Liability							
	20,254,518	-	-	-	-	-	20,254,518
Pension Plan and Postretirement Benefits							
	25,525,950	-	-	-	-	-	25,525,950
Total liabilities	<u>245,542,429</u>	<u>24,844,298</u>	<u>364,041</u>	<u>186,951,616</u>	<u>499,177</u>	<u>(207,181,787)</u>	<u>251,019,774</u>
Net Assets							
Unrestricted							
Reid Hospital and Health Care Services, Inc.	544,248,215	(163,808)	4,718,930	(167,424,448)	492,457	(5,312,127)	376,559,219
Noncontrolling interest	-	-	-	-	-	2,226,629	2,226,629
Total unrestricted net assets	<u>544,248,215</u>	<u>(163,808)</u>	<u>4,718,930</u>	<u>(167,424,448)</u>	<u>492,457</u>	<u>(3,085,498)</u>	<u>378,785,848</u>
Temporarily restricted	28,580,909	-	-	-	-	-	28,580,909
Permanently restricted	165,793	-	-	-	-	-	165,793
Total net assets	<u>572,994,917</u>	<u>(163,808)</u>	<u>4,718,930</u>	<u>(167,424,448)</u>	<u>492,457</u>	<u>(3,085,498)</u>	<u>407,532,550</u>
Total liabilities and net assets	<u>\$ 818,537,346</u>	<u>\$ 24,680,490</u>	<u>\$ 5,082,971</u>	<u>\$ 19,527,168</u>	<u>\$ 991,634</u>	<u>\$ (210,267,285)</u>	<u>\$ 658,552,324</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Statement of Operations and Changes in Net Assets Information
Year Ended December 31, 2014

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 352,571,100	\$ -	\$ -	\$ 50,255,434	\$ -	\$ -	\$ 402,826,534
Provision for uncollectible accounts	(38,533,985)	-	-	(4,608,862)	-	-	(43,142,847)
Net patient service revenue less provision for uncollectible accounts	314,037,115	-	-	45,646,572	-	-	359,683,687
Other	13,286,015	5,000,632	22,233,701	1,319,800	6,257,527	(36,703,738)	11,393,937
Net assets released from restrictions used for operations	606,304	-	-	-	-	-	606,304
Total unrestricted revenues, gains and other support	327,929,434	5,000,632	22,233,701	46,966,372	6,257,527	(36,703,738)	371,683,928
Expenses and Losses							
Salaries, wages and benefits	117,670,806	26,285	9,847,512	68,445,848	47,199	(5,259,434)	190,778,216
Purchased services and professional fees	10,720,100	20,590	249,547	6,698,002	6,013,046	(6,963,013)	16,738,272
Supplies and other	108,175,738	1,845,550	6,290,849	16,277,915	275	(24,481,291)	108,109,036
Depreciation and amortization	25,250,497	766,478	556,813	1,747,284	-	-	28,321,072
Interest and amortization of financing costs	7,912,106	1,700,858	-	-	-	(1,700,858)	7,912,106
Provider hospital assessment fee	10,985,999	-	-	-	-	-	10,985,999
Total expenses and losses	280,715,246	4,359,761	16,944,721	93,169,049	6,060,520	(38,404,596)	362,844,701
Operating Income (Loss)	47,214,188	640,871	5,288,980	(46,202,677)	197,007	1,700,858	8,839,227
Other Income (Expense)							
Investment return	15,491,504	3,386	(405)	-	-	(5,643,766)	9,850,719
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(7,888,028)	-	-	-	-	-	(7,888,028)
Total other income (expense)	7,603,476	3,386	(405)	-	-	(5,643,766)	1,962,691
Excess (Deficiency) of Revenues Over Expenses	54,817,664	644,257	5,288,575	(46,202,677)	197,007	(3,942,908)	10,801,918
Other Changes in Unrestricted Net Assets							
Net loss arising during the period related to defined-benefit plans	(7,862,822)	-	-	-	-	-	(7,862,822)
Distributions	-	(408,708)	(5,450,185)	-	(50,000)	3,542,010	(2,366,883)
Other	-	-	-	-	-	164,996	164,996
Increase (decrease) in unrestricted net assets	46,954,842	235,549	(161,610)	(46,202,677)	147,007	(235,902)	737,209
Temporarily Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	2,017,883	-	-	-	-	-	2,017,883
Net assets released from restriction	(606,304)	-	-	-	-	-	(606,304)
Decrease in temporarily restricted net assets	1,411,579	-	-	-	-	-	1,411,579
Change in Net Assets	48,366,421	235,549	(161,610)	(46,202,677)	147,007	(235,902)	2,148,788
Net Assets, Beginning of Year	524,628,496	(399,357)	4,880,540	(121,221,771)	345,450	(2,849,596)	405,383,762
Net Assets, End of Year	\$ 572,994,917	\$ (163,808)	\$ 4,718,930	\$ (167,424,448)	\$ 492,457	\$ (3,085,498)	\$ 407,532,550