Consolidated Financial Statements and Supplementary Information

Community Foundation of Northwest Indiana, Inc. and Subsidiaries
Years Ended June 30, 2014 and 2013
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

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Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2014 and 2013

Contents

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Report of Independent Auditors

The Board of Directors
Community Foundation of Northwest Indiana, Inc.

We have audited the accompanying consolidated financial statements of Community Foundation of Northwest Indiana, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Foundation of Northwest Indiana, Inc. and Subsidiaries at June 30, 2014 and 2013, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 23, 2014

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2014	**2013**
Assets		
Current assets:		
Cash and cash equivalents	**$ 37,670**	$ 49,622
Patient accounts receivable, net of allowance for bad debts of $19,817 in 2014, $20,473 in 2013	**109,670**	101,931
Estimated settlements due from third-party payors	**8,695**	4,812
Inventories	**20,562**	18,318
Externally designated investments – short-term	**34,078**	68,439
Prepaid expenses and other current assets	**16,791**	18,290
Total current assets	**227,466**	261,412
Assets limited as to use – long-term:		
Internally designated investments	**456,362**	388,256
Externally designated investments	**11,114**	11,084
Land, buildings, and equipment net of accumulated depreciation and amortization	**423,192**	399,265
Other assets	**28,999**	23,141
Total assets	**$ 1,147,133**	$ 1,083,158
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 32,706**	$ 31,949
Accrued salaries, wages, and benefits	**47,102**	50,235
Accrued expenses	**29,548**	27,416
Estimated settlements due to third-party payors	**24,996**	10,051
Current portion of long-term debt	**11,882**	10,405
Other current liabilities	**9**	–
Total current liabilities	**146,243**	130,056
Noncurrent liabilities:		
Long term debt, notes payable, and capital leases, less current portion	**382,902**	391,746
Deferred revenue from advance fees	**1,674**	1,828
Resident deposit liability	**17,139**	17,189
Pension liability	**38,908**	92,663
Other long-term liabilities	**20,704**	22,063
Total noncurrent liabilities	**461,327**	525,489
Total liabilities	**607,570**	655,545
Net assets:		
Unrestricted	**538,233**	426,287
Temporarily restricted	**1,228**	1,224
Permanently restricted	**102**	102
Total net assets	**539,563**	427,613
Total liabilities and net assets	**$ 1,147,133**	$ 1,083,158

See accompanying notes.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	June 30	
	2014	**2013**
Revenue		
Net patient and resident service revenue before provision for bad debts	**$ 896,910**	$ 867,869
Provision for bad debts	**(37,452)**	(43,828)
Net patient and resident service revenue	**859,458**	824,041
Capitation program revenue	**24,089**	26,399
Other revenue	**30,408**	40,472
Total operating revenue	**913,955**	890,912
Expense		
Salaries and wages	**347,815**	337,417
Employee benefits	**87,846**	89,767
Medical fees	**3,314**	3,580
Medical and other supplies	**170,121**	164,418
Outside services	**89,007**	84,729
Medicaid assessment fee	**49,328**	38,917
Interest expense	**18,397**	18,213
Depreciation and amortization	**51,355**	51,082
Other expense	**68,201**	65,327
Total operating expense	**885,384**	853,450
Net operating income	**28,571**	37,462
Nonoperating		
Investment income and other	**14,721**	12,924
Loss on early extinguishment of debt	**(488)**	(7,313)
Net change in unrealized gains/losses on investments	**15,295**	(3,196)
Net loss on interest rate swaps	**–**	(63)
Total nonoperating	**29,528**	2,352
Revenue in excess of expenses	**58,099**	39,814

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	June 30	
	2014	**2013**
Unrestricted net assets		
Revenue in excess of expenses	**$ 58,099**	$ 39,814
Pension-related changes other than net periodic pension cost	**53,625**	10,588
Net assets released from restriction used for capital purposes	**222**	267
Other	**–**	(204)
Increase in unrestricted net assets	**111,946**	50,465
Temporarily restricted net assets		
Restricted contributions	**697**	631
Net assets released from restriction used for operating and capital purposes	**(698)**	(537)
Other	**5**	(249)
Increase (decrease) in temporarily restricted net assets	**4**	(155)
Permanently restricted net assets		
Investment income	**5**	–
Other	**(5)**	–
Increase in permanently restricted net assets	**–**	–
Increase in net assets	**111,950**	50,310
Net assets at beginning of year	**427,613**	377,303
Net assets at end of year	**$ 539,563**	$ 427,613

See accompanying notes.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	June 30	
	2014	**2013**
Operating activities		
Change in net assets	**$ 111,950**	$ 50,310
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for bad debts	**37,452**	43,828
Depreciation and amortization	**51,355**	51,082
Gain on early capital lease termination	**(732)**	–
Pension-related changes other than net periodic pension cost	**(53,625)**	(10,588)
Change in fair value of interest rate swaps	**–**	(71)
Loss on early extinguishment of debt	**488**	7,313
Unrealized (gains) losses on investments	**(15,295)**	3,196
Restricted contributions	**(697)**	(631)
Amortization of admission fees	**(381)**	(773)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(45,191)**	(33,807)
Estimated settlements due to third-party payors	**11,062**	2,303
Inventories, prepaid expenses, and other assets	**(4,206)**	(7,319)
Assets limited as to use	**(19,027)**	(134,579)
Accounts payable, accrued expenses, and other current liabilities	**(14,507)**	7,846
Other long-term liabilities	**(1,567)**	458
Net cash provided by (used in) operating activities	**57,079**	(21,432)
Investing activities		
Purchases of land, buildings, and equipment	**(59,380)**	(36,975)
Net cash used in investing activities	**(59,380)**	(36,975)
Financing activities		
Repayment of long-term debt	**(61,562)**	(123,719)
Borrowing of long-term debt	**51,037**	200,703
Advance fee deposits	**2,760**	2,706
Advance fees refunded	**(2,583)**	(2,416)
Proceeds from restricted contributions	**697**	631
Net cash (used in) provided by financing activities	**(9,651)**	77,905
Net (decrease) increase in cash and cash equivalents	**(11,952)**	19,498
Cash and cash equivalents at beginning of year	**49,622**	30,124
Cash and cash equivalents at end of year	**$ 37,670**	$ 49,622
Supplemental noncash investing and financing activities:		
Indirect financing of equipment and prepaid expenses	**$ 5,863**	$ 2,130

See accompanying notes.

1. Organization

Community Foundation of Northwest Indiana, Inc. (Foundation) serves as the sole corporate member of Munster Medical Research Foundation, Inc. (d/b/a Community Hospital), St. Catherine Hospital, Inc. (SCH), St. Mary Medical Center, Inc. (SMMC), Community Care Network, Inc. (CCN), Community Village, Inc. (CVI), Community Cancer Research Foundation, Inc. (CCRF), Theatre at the Center, Inc. (TATC), and CVPA Holding Corporation (CVPA). With the addition of Community Resources, Inc. (CRI) these entities are collectively referred to as CFNI. The Community Foundation of Northwest Indiana, Inc., Community Hospital, St. Mary Medical Center, Inc., St. Catherine Hospital, Inc., Community Care Network, Inc., and Community Village, Inc., comprise the members of Community Foundation of Northwest Indiana Obligated Group (Obligated Group). The Foundation and TATC, collectively, own 100% of the outstanding shares of capital stock issued by Community Resources, Inc., a for-profit taxable entity. Community Hospital, St. Catherine Hospital, Inc., and St. Mary Medical Center, Inc. (collectively, the hospitals) provide inpatient, outpatient, and emergency care services to residents within their geographic regions of northwest Indiana.

CFNI and its wholly owned subsidiaries, except CRI and CVPA, are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code) and are, therefore, not subject to tax on income related to tax-exempt purposes under Section 501(a) of the Code. CVPA is tax-exempt under Section 501(c)(2) of the Code.

The accompanying consolidated financial statements include the accounts and transactions of CFNI. All significant intercompany accounts and transactions between the CFNI members are eliminated in consolidation. The majority of the CFNI expenses are associated with the administration and delivery of health care services to individuals residing in communities throughout northwest Indiana.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the corresponding balance sheet dates and the reported amounts of revenue and expense for the reported periods. Because such estimates are based upon information available at the time the estimates are made, subsequent changes in associated conditions and circumstances could cause actual results to differ from those estimates.

Cash Equivalents

Cash equivalents include highly liquid, short-term investments in securities, not limited as to use, with a maturity of three months or less from the purchase date.

Patient Accounts Receivable

Patient accounts receivable (including resident accounts receivable from CVI) balances are stated at net realizable value based upon historical and expected collection patterns that consider the corresponding payor type, the length of time the receivable is outstanding, and other material factors impacting future collectability. Patient accounts receivable balances are charged to the allowance for doubtful accounts as amounts are deemed uncollectible. CFNI does not require collateral from patients in connection with provided health care services.

Inventories

Inventories primarily consist of medical and other operating supplies and are stated at the lower of cost, based on the first-in, first-out method, or market.

Assets Limited as to Use

Assets limited as to use consist primarily of investments internally designated by the Board of Directors for future capital replacement and expansion purposes, which the Board of Directors, at its sole discretion, may subsequently use for other purposes. Investments limited as to use also include investments externally designated in connection with the terms of applicable debt agreements.

2. Summary of Significant Accounting Policies (continued)

Investments

CFNI's investments are designated as a trading portfolio. This classification requires CFNI to recognize unrealized gains and losses on its investments within revenue in excess of expenses in the consolidated statements of operations and changes in net assets. Realized gains and losses on the sales of securities are included in investment income and other in the consolidated statements of operations and changes in net assets. Investment management fees are netted against investment income and other in the accompanying consolidated statements of operations and changes in net assets and amount to $968 and $795 at June 30, 2014 and 2013, respectively.

Investments in equity securities with readily determinable market values and all investments in debt securities are recorded at fair value based on quoted market prices. Investment income from these investments is included in revenue in excess of expenses unless income or loss is restricted by donor or law.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost. Depreciation and amortization expense is computed on the straight-line method based upon the estimated useful life of the corresponding asset. The useful lives for land improvements range from 5 to 30 years. Useful lives for buildings and related improvements range from 15 to 40 years or the term of the related lease, whichever is shorter. The useful lives for equipment range from 3 to 20 years or the term of the equipment lease, whichever is shorter.

CFNI has incurred costs to develop internal use computer software related to a significant system-wide information technology and process standardize project, which became fully operational in its original form by October 1, 2011. No new amounts were capitalized in 2014 or 2013. Amounts capitalized, net of accumulated amortization of $13,179, and $9,055, at June 30, 2014 and 2013, amounted to $6,543 and $10,667 and are included in land, buildings, and equipment, net of accumulated depreciation and amortization.

CFNI has committed to construction projects in the amount of $26,036, of which $23,995 of the commitment remains outstanding as of June 30, 2014.

2. Summary of Significant Accounting Policies (continued)

Other Assets

Other assets consist of deferred issuance costs, land held for future use, insurance recoveries, and goodwill. Deferred costs principally consist of charges incurred in connection with the issuance of long-term debt.

Deferred Issuance Costs

Deferred issuance costs are amortized over the term to maturity of the associated financing using the effective interest method. Deferred costs at June 30, 2014 and 2013, net of accumulated amortization of $1,673 and $1,471 amount to $4,892 and $5,167, respectively, and are included in noncurrent other assets in the accompanying consolidated balance sheets.

Goodwill

CFNI records goodwill arising from a business combination as the excess of purchase price and related costs over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. Beginning in 2011, CFNI annually reviews, as of the first day of the fourth fiscal quarter, the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed if an event occurs or circumstances change that would make it more likely than not that the fair value of a reporting unit is below its carrying amount. Management has determined that each hospital is a reporting unit at which fair value is measured. The balance of goodwill at June 30, 2014 and 2013, is $3,763 is $2,403, respectively, and is included in noncurrent other assets in the accompanying consolidated balance sheets. Goodwill of $1,360 was recorded in 2014 related to physician acquisitions and represents the synergies expected from utilizing an employed physician model. There were no additions to goodwill recorded in 2013. No impairments were taken in 2014 or 2013.

Asset Impairment

CFNI periodically considers whether indicators of possible impairment are present and performs annual analyses to determine whether or not an impairment charge is warranted. Impairment write-downs are recognized in operating income at the time the impairment is identified. Management has determined that there was no impairment of long-lived assets in either 2014 or 2013.

2. Summary of Significant Accounting Policies (continued)

Employee Medical Claims Payable

CFNI provides its employees with medical benefits and self-insures for any claims incurred through its health plans. Medical claims payable represent the estimated liability for employee expenses associated with claims that were reported, but not paid, and claims that were incurred, but not reported, at the balance sheet dates. Gross medical claims payable balances were $5,270 and $4,406 at June 30, 2014 and 2013, respectively, and are included in accrued expenses and other in the accompanying consolidated balance sheets. Each health plan contains a maximum benefit payable for any individual within a lifetime. The maximum benefit applies separately to each covered family member and terminates coverage when exhausted. The Obligated Group is self-insured for employee health claims with a stop-loss limit of $2,000 per employee per occurrence. CVI is self-insured for employee health claims with a stop-loss limit of $100 per employee per occurrence. There was no stop-loss receivable to CFNI at June 30, 2014 or 2013.

Deferred Revenue From Advance Fees

CVI offers a return of capital plan. This plan provides for a refund of advance residency fees of 90% for double occupancy and 95% for single occupancy within 90 days of termination of the residency contract. CVI also offers reduced refundability of advance fee plans with alternative refund amounts of 70%, 50%, and 30%. These plans offer a reduced refund of advance fee option with a lower monthly service fee. CVI received $2,760 and $2,706 of deposits during 2014 and 2013, respectively. CVI refunded residency fees of $2,583 and $2,416 during 2014 and 2013, respectively.

The refundable amount of the residency fees paid in advance by residents of CVI under residency contracts is recorded as resident deposit liability. The balance of refundable residency fees at June 30, 2014 and 2013, was $17,139 and $17,189, respectively. The nonrefundable portion of the residency fees paid in advance is recorded as deferred revenue and is accreted to income over the estimated life of the resident based on an actuarial valuation. The remaining balance of nonrefundable residency fees at June 30, 2014 and 2013, net of related accumulated accretion of $4,409 and $3,991, was $1,674 and $1,828, respectively.

2. Summary of Significant Accounting Policies (continued)

Obligation to Provide Future Services

CVI annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from admission fees. If the present value of the net cost of future services and use of facilities to be provided to current residents exceeds the deferred revenue from admission fees, a liability (obligation to provide future services) is recorded with a corresponding charge to operations. At June 30, 2014 and 2013, utilizing an annual discount rate of 5.5% and 6.0%, respectively, CVI determined that there was no such excess that required accrual.

Restricted Net Assets and Contributions

Temporarily and permanently restricted net asset classifications are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operation of CFNI.

Unconditional promises of others to contribute cash or other assets to CFNI are reported at fair value at the date the promises are made, to the extent estimated to be collectible. Contributions received with donor restrictions that limit the use of the contributed assets are reported as increases in temporarily or permanently restricted net assets. When a donor restriction expires – that is, when a stipulated time restriction ends or the purpose for which the contributed assets were restricted is fulfilled – 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 restriction used for operating purposes. Net assets released from restriction that are used for the purchase of fixed assets or for capital purposes when the corresponding capital project is placed into service, in accordance with donor restrictions, are reported in the consolidated statements of operations and changes in net assets as net assets released from restriction used for capital purposes. Net assets released from restrictions that are used for operating purposes are reported in the consolidated statements of operations and changes in net assets as other revenue when the restriction has been met.

Resources restricted by donors or grantors for specific operating purposes are reported as other revenue to the extent they are expended within the same period. Earnings on restricted resources, if also restricted by the donor, are reported as additions to temporarily restricted net assets until such amounts are expended as specified by the donor.

2. Summary of Significant Accounting Policies (continued)

Related-Party Transactions

CFNI purchases insurance, other professional and management services, and rents certain facilities and equipment, in the ordinary course of business, from companies owned by certain members of its Board of Directors and other related parties. Expenses incurred related to these arrangements amount to $30,296 and $26,089 in 2014 and 2013, respectively. The amounts due to such parties at June 30, 2014 and 2013, were $182 and $306, respectively, and are included in accounts payable. There were no amounts due from such related parties at June 30, 2014 or 2013.

Net Patient and Resident Revenue

The hospitals and CVI have agreements with third-party payors that provide for payment in connection with services provided at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem amounts. Net patient and resident revenue from patients, third-party payors, and others is reported at the estimated net realizable amounts for services rendered, including retroactive adjustments under reimbursement arrangements with third-party payors, which are subject to audit by administering agencies. These arrangements are estimated and adjusted when final settlements are determined.

Bad Debt

Patient service revenue, net of contractual allowances and discounts, is reduced by the provision for bad debts, and net accounts receivable are reduced by an allowance for uncollectible accounts. The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration the trends in health care coverage, economic trends, and other collection indicators. Management regularly assesses the adequacy of the allowances based upon historical write-off experience by major payor category and aging bucket. The results of the review are then utilized to make modifications, as necessary, to the provision for bad debts to provide for an appropriate allowance for bad debts. A significant portion of the hospitals' uninsured patients will be unable or unwilling to pay for services provided, and a

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

significant portion of the hospitals' insured patients will be unable or unwilling to pay for co-payments and deductibles. Thus, the hospitals record a significant provision for bad debts related to uninsured patients in the period the services are provided. After all reasonable collection efforts have been exhausted in accordance with CFNI's policy, accounts receivable are written off and charged against the allowance for bad debts.

The allowances for bad debts recognized at June 30, were as follows:

	2014	2013
Third-party	**$ 6,370**	$ 6,410
Self-pay	**13,447**	14,063
Total allowance	**$ 19,817**	$ 20,473

The hospitals' allowances for bad debts for self-pay as a percent of self-pay accounts receivable for June 30, 2014 and 2013, were 34.4% and 39.0%, respectively. The allowances for bad debts for third-party payors as a percent of third-party accounts receivable for June 30, 2014 and 2013, were 4.0% and 4.6%, respectively. Collections, particularly related to self-pay, have been stronger leading to these changes.

Capitation Revenue

SCH provides services to Medicaid members under its contract with MDwise, Inc. a provider-owned insurance company based in Indianapolis, Indiana. MDwise, Inc. is one of three health plans in the State of Indiana providing services to eligible residents through two separate plans: Hoosier Healthwise, a health care program for low income families, pregnant women and children; and Healthy Indiana Plan, a health care program for uninsured low income adult residents aged 19-64 whose income levels do not otherwise qualify for other Medicaid programs. SCH provides services to members in both programs through its contract with MDwise, Inc. For these patients, this hospital recognizes prepaid capitation revenue each month during the period in which it is obligated to provide medical care services, which is typically one year. Under the terms of these capitation agreements, SCH is obligated to provide specified medically necessary services to covered HMO members without regard to the underlying standard charges or actual costs of such services, up to $175 per member. Costs incurred in excess of this amount are

2. Summary of Significant Accounting Policies (continued)

reimbursed through reinsurance contracts at the rate of 80% of charges. The recorded receivables due from reinsurance contracts were $127 and $154 at June 30, 2014 and 2013, respectively, and are included in prepaid expenses and other current assets. Under this capitation arrangement, this hospital assumes financial responsibility for the appropriate and effective utilization of hospital and other health care resources.

Capitated program revenue reported under the program totaled $24,089 and $26,399 for the years ended June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, SCH recorded receivables under these arrangements amounting to $695 and $1,042, respectively, and the amounts are included in prepaid expenses and other current assets. Expenses incurred related to these arrangements amounted to $25,788 and $25,439 in 2014 and 2013, respectively, and are included in other expense. Liabilities estimated for associated incurred, but not reported, claims are actuarially determined based upon claims experience. At June 30, 2014 and 2013, the recorded liabilities payable to third parties were $2,511 and $3,626, respectively, and are included in accrued expenses and other expense. The capitation program operates with stop-loss insurance coverage. The total claim stop-loss threshold is $175 for the Hoosier Healthwise plan and $100 for the Healthy Indiana plan per member, per calendar year. As of June 30, 2014 and 2013, the stop-loss receivables recorded were $127 and $154, respectively, and are included in prepaid expenses and other current assets.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in calendar year 2011 for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. CFNI utilizes a grant accounting model to recognize revenues for EHR incentive payments received during the year. Under this accounting policy, EHR incentive payments were recognized as revenues when there was attestation that the EHR system was in place. Accordingly, CFNI recognized $1,792 and $15,038 in EHR revenues during the years ended June 30, 2014 and 2013, respectively, which are included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

CFNI's attestation of compliance with the meaningful-use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

2. Summary of Significant Accounting Policies (continued)

Revenue in Excess of Expenses

The consolidated statements of operations and changes in net assets include revenue in excess of expenses. Changes in unrestricted net assets, which are excluded from revenue in excess of expenses, include pension-related changes other than net periodic pension cost, net assets released from restriction used for capital purposes, and other.

Professional Liability

CFNI's medical malpractice coverage considers limitations in claims and damages prescribed by the Indiana Medical Malpractice Act, as amended (Act). The Act limits the amount of individual claims to $1,250, of which $1,000 would be paid by the State of Indiana Patient Compensation Fund (the Fund) and $250 by CFNI. The Act also requires that health care providers meet certain requirements, including funding of the Fund and maintaining certain insurance levels. CFNI has met these requirements and is a qualified provider under the Act, retaining risk of $250 per occurrence and up to $7,500 in aggregate annually for the hospitals, and $250 and $750, respectively, for its physicians.

CFNI maintains malpractice insurance coverage provided under a claims-made policy with coverage up to $250 per occurrence for primary professional liability for qualified self-insured hospitals with a $7,500 aggregate limit, and up to $250 per occurrence for primary professional liability for CFNI physicians and a $750 aggregate limit in accordance with the Act. Should the claims-made policy be terminated, the hospitals have the option to purchase insurance for claims having occurred during the term, but reported subsequently. The undiscounted professional liabilities at June 30, 2014, were $1,454 (current) and $5,772 (long-term), and are included in accrued expenses and other long-term liabilities, respectively. At June 30, 2013, these liabilities were $1,538 (current) and $6,406 (long-term), respectively. The undiscounted insurance recoverable receivables at June 30, 2014, were $1,354 (current) and $4,061 (long-term), and are included in prepaid expenses and other assets, and in other assets, respectively. At June 30, 2013, these receivables were $1,455 (current) and $4,900 (long-term), respectively.

2. Summary of Significant Accounting Policies (continued)

Charity Care and Community Benefit

The hospitals provide health care services and other financial support to the communities they serve and focus on those individuals whose lifestyle behaviors put them at risk for disease and illness. The hospitals provide services intended to benefit the poor, including persons who are uninsured or underinsured. Costs for providing services under the hospitals' policy were approximately $22,392 and $24,656 for years ended 2014 and 2013, respectively. These costs were calculated using the financial statement cost-to-charge ratio. Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of the benefit the hospitals provide to their community, since a significant portion of these services are reimbursed below cost. These additional services are not included in the costs for providing services noted above.

The hospitals also provide education for the community, including heart, cancer, maternal, child care, and health and wellness classes. Most classes are provided free of charge in order to educate and enhance the quality of life for these individuals. Community Hospital also promotes physical education through its health and fitness facility, Fitness Pointe. This facility houses Community Hospital's outpatient physical therapy, occupational therapy, dietary counseling, cardiac rehabilitation, and other patient-related programs. These additional services are not included in the costs for providing services noted above.

Interest Expense

CFNI records interest expense as incurred consisting of interest on debt, capital leases, other liabilities, amortization of bond issue costs, net of accretion of bond premiums and discounts. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component cost of acquiring those assets. Interest capitalized for the years ended June 30, 2014 and 2013, were $1,014 and $76, respectively.

Advertising Expense

CFNI expenses advertising costs as incurred. Advertising expenses for the years ended June 30, 2014 and 2013, were $3,046 and $3,143, respectively, and are included in other expenses on the accompanying consolidated statements of operations and changes in net assets.

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation. The reclassifications had no effect on revenue in excess of expenses or on net assets previously reported.

3. Contractual Arrangements With Third-Party Payors

CFNI provides care to certain patients and residents under Medicare and Medicaid reimbursement arrangements. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs, as defined. Reported costs and/or services provided under certain of the arrangements are subject to audit by the administering agencies. Changes in Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on the future amounts recognized as net patient and resident service revenue.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted when final settlements are determined. Changes in estimates that relate to prior years' payment arrangements, which resulted in an increase in revenue in excess of expenses, amounted to $7,696 and $10,239 for the years ended June 30, 2014 and 2013, respectively. The Obligated Group's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors.

The net patient service revenue for years ended June 30, by payer group, was as follows:

	2014	2013
Net patient and resident service revenue		
Medicare	**$ 351,601**	$ 329,790
Medicaid	**90,580**	104,144
Managed care	**390,570**	373,184
Welfare/Hospital care for the indigent/self-pay	**40,369**	34,715
Commercial	**23,790**	26,036
Revenues before provision for bad debts	**896,910**	867,869
Provision for bad debts	**(37,452)**	(43,828)
Net patient and resident service revenue	**$ 859,458**	$ 824,041

(In Thousands)

3. Contractual Arrangements With Third-Party Payors (continued)

The percentages of net patient service revenue and receivable applicable to Medicare, Medicaid, and managed care contractual arrangements as of and for the years ended June 30, were as follows:

	2014	**2013**
Net patient and resident service revenue		
Medicare	**38%**	38%
Medicaid	**10**	12
Managed care	**44**	43
Welfare/Hospital care for the indigent/self-pay	**5**	4
Commercial	**3**	3
Total	**100%**	100%

	2014	**2013**
Patient accounts receivable, net of allowance for bad debts		
Medicare	**27%**	26%
Medicaid	**13**	9
Managed care	**35**	37
Welfare/Hospital care for the indigent/self-pay	**20**	22
Commercial	**5**	6
Total	**100%**	100%

Under Indiana law (IC 12-15-16 (1-3)), health care providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH Providers) are eligible to receive Indiana Medicaid Disproportionate Share Hospital (State DSH) payments. SCH qualified for State DSH for the state fiscal years ended June 30, 2014 and June 30, 2013. The amount of the State DSH funds is dependent upon regulatory approval by applicable agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. State DSH payments made by the state of Indiana are paid according to its fiscal year and are based upon the cost of uncompensated care provided by DSH Providers, as well as the provider's Medicaid shortfall experienced during the state's fiscal year.

(In Thousands)

3. Contractual Arrangements With Third-Party Payors (continued)

Upon final settlements in fiscal 2014 and 2013, SCH qualified for an additional Indiana Medicaid Partial Safety Net Payment of $5,950 and $14,928, respectively, and is included in net patient and resident service revenue before provision for bad debts. The following summary presents the effect of State DSH payments, according to the state's fiscal year to which the payments relate, on SCH's operating results for the years ended June 30, based upon the amount of State DSH payments recognized as revenue for the periods:

	2014	**2013**
Revenue (less than) in excess of expenses, excluding State DSH Revenue	**$ (11,029)**	$ 347
Plus State DSH Revenue recognized relating to the State's fiscal year ended June 30,		
2014	**6,120**	–
2013	**(85)**	6,206
2012	**(85)**	6,206
2011	–	1,142
2010	–	1,374
Revenue (less than) in excess of expenses	**$ (5,079)**	$ 15,275

The 2011 Session of the Indiana General Assembly enacted Public Law 229-2011, Section 281, which required implementation of a hospital assessment fee (HAF) program for the period from July 1, 2011 to June 30, 2013. This assessment fee, which was collected from eligible hospitals, was used to increase reimbursement to eligible hospitals for services and as the State's share of DSH payments. Increased reimbursements from the HAF program are included in net patient and resident service revenue before provision for bad debts, and expenses incurred are included in Medicaid assessment fee in the accompanying consolidated statements of operations and changes in net assets. The assessment fee for the year ended June 30, 2014, amounted to $49,328 and includes $4,259 related to settlement of the fiscal year 2013 program. The assessment fee for the year ended June 30, 2013, amounted to $38,917 and includes $1,065 related to settlement of the fiscal year 2012 program.

In March 2014 the HAF program was resumed retroactive to July 1, 2013, and continues through June 30, 2015.

(In Thousands)

4. Assets Limited as to Use

The compositions of assets limited as of use at June 30 are summarized as follows:

	2014	2013
Cash and short-term investments	**$ 68,669**	$ 111,837
Equity securities:		
Equity securities – consumer discretionary	**7,879**	4,487
Equity securities – energy	**6,170**	3,440
Equity securities – financial	**11,067**	6,397
Equity securities – health care	**9,556**	4,648
Equity securities – information technology	**13,063**	6,572
Equity securities – industrials	**7,569**	3,959
Equity securities – consumer staples	**4,547**	3,210
Equity securities – other equity investments	**5,553**	3,768
Total equity securities	**65,404**	36,481
U.S. government and agency obligations	**77,952**	78,275
Corporate and foreign bonds	**113,218**	96,436
Mutual funds – U.S. and international equities	**71,541**	21,573
Mutual funds – fixed income	**45,417**	59,378
Commingled funds – fixed income	**58,902**	62,786
Other fixed income investments	**451**	1,013
Total assets limited as to use	**$ 501,554**	$ 467,779

The presentations of assets limited as to use at June 30 are summarized as follows:

	2014	2013
Assets limited as to use – short-term:		
Externally designated investments	**$ 34,078**	$ 68,439
Assets limited as to use – long-term:		
Internally designated investments	**456,362**	388,256
Externally designated investments	**11,114**	11,084
	$ 501,554	$ 467,779

(In Thousands)

4. Assets Limited as to Use (continued)

The compositions of investment income and other in the consolidated statements of operations and changes in net assets for the years ended June 30, were as follows:

	2014	2013
Dividend and interest income	**$ 9,998**	$ 9,466
Net realized gain on the sale of investments	**4,723**	3,458
Net change in unrealized gains/losses on investments	**15,295**	(3,196)
	$ 30,016	$ 9,728

The presentations of investment income for the years ended June 30, were as follows:

	2014	2013
Nonoperating:		
Investment income and other realized return	**$ 14,721**	$ 12,924
Net change in unrealized gains/losses on investments	**15,295**	(3,196)
	$ 30,016	$ 9,728

5. Fair Value Measurements

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities, and short-term borrowings are reasonable estimates of their fair values due to the short-term nature.

The estimated fair value of the long-term debt portfolio, including the current portion, was $398,000 and $395,000 at June 30, 2014 and 2013, respectively. The fair value of this Level 2 liability is based on quoted market prices for the same or similar issues and the relationship of those bond yields with various market indices. The market data used to determine yield and calculate fair value represents rated tax-exempt A- municipal healthcare bonds. The effect of third-party credit valuation adjustments, if any, is immaterial.

5. Fair Value Measurements (continued)

The methodologies used to determine the fair value of assets and liabilities reflect market participant objectives and are based on the application of a three-level valuation hierarchy that prioritizes observable market inputs over unobservable inputs. The three levels are defined as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identified assets or liabilities.

- Level 2: Inputs to the valuation methodology include other quoted prices for similar assets or liabilities in active markets and inputs that are observable either directly or indirectly.

- Level 3: Inputs to the valuation methodology are unobservable, but reflect the assumptions market participants would use in pricing the asset or liability.

(In Thousands)

5. Fair Value Measurements (continued)

Financial instruments measured at fair value on a recurring basis as of June 30 are summarized as follows:

	2014			
Assets Measured at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments:				
Cash and short-term investments	$ 68,669	$ –	$ –	$ 68,669
Equity securities:				
Equity securities – consumer discretionary	7,879	–	–	7,879
Equity securities – energy	6,170	–	–	6,170
Equity securities – financial	11,067	–	–	11,067
Equity securities – health care	9,556	–	–	9,556
Equity securities – information technology	13,063	–	–	13,063
Equity securities – industrials	7,569	–	–	7,569
Equity securities – consumer staples	4,547	–	–	4,547
Equity securities – other equity investments	5,553	–	–	5,553
Total equity securities	65,404	–	–	65,404
U.S. government and agency obligations	77,952	–	–	77,952
Corporate and foreign bonds	–	113,218	–	113,218
Mutual funds – U.S. and international equities	71,541	–	–	71,541
Mutual funds – fixed income	45,417	–	–	45,417
Commingled funds – fixed income	–	58,902	–	58,902
Other fixed income investments	–	451	–	451
Total assets measured at fair value	$ 328,983	$ 172,571	$ –	$ 501,554
As reported:				
Internally designated assets limited as to use				$ 456,362
Externally designated assets limited as to use				45,192
Total assets limited as to use				$ 501,554

(In Thousands)

5. Fair Value Measurements (continued)

	2013			
Assets Measured at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments:				
Cash and Short-term investments	$ 111,837	$ –	$ –	$ 111,837
Equity securities:				
Equity securities – consumer discretionary	4,487	–	–	4,487
Equity securities – energy	3,440	–	–	3,440
Equity securities – financial	6,397	–	–	6,397
Equity securities – health care	4,648	–	–	4,648
Equity securities – information technology	6,572	–	–	6,572
Equity securities – industrials	3,959	–	–	3,959
Equity securities – consumer staples	3,210	–	–	3,210
Equity securities – other equity investments	3,768	–	–	3,768
Total equity securities	36,481	–	–	36,481
U.S. government and agency obligations	78,275	–	–	78,275
Corporate and foreign bonds	–	96,436	–	96,436
Mutual funds – U.S. and international equities	21,573	–	–	21,573
Mutual funds – fixed income	59,378	–	–	59,378
Commingled funds – fixed income	–	62,786	–	62,786
Other fixed income investments	–	1,013	–	1,013
Total assets measured at fair value	$ 307,544	$ 160,235	$ –	$ 467,779
As reported:				
Internally designated assets limited as to use				$ 388,256
Externally designated assets limited as to use				79,523
Total assets limited as to use				$ 467,779

(In Thousands)

5. Fair Value Measurements (continued)

The fair value of Level 1 investments is based on quoted market prices and is valued on a daily basis. The fair value of Level 2 investments is based on a combination of quoted market prices of identical or similar securities and matrix pricing, provided by third-party pricing services, of investment securities having similar quality and maturities.

CFNI's investments are exposed to various kinds and levels of risk. Equity securities and equity mutual funds expose CFNI to market risk, performance risk, and liquidity risk. Fixed income securities and fixed income mutual funds expose CFNI to interest rate risk, credit risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with the corresponding issuer's operating performance. As market interest rates change, the value of fixed income securities, including those with fixed interest rates, is affected. Credit risk is the risk that the issuer of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equity securities issued by companies having relatively small capital structures. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value resulting in additional gains and losses in the near term.

6. Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at June 30:

	2014	2013
Land and improvements	**$ 37,924**	$ 33,948
Buildings and components	**547,713**	527,405
Leasehold improvements	**4,716**	5,255
Software development costs	**19,722**	19,722
Furniture and equipment	**324,996**	310,699
Construction-in-progress	**50,768**	22,279
	985,839	919,308
Less allowances for depreciation and amortization	**562,647**	520,043
	$ 423,192	$ 399,265

6. Land, Buildings, and Equipment (continued)

During 2012, an unconsolidated venture of CFNI entered into an agreement to purchase real estate and construct an outpatient health facility that is leased by SMMC. CFNI guaranteed the line of credit used to fund the construction, and therefore was considered the owner of the property during construction. Because of its continued investment in the venture subsequent to construction, CFNI is still considered the owner of the asset. As a result of its ownership interest in the venture owner, the real estate asset will continue to be recorded in CFNI's financial statements along with related liabilities and operating expenses, through the lease term ending in 2023. The long-term portion of the related liability at June 30, 2014 and 2013, was $13,789 and $13,571, respectively, and is included in other long-term liabilities. The short-term portion at June 30, 2014 and 2013, was $9 and $0, respectively, and is included in other current liabilities.

(In Thousands)

7. Long-Term Debt

Long-term debt, notes payable, and capital leases consist of the following at June 30:

	2014	2013
$25,412 commercial loan dated October 31, 2013; the loan bears fixed interest at 3.80% through October 1, 2031, with monthly interest and principal payments	**$ 25,015**	$ –
$5,863 vendor financing dated September 3, 2013; the loan bears interest at 0% with principal payments through September 2016	**4,283**	–
Indiana Finance Authority Revenue Bonds, Series 2012, maturing in varying installments through 2025, bearing interest at fixed annual rates ranging from 2.0% to 5.0%	**171,130**	171,130
$1,950 vendor financing dated June 29, 2012; the loan bears interest at 0% with monthly principal payments through June 1, 2015	**650**	1,246
$40,065 commercial term loan dated October 28, 2011; the loan bears interest at 3.50% through October 28, 2023, with monthly interest and annual principal payments. Principal payments are amortized through August 1, 2025	**35,965**	38,320
$20,845 commercial term loan dated October 28, 2011; the loan bears interest at 5.40% through August 1, 2025, with semiannual interest and annual principal payments	**18,785**	19,975
$4,941 commercial term loan dated December 18, 2008; interest charged at one-month (LIBOR) plus 2.00% (LIBOR was 0.16% at June 30, 2014 and 0.21% at June 30, 2013, respectively) with a floor of 4.00% and a ceiling of 7.00%, payable in fixed quarterly payments, maturing on January 1, 2014	**–**	493
Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2007, maturing in varying installments through 2037, bearing interest at fixed annual rates ranging from 5.00% to 5.50%	**124,215**	149,765
Capital leases	**2,525**	7,929
	382,568	388,858
Less: current portion of long-term debt, notes payable, and capital leases	**11,882**	10,405
Add: unamortized bond premiums	**12,216**	13,293
	$ 382,902	$ 391,746

7. Long-Term Debt (continued)

Effective October 1, 2013, CFNI secured a loan from a financial institution in the principal amount of $25,412. The private placement loan is fixed-rate through maturity of October 1, 2031. The proceeds were used to refund a portion of CFNI's Hospital Revenue Bond Series 2007.

Effective September 3, 2013, CFNI secured a vendor financing loan in the principal amount of $5,863 secured by the data networking equipment, which the proceeds were used to acquire.

Effective November 9, 2012, the Indiana Finance Authority, formerly known as the Indiana Health and Education Finance Authority (the Authority), on behalf of the Obligated Group, issued Fixed Rate Revenue Bonds, Series 2012 in the principal amount of $175,020. A portion of the proceeds from the issuance of the bonds, once deposited in an escrow account, were used to defease the 2004A Series bonds and refund the 2006A, 2006B, and 2008 Series bonds. The remaining proceeds from the issuance will be used for expansion projects at the Obligated Group members' facilities.

Effective June 29, 2012, CFNI secured a vendor financing loan in the principal amount of $1,950 secured by certain computer network switching equipment, which the proceeds were used to acquire.

Effective February 8, 2012, CFNI guaranteed a portion of the outstanding construction line of credit for Valparaiso Medical Development, LLC, (VMD), an unconsolidated venture. The guarantee expired on January 1, 2013, when VMD's line of credit converted to a mortgage. The proceeds of the line, which CFNI guaranteed, were used to fund construction. Therefore, CFNI was deemed the owner of the project during construction. Given its continuing involvement in the venture subsequent to construction, CFNI failed to meet the criteria for sale leaseback accounting. Accordingly, the full value of the asset was recorded at $16,612 with accumulated depreciation of $623 at June 30, 2014, and was included in land, buildings, and equipment net of accumulated depreciation and amortization. The liability was recorded in other current liabilities and other long-term liabilities in the consolidated financial statements of CFNI. The liabilities for the next five years are $9 in 2015, $35 in 2016, $69 in 2017, $107 in 2018, $150 in 2019, and $13,428 thereafter.

7. Long-Term Debt (continued)

Effective October 28, 2011, CFNI secured a loan from a financial institution in the principal amount of $40,065. The private placement loan is fixed-rate and the proceeds were used to refund the Series 2001 Indiana Health Facility Financing Authority Hospital Revenue Bonds. On December 30, 2013, the loan was amended to extend the term and adjust the interest rate.

Effective October 28, 2011, CFNI secured a loan from a financial institution in the principal amount of $20,845. The private placement loan is fixed-rate and the proceeds were used to refund the Series 2001 Indiana Health Facility Financing Authority Hospital Revenue Bonds.

Effective December 18, 2008, CFNI secured a commercial loan in the principal amount of $4,941, which is secured by subdivided residential real estate lots. The proceeds were used to refinance the commercial draw loan dated June 30, 2007.

Effective June 28, 2007, the Authority, on behalf of the Obligated Group, issued Hospital Revenue Bonds, Series 2007, in the principal amount of $150,835. A portion of the proceeds from the issuance of the bonds, once deposited in an escrow account, was used in connection with a partial defeasance of the Series 2001A Bonds. The remaining proceeds were used to reimburse CFNI for costs related to certain capital improvements and the purchase of operating equipment at the Obligated Group members' facilities; to pay or reimburse CFNI for costs associated with the issuance of the bonds; and to finance the future construction of projects and the purchase of additional operating equipment at the Obligated Group members' facilities.

In February 2011, CFNI acquired $12,700 of its Hospital Revenue Bonds Series 2007 in the open market for a purchase price of $11,011. As a result, CFNI reduced the amount of its long-term debt by $12,700 and recognized a gain on the transaction in the amount of $1,649, net of associated bond premiums and the write-off of associated closing costs. In September 2012, the bonds were reissued at market value for $13,224. CFNI recorded the proceeds over par as premium.

CFNI maintains a $40,000 revolving line of credit expiring August 18, 2018. The revolving line of credit bears interest at one-month LIBOR plus 0.65%. There was no amount outstanding as of June 30, 2014.

(In Thousands)

7. Long-Term Debt (continued)

The terms of certain loan agreements require that various amounts be held on deposit; that certain financial ratios be maintained; and that compliance with debt covenants, including restrictions involving asset transfers, the incurrence of additional debt, and other transactions, as well as maintenance of specified levels of insurance coverage, is maintained. At June 30, 2014, the Obligated Group was in compliance with these provisions. The bonds are collateralized by certain assets of the Obligated Group, totaling approximately $1,140,482 at June 30, 2014.

Annual principal maturities of long-term debt and notes payable for each of the next five fiscal years are as follows:

2015	$	9,500
2016		9,787
2017		9,051
2018		9,061
2019		9,466

The amounts of interest paid during 2014 and 2013, net of amounts capitalized, were $19,291 and $16,460, respectively.

8. Capital Lease Obligations

CFNI leases certain medical and operating equipment under various capital lease arrangements expiring through December 2019. Certain lease agreements, having initial terms up to five years, provide renewable options for additional periods. Future minimum lease payments for the remaining terms of the lease agreements at June 30, 2014, are as follows for each of the years ending June 30:

2015	$	1,533
2016		887
2017		147
2018 and thereafter		8
Total minimum lease payments		2,575
Less amount representing interest		50
Present value of net minimum lease payments	$	2,525

8. Capital Lease Obligations (continued)

Included in equipment were assets capitalized under lease agreements totaling approximately \$16,098 and \$20,779 at June 30, 2014 and 2013, respectively, with accumulated amortization of approximately \$10,689 and \$9,841 at June 30, 2014 and 2013, respectively. Amortization on capital leases is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets and amounted to \$2,669 and \$4,215 for the years ended June 30, 2014 and 2013, respectively.

9. Derivatives

CFNI had an interest rate-related derivative instrument to manage its exposure on its variable rate debt instruments and does not enter into derivative instruments for any purpose other than risk management. These bonds exposed CFNI to variability in interest payments due to the changes in interest rates. By using derivative financial instruments to manage the fluctuations in cash flows resulting from the risk of change in interest rates, CFNI exposed itself to credit risk and market risk. Credit risk is the risk that the counterparty will fail to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes CFNI, which creates credit risk for CFNI. When the fair value of a derivative contract is negative, CFNI owes the counterparty. CFNI does not require collateral for credit risk. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its derivative positions in the context of its total blended cost of capital.

CFNI maintained an interest rate swap program on its Series 2006A Variable Rate Demand Revenue Bonds. These bonds exposed CFNI to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, CFNI entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. The swap limited the variable rate cash flow exposure on the Variable Rate Demand Revenue Bonds to synthetically fixed cash flows. The derivative was terminated by CFNI in November 2012.

(In Thousands)

9. Derivatives (continued)

The notional amount under the interest rate swap agreement was reduced over the term of the respective agreement to correspond with the reduction in the outstanding bond series. The derivative was terminated on November 9, 2012, in conjunction with the related debt. Management had determined that the interest rate swap agreement associated with the Series 2006A Bonds did not qualify for hedge accounting treatment, and as such, the change in the fair value of the instrument was recognized in nonoperating as a net loss on interest rate swap in the consolidated statements of operations and changes in net assets.

The fair value of derivative instruments at June 30, was as follows:

	Liability Derivatives		
	Balance Sheet Location	**2014**	**2013**
Derivative not designated as a hedging instrument	Noncurrent liabilities – Interest rate swap	$ –	$ –

The effect of the derivative instrument on the consolidated statements of operations and changes in net assets for the years ended June 30, 2014 and 2013, was as follows:

	Statements of Operations and Changes in Net Assets Location	**Amount of Loss 2014**	**2013**
Derivative not designated as a hedging instrument	Swap differential payment	$ –	$ (134)
	Unrealized (loss) gain on interest rate swap	–	71
	Net loss on interest rate swap	$ –	$ (63)

(In Thousands)

10. Employee Benefit Plans

Defined-Benefit Plan

Community Hospital maintains a defined-benefit pension plan that is principally limited to certain current and former employees of the Foundation and Community Hospital who were employed prior to January 1, 2003. This defined-benefit pension plan was curtailed or soft frozen on January 1, 2003, such that no new participants were permitted after this date. On April 15, 2014, the plan underwent a hard freeze with no new benefits accruing subsequent to December 31, 2014. Pension benefits are actuarially determined based upon years of service and compensation of participants (as defined). Where applicable, the funding policy is to annually contribute the amount required to comply with applicable regulations under the Employee Retirement Income Security Act of 1974 (ERISA).

CFNI recognizes the funded status of the defined-benefit pension plan, which is the difference between the fair value of plan assets and the projected benefit obligation, at June 30 in the accompanying consolidated balance sheets.

A summary of changes in the projected benefit obligation of the defined-benefit pension plan for the years ended June 30, was as follows:

	2014	**2013**
Change in projected benefit obligation:		
Benefit obligation at beginning of year	**$ 256,680**	$ 248,203
Service cost	**9,749**	10,594
Interest cost	**10,797**	10,573
Actuarial losses (gains)	**15,365**	(824)
Benefits paid	**(14,770)**	(11,866)
Curtailments	**(46,827)**	–
Projected benefit obligation at end of year	**$ 230,994**	$ 256,680

(In Thousands)

10. Employee Benefit Plans (continued)

A summary of the changes in plan assets and the resulting funded status of the defined-benefit pension plan for the years ended June 30, was as follows:

	2014	2013
Change in plan assets:		
Plan assets at fair value at beginning of year	**$ 164,017**	$ 149,157
Actual return on plan assets	**29,639**	14,726
Employer contributions	**13,200**	12,000
Benefits paid	**(14,770)**	(11,866)
Plan assets at fair value at end of year	**$ 192,086**	$ 164,017

Employer contributions made to the defined-benefit pension plan were paid from employer assets. All benefits paid under the defined-benefit pension plan were paid from the plan's assets.

The following table sets forth the plan's funded status as well as recognized amounts in the consolidated balance sheets as of June 30:

	2014	2013
Plan assets at fair value	**$ 192,086**	$ 164,017
Projected benefit obligation	**(230,994)**	(256,680)
Unfunded status recognized	**$ (38,908)**	$ (92,663)

Included in unrestricted net assets were the plan's amounts that have not yet been recognized as a component of net periodic benefit cost at June 30, as follows:

	2014	2013
Unrecognized net actuarial loss	**$ (25,732)**	$ (79,200)
Unrecognized prior service cost	**–**	(156)
	$ (25,732)	$ (79,356)

(In Thousands)

10. Employee Benefit Plans (continued)

The estimated prior service cost and net loss that will be amortized from unrestricted net assets into net periodic benefit cost during the year ending June 30, 2015, are $0 and $267, respectively.

The components of net periodic benefit cost and other amounts recognized in unrestricted net assets for the years ended June 30 are summarized as follows:

	2014	**2013**
Net periodic benefit cost:		
Service cost	**$ 9,749**	$ 10,594
Interest cost	**10,797**	10,573
Expected return on plan assets	**(11,722)**	(11,243)
Amortization of prior service cost	**57**	71
Amortization of actuarial net loss	**4,090**	6,210
Loss due to curtailment	**99**	–
	$ 13,070	$ 16,205

CFNI anticipates that contributions of $6,000, the minimum requirement, to plan assets will be made during 2015 from Obligated Group assets. Expected employer benefit payments for the next five years are $13,938 in 2015, $15,404 in 2016, $16,166 in 2017, $15,519 in 2018 $17,067 in 2019, and $76,960 for the years 2020 through 2024. Prior service costs are amortized using a straight-line method over the average remaining working lifetime of active participants at the time of the amendment.

(In Thousands)

10. Employee Benefit Plans (continued)

The weighted-average assumptions for the defined-benefit pension plan benefit costs and obligations as of and for the years ended June 30, were as follows:

	2014	2013
Benefit costs:		
Discount rate	***4.53/4.25%**	4.36%
Rate of increase in future compensation	**3.75**	3.75
Benefit obligations:		
Discount rate	**3.95%**	4.53%
Rate of increase in future compensation	**3.75**	3.75

*Expense from July 1, 2013 to April 15, 2014, the date of the hard freeze, based upon 4.53% and from April 16, 2014 to June 30, 2014, based on 4.25%.

Assumption changes in the weighted-average discount rate increased the projected benefit obligation at June 30, 2014, by $13,007.

CFNI evaluates its assumptions regarding the estimated long-term rate of return on plan assets based on historical experience and future expectations of investment returns.

The defined-benefit pension plan's target allocation and corresponding actual asset allocation percentages by major asset category at June 30, were as follows:

		Actual Asset Allocation Percentage	
Major Asset Category	**Target Allocation**	**2014**	**2013**
Equity securities	65.00%	**57.30%**	60.80%
Debt securities	35.00	**42.70**	39.20
Cash equivalents	–	**–**	–
	100.00%	**100.00%**	100.00%

(In Thousands)

10. Employee Benefit Plans (continued)

Assets of the defined-benefit pension plan are invested solely for the benefit of plan beneficiaries and participants. Investment decisions are made after giving appropriate consideration to prevailing facts and circumstances that a prudent person acting in a similar capacity would use in a similar situation and following the guidelines of the investment policy statement for the plan. The plan diversifies its investments among various asset classes in order to reduce risk and enhance returns. Long-term weightings for the plan of 34% large cap equity, 9% small cap equity, 15% international equity, and 42% fixed income are within the target asset allocation ranges. The target ranges specified in the investment policy statement are 36% to 54% for large cap equity, 5% to 15% for small cap equity, 5% to 15% for international equity, and 28% to 45% for fixed income investments. All investment returns are reviewed on an ongoing basis and evaluated with considerations focusing on performance of the individual investments, the ability to exceed the return of the appropriate benchmark index, and the ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

The fair value of the defined-benefit pension plan's assets, based upon the three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value (see Note 5), consists of the following investments at June 30:

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents	**$ 323**	**$ –**	**$ –**	**$ 323**
U.S. small/mid cap growth equity collective trust	**–**	**8,203**	**–**	**8,203**
U.S. small/mid cap value equity collective trust	**–**	**8,594**	**–**	**8,594**
Non-U.S. core equity collective trust	**–**	**28,840**	**–**	**28,840**
Long-duration investment-grade fixed income collective trust	**–**	**45,442**	**–**	**45,442**
Emerging markets equity	**–**	**1,761**	**–**	**1,761**
U.S. large cap passive equity collective trust	**–**	**62,530**	**–**	**62,530**
U.S. passive fixed income collective trust	**–**	**9,247**	**–**	**9,247**
Long-duration passive fixed income collective trust	**–**	**27,146**	**–**	**27,146**
Total defined-benefit plan assets	**$ 323**	**$ 191,763**	**$ –**	**$ 192,086**

(In Thousands)

10. Employee Benefit Plans (continued)

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 772	$ –	$ –	$ 772
U.S. small/mid cap growth equity collective trust	–	7,217	–	7,217
U.S. small/mid cap value equity collective trust	–	6,969	–	6,969
Non-U.S. core equity collective trust	–	24,435	–	24,435
Long-duration investment-grade fixed income collective trust	–	34,403	–	34,403
Emerging markets equity	–	1,580	–	1,580
U.S. large cap passive equity collective trust	–	58,982	–	58,982
U.S. passive fixed income collective trust	–	8,861	–	8,861
Long-duration passive fixed income collective trust	–	20,798	–	20,798
Total defined-benefit plan assets	$ 772	$ 163,245	$ –	$ 164,017

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 5.

The Plan was selected for an Internal Revenue Service audit during fiscal year 2013. The audit was concluded in 2014 with no material impact on the consolidated financial statements of CFNI.

Other Postretirement Benefit Plans

CFNI sponsors a deferred compensation plan under Section 457 of the Code, whereby employees are allowed to defer income taxation on retirement savings into future years. Participants are allowed to contribute income through salary reductions up to the allowed limit ($17 in 2014 and 2013). Contributions to the plan and earnings on the retirement income are tax deferred. As of June 30, 2014 and 2013, the liability amounted to $2,103 and $1,979, respectively, and is included in accrued salaries, wages, and benefits.

(In Thousands)

10. Employee Benefit Plans (continued)

Defined-Contribution Plans

CFNI sponsors a noncontributory, defined-contribution plan covering substantially all eligible employees of SMMC and SCH hired prior to January 1, 2003. Total benefit plan expense recognized for this plan amounted to approximately $2,990 and $2,992 in 2014 and 2013, respectively, and are included in employee benefit expense in the consolidated statements of operations and changes in net assets.

CFNI sponsors a defined-contribution plan covering substantially all eligible Obligated Group employees hired on or after January 1, 2003. There are three types of employer contributions under this plan: fixed retirement, discretionary, and matching. The contributions are described and provided to eligible employees as defined in the plan document. Plan expenses were $5,932 and $5,831 in 2014 and 2013, respectively, and are included in employee benefit expense in the consolidated statements of operations and changes in net assets.

11. Lease and Operating Commitments

Future minimum payments under noncancelable operating leases and service arrangements with terms of one year or more are as follows:

Year ending June 30:		
2015	$	1,776
2016		1,161
2017		872
2018		384
2019		338
Thereafter		887
Total	$	5,418

CFNI incurred rental expenses of $9,528 and $9,684 in 2014 and 2013, respectively.

12. Litigation

CFNI is from time to time subject to claims and litigation arising in the ordinary course of business. CFNI intends to vigorously defend any such litigation that may arise under all defenses that would be available to CFNI. In the opinion of management, the ultimate outcome of proceedings of which management is aware will not have a material effect on the consolidated financial position or results of operations of CFNI.

On or about August 24, 2011, Community Hospital was notified that the U.S. Attorney's Office for the Western District of New York was conducting a civil investigation regarding a confidential matter involving Community Hospital. Community Hospital received no further inquiries related to this matter until May 5, 2014. At that time Community Hospital received a request for information from the US. Attorney's Office, related to its investigation of a medical device manufacturer and possible billing practices by hospitals that utilized the manufacturer's products. Community Hospital submitted its response on June 26, 2014. No further inquiry has been made. At this time, management cannot determine what impact, if any, this investigation will have on the consolidated financial statements of CFNI, and Community Hospital has received no indication from the Assistant U.S. Attorney that Community Hospital is a target of the investigation.

On or about July 29, 2014, Community Hospital and St. Mary Medical Center were each served with notice of a lawsuit filed in the United States District Court, Northern District of Illinois, Eastern Division, captioned United States of America ex rel. John M. Kalec, M.D. and Loreta Kalec, and The State of Illinois ex rel. John M. Kalec, M.D., and Loreta Kalec v. NuWave Monitoring, LLC (NuWave); Thomas Becker; Greg Lesiak; et al. This qui tam complaint names Community Hospital, St. Mary Medical Center, and 27 other hospitals and surgery centers as defendants, in addition to NuWave and its two individual owners. The United States Department of Justice declined to intervene in this case following its original filing under seal in January 2012. At this time, management cannot determine what impact, if any, this lawsuit will have on the consolidated financial statements.

13. Subsequent Events

CFNI evaluated events and transactions occurring subsequent to June 30, 2014 through September 23, 2014, the issuance date of these consolidated financial statements. During this period, it is management's determination that there were no subsequent events requiring recognition that have not been recorded in the accompanying consolidated financial statements, and no subsequent events requiring disclosure within these consolidated financial statements other than the matter discussed in Note 12.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Community Foundation of Northwest Indiana, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Community Foundation of Northwest Indiana, Inc. and Subsidiaries details of consolidated balance sheet, details of consolidated statements of operations and changes in net assets, the accompanying Community Foundation of Northwest Indiana Obligated Group details of combined balance sheet, details of combined statements operations and changes in net assets, and the accompanying Theatre at the Center, Inc. balance sheets, statements of operations and changes in net assets, statements of cash flows, and supplemental note to the financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

September 23, 2014

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet

(In Thousands)

June 30, 2014

	Consolidated	Eliminations	Community Foundation of Norhwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Theatre at the Center, Inc.	CVPA Holding Corportation
Assets							
Current assets:							
Cash and cash equivalents	$ 37,670	$ –	$ 36,366	$ 623	$ 151	$ 107	$ 423
Patient accounts receivable, net	109,670	–	109,670	–	–	–	–
Due from affiliates	–	(521)	482	1	2	22	14
Estimated settlements due from third-party payors	8,695	–	8,695	–	–	–	–
Inventories	20,562	–	20,552	–	10	–	–
Externally designated investments – short-term	34,078	–	34,078	–	–	–	–
Prepaid expenses and other current assets	16,791	–	15,968	552	63	203	5
Total current assets	227,466	(521)	225,811	1,176	226	332	442
Assets limited as to use:							
Internally designated investments	456,362	–	456,362	–	–	–	–
Externally designated investments	11,114	–	11,114	–	–	–	–
Land, buildings, and equipment net of accumulated depreciation and amortization	423,192	–	417,547	10	146	–	5,489
Other assets	28,999	(10,691)	32,656	–	6,884	150	–
Total assets	$ 1,147,133	$ (11,212)	$ 1,143,490	$ 1,186	$ 7,256	$ 482	$ 5,931

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet (continued)

(In Thousands)

	Consolidated	Eliminations	Community Foundation of Norhwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Theatre at the Center, Inc.	CVPA Holding Corportation
Liabilities and net assets							
Current liabilities:							
Accounts payable	$ 32,706	$ –	$ 32,465	$ 103	$ 79	$ 17	$ 42
Accrued salaries, wages, and benefits	47,102	–	46,989	–	1	108	4
Accrued expenses	29,548	–	28,817	2	156	540	33
Estimated settlements due to third-party payors	24,996	–	24,996	–	–	–	–
Due to affiliates	–	(521)	6	301	35	98	81
Current portion of long-term debt	11,882	–	11,882	–	–	–	–
Other current liabilities	9	–	9	–	–	–	–
Total current liabilities	146,243	(521)	145,164	406	271	763	160
Noncurrent liabilities:							
Long-term debt, notes payable, and capital leases, less current portion	382,902	–	382,902	–	–	–	–
Deferred revenue from advance fees	1,674	–	1,674	–	–	–	–
Resident deposit liability	17,139	–	17,139	–	–	–	–
Pension liability	38,908	–	38,908	–	–	–	–
Other long-term liabilities	20,704	–	20,617	–	87	–	–
Total noncurrent liabilities	461,327	–	461,240	–	87	–	–
Total liabilities	607,570	(521)	606,404	406	358	763	160
Net assets:							
Unrestricted	538,233	(10,691)	535,910	697	6,898	(352)	5,771
Temporarily restricted	1,228	–	1,074	83	–	71	–
Permanently restricted	102	–	102	–	–	–	–
Total net assets	539,563	(10,691)	537,086	780	6,898	(281)	5,771
Total liabilities and net assets	$ 1,147,133	$ (11,212)	$ 1,143,490	$ 1,186	$ 7,256	$ 482	$ 5,931

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets

(In Thousands)

June 30, 2014

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Theatre at the Center, Inc.	CVPA Holding Corportation
Revenue							
Net patient and service revenue before provision for bad debts	$ 896,910	$ –	$ 896,910	$ –	$ –	$ –	$ –
Provision for bad debts	(37,452)	–	(37,452)	–	–	–	–
Net patient and resident service revenue	859,458	–	859,458	–	–	–	–
Capitation program revenue	24,089	–	24,089	–	–	–	–
Other revenue	30,408	(820)	26,722	780	1,334	1,921	471
Total operating revenue	913,955	(820)	910,269	780	1,334	1,921	471
Expenses							
Salaries and wages	347,815	–	346,090	176	93	1,246	210
Employee benefits	87,846	–	87,448	49	19	271	59
Medical fees	3,314	–	3,314	–	–	–	–
Medical and other supplies	170,121	–	169,807	24	56	188	46
Corporate allocations	–	–	–	–	–	–	–
Physician allocations	–	–	–	–	–	–	–
Outside services	89,007	(192)	87,547	194	742	471	245
Medicaid assessment fee	49,328	–	49,328	–	–	–	–
Interest expense	18,397	–	18,389	–	8	–	–
Depreciation and amortization	51,355	–	51,078	3	10	–	264
Other expenses	68,201	(667)	67,525	334	426	281	302
Total expenses	885,384	(859)	880,526	780	1,354	2,457	1,126
Operating income (loss)	28,571	39	29,743	–	(20)	(536)	(655)
Nonoperating							
Investment income and other	14,721	–	14,721	–	–	–	–
Loss on early extinguishment of debt	(488)	–	(488)	–	–	–	–
Net change in unrealized gain/losses on investments	15,295	–	15,295	–	–	–	–
Net loss on interest rate swap	–	–	–	–	–	–	–
Total nonoperating	29,528	–	29,528	–	–	–	–
Revenues in excess of (less than) expenses	58,099	39	59,271	–	(20)	(536)	(655)

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

(In Thousands)

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Theatre at the Center, Inc.	CVPA Holding Corportation
Unrestricted net assets							
Revenue in excess of (less than) expenses	$ 58,099	$ 39	$ 59,271	$ –	$ (20)	$ (536)	$ (655)
Pension-related changes other than net periodic pension cost	53,625	–	53,625	–	–	–	–
Net assets transferred from(to) affiliates	–	(503)	(1,175)	–	503	454	721
Net assets released from restriction used for capital purposes	222	–	222	–	–	–	–
Other	–	–	–	–	–	–	–
Increase (decrease) in unrestriced assets	111,946	(464)	111,943	–	483	(82)	66
Temporarily restricted net assets							
Restricted contributions	697	–	552	97	–	48	–
Net assets released from restriction used for capital and operating purposes	(698)	–	(393)	(195)	–	(110)	–
Other	5	–	5	–	–	–	–
(Decrease) increase in temporarily restricted net assets	4	–	164	(98)	–	(62)	–
Permanently restricted net assets							
Investment income	5	–	5	–	–	–	–
Other	(5)	–	(5)	–	–	–	–
Increase in permanently restricted net assets	–	–	–	–	–	–	–
Increase (decrease) in net assets	111,950	(464)	112,107	(98)	483	(144)	66
Net assets at the beginning of the period	427,613	(10,227)	424,979	878	6,415	(137)	5,705
Net assets at the end of the period	$ 539,563	$ (10,691)	$ 537,086	$ 780	$ 6,898	$ (281)	$ 5,771

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet

(In Thousands)

June 30, 2014

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village Inc.
Assets								
Current assets:								
Cash and cash equivalents	$ 36,366	$ –	$ 6,817	$ 12,655	$ 6,173	$ 6,361	$ 2,277	$ 2,083
Patient accounts receivable, net	109,670	(846)	–	57,830	17,137	29,625	4,964	960
Due from affiliates	482	(39,548)	37,405	504	6	60	2,051	4
Estimated settlements due from third-party payors	8,695	–	–	1,034	7,331	330	–	–
Inventories	20,552	–	–	9,873	5,082	5,551	–	46
Externally designated investments – short-term	34,078	–	34,078	–	–	–	–	–
Prepaid expenses and other current assets	15,968	–	7,633	3,070	2,546	1,429	413	877
Total current assets	225,811	(40,394)	85,933	84,966	38,275	43,356	9,705	3,970
Assets limited as to use:								
Internally designated investments	456,362	–	456,362	–	–	–	–	–
Externally designated investments	11,114	–	11,114	–	–	–	–	–
Land, buildings, and equipment net of accumulated depreciation and amortization	417,547	–	40,621	196,482	27,295	115,775	3,497	33,877
Other assets	32,656	(16,958)	34,913	8,400	1,687	4,274	340	–
Total assets	$ 1,143,490	$ (57,352)	$ 628,943	$ 289,848	$ 67,257	$ 163,405	$ 13,542	$ 37,847

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet (continued)

(In Thousands)

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village Inc.
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 32,465	$ –	$ 3,191	$ 15,570	$ 3,479	$ 9,304	$ 491	$ 430
Accrued salaries, wages, and benefits	46,989	–	7,810	19,715	5,285	6,576	7,078	525
Accrued expenses	28,817	(846)	11,442	7,500	4,947	5,046	266	462
Estimated settlements due to third-party payors	24,996	–	–	18,931	466	5,599	–	–
Due to affiliates	6	(39,548)	–	7,594	22,984	8,290	438	248
Current portion of long-term debt	11,882	–	10,570	536	12	764	–	–
Other current liabilities	9	–	–	–	–	9	–	–
Total current liabilities	145,164	(40,394)	33,013	69,846	37,173	35,588	8,273	1,665
Noncurrent liabilities:								
Long-term debt, notes payable, and capital leases, less current portion	382,902	(16,958)	381,865	636	–	401	–	16,958
Interest rate swap	–	–	–	–	–	–	–	–
Deferred revenue from advance fees	1,674	–	–	–	–	–	–	1,674
Resident deposit liability	17,139	–	–	–	–	–	–	17,139
Pension liability	38,908	–	–	38,908	–	–	–	–
Other long-term liabilities	20,617	–	–	3,105	1,526	15,378	608	–
Total long-term liabilities	461,240	(16,958)	381,865	42,649	1,526	15,779	608	35,771
Total liabilities	606,404	(57,352)	414,878	112,495	38,699	51,367	8,881	37,436
Net assets:								
Unrestricted	535,910	–	213,647	177,084	28,181	111,926	4,661	411
Temporarily restricted	1,074	–	418	167	377	112	–	–
Permanently restricted	102	–	–	102	–	–	–	–
Total net assets	537,086	–	214,065	177,353	28,558	112,038	4,661	411
Total liabilities and net assets	$ 1,143,490	$ (57,352)	$ 628,943	$ 289,848	$ 67,257	$ 163,405	$ 13,542	$ 37,847

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Statement of Operations and Changes in Net Assets

(In Thousands)

June 30, 2014

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village Inc.
Revenue								
Net patient and service revenue before provision for bad debts	$ 896,910	$ (4,670)	$ –	$ 469,141	$ 135,575	$ 232,451	$ 45,317	$ 19,096
Provision for bad debts	(37,452)	–	–	(17,879)	(8,974)	(9,073)	(1,447)	(79)
Net patient and resident service revenue	859,458	(4,670)	–	451,262	126,601	223,378	43,870	19,017
Capitation program revenue	24,089	–	–	–	24,089	–	–	–
Other revenue	26,722	(2,105)	1,974	14,383	7,082	3,446	1,858	84
Total operating revenue	910,269	(6,775)	1,974	465,645	157,772	226,824	45,728	19,101
Expenses								
Salaries and wages	346,090	–	32,709	148,847	51,334	61,101	44,444	7,655
Employee benefits	87,448	–	6,991	44,021	12,845	15,462	6,182	1,947
Medical fees	3,314	–	–	1,428	704	1,158	–	24
Medical and other supplies	169,807	–	2,644	89,199	21,584	51,528	2,879	1,973
Corporate allocations	–	–	(84,957)	45,715	17,778	21,164	–	300
Physician allocations	–	–	–	9,252	4,932	4,825	(19,009)	–
Outside services	87,547	(62)	24,012	25,134	14,063	18,374	3,703	2,323
Medicaid assessment fee	49,328	–	–	27,392	5,638	16,298	–	–
Interest expense	18,389	–	16,022	19	–	1,601	3	744
Depreciation and amortization	51,078	–	12,432	19,855	5,268	10,586	570	2,367
Other expenses	67,525	(6,713)	7,594	18,973	28,824	10,192	6,956	1,699
Total expenses	880,526	(6,775)	17,447	429,835	162,970	212,289	45,728	19,032
Operating income (loss)	29,743	–	(15,473)	35,810	(5,198)	14,535	–	69
Nonoperating								
Investment income and other	14,721	–	13,848	489	119	255	7	3
Loss on early extinguishment of debt	(488)	–	(488)	–	–	–	–	–
Net change in unrealized gain/losses on investments	15,295	–	15,295	–	–	–	–	–
Net loss on interest rate swap	–	–	–	–	–	–	–	–
Total nonoperating	29,528	–	28,655	489	119	255	7	3
Revenues in excess of (less than) expenses	59,271	–	13,182	36,299	(5,079)	14,790	7	72

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Statement of Operations and Changes in Net Assets (continued)

(In Thousands)

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village Inc.
Unrestricted net assets								
Revenue in excess of (less than) expenses	$ 59,271	$ –	$ 13,182	$ 36,299	$ (5,079)	$ 14,790	$ 7	$ 72
Pension-related changes other than net periodic pension cost	53,625	–	–	53,625	–	–	–	–
Net assets transferred from(to) affiliates	(1,175)	–	18,482	(13,636)	387	(9,952)	3,544	–
Net assets released from restriction used for capital purposes	222	–	–	5	116	101	–	–
Other	–	–	–	–	–	–	–	–
Increase (decrease) in unrestriced assets	111,943	–	31,664	76,293	(4,576)	4,939	3,551	72
Temporarily restricted net assets								
Restricted contributions	552	–	17	88	262	185	–	–
Net assets released from restriction used for capital and operating purposes	(393)	–	(14)	(70)	(159)	(150)	–	–
Other	5	–	–	5	–	–	–	–
Increase in temporarily restricted net assets	164	–	3	23	103	35	–	–
Permanently restricted net assets								
Investment income	5	–	–	5	–	–	–	–
Other	(5)	–	–	(5)	–	–	–	–
Increase in permanently restricted net assets	–	–	–	–	–	–	–	–
Increase (decrease) in net assets	112,107	–	31,667	76,316	(4,473)	4,974	3,551	72
Net assets at the beginning of the period	424,979	–	182,398	101,037	33,031	107,064	1,110	339
Net assets at the end of the period	$ 537,086	$ –	$ 214,065	$ 177,353	$ 28,558	$ 112,038	$ 4,661	$ 411

Theatre at the Center, Inc.

Balance Sheets
(In Thousands)

	June 30	
	2014	**2013**
Assets		
Current assets:		
Cash and cash equivalents	**$ 107**	$ 260
Due from affiliates	**22**	26
Prepaid expenses and other current assets	**203**	196
Total current assets	**332**	482
Investment in unconsolidated affiliates	**150**	150
Total assets	**$ 482**	$ 632
Liabilities and deficiency in net assets		
Current liabilities:		
Accounts payable	**$ 17**	$ 9
Accrued salaries, wages, and benefits	**108**	114
Accrued expenses	**540**	601
Due to affiliate	**98**	45
Total current liabilities	**763**	769
Deficiency in net assets:		
Deficiency in unrestricted net assets	**(352)**	(270)
Temporarily restricted	**71**	133
Total deficiency in net assets	**(281)**	(137)
Total liabilities and deficiency in net assets	**$ 482**	$ 632

Theatre at the Center, Inc.

Statements of Operations and Changes in Net Assets

(In Thousands)

	June 30	
	2014	**2013**
Revenue		
Ticket sales	**$ 1,503**	$ 1,544
Other revenue	**418**	384
Total operating revenue	**1,921**	1,928
Expense		
Salaries and wages	**1,246**	1,270
Employee benefits	**271**	323
Supplies	**188**	328
Outside services	**471**	318
Interest expense	**–**	28
Other expense	**281**	321
Total operating expense	**2,457**	2,588
Net operating loss	**(536)**	(660)
Deficit of expense over revenue	**(536)**	(660)
Net assets transferred from affiliates	**454**	454
Other	**–**	–
Decrease in unrestricted net assets	**(82)**	(206)
Temporarily restricted net assets		
Restricted contributions	**48**	52
Net assets released from restriction used for operating purposes	**(110)**	(66)
Increase in temporarily restricted net assets	**(62)**	(14)
Decrease in net assets	**(144)**	(220)
(Deficiency in) net assets at beginning of year	**(137)**	83
Deficiency in net assets at end of year	**$ (281)**	$ (137)

See accompanying notes.

Theatre at the Center, Inc.

Statements of Cash Flows
(In Thousands)

	June 30	
	2014	**2013**
Operating activities		
Change in net assets	**$ (144)**	$ (220)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Transfers from affiliates	**(454)**	(454)
Restricted contributions and gains on investments, net of assets released from restriction	**62**	14
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	**(3)**	14
Accounts payable, accrued salaries and wages, and accrued expenses	**(6)**	146
Net cash used in operating activities	**(545)**	(500)
Financing activities		
Transfers from affiliates	**454**	454
Proceeds from restricted contributions and gains on investments, net of assets released from restriction	**(62)**	(14)
Net cash provided by financing activities	**392**	440
Net decrease in cash and cash equivalents	**(153)**	(60)
Cash and cash equivalents at beginning of year	**260**	320
Cash and cash equivalents at end of year	**$ 107**	$ 260

See accompanying notes.

Theatre at the Center, Inc.

Supplemental Note to Financial Statements

June 30, 2014 and 2013

Organization and Description of Business

Community Foundation of Northwest Indiana, Inc. (the Foundation) is the sole member of Theatre at the Center, Inc. (TATC). The Foundation and TATC own the outstanding shares of capital stock issued by Community Resources, Inc. (CRI), a for-profit taxable entity. TATC accounts for its investment in CRI under the cost method. The Foundation and TATC are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

TATC is organized to support the Center for Visual and Performing Arts (CVPA) and to promote the cultural, educational, and charitable community of Northwest Indiana. The CVPA consists of banquet facilities, a theater, an art gallery, and meeting rooms.

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